

HISTORY OF THE MODERN DAY GLOBAL ECONOMY

Historical Background of Global Economy

Timeline of Modern Global Economic History

Early Modern Era (1500s–1700s)

- Age of Exploration: European nations like Spain & Portugal build global trade routes.
- Global Trade Start: Silver, spices, and slaves move across oceans.

First Industrial Revolution (late 1700s–mid 1800s)

- Britain Leads: Steam engines, factories, and machines take over.
- Urban Shift: People move from farms to cities.

Second Industrial Revolution (late 1800s–early 1900s)

- Tech Upgrades: Electricity, steel, and oil reshape industries.

Interwar & Great Depression (1914–1945)

- World Wars: Trade disrupted, economies collapse.
- Great Depression: Massive unemployment and protectionist policies.

Post-War Global Order (1945–1970s)

- Rebuilding: Europe and Japan recover, U.S. dominates.
- Decolonization: New nations join global markets.

Late 20th Century Globalization (1980s–1990s)

- Free Markets: Deregulation, privatization, and free-trade deals (WTO, NAFTA).
- Tech Boom: Computers and the internet speed up trade and finance.

Contemporary Era (2000s–Present)

- Digital Economy: E-commerce, smartphones, AI, crypto.
- Global Challenges: Climate change, pandemics, supply-chain shocks.

In the 1700s, Europe, with Britain leading, began the First Industrial Revolution and changed how people lived and worked. Science was used to improve business and machines, so goods could be made faster for large markets. Many people left farms to live in cities, and

work shifted from growing crops to making products in factories. Money and investment became very important for running these new industries and keeping production going.

CAPITALISM

The **First Industrial Revolution** marked a turning point in human history. Through technological innovations, factories became more efficient, production increased, and profits for owners grew rapidly. This period highlighted the advantages of **capitalism** as an economic system that could drive progress and economic development. Capitalism is an economic system that allows **private individuals** to own and control property, assets, and businesses. It is based on the idea that people, when pursuing their own interests, can also contribute to the overall growth of society. In a capitalist economy, the primary goal is to **gain profit**. **Adam Smith** stood out as the first to advocate capitalism as the most effective way to organize the market.

The Six Pillars of Capitalism

Capitalism is built upon six important foundations that guide how it functions in society:

1. **Private Property**
Individuals have the right to own and control assets such as land, buildings, and businesses. This ownership provides security and encourages people to invest in their property.
2. **Self-Interest**
People act based on personal gain. While this may seem selfish, it drives individuals to work hard, innovate, and produce goods and services that also benefit society.
3. **Competition**
Competition among businesses ensures better products, fair prices, and continuous innovation. It prevents monopolies and promotes consumer choice.
4. **Market Mechanism**
Prices of goods and services are determined by the natural interaction of supply and demand. This decentralized system ensures balance in the economy without strict government control.
5. **Freedom to Choose**
Consumers and producers are free to decide what to buy, what to sell, and how to use their resources. This freedom encourages diversity in goods and services.
6. **Limited Role of Government**
The government's role in capitalism is minimal—mainly to protect property rights, enforce laws, and maintain fair competition. Excessive government interference is seen as a hindrance to economic growth.

The Rise of Capitalism and the Road to War

England's rise as a global economic leader was fueled by capitalism, a system where private ownership and the pursuit of profit drive the economy. England's economic and political power allowed it to dominate world trade. However, this dominance was challenged by Germany, a growing rival. The intense competition between these two nations for global influence was a key factor that contributed to the outbreak of World War I.

The Great Depression and the Search for a New Path

Following the war, the world was hit by a severe economic collapse known as the Great Depression. This crisis, which even affected the powerful United States, caused widespread economic hardship. As a result, many people began to lose faith in capitalism and started looking for alternative economic systems.

The Emergence of Communism

The disillusionment with capitalism led to the rise of new ideas. Inspired by the theories of Karl Marx, Russia underwent a revolution in 1917 and became the first nation to embrace communism. This system was presented as a direct alternative to capitalism. It eliminated private property and profit, instead placing the economy under communal control in an attempt to end the conflict between the rich and the working class.

- Communism in Russia (1917): Economic hardship and public discontent led to Lenin's revolution, inspired by Karl Marx. Private property and profit were abolished, and the government controlled the economy. Russia became the first country to adopt communism nationally, later followed by nations like China, Cuba, and others.
- Rise of Fascism in Germany: After WWI and the harsh Treaty of Versailles, Germany faced humiliation and economic crisis. This allowed Adolf Hitler and the Nazis to gain power. Fascism combined elements of capitalism (private property and profit) with strict state control and prioritization of national interests. This rebuilt Germany's economy and military, ultimately leading to WWII.
- Capitalists and Communists Unite in WWII: Despite their ideological differences, capitalist and communist nations allied to defeat fascist Germany. The war caused massive destruction and loss of life, ending with Germany's defeat once again.

China's Growth and Challenges in the Post-Cold War World

China's Economic Transformation and Global Rise

Deng Xiaoping opened China's economy to capitalism to avoid the collapse of communism. Foreign Direct Investments (FDIs) flowed in, creating jobs, reducing unemployment, and introducing new technology. While China welcomed private and foreign businesses, the state

still controlled key industries. With an average GDP growth of 9.21% from 1989 to 2020, China became a global economic power.

Key Issues Facing China

1. Demographic – Aging population from the One-Child Policy.
2. Environmental – Leading emitter of CO₂, with serious pollution.
3. Economic – Growth slowed to around 6% (“new normal”).
4. Political – Regional dominance challenged by U.S., Japan, India, etc.
5. Territorial – Disputes in South China Sea and with neighbors.
6. Trade – Tensions with U.S. over trade surplus.
7. Hegemonic – Seen as the main challenger to U.S. power.

Global Order after the Cold War

The Cold War’s end in 1991 left the U.S. as the sole superpower in a Unipolar World Order. Today, however, the rise of China, Russia, India, and the EU is shifting the balance toward a multipolar world.

The United States’ role as the world’s “Globocop” began to decline after the 2001 invasion of Iraq, which was carried out without UN approval and widely opposed internationally. This damaged its global credibility further, and in 2008 the U.S. triggered the worst financial crisis since the Great Depression, raising doubts about its leadership. Domestically, Americans continue to struggle with the legacies of Donald Trump’s presidency.

Currently, the U.S. faces multiple challenges:

- **Economic:** sluggish GDP growth and trillions in debt, though still the largest economy.
- **Political:** deep polarization, worsened by Trump-era divisions.
- **Racial:** ongoing tensions in many states.
- **Geostrategic:** competition with China’s growing influence.
- **Security:** persistent threats from terrorism.

Over the past forty years, the global economy has grown at an unprecedented pace, with international trade expanding nearly four times and linking countries more closely than ever before. This rapid growth has been fueled by advances in technology, cheaper transport,

and open markets, creating new opportunities for businesses and workers while also raising concerns about inequality and fairness. Large corporations and wealthy nations have often benefited the most, while smaller economies and local industries sometimes struggle to compete, leading to resistance from developing countries that push back against trade rules they see as unfair. Social movements such as Occupy highlighted public frustration with “greedy capitalism” and the widening gap between rich and poor, showing that globalization is not only an economic issue but also a social one. The Covid-19 pandemic further exposed the weaknesses of global systems by disrupting supply chains and slowing economies, yet it also accelerated digital change and remote work, proving that technology will continue to drive integration. Looking ahead, the Fourth Industrial Revolution powered by artificial intelligence, automation, and advanced digital platforms will likely deepen globalization even more, offering new chances for growth and innovation but also creating risks of greater inequality if its benefits are not shared fairly across nations and communities.