

4.4 End of Bretton Woods and the Beginning of

'Globalisation' Despite years of stable and rapid growth, not all was well in this post-war world. From the 1960s the rising costs of its overseas involvements weakened the US's finances and competitive strength. The US dollar now no longer commanded confidence as the world's principal currency. It could not maintain its value in relation to gold. This eventually led to the collapse of the system of fixed exchange rates and the introduction of a system of floating exchange rates. From the mid-1970s the international financial system also changed in important ways. Earlier, developing countries could turn to international institutions for loans and development assistance. But now they were forced to borrow from Western commercial banks and private lending institutions. This led to periodic debt crises in the developing world, and lower incomes and increased poverty, especially in Africa and Latin America. The industrial world was also hit by unemployment that began rising from the mid-1970s and remained high until the early 1990s. From the late 1970s MNCs also began to shift production operations to low-wage Asian countries. China had been cut off from the post-war world economy since its revolution in 1949. But new economic policies in China and the collapse of the Soviet Union and Soviet-style communism in Eastern Europe brought many countries back into the fold of the world economy. Wages were relatively low in countries like China. Thus they became attractive destinations for investment by foreign MNCs competing to capture world markets. Have you noticed that most of the TVs, mobile phones, and toys we see in the shops seem to be made in China? This is because of the low-cost structure of the Chinese economy, most importantly its low wages. The relocation of industry to low-wage countries stimulated world trade and capital flows. In the last two decades the world's economic geography has been transformed as countries such as India, China and Brazil have undergone rapid economic transformation.

New words Exchange rates – They link national currencies for purposes of international trade. There are broadly two kinds of exchange rates: fixed exchange rate and floating exchange rate

Fixed exchange rates – When exchange rates are fixed and governments intervene to prevent movements in them

Flexible or floating exchange rates – These rates fluctuate depending on demand and supply of currencies in foreign exchange markets, in principle without interference by governments

India and the Contemporary World Write in brief Project 1. Give two examples of different types of global exchanges which took place before the seventeenth century, choosing one example from Asia and one from the Americas. 2. Explain how the global transfer of disease in the pre-modern world helped in the colonisation of the Americas. 3. Write a note to explain the effects of the following: a) The British government's decision to abolish the Corn Laws. b) The coming of rinderpest to Africa. c) The death of men of working-age in Europe because of the World War. d) The Great Depression on the Indian economy. e) The decision of MNCs to relocate production to Asian countries. 4. Give two examples from history to show the impact of technology on food availability. 5. What is meant by the Bretton Woods Agreement? Find out more about gold and diamond mining in South Africa in the nineteenth century. Who controlled the gold and diamond companies? Who were the miners and what were their lives like? Write in brief Discuss 6. Imagine that you are an indentured Indian labourer in the Caribbean. Drawing from the details in this chapter, write a letter to your family describing

your life and feelings. 7. Explain the three types of movements or flows within international economic exchange. Find one example of each type of flow which involved India and Indians, and write a short account of it. 8. Explain the causes of the Great Depression. 9. Explain what is referred to as the G-77 countries. In what ways can G-77 be seen as a reaction to the activities of the Bretton Woods twins? Project Discuss