CONTEMPORARY WORLD

**MODULAR APPROACH**

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**UNIT 2: THE STRUCTURE OF GLOBALIZATION**

**LEARNING OUTCOMES: The learners are expected to:**

1. Understand the historical background of global economy from the earliest stage of modern to the contemporary period;
2. Analyze the theories of globalization;
3. Identify the actors that facilitate economic globalization;
4. Expound the role of international financial institutions in the creation of global economy;
5. Identify the institutions that govern the international relations;
6. Enumerate the roles and functions of the United Nations;
7. Recognize the challenges of global governance in the 21st century

**LEARNING CONTENT:**

**Module 2: The History of Modern Day Global Economy**

**Europe** played a crucial role in the establishment of the global economy, **the pioneer of modern market economy and modern economic growth which perhaps gave them the license to control much of the world.** **Great Britain** led the economic powerhouse of Europe as it **became the epicenter of the First Industrial Revolution in the 18th century.** The birth of the **Industrial Revolution changed the economic organization, material gains of humanity, and global climate.** There are certain **identifiable changes** which took place **during the First Industrial Revolution** and these include the followings:

1. Widespread application of Science in the market
2. Specialization of economic activity towards the production of goods for national and international market
3. Migration of population from rural to urban
4. Movement of economic activity from agricultural to manufacturing
5. The emergence of Capital as one of the crucial factors of production

The innovation facilitated by technology during the First Industrial Revolution allowed for the rise of efficiency and provided astronomical profit for the owners of production to which Capitalism as a system for economic production was immediately acknowledged as conducive to achieving human economic advancement.  **Adam Smith** was the first to advocate capitalism as the best way to organize the market structure. Capitalism is basically understand as an economic system which allows private individuals to own and control property suitable for their respective interests in a way that can serve the best interest of society. To gain profit is the be and end all of capitalism. In a capitalist set up, assets utilized in the production of goods such as factories are privately owned and controlled while human labor is commensurate with wages. There are six important pillars of capitalism: 1.***Private property*** (allows anybody to own tangible assets) 2. ***Self interest*** ( one can act in pursuit of his/her own good) 3. ***Competition*** (one can freely join the market) 4. ***Market* mechanism** (prices of goods are determined in a decentralized manner) 5. ***Freedom to choose*** 6. ***Limited role of government***

England and the rise of the West achieved global economic dominance via capitalism using their available economic and political resources but a bitter struggle among major players of global capitalism took shape in the early part of 20th Century. London’s economic supremacy was challenged by Berlin’s ambition of global hegemony thus leading to the catastrophic First World War which eventually plunged the world economy into an economic depression even United States of America, the only country to become financially liquid after WWI, was not spared. As capitalism doomed, people were looking for messiah to save them from economic perdition. The Russians as inspired by Vladimir Lenin revolted against their Tsar in 1917 and became the first country to systematically implement the economic doctrine preached by **Karl Marx** in a national scale. **Communism**, a theory advanced by Karl Marx, contradicts the menace of capitalism as the latter espouse class war between the bourgeois (the capitalist) and the proletariat (working class). Under the communist system, private property and profit based economy are strictly prohibited. Instead, properties and management of economy are placed under communal control . Later, *China, Cuba, Eastern Europe, and much of the Indochina Peninsula (Vietnam, Cambodia, and Laos*) followed the footprints of Communism which was cradled in Moscow.

After the excruciating terms imposed by the Treaty of Versailles, Germany rose from the ashes of humiliation and defeat as it embraced Fascism principally sponsored by the NAZI regime with the charismatic leadership of Adolph Hitler. As an economic system, **Fascism** combined the essential elements of Communism and Capitalism to which private property and profit are tolerated but the interest of the nation remains much important. With the economy in sound footing, Hitler re-armed Germany in defiance of the Versailles Treaty. Hitler’s aggression towards his neighbouring countries paved the way for the Second World War. The World War II ended with incalculable loss in human lives and properties and consequently pushed Germany in the losing end as leaders of the capitalist and communist world joined forces to defeat El Fuhrer.

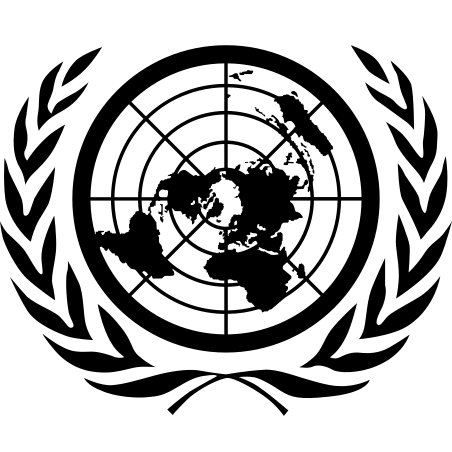
Leaving the fate of the world in the hands of two most powerful countries, USA and USSR, a new global economic and political order came into existence known as **bipolar order.** United States of America became the principal architect in the establishment of international government which is United Nations to preclude the possibility of another global war. Likewise, USA also championed for the advancement of market liberalism as it primarily backed for the creation of International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) which is popularly known as World Bank. USA set the economic tempo by making American Dollar the most powerful currency in the world. Washington sponsored developmental aid to Western Europe through Marshall Plan and rebuilt modernized but pacified Japan to contain the creeping influence of Communism. On the other side of the coin, Moscow incorporated Eastern Europe into its orbit and funded proletariat revolutions in Third World Countries. The Proxy War between the two leading economic ideologies exploded in the continent of *Africa, Asia, and South America*. This ushered a new era known as Cold War.

The economic machinery laid down in USSR failed to produce positive result and hardly catch up with the score of economic growth experienced by western capitalist countries. Japan miraculously joined the ranks of First World Economies, the first non-western state to do so. Despite of the reforms advocated by Mikhail Gorbachev in Moscow, his Perestroika and Glasnost only reinforced the demise of Communist Empire thus putting Market Capitalism in a triumphant mode, as Francis Fukuyama aptly describes it as The End of History which argues for the inevitable ascendancy of western capitalism and liberalism principally manned by USA.

To insulate China from domino effect of the Marxist demise in Europe, Deng Xiaoping, the Chinese Paramount Leader, opened the world’s biggest market to capitalism.With cheap labor cost and cold reception to workers’ rights,foreign direct investments from the most advanced economies poured in to China ranging from manufacturing goods to retail food outlets. International firms like McDonald and Coca Cola were casting their eyes towards huge market like China as they widened their operation and market coverage across the globe. Should Toyota Company decide to put up a production facility in Guangdong, China such investment shall be called ***Foreign Direct Investment*** (FDI) which is more badly needed in a country where unemployment is a constant problem. In addition, the Chinese government became heavily involved in the capital market as some of the biggest companies in China are primarily owned by the state (***state sponsored/guided capitalism***). In the last quarter of the twentieth century, China achieved spectacular GDP growth rate. From 1989-2020, China pitched an GDP average of 9.21 percent.

The most salient political and economic issues regarding China are as follows:

1. Demographic Issue - the effect of One Child Policy will have disastrous consequence in the future
2. Environmental Issue - China is the now regarded as the biggest emitter of carbon dioxide. Protests in China related to environmental problems are now very frequent.
3. Economic Issue- After 20 consecutive years of double digit GDP growth, China has to face a new normal - 6% GDP growth per year.
4. Political Issues - China has to stand emerging coalitions of powerful countries on its regional ambition to become Master of Asia.
5. Territorial Issue - China has standing conflict with India, Japan, and South East Asian countries
6. Trade Issue - China is enjoying huge trade surplus with USA to which the latter denounced such unequal partnership
7. Hegemonic Issues - USA perceived China as the biggest threat to its status as the most powerful country in the world



In the 90’s Washington was strategically placed in an indisputable position since the Berlin Wall, the microcosm of the Bipolar World, tumbled in Germany which eventually led to the disintegration of USSR. Many economic and political experts described the world then in a **Unipolar** order.

In 2001, USA standing in the international stage as Globocop began to erode as the former led an invasion on Iraq and ousted Iraqi dictator Saddam Hussein from power without the backing of United Nations on the allegation that Iraq possessed a Weapon of Mass Destruction (WMD) that may become accesible to terrorist groups such as Al Khaida. Based on the Global opinion poll, majority of the respondent rejected the USA led attack on Iraq and perceived it as against existing international law. Seven years after invasion on Iraq, USA global leadership was put again into question, the international economic community was dragged into worst economic disaster since the Great Depression of 1929 courtesy of financial meltdown in America. At the moment, Americans are struggling to unite and fix the broken legacies left by Donald Trump.

Currently, USA is facing domestic and international setbacks and they are as follows:

1. Economic issue - American economy failed to achieve impressive GDP growth in the past few years.It has incurred debts in trillion dollars with Japan and China but it remains as the world’s largest economy.
2. Political Issue - Americans are heavily polarized on so many political issues which further exacerbated by the installation of Trump presidency.
3. Racial Issue- it remains a bone of contention in many states.
4. Geostrategic Issue - USA needs to reassert its global presence especially in regions where China is making a political and economic statement
5. Security Issue- USA remains a target for homegrown and international terrorist group

The value of global economic growth in the last forty years was indeed unprecedented as the worth of interstates commerce quadrupled. But disenchantment against global market integration became visible. The Occupy Movement demonstrated its dissonant voice against greedy capitalism. Developing economies are starting to make noises against big global players for creating trade rules which protect their own markets from the negative impact of trade liberalization. The Global Covid 19 Pandemic amplified the dysfunctional ecosystem of global capitalism which has been used in the past decades. Despite of the setbacks caused by the Corona virus 19 pandemic, the march of globalization shall be further accelerated by the Fourth Industrial Revolution.

**The Fourth Industrial Revolution.** A new way of life is dawning upon us courtesy of the Fourth Industrial Revolution to which its technology will be felt in all facets of human endeavor- education, workplace, medicine, engineering, commerce, and among others. The emerging technologies under the Fourth Industrial Revolution are as follows: **artificial intelligence (AI), robotics, the internet of things (IoT), autonomous vehicles, 3D printing, nanotechnology, biotechnology, materials science, energy storage and quantum computing**, to name a few.