Theme II 1a: Factors for the Growth of the Global Economy

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Wealth accumulates, and men decay

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[1]https://www.britannica.com/event/Bretton-Woods-Conference

Key Ideas
Criteria for Significance

1. Stable international finances and monetary system
2. Liberal international trading order (Free Trade)
3. Global economic growth and development (Recovery and growth of global economy and more even development of the economies involved in the global economy)

Key Results

1. Unprecedented financial stability
   a. 1960 November was the first speculative attack against the dollar (Only after 15 years)
   b. 38 Financial crises throughout global age as compared to 139 during the crsis decades
2. Unprecedented liberal trade
   a. 7.9% annual growth
3. Unparalleled global economic growth
   a. Globally 4.9%
   b. Developing Countries:
      i. 1950s: 4%
      ii. 1960s: 5%
   c. Less Developing Countries
      i. 1960s: 5.5%

Ai. USA

1. Unaffected by the war, USA wielded significant economic and political power to lead international frameworks, setting the precedent to remove trade barriers and establish a stable exchange rate system
   a. Bretton-Woods System created a conducive international framework of rules and institutions. The Adjustable Peg Exchange Rate System (1 ounce of Gold was fixed to 35$ USD). **Avoided unregulated currency speculation, giving US allies more confidence in the international monetary order to trade more liberally in the absence of speculation.**
   b. USA exercised leadership in negotiating for major tariff reductions throughout the GATT rounds (legal agreement dropping tariffs). By mid-1950s, after the Kennedy Round, US took the initiatives to a 73% reduction in non-agricultural tariffs
2. The USA tolerated allies' protectionism and accepted asymmetrical access to markets. This prevents competition between their nascent markets and the US's veteran industries while allowing them to reap the benefits of a large American market.
   a. During the golden age, the value of European exports to the USA rise from 4.3 to 11.4 billion. Countries like Germany fuelled their economic miracle on the fuel of the Volkswagen Beetle, signifying Western Europe's dependence on American markets for export volumes and revenue.
   b. The US did not retaliate against Japan's MITI act of imposing quotas for foreign exchange loans. It also did not retaliate when Japan imposed tariffs of 40% on passenger car imports. By p1970s, it was exporting more than one million are to

other countries. **Created a cacoon for its auto mobile industry to grow as it did not face major competition.**

3. The USA provided aid in technological know hows and capital injection, giving them the capability and capacity to boost production output and advance their industries, Hence developing their growing industries
    a. 1949 Point Four Programme was a technical scheme to transfer US scientific and industrial know how in various fields to LDC through business contracts to increase their agriculture output and aid in economic development. It was generally implemented in Iran, Israel, Pakistan, and Jordon
    b. US provided 13 billion to South Korea and 1.5 billion to Taiwan. **Served as capital injection for both countries to implement new economic strategies and expand economic activity, helping their rise to be the 4 Asian Tigers** (4% of global GDP growth in 1980s)
4. Due to Cold War, the rivalry with the communist bloc meant that US focused its economic policies on non-commmunist countries as the communists either rejected US assistance or got rejected by the US, limiting its scope to outside of the communist bloc.
    a. Communist states rejected the invitation to Marshal plan despite invitation. COMECON, an economic cooperative between communist states to deepen inter bloc dependency and for USSR to strengthen its economic grip was created in opposition.
    b. Due to the Cold War, the US cut-off trade with China and orchestrated international embargo of China, banking the sale of "strategic goods" like industrial products. **Stalled China's economic development and integration**

Aii. Western Europe

1. Emergence of a closer European economic integration saw countries support initiatives to reduce trade barriers within Western Europe and the world, creating a conducive environment ripened for trade.
    a. By 1947 (Geneva) GATT round, Britain and Germany negotiated and suppored the concession of 45000 tariffs, affecting about 10 billion (1/5 the world's total). **Reduction of asymmetrical** benefits made the world more willing to trade with Western Europe, merchandise exports rose by >8% over 1950-1973
    b. 1957, 6 countries founded the European Economic Community, aiming to abolish obstacles to free trade by gradual tariff and quota reductions over 12 years. **Increasing intra-European trade.** European economic growth at 4.8% annually
2. Western Europe provided aid to their former colonies to maintain strong economic, political and cultural ties. This increased the markets for European business to enter as well as provided capital necessary for nascent industries of the 3rd World to grow
    a. Colombo Plan saw wealthier Commonwealth countries provide economic assistance in monetary aid, infrastructure (factories and dams) and skills development (8 million within 3 years). **Provided LDCs with the building blocks of their economic development**

    b. 1959 European Development Fund was launched as the main instrument to dish out developmental aid in Africa, Carribean and Pacific countries. In 1959, with an initial spending of 0.5 billion, it ballooned to almost 1 billion in 1871 in transport and communication assistance projects. **Facilitated industrial development by enabling greater coordination and ease of movement.**
3. Western Europe's liberalisation of international trade did not benefit developing countries as European trade was aggressively limited to only within Europe. Furthermore, advancement in European tech diverted demand from developing countries to cheaper, synthesized European products.
    a. Demand for developing countries staple exports such as crude rubber decline as Western countries created synthetics and learned to be more economic in their use of natural resources, lowering prices. Developing countries are unable to profit and with no viable alternatives, their share of total world exports dropped from 30% to 20% from 1950s-1960s
    b. European Community's Common Agricultural Programme (CAP) saw massive subsidies to EU farmers, enabling EU agricultural products seemingly cheaper than imports from US and developing countries. Substituted 3rd world and American exports with cheaper European products.

Aiii. Japan

1. As Japan embarked on high speed economic growth driven by export oriented industrialisation, it increased its raw material imports to fuel its industrial growth and presented itself as a a market for more advanced goods to industrialise.
    a. Compared to Asia, Japan had little natural resources. It is industrialisation was fuelled by imports of raw materials such as iron ore and oil from developing countries. (83%).
    b. Japan became a market for mid-technology. Electronic exports from a Taiwan such that Taiwan exports of coloured televisions sets to Japan increased by 14.8 times. Japan's drive to electronics also developed Taiwan's electronic industry to a significant pillar of its economy, contributed to Taiwan's. 8% annual growth.
2. Japan, by becoming a major foreign aid doner and investment partner to developing countries, aiding them immensely in the economic development of other countries by giving them necessary capital to build their industries.
    a. To Thailand, Japanese FDI led to an export boom during the 1980s. The rise in Japanese FDI was accompanied by 1.2 billion, focusing on manufactoring between 1982-1986, complementing Thailand's 4th Economic and Social Development Plan. Thailand's GDP growth was 8%.
    b. From 1980-2000s, Japan claimed the role as aid superpower, the world's largest aid doner. Before in 1964, Japan was 3rd ranked Organisation for Economic Co-operation and Development (OECD) doner of official development assistance (ODC), giving OECD the ability to address common issues of advanced industrial economies and their relations. Japan also became one of the top 5 contributors to the WTO annual budget.

Aiv. Multi-national Companies (MNCs)

1. MNCS bring otherwise unavailable financial resources to the 3^{rd} world through firm's own capital and its access to international capital markets. Recepiants thus have their economies stimulated by MNC business, bringing in capital for development
    a. 1960s-1970s, FDI accounted for 15% of total capital flows in the 3^{rd} world, averageing to about 7 billion a year due to the entrance of companies like Unilever. **Countries able to use the capital as funding for economic development.** Translated to a 3% in global share of GDP
    b. 1950-1970, value of US FDI increased by 8-fold. Much went to Western Europe, stimulating the shift to tech and capital-intensive industries such as electrical machinery which propelled their rapid growth. Consequently, Western Europe's share of world output of goods and services rose from 37% to 41%.
2. MNCs allow 3^{rd} World States to profit from sophisticated research and development carried out by making available technology that would otherwise be out of reach of developing countries, enabling lucrative industries.
    a. Fairchild Semiconductor and Noppin Electric Company singed an agreement for the latter to use the former's Planer Tech. Enabled NEC and eventually, a string of Japanese companies like Sharp to produce integrated circuits. **Tech transfer enabled Japanese industry to develop quickly**, resulted in 10% economic growth.
    b. British MNC Shell Petroleum opened Singapore's first 300 million-oil refinery at Pulau Bukam in 1961 and transferred oil distillation techniques to the state in the form of labour training. Kickstarted the oil industry in Singapore which now contributes to 5% of its meteoric growth (8% Asian Tiger)
3. Developing countries viewed MNCs with suspicion as they are regarded to have exploited the economy to amass massive gains with disproportionate benefits to the locals as they establish foreign monopoly control, sabotaging economic growth.
    a. Hewlett Packard and Apple used Mexican Informatics Regimes to capture a second round of oligarchy rents from obsolescent technology, protecting more advanced research from local collaborators. MNCs profit without fearing rivalry and slow down tech advancement
    b. Influx of MNCs threaten local brands. In Ireland, foreign MNCs accounted for 77% of net output in 1996, increasing from 58% on 1983. Companies like the Lash Sugar Company found it hard to survive as their market shares eroded, resulting in their collapse.
4. Though MNCs did bring in FDI, only a minority few countries were recipients of FDI while even then, those countries did not enjoy substantial benefits as FDI translated to little economic output.
    ~~a.~~ The net FDI inflow of investment into 43 developing countries were only 30% of the outflow of the investment income. ~~This has been attributed to low ability to absorb technological spillovers. [2]~~
    ~~b.~~ Most of the FDI went to a very small number of lower and upper middle-income developing countries. Conversely, the share of low-income countries amounted

[2] Johnson, Andreas. (2005). Host Country Effects of Foreign Direct Investment : The Case of Developing and Transition Economies.

to only 1.6% in 2000s. ~~This could be due to their high potential to adopt tech spillovers.~~

Av. International Instituitions and Arrangements

1. Establishes a framework that helped to stabilise currencies and set rules that enforces a more liberal trading order. Compounded by stable currencies, countries had confidence to trade with reduced risks such as inflation that may arise due to speculation
    a. Bretton-Woods System created a conducive international framework of rules and institutions. The Adjustable Peg Exchange Rate System (1 ounce of Gold was fixed to 35$ USD). **Avoided unregulated currency speculation, giving US allies more confidence in the international monetary order to trade more liberally in the absence of speculation.**
    b. General Agreement on Tariffs and Trade (GATT) served as a negotiating forum for countries to lower trade barriers. After 6 rounds of negotiations in 1970s, almost 73% of the world's tariffs had dropped.
2. Sources of loans as official holder of buffer stock of currencies that helped countries experiencing heavy debt or economic crisis to rebound. They also served as sources of investment that fund infrastructure development which assists loan repayment
    a. During the Asian Financial Crisis, the IMF provided more than 36 billion in loans to Indonesia, South Korea, and Thailand to support stabilisation policies and GDP structural reforms. IMF loans bought time for the South Korean government to push through and implement recovery measures, enabling GDP to resume to pre-AFC levels
    b. Until 1968 World Bank funded infrastructure projects around the world. One instance is a 9 million loan to Honduras to build its transport infrastructure, allowing Honduras' GDP to double and generate enough income to repay its loan
3. Due to oversight in their clauses and non-cooperation from their members, their ability to enforce liberal trade and maintain a stable currency was diminished, incurring impacts on both trade liberalisation and financial stability.
    a. As the adjustable peg exchange rate system was depleting the US's gold reserve, Nixon closed the gold window in 1971, The US had to abandoned the adjustable peg exchange rate. Consequently, currency trading exploded to 100 billion a day in 1973, **creating higher violatility that encouraged speculation and inflation.** Average annual growth rate dropped rom 3.4% to a receding 0.1%
    b. The GATT was formulated especially for tariffs, hence, due to this lack of scope, it was powerless against the proliferation of protectionist measures that were mostly non tariffs in nature that rose after the oil crisis. International trade growth rates dropped to 5%.
4. International institutions cause more harm to local economies due to their "one size fit all" approach which did not consider the nuances of each country's economy. Having been influenced by the US hegemony in their leadership, this resulted in the blind employment of economic liberalising policies which only harm d nascent economies

a. World Bank loan forced a country to impose structural adjustment programmes and austerity measures to reduce government spending. Zambia saw a 25% increase in infant mortality and cuts in education sawa large proportions of the population were languished, illiterate and unskilled.
b. IMF Structural Adjustment Programmes (SAP) schemes in South Korea worsened the AFC as it made investors in South Korea believe that the economy was fundamentally unsound, capital flight ensued. Massive withdrawal from well-run South Korean banks ruined them,
c. Similarly in Thailand, only 1 of 46 banks remained after the AFC

https://www.bresserpereira.org.br/papers/2020/Chapter-5-The-Golden-Age-of-Capitalism.pdf