9.4

Economics in the Global Age

A market economy is to economics what democracy is to government: a decent, if flawed, choice among many bad alternatives.

—Charles Wheelan, *Naked Economics: Undressing the Dismal Science* (2002)

Essential Question: How did the global economy change and remain the same from 1900 to the present?

Global trade exploded with the end of the Cold War. The new global economy was part of a renewed emphasis on market-oriented policy advocated by leaders such as **Ronald Reagan** in the United States and **Margaret Thatcher** in Great Britain. They advocated cutting taxes, regulations, and government assistance to the poor as a way to promote economic growth. As Wheeler pointed out, this was a flawed choice producing greater wealth for many but hardships for others. At the same time, revolutions in information and communications technology led to the growth of knowledge economies in some regions, while industrial production and manufacturing were increasingly situated in Asia and Latin America.

Acceleration of Free-Market Economies

Globalization is interaction among peoples, governments, and companies around the world. The Indian Ocean trade and European imperialism are both examples of globalization. However, the term usually refers to the increased integration of the global economy since the 1970s. The Eastern Bloc nations that had been under Soviet control suddenly could trade freely with capitalist democracies. India and other countries that had been nonaligned during the Cold War relaxed restrictions on trade in the 1990s. This opening up of a country's economy is called **economic liberalization**.

Ronald Reagan and Margaret Thatcher wanted **free markets**, which are economic systems based on supply and demand, with as little government control as possible. While Reagan and Thatcher were strongly nationalistic, corporations used the shift in emphasis to move jobs to countries with lower wages, lower taxes, and fewer regulations. Critics charged that globalization led to labor exploitation and environmental damage.

Economic Liberalization in Chile In Chile in 1973, **Augusto Pinochet** took power in a U.S.-backed coup against a democratically elected socialist government led by Salvador Allende. Pinochet ruled from 1974 to 1990. Then a coalition of citizens ousted him because of his violent tactics. Indicted for kidnapping, torture, money laundering, and murder, Pinochet died in 2006 before he could be convicted. "We buried our democracy, and we buried freedom," the Chilean author Isabel Allende said about his rule.

However, during his rule, the Chilean economy took a turn away from state control toward a free-market approach. Among the goals of this approach were privatizing formerly state-run businesses and taming the serious inflation Chile was experiencing. Economists known as the Chicago Boys because they studied under free-market economist Milton Friedman at the University of Chicago helped design Chile's economic reforms. The reforms were unpopular because they did not address poverty and other social concerns, and Pinochet used repression to enact them. Subsequent administrations, however, guided the economy with a balanced approach, using a combination of economic growth as a result of free trade and government programs to significantly reduce poverty. (Connect: Evaluate the success of the free-market economic approach of both Chile and the Soviet Bloc. See Topic 8.9.)

Chinese Economic Reforms Economic liberalization reached China as well. In 1981, **Deng Xiaoping** became the Chinese leader. Under him, the Communist Party backed away from its commitment to economic equality, and more actively promoted economic growth. Deng called his policy "Let some people get rich first." The government took several steps to open up the economy, even as it kept overall control:

- It replaced communes with peasant-leased plots of land where the peasants could grow their own crops and sell part of them in markets. This reform led to agricultural surpluses instead of the famines of the past.
- It allowed factories to produce more products for consumers.
- It encouraged foreign companies to set up factories in special economic zones. Foreign firms were attracted to China because of low wages and lax environmental laws.
- It reopened the Shanghai stock market and allowed private ownership of some businesses.

Some Chinese thought that these economic reforms should be accompanied by political reforms, such as freedom of speech and the press and the end of the Communist Party's monopoly on political power. Political discourse did become somewhat freer than in the past. In 1989, however, a large but peaceful student-led demonstration in **Tiananmen Square** in Beijing was met by force from the government. Soldiers using guns and tanks broke up the demonstrations, killing hundreds of people. (See Topic 9.5.)

Economic Change: New Knowledge Economies

In the late 1900s, revolutions in information and communications technology led some countries to undertake a new kind of economy—the **knowledge economy**. A knowledge economy creates, distributes, and uses knowledge and information. Designers, engineers, teachers, and many others have jobs in the knowledge economy. In the United States, the knowledge economy is evident in the vast stretch of technology companies in Silicon Valley in California, where workers use their knowledge to create ways for other people to use theirs through technology, communication, innovation, and collaboration.

Knowledge Economy in Finland In many cases, knowledge economies have evolved with the explosion of information and communication technology. In knowledge economies, governments and investors put resources into research, education, innovation, and technological infrastructure.

Finland, for example, had been an agrarian economy in the 1950s but followed other European countries in industrializing after World War II. When the Soviet Union collapsed, Finland lost one of its main customers of manufactured goods and faced an economic crisis. In the 1990s, Finland turned a corner by entering the global marketplace, encouraging competition, and establishing the Science and Technology Policy Council to set a direction of economic growth through technology and innovation. Finland experienced great economic growth in this endeavor and led the way in the development of mobile phones. By investing in education and communications technology, Finland was able to build on its success with mobile phones and establish software companies. These industries required highly educated workers, while outsourcing hardware production to countries with lower labor costs.

Japanese Economic Growth Japan followed a somewhat different path. After World War II, Japan implemented economic policies similar to 18th-century mercantilist policies that were designed to increase exports and decrease imports, as well as policies to boost competitiveness:

- To encourage exports, the government coordinated its finance and labor policies with large corporations and gave them subsidies to help them keep their costs low.
- To discourage imports, the government used high tariffs and other trade restrictions on goods made abroad.
- To prepare its citizens to be productive workers, Japan emphasized rigorous education.

These policies, aided by large investments from the United States and other countries, turned Japan into a manufacturing powerhouse.

However, Japan's impressive growth came at a high cost for its consumers. Low-wage workers producing items for foreign markets often could not afford to buy what they made. For example, Japanese-made cars were more expensive in Japan than they were in the United States. Over time, Japanese unions became strong enough to negotiate higher wages, and international pressure forced Japan to relax its trade restrictions. Japan's economy diversified, and it became a knowledge economy and an international center of banking, finance, and information technology. Although Japan's growth slowed after the 1980s, Japan remained the third-largest economy in the world in 2014, behind only the United States and China.

Closely following Japan's economic model were four states known as the **Asian Tigers**—Hong Kong, Singapore, South Korea, and Taiwan. Like Japan, these states prospered through government-business partnerships, high exports, intense education, and a low-wage workforce. The success of the Asian Tigers and China raised hundreds of millions of people from poverty.

Economic Continuities: Shifting Manufacturing

As the knowledge economy develops in some regions, industrial production and manufacturing in those regions, including in the United States, have declined. Manufacturing plants are increasingly located in Asia and Latin America rather than the United States and Europe. Countries in both Asia and Latin America have become known for their contributions to the textile and apparel industries, though they manufacture many other products. So while it has moved to different regions, manufacturing continues to play a key role in the global economy.

Vietnam and Bangladesh Importers who once purchased their manufactured goods from China have been finding other options in such Asian countries as Vietnam and Bangladesh, where labor costs tend to be significantly lower than in China (where they are already significantly lower than in the United States and Europe). Both Vietnam and Bangladesh have become known for their exports of clothing. In compounds the size of small villages in some places, garment manufacturers—often funded by foreign investors—churn out the clothes that end up on hangers in stores in developed countries. Clothing accounts for 80 percent of exports from Bangladesh. Phones are the largest export from Vietnam, worth about $45 billion in 2017, with apparel and electronic goods each bringing in $25.9 billion.

Workers in both Vietnam and Bangladesh have mounted strikes in recent years, protesting both low wages and poor working conditions. Their pay has increased slightly as a result, but not enough to keep up with rising costs of living.

Manufacturing in Mexico and Honduras In 1994, the United States, Canada, and Mexico negotiated **NAFTA**, the North American Free Trade Agreement. This agreement encouraged U.S. and Canadian industries to build **maquiladoras** (factories) in Mexico that used low-wage Mexican labor to produce tariff-free goods for foreign export. Many factories hired large numbers of young women and exposed them to harsh working conditions.

Source: Public Domain

A maquiladora [factory] in Mexico takes raw materials and assembles, manufactures, or processes the material and exports the finished product.

Labor unions in the United States complained that NAFTA led to the export of thousands of U.S. jobs to Mexico, where wages and benefits were lower and safety and environmental standards were weaker.

Honduras in Central America, the second largest exporter of textiles in the Americas, has sought to upgrade its manufacturing using principles of sustainability—recycling or treating its waste materials—and fair labor practices, including housing and education plans for workers, through business-government partnerships. As in Vietnam and Bangladesh, considerable business investment comes from enterprises in South Korea and Taiwan.

Transnational Free-Trade Organizations

Several organizations contributed to the growth of the global economy in the decades following World War II. Some countries joined regional organizations such as the European Economic Community, **Mercosur** (in South America), and the **Association of Southeast Asian Nations (ASEAN)**. Many countries signed an international accord, the **General Agreement on Tariffs and Trade (GATT)**, which lifted restrictive barriers to trade. **Protective tariffs***,* which are taxes on foreign imports, had been at a world average rate of 40 percent before GATT. By lowering and eliminating many tariffs, the agreement promoted more international trade and helped restore economic prosperity to war-ravaged Europe. By the 1990s, average tariff rates had sunk below 5 percent, easing the movement of goods across national borders and lowering prices for consumers.

In 1995, the **World Trade Organization (WTO)** took over GATT's operations. The WTO made rules that governed more than 90 percent of all international trade. In part because of its power, the organization became controversial. Its meetings were closed to the public, and its board members represented mostly corporate interests. Also, the organization's rules favored trade over consideration of issues of moral concern. For example, through strict application of WTO rules, a member nation that refused to buy clothing made by sweatshop labor could suffer trade sanctions from the organization.

Multinational Corporations

A **multinational corporation** is one that is legally incorporated in one country but that makes or sells goods or services in one or more other countries. The joint-stock companies of the Commercial Revolution, such as the British East India Company and Dutch East India Company (see Topic 4.5) were the earliest examples of multinational corporations. Multinational corporations were also the business means through which imperialist nations made their wealth during the age of imperialism, exploiting the resources and labor of the colonized regions for profit in home countries.

Today's multinational corporations take advantage of both knowledge economies and more traditional manufacturing and industrial economies. They employ leading edge workers in the knowledge economy—software designers, communications specialists, and engineers—and at the same time hire low-wage workers abroad to make their products. They also have a global market in which to sell their goods and services.

To free-market supporters, multinational corporations produce the greatest gains for both developed and developing countries. For example, in the early 1990s, India opened its markets and allowed in more imports. With its highly educated, English-speaking workforce, India became a software and information technology powerhouse, drawing investments from American and European companies that wanted to outsource jobs and lower labor costs. Multinational corporations, such as **Microsoft** and **Google**, also invested in the Indian economy. The influx of corporate wealth and foreign goods created a thriving consumer culture among India's middle class, the ranks of which swelled tremendously after 2000. In 2014, the Indian middle class was estimated to be the largest of any country in the world, with more than 350 million people.

The India-based multinational corporation **Mahindra & Mahindra**, which produces cars, farm equipment, military vehicles, and electrical energy, is headquartered in Mumbai, India, but has operations not only throughout India but also in South Korea, China, Australia, the United States, South Africa, and other Africa nations. Some multinational corporations are criticized because they lack a strong national identity and therefore do not necessarily adhere to the ethical standards of their home country. They are also criticized for exploiting workers and establishing their operations in such a way that they avoid as many taxes as possible. Mahindra & Mahindra, in contrast, has received awards for its socially responsible corporate practices and is considered one of the most trusted businesses in India.

In contrast, Swiss-based multinational **Nestlé** corporation, the largest food company in the world, has been the subject of many controversies and criticisms, including purchasing cocoa for its chocolate products from suppliers who use child labor and engage in cocoa production on protected lands. It has also faced criticism for its bottled water business for its attitude toward drinking water as a product rather than a human right. At the same time, Nestlé invests in a number of research programs aimed at sustainable agriculture and training for farmers.

KEY TERMS BY THEME

ECONOMY: World Trade
- economic liberalization
- free market
- Asian Tigers
- NAFTA
- *maquiladora*
- Mercosur
- Association of Southeast Asian Nations (ASEAN)
- General Agreement on Tariffs and Trade (GATT)
- protective tariff
- World Trade Organization (WTO)

GOVERNMENT: Leaders
- Ronald Reagan
- Margaret Thatcher
- Deng Xiaoping
- Augusto Pinochet

SOCIETY: China
- Tiananmen Square

ECONOMY: Globalization
- knowledge economy
- multinational corporation
- Microsoft
- Google
- Mahindra & Mahindra
- Nestlé

Source: Wikimedia Commons

A Mahindra plant in Mumbai, India