Socio-Economic Events that Ignited Globalization

Ildiko IOAN[1]
Carmen Valentina RĂDULESCU[2]
Ileana MIRCIOI (VALIMAREANU)[3]

Abstract

This article points out what was seen from the beginning of the twentieth century as the future of social, cultural and economic evolution, the process of globalization. The authors try to emphasise how the economy evolved in a globalized manner, starting with out economic ancestors, the Romans and the Brits, and accelerating towards today's nexus: globalization developed through Americanization and Westernization.

Introducing in the chronological events the entities that sustained the development of globalization and offered a more down to Earth on the subject were based on the idea of our world built in its intangible shape today, going from the creation of the World Bank and the International Monetary Fund, till the softer edges of capitalism as a new path to create and implement economic policies for obtaining economic growth.

Keywords: *globalization, international relations, International Monetary Fund, World Bank, economic development, trade*

JEL classification: F60, F63

1. Introduction

Globalization as global phenomenon has its origins in events and innovations of the twentieth century. The process of trade liberalization was to create interdependencies between economies and it began before the twentieth century. Great empires like the Roman or British spread throughout the centuries techniques, products and specialized work force in the entire world. In the nineteenth century, American companies started producing cars, Ford, General Motors and Chrysler have opened many factories in different countries worldwide, which has empowered this practice as global practice by most of the world's multinational companies.

[1] **Ildiko IOAN,** Bucharest University of Economic Studies,
E-mail: ildiko.ioan@yahoo.com
[2] **Carmen Valentina RĂDULESCU,** Bucharest University of Economic Studies
[3] **Ileana MIRCIOI (VALIMAREANU),** Bucharest University of Economic Studies

2. International relations after World War II

After World War II, the entire world was lingering between two ideologies respectively between two types of economies: socialism with closed economy controlled by the state and democracy, the capitalist economy, this split resulting in so-called "Cold War". Socialist states cooperated only between them, have had a monopoly on the economy and private property rights hardly existed in these countries, unlike capitalist countries where ownership has always been protected and trade was free. Economic policies of socialist states led these countries to a dramatic drop in living standards compared to democratic States and this sent the Cold War in to its finality in 1989 with the victory of the capitalist system.

As a direct result of the turbulent events of the twentieth century and the two World Wars, democratic world powers have realized the need to create a supranational structure that protects common values of these countries and avoid armed conflicts. In this respect, in 1951, from the Schuman Plan, six countries (Germany, Italy, France, Belgium, Luxembourg and the Netherlands) formed the European Coal and Steel Community (ECSC) (European Union, 2016a). Due to the success of this Treaty, the six countries expand their cooperation in other economic sectors, signing in 1957 the Rome Treaty, which created the European Economic Community (EEC). This community was intended to ensure free movement of goods, services and people between member states, marking the beginning or the European Union.

The European Community has evolved, registering a significant growth over 1960 and paved the way for the removal of customs duties on the goods they imported in the community and thus creating the conditions for carrying out free trade between the six countries. Integration of other countries in the community was ignited, imposing their economic convergence criteria, social and political integrity in order to succeed in the Union. After the fall of socialism, begin entry talks with the European Union in the former communist countries, including Romania. Targets are established by the criteria of the Maastricht Treaty (1992) as a reference for countries that are to join the European Union. These criteria consist of macroeconomic indicators whose values have to reach a state within a timeframe set by the EU and is closely followed during the initial period. The main advantage that a country obtains by joining the European Union is entering a economic, cultural and social community, this way enjoying the mutual economic aid, greater trade liberalization and practical, sharp engagement in the process of smooth globalization.

Moreover, the European Union is the biggest provider of development aid for poor countries (European Union, 2016b). Until 2005, there were signed numerous partnerships with 78 countries on the African continent or Latin America. Aid delivery conditions are closely related to human rights in these countries.

Western Europe could not be rebuilt quick and sustainable without American help. The Marshall Plan was the idea of rebuilding the global economy, the US, Europe and Asia offering funds to restart the engines of economies affected by war. One reason for the economic differences between countries in Western Europe and the socialist East, under the influence and control of the USSR was that of socialist states that have accepted financial aid from the Americans. The amounts provided under the Marshall Plan were about 12.5 billion dollars, the value in today's dollars would be about 160 billion dollars.

The American economy has manifested itself as as the main supporter of globalization, it managed to combine *Taylorism (characterized by emphasizing the division of labor and systematic study of the processes and methods for increasing labor productivity), Fordism (the first system that introduced mass production, industrial production, secured rising wages and so they made a market not only for their products, but also for the labor force) and Keynesianism (revolutionary economic theory that assumed the principle of state intervention to support economic activities)* (Trifu, 2006).

In a world where two World Wars have destroyed ground infrastructure of many countries, economic policy in most capitalist states were protectionist. Protectionism purpose was to maintain economic stability and a low unemployment rate. So how did globalization economically rose in such conditions? *Change began in the US and the Federal Germany, which were the first countries that have opted for trade liberalization and they did it for safety and in trust in the context of the Cold War as allies* (Auvers, 1991). Economic policies used by capitalist countries in the postwar period have resulted in economic growth that leaders have devoted on the axis US – Federal Germany – Japan, around which other economies have revolved.

Therefore, the key to restart the process of globalization after the World War II was to free trade, trend imposed by major global economy to rebuild what was destroyed during the war with the initiative of the US to be an active player in this process, by implementing the Marshall Plan in Europe and Asia.

3. The IMF, the banks and the globalization process

Following the destruction caused by the turbulent events of the first half of the twentieth century, economic reconstruction began with help from the US, but especially with the help of certain financial institutions specifically designed to help countries affected by wars, namely to provide long-term capital to these countries, so this way the World Bank and International Monetary Fund were developed. The capital of the World Bank was founded in particular through guarantees granted by industrialized countries, on which the World Bank could make loans on the capital markets that had an AAA rating (Horowitz, 2004).

Initially, the World Bank's mission was the reconstruction of war-affected countries by improving infrastructure, but it gradually turned its attention to the developing countries and thus the main concern become alleviating poverty and creating human capital. With the World Bank being leaded by James Wolfensohn, the reorientation of the bank has become more pronounced. Under his leadership there was created the general development of the financial mechanism and also there have been wiped out debts of poor countries which were most indebted, because it was wanted that ultimately to achieve a Strategic Programme for Poverty Reduction, a program conducted jointly by the World Bank and International Monetary Fund. This program wants and emphasizes a greater sense of responsibility from international aid recipient countries and also the international financial institutions that support the aided countries should record better progress, and those that don’t are sanctioned if they fail to meet goals. In order to combat poverty and thus to develop increased living standards in countries in the developing world, the World Bank and other international financial institutions, created the International Development Association (IDA), a granting institution that offers long term grants or loans towards the bank's poor countries, the funds being attracted from states with a very low interest rate. Also, the private sector created the International Finance Corporation, with the purpose of investment or lending to the private sector, with the Multilateral Investment Guarantee Agency, also for the private sector.

The aid brought by these institutions have significant effects in terms of improving the quality of life in some cases. For example, projects have been implemented in education that increased literacy levels in rural areas of many countries; projects in agriculture and infrastructure have resulted in the creation of irrigation systems that allowed many farmers to double their income through access to water; The World Bank has offered the separatists in the Philippines quite attractive jobs so they drop their weapons. Also, in some African countries affected by HIV, projects financed by these financial institutions have helped keep the disease under control, and these are some of the effects that have remained almost unnoticed worldwide.

During the 1929-1933 crisis, the economic policies of powerful economies were targeted to raise economic barriers and compete with other countries for export markets. Those countries have discouraged also buying foreign currency, all leading to a drop in international trade, which led to an increase in unemployment and a drop in living standards. In this context, the IMF's founders understood the need to create a body charged with overseeing the international monetary system (Soros, 2002). IMF goal is to ensure the stability of exchange rates and encourage member countries to eliminate trade barriers that harm exchange (Bodislav, 2012, pp. 33-46).

The International Monetary Fund is a public institution, which means it is funded by taxpayers of member countries. Control over this institution is exercised by the Finance Ministers of the member countries and central banks. This control is exercised through a complicated voting system in which the highest influence is biased towards the major economic powers of the end of World War II, the United States is the only country with veto power. Founded on the belief that it is a necessary pressure on some countries to give up economic barriers today, the IMF grants loans to countries that implement economic policies such as raising interest rates or policies that could lead to a contraction of the economy.

The IMF and the World Bank have become in the 1980's the promotors of free market ideology, especially encouraged by Great Britain and the United States, all of them being the instruments through which major economic powers have imposed ideology on poor countries that desperately needed loans. The governments of poor countries have borrowed money from them through a compromise: public opinion and even fellow politicians were skeptical of the ideology promoted by these powers, but it was an urgent need for funding which these institutions could provide, funds without which the developing economies would have collapsed.

The activity of the two institutions was interconnected at a higher level, all in the 1980's; the World Bank went beyond financing projects and started to provide financial support in a broader form for structural funds, but only after receiving the agreement of the International Monetary Fund. With the IMF on board or with the agreement on the table and conditions imposed on the states in need to receive structural funds (Stiglitz, 2003), the IMF mission developed from its initial status of to provide an economic balance globally, so the focus was shifted towards the economic crisis, given that countries in the developing world need constant help, these institutions have become major players in some politico-economic life of developing countries and thus a very important player in the globalization context.

Conclusion

Considering the fact that globalization requires a very strong influence of developed economies on countries with weak, unstable or emerging economies were recognized as the biggest influences exerted by western countries (the US and Western European states) on the Oriental and African ones. This is a truism, but does this mean that globalization, in its cultural and social implications, is identified as Westernization? Is globalization simply an euphemism for conceptual Americanization or Westernization? Could there be an "Asian Globalization" (Stiglitz, 2003)?

Indeed, the strongest influences come from the West towards the East, and globalization is a complex process of reshaping economic, social, cultural and political networks, ignited by world states that develop relationships of interdependence or at least economic and cultural exchanges at a level not seen before in human history. This is supported both by the critics of globalization, as well as by its supporters.

The problem of Westernization is because globalization is seen by some experts as Westernization in general and Americanization in particular (Turner & Khondker, 2010). This leads to the idea of a form of imperialism of the West, in which states that take part from underdeveloped regions are obliged to respect specific conditions and that their route is economically coordinated by countries with strong economies through conditions imposed by the transnational corporations and the international financial institutions (the World Bank or the

International Monetary Fund), but recent chronological development shows us that the economic boom recorded by Asian countries like China, Japan and South Korea showed us that globalization has meant a huge opportunity for less developed countries that have become major players in the global economy through this opportunity.

The resemblance between the Westernization or Americanization of globalization results into the precise influence had by the US on the world after the end of the World War II. Direct economic aid for countries affected by war came from the Americans and thus helped to raise some important pillars in states east of the American continent. Globalization also meant for the second half of the twentieth century opening doors to foreign markets, attracting foreign investors towards disadvantaged countries, especially coming from Western investors. Eliminating trade barriers between countries has enabled Western businessmen to invest within economies where labor is much cheaper, a factor highly attractive for investors in general (Bodislav, 2015, pp. 257-264).

Globalization, as a multidimensional process, not limited to the economic side, but also includes socio-cultural and political dimensions. Historical events such as the collapse of communism and the Soviet entity transition towards capitalism accelerated this process by the fact that the former communist countries, including Romania, have accepted capitalism openly and everything it involves. Thus, in many cases there was a cultural shock. Traditional markets in communist states suffered greatly in the late 1980’s and were inundated with countless goods, services and opportunities, and entire local markets were flooded with the wrath of global supply.

However, globalization can be distinguished from imperialism because it is much less coherent and it isn’t directed towards culture, so it has an ambiguous position between economic and political dimensions; also the idea of imperialism contains at least a sense of project-based solution Tomlinson, 1991). From this perspective we can deduce that globalization opposed to imperialism promoted the idea of Westernization, but not as a planned process. It can indeed be observed, studied, analyzed and then influenced, but is not a process started by one country or a particular group of people. The spread of capitalist ideology/democratic was, indeed, through its success the end of the Cold War, but there can be no equality between this and globalization, because globalization began centuries ago, long before the existence of transnational companies.

References

1. Auvers, D., (1991). *Economie globală,* Bucharest: Humanitas Publishing.
2. Bodislav, D. A., (2015). “Transferring business intelligence and big data analysis from corporation to governments as a hybrid leading indicator”, *Theoretical and Applied Economics,* no. 1, pp. 257-264

3. Bodislav, D. A., (2012). “Oligarchy versus Democracy and regulation versus deregulation under the globalization effect”, *Theoretical and Applied Economics,* no. 5, pp. 33-46
4. European Union. (2016a). Available at: http://europa.eu/about-eu/eu-history/1945-1959/index_ro.htm [Accessed 15 February 2016]
5. European Union. (2016b). Available at: http://europa.eu/about-eu/eu-history/1960-1969/index_ro.htm [Accessed 15 February 2016]
6. Soros, G., (2002). *About globalization*, Oxford: Public Affairs
7. Stiglitz, J., (2003). *Globalization and its discontents*, New York: W. W. Norton & Company
8. Tomlinson, J., (1991). *Cultural Imperialism: A Critical Introduction,* London: Printer Publisher
9. Trifu, A., (2006). *Globalizare și dezvoltare*, Iași: Performantica Publishing
10. Turrner, B. & Khnodker, H., (2010). *Globalization East and West*, London: Sage Publications