The Making of a Global World (Easy Notes)

Introduction:

The world which we term as a ‘global village’ is the outcome of a long history. Through this, we came across different phases which resulted in interconnectedness of the entire world. So, this chapter will take you to the journey of globalization. We will study how the economic, political and cultural closeness took place over time. Let’s discuss the premodern world first.

1. The Pre-Modern World:

- The Pre-Modern Era lasted till the 18th century.
- From ancient times, people traveled vast distances for different purposes.
  - For Example: Priests traveled for knowledge, traders for opportunities and pilgrims for spiritual fulfillment.
- They carried goods, money, values, skills, ideas, inventions and even germs and diseases.
  - **Goods:** The trade link between Indus Valley Civilization and West Asia is the evidence of globalization in the past. Since, it linked both of them till 3000 BCE.
  - **Money:** Maldives, China and East Africa used cowries (Seashells) as a form of currency for more than a thousand year.
  - **Disease:** Furthermore, we can trace the spread of diseases to the 7th century.
- The pre modern world is divided into three parts;
  1. Silk Routes link the world.
  2. Food Travels: Spaghetti and Potatoes.
  3. Conquest, Diseases and Trade.

1 A. Silk Routes Link The World:

- The silk routes are a good example of vibrant pre-modern trade and cultural links between distant parts of the world.
- **Trade through silk routes:-**
  - Historians identified many silk routes over the sea and on the land which connected Asia, Europe and Northern Africa.
  - It is believed that it existed since before the Christian Era and thrived till the 15th Century.
  - Moreover, Chinese pottery, textiles and spices of India & Southeast Asia travelled through these routes for trading with Europe.
  - In return, they used to get precious metals- gold and silver from Europe.
- **Cultural exchange through silk routes:-**
  - Trade and cultural exchange always went hand in hand. Since, trade helped people to share their ideas, food and teachings.
  - Christian missionaries, Muslim and Buddhist preachers used these routes to spread their teachings.

1 B. Food Travels: Spaghetti and Potato:

- Food offers many examples of long-distance cultural exchange.
- Traders and travelers introduced new crops to the lands they traveled.
  - Take for instance, noodles and Spaghetti. It is believed that noodles traveled west from China and became spaghetti.

  - Another example we can take is of Pasta (the Italian dish).
- In the 16th Century, Christopher Columbus accidentally discovered the Americas. It was after that many of our common foods such as Potatoes, soya, groundnuts, maize, tomatoes, chillies, sweet potatoes and so on came to be known.
- It created a new difference between life and death because:-
  - On one hand, the introduction of potatoes led the poor population of Europe to eat better.
  - On the other hand, peasants of Ireland became so dependent on potatoes that when disease destroyed crops in the mid 1840s, many died due to starvation.

1 C. Conquest, Disease and Trade:

'Asia' Before and After 16th Century :-

- In the 16th Century, European sailors found a sea route to Asia and America (For trade).
- For centuries before, Maximum trading would run mainly in the Indian Ocean.
- The Indian Subcontinent was a crucial point in their network.
- However, after the entry of Europeans, the flow of trade expanded and shifted towards Europe.

'Americas' Before and After 16th Century :-

- Before the 16th Century, America had been cut off from the entire world.
- But after its discovery, its vast lands, abundant crops and minerals began to transform trade and lives everywhere.
  - **For Example:-** Peru and Mexico had silver mines which **Europeans** began to use for trading purposes with Asia. It helped Europeans in growing their wealth.
  - In the 17th Century, When Europeans heard about an imaginary place 'El Dorado', they set off in search of El Dorado which was also known as the city of gold.
- In the 16th Century, **Portuguese and Spanish** decided to take decisive action on conquest over America.
- Germs such as smallpox (instead of firepower) became the most powerful weapon of Europeans. It is because:-
  - American inhabitants had no immunity (due to isolation) against these diseases that came from Europe.
  - However, Europeans were already immune to such a disease.
- As a consequence, conquest became much easier.

'Europe' Before 19th Century:

- **Until the nineteenth century**, poverty and hunger were common in Europe.
- Cities were crowded and deadly diseases were widespread.
- Religious conflicts were common, and religious dissenters had to face persecution.
- As a result, thousands of people fled from Europe to America.

'Africa' till 18th Century:

- Europeans captured Africans and made them slaves.

- Therefore, Africans had to do plantation work of cotton and sugar in America for European markets.

'India and China' till 18th Century:

- India and China were among the world's richest countries.
- They were pre-eminent in Asian trade.
- However after the 15th Century, China stopped overseas trading. Hence, less involvement in the trade affairs paved the way for Europeans to emerge as the center of world trade.

2. The Nineteenth Century (1815-1914)

- The world changed profoundly in the nineteenth century.
- Economic, political, social, cultural and technological factors helped in transforming and reshaping the external relations.
- Economists identify three types of movement or flows within the international economic exchanges.
    1. **Flow of Trade:** Trading of goods such as wheat, cloth.
    2. **Flow of Labor:** Migration of people from one place to another in search of work.
    3. Lastly, **Flow of Capital:** Short term and long term investments over long distances.
- This topic has seven sub-topics. These are as follows:-
    - A World Economy takes shape
    - Role of Technology.
    - Late Nineteenth Century and Colonialism.
    - Rinderpest, or the Cattle Plague.
    - Indentured Labor Migration from India
    - Indian Entrepreneurs Abroad.
    - Indian Trade, Colonialism and the Global System.

2 A. A world Economy takes shape:

- It began with the change in the pattern of food production and consumption.
- In the late 18th Century, Britain, who preferred to be self-sufficient in food, had to import food.
- Food prices went up due to several reasons. These reasons were:-
    - **Rapid increase in population.**
    - **Expansion of industries and urban centers** caused an increase in the demand of agricultural products.
- Although, Government forcefully restricted the import of corn, it further led to price rise.
    - ***Corn Laws:*** The laws allowing the British Government to restrict the import of corn is known as the Corn Laws.
- Industrialists and urban dwellers were unhappy with the high price. Hence, they forced abolition of the Corn Laws.

Migration to the cities and overseas:

- Britain again started importing food. However, it impacted domestic farmers badly.

- Since they could not compete with cheaper imported products, many of them left agricultural work.
- This led to migration of many farmers in cities or overseas in search of work.
- As food prices fell, consumption in Britain rose.

In Mid 19th Century:

- Industrial growth led to higher income and therefore more food imports.
- In Eastern Europe, Russia, America and Australia- land was cleared to meet the growing demand of Britain.
- Besides, they constructed Railways to link the agricultural regions to the ports. And also built Harbors
- To do these activities, they required capital and labor.
  - ***Capital:*** It flowed from financial centers such as London.
  - ***Labor:*** Nearly 50 million people emigrated from Europe to America and Australia.
- Around 150 million people all over the world left their homes. They migrated to other places for a better future.

By 1890, **Global agricultural economy** took shape. It was established with the combination of road, railways, ships and labor. Several changes took place. These changes were:-

1. Food could be imported from thousands of miles away.
2. It became increasingly the work of agricultural laborers to till the land rather than peasants.
3. People cleared away most of the forest areas for agricultural purposes.

2 B. Role Of Technology:

- Railways, steamships, telegraph etc. were some such inventions, without which we cannot imagine the transformed 19th century world.
- These technological advances were also the result of large social, political and economic advances.
  - ***For Example:*** Colonization influenced the development of *Faster Railways, Lighter wagons and Larger ships.* These modifications helped in moving food more cheaply and quickly from faraway farms to final markets.
  - Another good example is meat trading. Till 1870's, animals were shipped live from America to Europe and then slaughtered when they arrived there. But after this, a new technology was introduced namely, *refrigerated ships*.
    - It enabled the transport of perishable foods over long distances.
    - Also helped in reducing shipping cost and meat prices.
    - People could buy a variety of foods which also brought social peace in Europe.

2 C. Late 19th Century Colonialism:

- Trade flourished and markets expanded in the late 19th century. However this process had a darker side as well.
  - Many people (from different parts of the world) had to lose their freedom and livelihood.

- Europeans brought colonial societies into the world economy through painful economic, social and Ecological changes.
- All over the world, the Colonization process made people suffer.
  - Take for instance 'African map' during colonial rule. It seems as if the borders are demarcated by 'ruler'. In fact in 1885, the big European powers met in Berlin to complete the carving up of Africa between them.
- Britain and France made vast additions to their overseas territories in the late 19th century.
- Belgium and Germany became new colonial powers.
- In the late 1890's, The USA took over some colonies of Spain and emerged as a new colonial power.

2 D. Rinderpest, or the Cattle Plague:

- In Africa, land was in abundant quantity and population was relatively low.
- Land and livestock sustained African livelihoods. So they rarely worked for a wage.
- In the late 19th Century, Africa's vast land and mineral resources attracted Europeans.
- Europeans made plans to establish plantations and mines.
- However, they had to confront an unexpected problem- a shortage of labor willing to work for wages.
- To overcome this, Employers used many ways.
  - **Imposition of heavy taxes:** They could pay heavy taxes only through plantation and mining work.
  - **Changes in inheritance laws:** In which only one member of a family could inherit land.
- In the late 1880's, a devastating disease named Rinderpest came to Africa.
- It came from the infected cattle which were imported from British Asia to feed the Italian soldiers invading Eritrea in East Africa.
  - 1887: First came in East Africa.
  - 1892: Africa's Atlantic Ocean (West).
  - 1896: Cape (Africa's southernmost tip)
- Rinderpest killed 90% of the cattle.
- The loss of cattle destroyed African livelihoods.
- Moreover, planters, mine owners and colonial governments successfully made their monopoly over remaining scarce cattle resources.
- Thus, this helped European colonizers to conquer and subdue Africa.

2 E. Indentured Labor Migration from India:

- Indentured labor is another example of the two-sided nature of the 19th century.
  - One side shows, there was faster economic growth in the world which led to higher incomes of some people.
  - The Other side shows that many people lived miserably.
- In the 19th Century, thousands of Indian and Chinese laborers went to work on plantations, in mines, and in road and railway construction projects around the world.
- In India, indentured laborers were hired under contracts which promised return travel to India after they had worked five years on their employer's plantation.
- Most indentured laborers came from Eastern Uttar Pradesh, Bihar, Central India and the dry

districts of Tamil Nadu.

- In the mid 19th century, these regions faced many changes.
  - Decline in cotton industry.
  - Rise in land rents.
  - Clearing of land for mines and plantations.
- These changes affected the lives of poor people.
  - They could not pay rent and became indebted.
  - They had to migrate in search of a job.
    - The most common destinations for migrants were *Caribbean islands, Mauritius and Fiji.*
    - Tamil migrants went to *Ceylon* (Sri Lanka) and *Malaya.*
    - Indentured workers were also recruited for tea plantations in *Assam*.
- **Agents** of employers would hire laborers.
  - Employers paid them commission in exchange for workers.
  - Often, Agents would provide false information about final destination, modes of travel, the nature of work and living and working conditions.
  - Workers did not even know how far they had to travel.
  - Sometimes agents even forcibly abducted less willing migrants.

New System Of Slavery:

- Indenture has been described as a 'new system of slavery'.
- After reaching the plantations, laborers had to live in harsh living and working conditions.
- There were few legal rights for them.
- To survive this situation, workers tried to find different ways.
  - Some workers ran into the jungles.
  - Many made festivals a means of creating cultural relations and protested.
    - For Example: Hosay in Trinidad.
    - Rastafarianism by Indian migrants of the Caribbean.
    - Chutney music in Trinidad and Guyana.
- These forms of cultural fusion are part of the making of the global world.
- Most indentured workers stayed on even after their contracts ended.
  - For example: Writer V.S. Naipaul, Shivnarine Chanderpal and Ramneresh Sarwan are names similar to Indians.
- In 1900's, India's nationalist leaders described indentured labor as abusive and cruel.
- Finally in 1921, British India's Imperial Legislative Council had to abolish it.
- However, the sense of inferiority remained in the minds of descendants for many decades.

2 F. Indian Entrepreneurs Abroad:

- Growing food and other crops for the world market required capital.
- Large plantations could borrow capital from banks and markets. However, peasants had no such option due to lack of sources to borrow money.
- In such circumstances, two Indian groups of Bankers; ***Shikaripuri shroffs and Nattukottai Chettiars*** entered.
  - Shikaripuri Shroffs and Nattukottai Chettiyars were amongst the many groups of financiers

    and merchants.
    - They financed export agriculture in Southeast and Central Asia.
    - They followed a high-level system of transferring money throughout various locations.
    - These Shroffs and Chettiyars used either their own reserves or the money borrowed from European banks.
    - They also developed indigenous forms of corporate organization.
- Indian traders and moneylenders also followed European colonizers into Africa.
- However, Sindhi traders even ventured beyond European colonies.
- From the 1860's, traders established markets in every port with the help of safe and comfortable passenger vessels.
    - In these markets, they could sell local and imported products.

2 G. Indian Trade, Colonialism and the Global System:

- Historically, India exported fine cottons to Europe.
- Gradually, industrialization led the British cotton manufacture to expand.
- As a result, industrialists pressurized the government to restrict cotton imports and protect local industries. So, the Government imposed some *tariff barriers on cloth imports into Britain.*
- Consequently, the inflow of fine Indian cotton began to decline.
- Excluded from the British market, Indian textile faced stiff competition in other international markets.
    - For Example: Decline in the share of cotton textiles: from 30 % around 1800 to 15 % by 1815. And It dropped *below 3 %* by the 1870's.
- While the exports of manufactures declined rapidly, export of raw materials increased equally fast.
    - For Example: Between 1812 and 1871, the share of raw cotton exports rose from *5% to 35%.*
    - Indigo exports also increased in these years.
- In 1820's, Britain grew opium in India and exported it to China. Then with the earned money, they used to finance tea and other imports from china.
- Over the 19th Century, British manufacturers flooded the Indian market.
- Food grain and raw material exports from India to Britain and the rest of the world increased.
- But the value of British exports to India was much higher than the value of British imports from India.
- Thus, Britain had a 'trade surplus' with India.
    - **Trade Surplus:** If the exports of a country exceed its imports, the country is said to have a favorable balance of trade, or a *trade surplus*.
    - For Example: Britain used surplus to balance its trade deficits with other countries.
    - Britain's trade surplus in India also helped pay the so-called 'home charges' of British officials in India. Charges such as:-
        - private remittances home by British officials and traders.
        - interest payments on India's external debt.
        - Pensions of British officials in India etc.

3. The Inter War Economy:

- The First World War (1914-1918) was mainly fought in Europe.
- However, it impacted the entire world.
  - The world experienced ***economic*** and ***political instability***.
  - and people around the world had to face ***catastrophic war*** (a terrible event in which there is a lot of destruction, suffering, or death).
- Let's discuss this in elaboration. Here are five topics given below to understand it well.
  - Wartime Transformations.
  - Post-War Recovery.
  - Rise Of Mass Production And Consumption.
  - The Great Depression.
  - India And The Great Depression.

3 A. Wartime Transformations:

- The **first World War** was fought between two power blocs.
  - **Allies:** Britain, France and Russia (later joined by the US).
  - **Central Power:** Germany, Austria-Hungary and Ottoman Turkey.
- The war began in August 1914.
- Many governments thought it would be over by Christmas. However, it lasted for more than 4 years.
- The **world's leading industrialists nations** were involved in this war who intended to destroy their enemies in any possible way.
- This was the **first industrial war** in which the use of machine guns, tanks, aircraft, chemical weapons, etc was seen in a large amount.
- To fight the war, millions of soldiers had to be recruited from around the world and moved to the front lines on large ships and trains.
- The scale of death and destruction was unthinkable before the industrial age.
  - War caused **9 million deaths and 20 million injuries i**n which most of them were men of working age.
  - This led to reduction in the able-bodied workforce in Europe.
  - And household incomes declined after the war.

What happened during the war?

- Industries were restructured to produce war-related goods.
- Entire societies were also reorganized for war.
  - Men went to work and women started doing all those works which were earlier performed by men only.
- The war led to snapping of economic links between some of the world's largest economic powers.
- The war transformed ***the US*** from being an ***international debtor to an international creditor***.
  - **Reason:** Europeans borrowed large sums of money from US Banks and the US public. So, the US and its citizens owned more overseas assets than foreign governments and citizens owned in the US.

3 B. Post War Recovery:

- After the War, particularly *Britain* had to **face a prolonged crisis.**
    - While Britain was preoccupied with war, industries had developed in *India and Japan.* Thus, after the war Britain found it **difficult to recapture its earlier position** of dominance in the Indian market, and to compete with Japan internationally.
    - Moreover, **Britain had come under debt** due to the amount of money it borrowed from the US.
    - The war led to an economic boom which increased demand, production and employment. But when the boom ended, **production contracted and unemployment increased.**
    - At the same time, the government reduced bloated war expenditures to bring them into peacetime revenues. These developments led to huge job losses.
        - For instance, in 1921, one in every five British workers was out of work. Indeed, those who had jobs were anxious and uncertain about job security.
- After the first world war, **Agricultural Economies were also in crisis**.
    - **For Example:** Before war, Europe was the major supplier of wheat. Although, war disrupted wheat production. Meanwhile Canada, America and Australia expanded their wheat production. However, after the end of war, Britain revived and created a glut in wheat. Thus, grain prices fell, rural incomes declined and farmers fell deeper into debt.

3 C. Rise of Mass Production and Consumption:

- As you know, the first world war helped to boost the **US economy.**
- So, it did not take long for the USA to recover from the war-loss.
- The US economy resumed its strong growth in the early 1920's.

Mass Production:

- In the 1920s **mass production** was an important feature of the US economy.
    - A well-known pioneer of mass production *Henry Ford* was the car manufacturer.
    - He adapted the assembly line of the Chicago slaughterhouse to his new car plant in Detroit.
        - He realized that the assembly line method would manufacture cheaper and faster cars.
            - Since in the assembly line, each worker had to repeat a single task mechanically and continuously.
            - Moreover, the pace of work was dictated by the conveyor belt.
    - This method helped in producing a single car in 3 minutes intervals.
    - The T-Model Ford was the world's first mass-produced car.
    - At first, workers were unable to control the pace of work. Thus, they quit in large numbers.
    - In desperation Ford doubled the daily wage to $5 in January 1914. And he also banned trade unions from operating in his plants.
    - Henry Ford recovered the high wage by repeatedly speeding up the production line and forcing workers to work ever harder.
    - Soon, he described his decision to double the daily wage as the 'best cost-cutting decision'.
    - This resulted in the spread of Fordist industrial practices in the US. Europeans also copied

it in the 1920s.

Advantages of Mass production:

1. It **lowered the costs and prices** of engineered goods.
2. Due to higher wages, **people could afford durable consumer goods** such as cars.
3. **Car production in the US rose** from 2 million in 1919 to more than 5 million in 1929.
4. **People also started purchasing other goods** such as refrigerators, washing machines, radios, gramophone players etc through the system of *'hire purchase'* (on installments).

Mass Consumption:

- People began making large investments in housing and household goods.
- The housing and consumer boom created the basis of prosperity in the US.
- Thus, **mass consumption became advantageous** for everyone.
    - It created a cycle of higher employment and incomes, rising consumption demand, more investments, and more employment and incomes.

Emergence of US as an International creditor:

- In 1923, the US became the largest overseas lender in the world.
- US imports and capital exports also boosted European recovery and world trade.
- However, it lasted for 6 years only. By 1929, the world had to face economic depression.

3 D. The Great Depression:

- The Great Depression began around 1929 and lasted till the mid-1930s.
- During this period most parts of the world experienced catastrophic declines in production, employment, incomes and trade.
- Agricultural regions and communities faced the worst effect. It was due to fall in the price of agricultural products for a longer period as compared to industrial goods.
- There were several reasons for depression:-
    - **Agricultural overproduction:** Prices of agricultural products were low. So, in order to maintain overall income, farmers produced in large quantities. However, It further pushed prices down. And Farm produce rotted for a lack of buyers.
    - **US Loan:** In the mid 1920's, many countries financed their investments through loans from the US. Although, it was easy to borrow loans from the US. But when US overseas lenders panicked at the first sign of trouble, they reduced the amount of loan.
        - For Example: Amount reduced from 1$ Billion in 1928 to 250 Millions in 1929.
- Countries that depended crucially on US loans now faced an acute crisis.
- The withdrawal of US loans affected the entire world in different ways.
    - In Europe it led to failure of some major banks.
    - It also collapsed the British currencies such as British pound sterling.
    - In Latin America and elsewhere it intensified the fall in the prices of agricultural and raw materials.
- The US doubled import duties in order to protect its economy. It was again a setback for world

trade.

How The Economic Depression Affected the US?

- Due to fall in prices, the US stopped lending domestic loans and started collecting back loans.
- As a consequence, those who were unable to repay loans had to give up their homes, cars and other consumer durables.
- Unemployment became widespread and people began searching for any work.
- Ultimately, the US banking system also collapsed. Many banks went bankrupt. Thus, they had no option but to close banks.
    - For Example: In 1933, over 4000 banks had closed.
    - And between 1929 and 1932 about 110,000 companies collapsed.
- Finally in 1935, modest (Stable) economic recovery was seen in the US economy.
- However, the havoc of the Great Depression still persisted in the minds of people.

3 E. India and the Great Depression:

- Through this topic, we can understand the connection of the Global Economy in the early 20th Century.
- In the integrated global economy, the tremors of a crisis in one part of the world could be felt in another part.
- In the 19th Century, colonial India was the exporter of agricultural products due to which depression immediately affected Indian trade.
- Between 1928-1934, exports, imports and wheat prices fell by 50%.

Effects in Rural India:

- **Peasants and farmers**: They suffered more than urban dwellers. It was due to high revenue demand of the colonial government in India.
    - **Bengal Jute Peasants:**
        - They grew raw jute for exports in the form of gunny bags.
        - But when markets crashed, jute prices declined by more than 60%.
        - Those peasants who borrowed loans for better returns fell deeper and deeper into debt.
        - They used up their savings, mortgaged lands, and sold whatever jewelry and precious metals they had to meet expenses.
- In these depression years, **India became an exporter of precious metals**, notably gold.
- The famous economist *John Maynard Keynes* thought that **Indian gold exports promoted global economic recovery.**
    - Gold Exports helped speed up Britain’s recovery, but did little for the Indian peasants.
- In 1931, peasants participated in the civil disobedience movement led by Mahatma Gandhi at the height of the depression.

Effects in Urban India:

- The depression proved less grim for Urban India as they had fixed salaries and very low prices of

goods.
- They were in a more stable position than others.
- Industrial investment also grew as the government extended tariff protection to industries, under the pressure of nationalist opinion.

4. Rebuilding a World Economy: The Post-War Era

- The Second World War broke out a mere two decades after the end of the First World War.
- It was fought between the Axis powers and Allies.
    - Axis powers: Nazi Germany, Japan and Italy.
    - Allies: Britain, France, the Soviet Union and the US.
- It was a war waged for six years on many fronts, in many places, over land, on sea, in the air.
- At least 60 million people were killed in this destructive war (about 3% of World's 1939 population).
- Many more civilians than soldiers died from war-related causes.
- Vast places of Europe and Asia had to face destruction due to aerial bombardment.
- This caused an immense amount of economic devastation and social disruption.
- **Reconstruction** proved to be long and difficult.
- Two crucial **influences shaped post-war reconstruction**:-
    - The Emergence of ***the US*** as a dominant economic, political and military power.
    - The dominance of Soviet Union which made huge sacrifices to defeat Nazi Germany. And also transformed itself from a backward agricultural country into a world power.

Here are *four subtopics* that we will discuss:

1. Post-war Settlement and the Bretton Woods Institutions.
2. The Early Post-war Years.
3. Decolonization and Independence.
4. End of Bretton Woods and the Beginning of 'Globalisation'.

4 A. Post War Settlement and the Bretton Woods Institutions:

- Economists and politicians drew two key lessons from inter-war economic experiences.
    1. An industry based on **mass production** could only be sustained by **mass consumption.**
        - However, to ensure *mass consumption* there was a need for *high and stable incomes.*
        - *Stable incomes* required *full employment.*
        - Full employment needed government initiative. Thus, the government had to step in.
    2. The second lesson related to **a country's economic links** with the outside world.
        - The *government* had power to control flows of goods, capital and labor in order to attain a full employment goal.
- The **main aim of the post-war international economic system** was to preserve:-
    - Economic Stability & Full Employment.
- Finally, the United Nations Monetary and Financial Conference finalized the framework in July 1944 at **Bretton Woods** in New Hampshire, USA.

Establishment of two institutions of Bretton Woods:

1. The Bretton Woods conference established the ***International Monetary Fund (IMF)***. It was for dealing with external surpluses and deficits of its member nations. (commenced in 1947)
2. To finance post-war reconstruction, The international Bank for reconstruction and Development was set up. It is popularly known as the ***World Bank.*** (commenced in 1947)

- The US had veto power (key decision making) of both institutions (IMF & WB).
- In the Bretton Woods system, a fixed rate was set. It means nationalist currencies were pegged to the dollar at a fixed rate.

4 B. The Early Post-war Years:

- The Bretton Woods system brought a new era of world trade and income growth in western industrial nations and Japan.
    - For Example: World trade grew annually at over 8% and incomes at nearly 5% between 1950 and 1970.
    - Unemployment rate remained near 5% in most industrial countries.
    - Spread of technology and enterprise became worldwide.
    - Developing countries began to catch up with the advanced industrial countries.

4 C. Decolonization and Independence:

- In the mid 20th Century, many colonized countries in Asia and Africa emerged as independent nations.
- Although, their economies & societies were handicapped by poverty and lack of resources.
- As you read above, the IMF and World Bank were designed to satisfy the financial needs of industrial countries. However, these institutions did not have the efficiency to deal with the challenge of poverty and lack of development.
- Gradually, when the economies of Europe and Japan grew, they became less dependent on the above institutions. Thus, they made developing countries their new target.
- Newly formed countries started taking guidance from International Agencies to come out of poverty.
- Since International agencies had been set up by colonial powers, these did not benefit developing countries.
    - For Example: The US used to exploit developing countries' resources very cheaply.
- Therefore, developing countries together formed a group of 77 (G-77). In this, they demanded for a **New International Economic Order (NIEO).**
    - ***Main Concerns of NIEO:*** They wanted a system that would give them real control over their natural resources.
    - They asked for more development assistance.
    - Fairer prices for raw materials.
    - And better access for their manufactured goods in developed countries' markets.

4 D. End of Bretton Woods and the Beginning of 'Globalization'

- From the 1960's, increasing costs weakened the US's finances and competitive strength.
- The US Dollar could not maintain its value in relation to Gold.
- This led to collapse in the system o**f fixed exchange rates** and the introduction of a system of **floating exchange rates**.
- From the mid-1970's, some important **changes** occurred **in the international financial system.**
  - Earlier developing countries used to take help from International institutions for loans. But now they were forced to borrow from Western commercial banks and private lending institutions.
- This made developing countries face debt crises.
- It affected especially Africa and Latin America.
- The industrial world was also hit by unemployment from the mid-1970s to1990s.
- From the late 1970s MNCs also began to shift production operations to low-wage Asian countries.
  - For Example: Low wages in countries like China attracted foreign MNCs.
- Thus, the relocation of industry to low-wage countries stimulated world trade and capital flows. It led to rapid economic transformation in countries like India, China and Brazil.

Category

1. Class 10th

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