

WORLD ECONOMY BETWEEN YESTERDAY AND TOMORROW: THE TRANSITION TOWARDS A NEW INTERNATIONAL ECONOMIC ORDER

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Abstract:

The paper has in view to address the transition that the world economy is confronted with nowadays from the perspective of the participants and forces that shaped the world economic order of the post World War II period until now. The world economy is moving from a globalist perspective of convergence to a perspective of confrontation and transaction once with the return of the nation states, of bilateralism and multilateralism and of the approaches based on national interest. Starting from the analysis carried out by this research the conclusions contemplate a new world economic order that should make a better use of the lessons of history while taking more into account the human nature. The perspective on the future remains positive, provided that the answers to a number of fundamental questions are moderate and rational enough.

Key words: world economy, world economic order, political realism, globalization, capitalism crisis

JEL classification: F02, F50, F53, F60

2016 as a milestone of transition towards a new international economic order

In case of systems as large as the world economy there is a lot of inertia and one cannot expect changes, especially substantial ones, to take place in a short period of time. As in case of all large phenomena there is a process of quantitative accumulation of different changes that leads to the prefiguration of a new stage of becoming and, at a given moment, that accumulation changes entirely the older system into a new state of existence. Such changes took place during the Renaissance times, then during the first Industrial Revolution, as well as during the period after World War II. These changes may refer to scientific and technological discoveries, to significant increases in productivity, to better means of transport and communication, to changes in the economic and military balance of power or even to changes in the perception of the world by the majority of people. The complex interaction of all these dimensions and of their gradual change determines, among other things, the international economic order which is, intrinsically, specific to a historical period and therefore ever changing.

The international economic order established after World War II has been characterized by the existence of **states as prime actors** together with **a number of**

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international organizations (United Nations, World Bank, International Monetary Fund, GATT) which had at that moment a rather auxiliary role; these actors had been joined approximately two decades later in the intricate process of global governance by **organizations of economic integration** (represented especially the European Economic Community which was of a particular importance due to its incipient supra-national character) and even later, during the 1980s and 1990s, by **some transnational corporations** big enough (an influent enough) to compare from an economic point of view with many countries.

This international economic order had after World War II, superimposed on its architecture, a bipolar structure of power with two main centers represented by the United States of America and the Union of the Soviet Socialist Republics (USSR). The bipolar structure gave to this system a certain stability which ended once with the demise of the USSR in 1990.

On the surface, the new situation, the unipolar world, made a lot of Western analysts believe that humankind arrived at an “end of history” and from that moment on it was just a matter of time before market economy and liberal democracy would be disseminated everywhere on the basis of a natural process, even if the pace of this dissemination would be unequal (Fukuyama, F., 1992). The reality of the coming decade proved that this vision had been both superficial and wrong while the reality of the next decade after year 2000 brought us a rather unstable, unequal and conflicting world (Milne, S., 2012; Badiou, A., 2012).

According to the linear vision of history the expectation has been that presumably after year 2000 the states will gradually diminish their importance and a shift would take place from the post World War II world economic order based on states to a new world economic order based on globalism and universalism (including a global governance system). We mention year 2000 as a sort of milestone because it was after 2000 that a number of idea or processes took place. Among them we can mention: the idea of a possible state entity called the United States of Europe (which was supposed to be a sort of federal state that would have succeeded the European Union) or the negotiations had almost been finished in 2016 regarding new multilateral treaties (such as the Transatlantic Trade and Investment Partnership – TTIP or the Transpacific Partnership – TPP) that would have increased the bargaining power of transnational corporations in relation to states (in particular by means of the provisions of the Investor State Dispute Settlement mechanisms – ISDS).

In the post World War II and especially in the post-1990 **world economy of yesterday** the production and consumption have been globalized, the problems seemed to be global (such as the climate change, pollution of environment or the envisioned exhaustion of the resources of traditional raw materials and energy) and therefore it appeared perfectly logical that solutions had to be found also in a global manner. And a global manner of finding solutions meant an ever increasing level of global governance, global scale institutions and global rules of the game. This approach is not wrong in itself, the only problem with it is that it can function only if the world economy is relatively homogeneous from cultural, economic and political points of view. If the world economy is characterized first and foremost by diversity (as it is the case), then the rules, institutions and mechanisms have to cope with diversity and therefore they cannot be standardized beyond a certain level.

According to the linear approach mentioned above, the key word seemed to be that of “**convergence**”, as mentioned in 2013 by a reputed analyst who considered that due to globalization concepts as “North” and “South” or “developed” and “developing” have become irrelevant (Mahbubani, K., 2013). In our view this concept of convergence that was proposed by the mainstream literature could be identified at least at three levels: **a)** the status of developing countries will eventually converge with that of the developed ones; **b)** Central and Eastern European Countries will converge with their Western European partners within the European Union; **c)** different social, cultural and political systems will converge with the Western style democracy and liberal market economy.

Specific for this approach of convergence was the fact history has been perceived as a linear and mechanical process by which different discoveries, institutions and mechanisms, as well as the spiritual values were disseminated from the Western world to the rest and the achievement of a uniform distribution was only a matter of time. It was very much like expecting that one day all humankind will adhere to the metric system just because it was logical, possible and so many people already used it.

In relation to this Western perspective of convergence Robert Kagan made a profound remark in his book “The Return of History and the End of Dreams”: “The great fallacy of our era has been the belief that a liberal international order rests on the triumph of ideas and on the natural unfolding of human progress” (Kagan, R., 2008). In retrospect this paradigm of autonomous convergence appears rather mechanistic and seems to leave outside exactly the subjective and non-linear behavior which is specific to human beings.

To further argue against this paradigm of autonomous convergence we can put things even into a much greater perspective, that of the evolutionist or Darwinian approach: in order to maximize the chances of survival of species, nature favors diversity, flexibility and change. The more standardized and uniform the population of different species would be, the more they would be at risk in case of external shocks because they would be all affected in the same directions and with the same consequences. Diversity within limits increases the chances of survival because in case of external shocks the individuals within populations would react differently and some of them would have better chances to adapt and survive. If we transpose this evolutionist approach to the world economy, then diversity would be the natural way to be and this comparison is not too farfetched because societies and economies are made of people/human beings that belong and originate from nature.

One observation regarding the above linear understanding of history is that it belonged almost in its entirety to commentators from the Western world which constitutes a minority as percentage of the world population- just as an example, the population of the European Union represented as of 2016 about 7% of world population while the population of the United States represented in the same year about 4.34% - (www.worldometers.info, 2017). The rest of the world had not been consulted and its voice had been less present in the global arena, at least as compared to its proportion of the global population. At this point one aspect is to be highlighted: the above statement is not referring to ethics or human rights. It is intended just as a pragmatic approach: when a minority leaves out of the debate a vast majority, a less than efficient outcome is to be expected. And this is a very diplomatic way of formulating this statement.

After the onset of the financial and then economic crisis in 2008 a lot of things have changed, not directly because of the crisis (which was more of a catalyst), but rather because the crisis determined the maturity of several decade long processes that were well underway. Therefore after 2008 a lot of changes took place in the time span of about 7-8 years and effectively eliminated the autonomous convergence perception as well as the hope for a continuous improvement of the global governance based on a universalist approach.

As result, in the **world economy of today** the major states are again competing for spheres of influence (besides the United States now there are also China, Germany or the Russian Federation) and even some less prominent states are expressing loudly their national interests in the international arena (such as Poland or Hungary). In the world economy of today the global architecture is still unipolar but major decisions cannot be taken and implemented by the USA alone. On different subjects there is a competition in influencing the decision making process among the USA, the Russian Federation, China and India, Japan and Germany (rather than the European Union).

At the same time, in the ideological arena of contemporary world there are, in our opinion, at least **three confrontations**:

- a) a first confrontation is between the supranational approaches (like those of the European Union) and the national ones (as those expressed by the British vote for exiting the European Union but also those expressed by countries like Poland, Czech Republic or Hungary);
- b) a second, more complex, ideological confrontation is that between Western style liberalism and Western style democratic institutions and mechanisms and more centralized (even authoritarian) approaches like those from the Russian Federation and China;
- c) a third confrontation, from a spiritual point of view, is that between the Western representation of the world, marked by political correctness and multiculturalism, and the Islam world which is characterized by different values. One can include in this third confrontation based on a spiritual point of view even a confrontation within the Western world, namely that between a sort of universal political correctness heavily supported by a majority of mass-media, and more traditional values related to Christianity, traditional family, regional and national folklore.

The world economy of today as a moment of returning

In our view the world economy of today which has as a sort of milestone the year 2016 (to be considered in a rather symbolic manner) is characterized by a number of returnings, none of them being interpreted in a mechanistic way (that is as a repetition of an already manifested action, status or system). These returnings are not brought back by some conservative forces but rather by a dysfunctional state of the existing institutions and mechanisms which determine the less fortunate part of the population in many countries to seek protection with the components of the establishment that once used to function properly (hence the appeal to state, the military or the church). These returnings express at the same time an unsubstantiated hope that a return to a point in time in the past when things were better for a majority of population could allow for a reset of the course of history that would result in an improvement of the quality of life (similar to the

case of a computer game where if you fail you can go in some instances to a saved previous status in order to try a different approach, hopefully with a better outcome due to avoiding previous mistakes).

The main returnings we have in view here are:

- the return to the prominence of the nation states;
- the return to bilateralism and plurilateralism;
- the return to a transactional approach;
- the return to the normality of pursuing the national interest, with due observance of the interests of the others.

Many observers have the tendency to associate these returnings to two obvious events of 2016: the Brexit decision taken in the British referendum of 23 June and the result of the US elections of 8 November. But a more profound analysis reveals that the two mentioned events have been the results rather the causes of these returns.

The convergence hypothesis and the globalist approach left outside too many countries (at the global level), too many people (in the developed countries) and too many local communities and became a sort of wishful thinking feed by the forceful presence of mass-media in Western societies. The repetition of certain messages, arguments and conclusions made their authors and some of the Western audience believe that this is the only reality and the only truth.

From an objective point of view the convergence of all countries and regions to a globalist economy and society is not entirely impossible, even the idea of one world government is not completely out of reach. **It is just that not now and not in this way.**

In our opinion the key factor for such a major shift to happen is that a substantial majority of people within the countries and within the world economy are really better off and not only are told that they are or maybe will be, sometime in the future, better off. Reality remains the ultimate argument and test for any belief or theory. And this fact might be the starting point for a re-launch of the globalist project.

Two challenges for the world economy of today

The world economy of today is in transition to a new world order (which includes the economic, political and military components) but this process of transition is not a smooth one. There are numerous challenges and threats which manifest during this transition but in the following section we are going to analyze two of them, namely the challenges to globalization and the challenges to capitalism as a system.

Challenges to globalization

In recent times (after 2008 and particularly after 2014-2015) there are a lot of debates regarding the direction of economic phenomena at a global level. If before 2008 most if not all of the commentators were speaking about **globalization**, nowadays there are also references to **de-globalization** (perceived as a process contrary to globalization, that is contrary to the increase of the interaction, interdependence and connectivity of all economic actors) or, more adequate in our opinion, to **re-globalization** (pointing to a rethinking and/or re-launching on different bases of the globalization process).

At this point it is interesting to mention that Dani Rodrik evoked in 1987 two dangers facing globalization, both of them resulting from the obsessive focus on the improvement of economic indicators at a global, cumulative level, while neglecting the social implications of the globalization process and the percentage of the population affected by it (Rodrik, D., 1987). The two dangers mentioned in 2008 were **an attack on free trade** (with reference at that time to the position of the contender in the Republican primaries of 1996, Patrick Buchanan) and an even more severe danger, that of **social disintegration** “along the lines of economic status, mobility, region or social norms”. With a well chosen game of words Rodrik formulated a interesting question: is the cost of economic integration that of social disintegration?

With reference to these two dangers we can say that it is difficult to formulate a better description for the current situation of 2016 – 2017. And if one looks at the splitting of votes in the British referendum and in the US elections of 2016 the social disintegration is quite obvious when actually the different and apparently irreconcilable positions are linked to differences of “economic status, mobility, region or social norms”. What can better describe the difference between the votes of people in London as compared to the rest of England (in case of the British referendum) or the rift between the supporters of Hillary Clinton and those people she referred to as “a basket of the deplorable” (Chozick, A., 2016).

At the same time globalization made possible the emergence of very large transnational corporations while, in turn, these economic giants supported the further enhancement and deepening of globalization. But transnational corporations generate two issues. First of all they have a lot of economic power. And if one admits that politics represent a concentrated expression of the economy, then it is just a matter of time before very large economic actors would influence the political process. It is logical for them to do so and they can do it. The second issue is that the transnational corporations are mobile, they can relocate in some other part of the world when conditions are no longer profitable as expected. And because of that possibility to go away they just might be less interested to contribute as “good corporate citizens” to the solving of problems and tensions within the societies they operate in.

Challenges to capitalism

In the past 150 years capitalism has been criticized for many reasons. But almost every time capitalism has been flexible enough to incorporate changes and diffuse challenges. Once with the demise of the ideological alternative of socialism and communism the challenges to capitalism are more direct, people against the system and not political parties fighting with each other for power.

The most obvious challenge to contemporary capitalism is that of inequality which manifests mostly in the developed countries. While for decades the clashes were between developed and developing countries nowadays the developing countries are to a large extent supporters of globalization while numerous social categories in the developed countries are against globalization, transnational corporations and the global financial and banking sector. This new situation reminds somehow of Marx who thought that, according to his interpretation of history, the social tensions and the search for a new economic mode of production would emerge in the most advanced capitalist countries.

The inequality issue is real and what is a challenge is that the polarization of wealth is very fast and simply amazing as phenomenon. If in 2008 the dissatisfied people in the developed countries protested against the “1%” (the most wealthy people), in the time span of some years the protests changed against the “0.1%” (the very limited number of people that concentrated the vast majority of wealth) that have not connection whatsoever, from any conceivable point of view, with “the forgotten”.

In order to offer an example of this process of concentration of wealth some figures from Oxfarm International which are presented in Table 1 show the number of those that own wealth which is equal to that of half of the world population (that is 3.6 billion people). This figures manifested a very steep decline between 2010 – 2016.

Table 1. Number of people that own wealth equal to half of the world population (that is 3.6 billion people)

Anul	Număr
2010	388
2011	177
2012	159
2013	92
2014	80
2015	62
2016	8

Source: Oxfarm International, 2017

The data in Table 1 can be analyzed in many ways. But if we leave aside any moral or ethical interpretation and look at it only from a pragmatic point of view, what is obvious is such a situation reflects a dysfunctional mechanism. We are not supporting here the idea of an egalitarian society and we fully accept that people are not equal as far as their intellectual, physical and entrepreneurial abilities are concerned. But such a concentration of wealth increases the chances of mistakes, affects aggregate demand and cannot be supported by traditional spiritual values. At the same time, it is to be expected that such a concentration of wealth will translate sooner or later into the political sphere. What is the alternative? We honestly do not know. But what we know is that such a mechanism that delivers this type of outcome is not sustainable.

From this point of view two very different authors are pointing to the same issue: **the problem is not with capitalism but with the distortion and deviation from capitalism.** One approach is that of Guy Standing that speaks about “the corruption of capitalism” due to the temptation and possibility of the individuals and corporations that concentrate a lot of wealth to control and corrupt the political power in order to issue laws and regulations in their favor (Standing, G., 2016).

This approach is in line with the interpretation that says that it is the ultimate fantasy of any capitalist to desire to be a monopolist because such a position allows for the maximum profit possible. Of course, in a market economy that functions normally such a thing is not possible because there are many suppliers and many consumers and because the state (through its institutions dedicated to the monitoring the competition) may intervene to correct any deviation from the existence of a reasonable level of competition. Anyway, in case the economic power is concentrated to a few individuals or corporations, then it is possible that those few corrupt and distort the political power and by this intervention they can corrupt the rules of the market/capitalist game.

A second approach which leads to almost the same conclusion has been formulated by Samir Amin, who studied for quite a long time the world order, the capitalist system and different models of development. In his book “The Implosion of Contemporary Capitalism” Samir Amin contends that due to the predominance and generalization of the monopoly capitalism in the developed countries and with implications for the whole world economy the system will implode as it lacks more and more the flexibility and the capacity to adapt specific to native capitalism (Amin, S., 2013).

What is to be mentioned is that nowadays capitalism as a system is not put under a question mark, rather the challenges and tensions existing in contemporary societies are explained by deviations and distortions of capitalism. While we share this idea, what is not clear at all is who and how will redress capitalism and bring it back to its fundamental characteristics.

Conclusions

While we know rather well how the world economy of yesterday looks like, and while we perceive with fear and dissatisfaction the dysfunctions and challenges manifested in the transition world economy of today, we can hardly imagine how the world economy of tomorrow will look like.

We know for sure that the world economy of tomorrow will be shaped to a great extent by the 4th industrial revolution that brings with it robots and artificial intelligence, the revolution of genetic editing, new materials and new sources of energy. And we also know for sure that the world economy of tomorrow will not be just an updated version of the interwar period or of the post World War II period.

What can be of help is to reflect on some statements made by wise people many decades ago. Hans Morgenthau warned against imagining that at some point in time “the final curtain would fall and the game of power politics would no longer be played.” (Morgenthau, H., 1948).

Maybe more than ever political realism would ask for a return to human nature and to its characteristics however imperfect they may be in comparison to our ideals. The problems and challenges in the world economy are generated by people and they cannot be solved without people. And in this context history can be the ultimate source of “best practices”, while the smaller evil can be way better than absolute principles that are unfortunately illusory.

One interesting argument against designing visions, strategies and plans only on the basis of absolute principles, be they however noble and humanistic, can be found with Robert D. Kaplan in his book “The Revenge of Geography” where he states that the

heritage and characteristics given by geography, history and culture influence to a large extent the direction, options and achievements of any state entity (Kaplan, R.D., 2012).

This is why, in a political realist approach one can say that the world economy of tomorrow will be shaped by those willing and able to do so. What is even more important is that in a true multipolar world it is no longer automatic that the world economy of tomorrow and the new world economic order that will characterize it will be shaped by the Western civilization alone, interacting with others or at all.

The best way to conclude such a comprehensive picture is to ask some questions. And then to strive for finding positive answers to them. The questions would be: How the states will change and particularly the great powers? How the international institutions will change and which will be the new ones? Which will be the new values, principles and rules of the game?

The world economy is in transition towards a new world economic order. Transition means change and in times of change the management of change is essential. Further final questions: What change? And what managers?

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