A Brief Overview of Selected World Economy Trends: Past and Present

Bruce A. Forster
Arizona State University
University of Nebraska, Kearney

This paper presents a personalized historical overview of selected trends in the world economy. For the purpose of this paper the discussion is bisected by two points in time 40 years apart, 1968 and 2008. The seeds of some of the 2008 trends can be found in the 1968 trends. The paper also discusses events in the years following 1968 and 2008. At least one 1968 trend became largely irrelevant in the early to mid-1970s with the collapse of the international monetary system which had been established by the Bretton Woods Agreement at the end of World War II. The overview is personal because the author selected the trends for discussion.

INTRODUCTION

The genesis for this paper was an invitation from the Chinese Center for International Educational Exchange (CCIEE) and the American Association of State Colleges and Universities (AASCU) to present a lecture on a topic in international economics (of my choosing) at their "Seminar on International Economics" in Kunming, China, June 21-24, 2008. As I wrote the material for the lecture, I recalled that 40 years earlier (in the summer of 1968) I was taking my first course in international economics. It was natural to think back to that time and ask "what were the key issues and trends in the world economy in 1968?" While the lecture in Kunming only considered the trends as of the summer of 2008, the current paper also reflects on the trends in the summer of 1968.

There are several special features of, or trends in, the evolution of the world economy viewed from either time period. Given the time and space constraints, I consider just a few trends for each period.

TRENDS OBSERVED IN THE SUMMER, 1968

Trade Liberalization Proceeds Under the GATT

The General Agreement on Tariffs and Trade (GATT) was one of the international organizations/agreements established at the end of the Second World War. The GATT set forth the basic principles to guide international trade amongst member nations. One of the principles was the pursuit of trade liberalization through multilateral "rounds" of negotiations. The first such round, Geneva 1947, achieved an average reduction in tariff duties of 21.1%. The next four rounds (Annecy in 1949, Torquay and Geneva during the 1950s and the Dillon Round in Geneva in the early 1960s) achieved much more modest reductions. The sixth round, the Kennedy Round in Geneva, which ran from 1964 to 1967 achieved an average cut in tariff duties of 36%--the largest cut up to that point.

"Popular" discussions concerning globalization since the mid-1980s make it sound as if this process is new. However, economic historians point out that the process of globalization actually started in the latter half of the 1800s, and the trade liberalization that started in the 1940s-1950 should be viewed as phase 2 of the process that began in the 1800s and ended in about 1913 just ahead of the start of the First World War in 1914. As shown in Table 1, world exports as a proportion of world GDP more than doubled between 1850 and 1913. The liberalization process stopped in 1913 and wouldn't pick up again until 1950. The proportion of world GDP accounted for by exports in 1950 was below the proportion in 1880! It took until 1973 for the exports/GDP ratio to catch up to where it was in 1913.

TABLE 1
WORLD EXPORTS AS A PERCENTAGE OF WORLD GDP (%)

1850	1880	1913	1950	1973	1985	2000
5%	9.8%	11.9%	7.1%	11.7%	14.5%	19.1%

While world trade was liberalizing under the GATT multilateral set of negotiations an anomaly to this process emerged when six European countries (Belgium, the Netherlands, Luxembourg, France, West Germany and Italy) created the European Economic Community (EEC) in 1958. The formal agreement establishing the EEC was the Treaty of Rome.

In 1960, the Stockholm Convention established the European Free Trade Area (EFTA) with seven member countries: Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

The EEC and EFTA are examples of Regional Trade Agreements (RTAs).[1] Such agreements are bilateral in nature and establish different rules for trading with members versus non-members. This is in violation of the Most Favored Nation approach of the GATT's multilateral process. However, Article XXIV of the GATT Agreement set forth the conditions for regional trade arrangements.

During the 1960s, several countries applied for membership in the EEC: Ireland, Denmark and the United Kingdom in 1961; Norway in 1962. Negotiations with all four countries were suspended by the EEC in January 1963 after General Charles de Gaulle, then President of France, expressed doubt about the will of the UK to join the EEC. The four countries reapplied for membership in 1967; however, none of the applications were approved in the 1960s. The 1970s marked a dramatic shift in attitudes to "enlargement" in membership. This will be discussed as part of the discussion of 2008 trends.

In 1967, the EEC, the European Coal and Steel Community (ECSC) and the European Atomic Energy Community (Euratom) merged to form the European Communities (EC).

Waning Confidence in the U.S. Dollar as the Key International Currency

In order to understand this trend it is necessary to start with developments following World War II. With the pre-war problems with exchange rates in mind, countries desired an international financial system that would ensure exchange rate stability. The international financial system that was designed and implemented, known as the Bretton Woods System, would be governed by a new institution, the International Monetary Fund (IMF). Member countries were to specify par values for their currencies either in terms of gold or the U.S. dollar and the U.S. dollar was pegged to gold at the price of $35 per ounce. Country exchange rates could fluctuate +/- one percent either side of their declared par values. If market pressure pushed the exchange rate outside of these limits, countries were to use their exchange reserves to bring the rate back inside the one percent band. This system was a gold exchange standard, and the U.S. dollar became the only currency serving as international money in the new international financial system.

Countries engaged in international transactions were prepared to hold either gold or U.S. dollars. The U.S. dollar was viewed as being "as good as gold" since the U.S. was in a position to exchange gold for dollars upon request. For example, in 1949 the value of US gold holdings was about three times the value of U,S. liabilities held by foreigners. Thus the U.S. would have no trouble honoring the exchange of dollars for gold even if all U.S. dollar claims came forward for conversion. This was about to change over time. In the 1950s, the U.S. began running Balance of Payments deficits resulting in an accumulation of U.S. dollars held abroad. This increase in U.S. dollars on the world market was seen as beneficial to financing world trade since gold production was growing at only 1.5% per year—not sufficient to support the 5.8% growth rate to support world trade. The shortfall in these two measures became known as the Liquidity Problem. The gap was filled by the expansion of U.S. dollars available for international payments in addition to new gold. However, there was a flip side. As the U.S. ran deficits and supplied U.S. dollars to the international financial system, its gold reserves were being eroded. By 1960, the value of U.S. gold holdings was slightly less than the U.S. dollar-denominated assets held by foreigners. Now foreigners worried about the ability of the U.S. to stand ready to convert dollars for gold—they were losing confidence in the U.S. dollar as being as good as gold. This was referred to as the Confidence Problem. The liquidity problem and the confidence problem were at odds with each other. Dealing with one worsened the other.

In 1960, there was a flight from U.S. dollars to gold as countries sought to protect themselves. In 1961, Belgium, Italy, the Netherlands, Switzerland, West Germany, the U.K., the U.S. and France formed the Gold Pool designed to hold the U.S. dollar price of gold steady (by pooling gold holdings of members of the Gold Pool). It was recognized that the international financial system needed another key monetary unit to supplement the U.S. dollar and resolve the Liquidity/ Confidence problems. At a 1967 meeting in Rio de Janeiro, the members of the IMF agreed in principle to the creation of a new form of international liquidity called the Special Drawing Right (SDR). While agreed to in principle, the first allocation of SDRs did not take place until 1970.

In 1967, France left the Gold Pool and started converting dollars into gold. In 1968, the value of U.S. dollar assets held abroad was three times the value of U.S. gold holdings. Faced with speculation that the U.S. would have to revalue gold, a two-tier gold price system was established. One price was for central banks which would exchange gold for dollars at the “official” price of $35 per ounce, and another price determined by private demand and supply for gold. This seemed to be a convenient short –term solution.

Looking forward from 1968, the Bretton Woods system, and the U.S. dollar, continued to struggle despite the introduction of the SDR.[2] In August, 1971 President Nixon closed the “gold window” effectively removing the key anchor to the Bretton Woods system--the convertibility of U.S. dollars to gold at a specified price. In March 1973, pressure on the dollar caused an international currency crisis resulting in a closing of the foreign exchange markets. When the market re-opened the major currencies were floating (but not freely), never to return to the fixed exchange rate system that prevailed since WWII despite expectations to the contrary.[3]

Acceleration of World Population Growth

The world population was increasing significantly in the 1950s and 1960s. As Table 6 shows it took 130 years for the world’s population to grow from 1 billion in 1800 to 2 billion people in 1930. However, the increase to the next 1 billion took only 30 years to achieve. While the increase in world population could have profound impacts on the world economy if the trend continued, in 1968 this issue was receiving little attention except from demographers and environmental groups (Paul Ehrlich’s book *The Population Bomb* was published in 1968). In economics it was seen as largely the purview of development economics (i.e. not “real” economics) along with a mixture of sociology. This may not be surprising since it was in the developing countries where the major growth shift was occurring starting in about 1950. Developments post-1968 have been very dramatic as will be discussed below.

TRENDS OBSERVED IN THE SUMMER, 2008

Increasing Integration of the Global Economy

Much attention has been paid to the process of globalization for at least 25 or more years with the topic becoming very prominent since the 1990s, a period of more rapid globalization. The term globalization means different things to different people. For many, it is a very emotional process. The French, for example, see globalization as a threat to the French culture, while some Americans see it as a threat to their job security.

As an economist, my view of globalization is a process of increasing the degree of integration of the world's economies/markets. One measure of global integration can be seen in Table 2 concerning the growth in world output and the growth in world trade. Other indicators include increasing international capital flows, and labor migration.[4]

TABLE 2
PERCENTAGE CHANGES IN WORLD OUTPUT AND WORLD TRADE

	Avg 1992-2001	2002	2003	2004	2005	2006	2007	2008	2009
World Output	3.2	2.9	3.6	4.9	4.5	5.1	5.2	3.0	- 0.6
World Trade	6.6	3.6	5.4	10.7	7.7	8.8	7.2	2.8	- 10.7

Source: IMF (2010)

In the 1990s, world trade grew twice as fast as world output, so traded goods and services grew as a proportion of total. The figures for the 2000s have been a bit volatile but overall the same pattern of increased trade relative to output can be seen except for 2008 and 2009. In late summer 2008 it became clear that there were serious economic problems. The resulting recession caused the growth rates for world output and world trade to drop significantly and output grew faster than trade. The situation was worse in 2009 resulting in contractions in world output and world trade with trade dropping more than output.

Increasing Regional Economic Integration

While the General Agreement on Tariffs and Trade (GATT) and its 1995 successor, the World Trade Organization (WTO), have been dedicated to multilateral trade promotion among all member countries, various countries have sought special arrangements with partner countries to form what is termed a Regional Trade Agreement (RTA).[5] RTAs are like clubs with membership requirements/rules for all members. RTAs give special trade preferences to members of the RTA club that are not available to non-members. The specific details of these preferences vary across RTAs. Free Trade Agreements (FTA) generally involve fewer restrictions for members than do Customs Unions. FTAs along with partial scope agreements account for more than 90% of the RTAs with Customs Unions being less than 10%.

The number of RTAs grew significantly during the 1990s. As of July 2005, 330 RTAs had been notified to the GATT, or to the WTO. Of these, 206 were notified after the WTO's creation in 1995. One hundred and eighty are still in force. As another indicator of how significant RTAs have become, in July 2005, Mongolia was the only member of the 150 members of the WTO which was not also a member of an RTA.

The biggest and best known example of an RTA is the European Union (EU). The EU has grown from six members in the 1950s to a club with 27 members in 2010. Sixteen of the EU members use a single currency, the euro, as their currency. Table 3 shows the current member countries in the EU as well as the sub group of members that are using the euro as their currency. There are still other countries interested in joining the EU; however, there are signs of "enlargement fatigue"—a concern that the club's membership already is getting too large to manage effectively. However, some of the concerns over enlargement are due to the fear of the changes that it brings as does globalization (*The Economist*, 2006).

TABLE 3
MEMBERSHIP IN THE EU AND THE EURO CURRENCY AREA

COUNTRY	IN EU ?	IN EURO AREA?
BELGIUM	Y (1958)	Y (1999)
BRITAIN	Y (1973)	N
FRANCE	Y (1958)	Y (1999)
GERMANY	Y (1958)	Y (1999)
GREECE	Y (1981)	Y (2001)
ITALY	Y (1958)	Y (1999)
LUXEMBOURG	Y (1958)	Y (1999)
NETHERLANDS	Y (1958)	Y (1999)
PORTUGAL	Y (1986)	Y (1999)
SPAIN	Y (1986)	Y (1999)
DENMARK	Y (1973)	N
IRELAND	Y (1973)	Y (1999)
FINLAND	Y (1995)	Y (1999)
SWEDEN	Y (1995)	N
AUSTRIA	Y (1995)	Y (1999)
CZECH REP	Y (2004)	N
HUNGRY	Y (2004)	N
POLAND	Y (2004)	N
ESTONIA	Y (2004)	N
LATVIA	Y (2004)	N
LITHUANIA	Y (2004)	N
SLOVAKIA	Y (2004)	Y (2009)
SLOVENIA	Y (2004)	Y (2007)
CYPRESS	Y (2004)	Y (2008)
MALTA	Y (2004)	Y (2008)
BULGARIA	Y (2007)	N
ROMANIA	Y (2007)	N
CROATIA	C	N
TURKEY	C	N
REP OF MACEDONIA	C	N
SERBIA	N	N
TOTAL NUMBER OF MEMBERS	27	16

ECB (2010)

Increasing Importance of Emerging and Developing Economies

Emerging and developing economies have been playing an increasingly important role in the world economy. In 1950, the less developed countries accounted for 68% of the world's population, while in 2009 this figure had risen to 82%. They have also shown strong economic performance. Table 4 shows the growth in real GDP for the sets of emerging and developing economies, and the Advanced Economies (for comparison). The figures show the strong performance of various regions compared to the Advanced Economies with Developing Asia having the highest growth rates. Following their poor economic performance in the 1990s, the "transition economies" of Central and Eastern Europe and the Commonwealth of Independent States show much better performance in the 2000s.

TABLE 4
REAL GDP GROWTH IN EMERGING AND DEVELOPING ECONOMIES AND ADVANCED ECONOMIES

REGION	AVG 1992-2001	2002	2003	2004	2005	2006	2007	2008	2009
CEE	2.6	4.4	4.8	7.3	5.9	6.5	5.5	3.0	-- 3.7
CIS	-----	5.2	7.7	8.2	6.7	8.5	8.6	5.5	-- 6.6
DA	7.3	6.9	8.2	8.6	9.0	9.8	10.6	7.9	6.6
MENA	3.4	3.8	6.9	5.8	5.3	5.7	5.6	5.1	2.4
SSA	2.8	7.4	5.0	7.1	6.3	6.5	6.9	5.5	2.1
WH	3.0	0.5	2.2	6.0	4.7	5.6	5.8	4.3	-- 1.8
AE	2.8	1.7	1.9	3.2	2.7	3.9	2.8	0.5	-- 3.2

Source: IMF (2010)

a) CEE: Central and Eastern Europe, b) CIS: Commonwealth of Independent States,
b) DA: Developing Asia, d) MENA: Middle East and North Africa, e) SSA: Sub-Saharan Africa, f) WH: Western Hemisphere, and g) AE: Advanced Economies.

The economic problems of 2008-09 hit the CIS and CEE regions relatively hard with contractions in output worse than in the AE countries. DA, MENA and SSA had reduced growth rates but were spared contractions.

No discussion of emerging economies today can ignore the rise of China and India as economic power houses in Asia and the world. In terms of population, China and India are the world's two largest countries with 1.3 billion and 1.1 billion people respectively. Table 5 provides the real GDP growth Rates for China and India.

TABLE 5
REAL GDP GROWTH IN CHINA AND INDIA

Country	1992-2001 (AVG)	2002	2003	2004	2005	2006	2007	2008	2009
CHINA	10.3	9.1	10.0	10.1	10.4	11.6	13.0	9.6	8.7
INDIA	5.7	4.6	6.9	7.9	9.2	9.8	9.4	7.3	5.7

Source: IMF (2010)

China's growth has been consistently strong. Its heavy demand for natural resource products has impacted world prices. Also, China has been making heavy investments in various regions of the world, especially in Africa, to aid with its need for resources to sustain its strong growth. India has made its growth in computer and information systems, and as a call center for firms in various developed countries to take advantage of the low labor costs in India. India's growth has not been as widespread, nor as strong, as China's. A plausible explanation is that India has not kept up its infrastructure especially in electric power.

While the growth rates in less developed economies are quite impressive, it is necessary to keep in mind that many also have very low income levels. Indeed, 48% of people globally subsist on less than $2.00 per day. Concern for global poverty resulted in a major program aimed at assisting less developed countries. At the UN's 2000 World Summit (the Millennium Summit), 189 countries signed onto the

Millennium Declaration. The significant aspect of the Declaration was a set of Millennium Development Goals (MDGs) aimed at improving economic and human development in less developed countries.

These included goals concerning:

(a) reducing poverty and hunger, (b) achieving universal primary education, (c) promoting gender equality, (d) reducing child mortality, (e) improving maternal health, (f) combating HIV/AIDS, malaria, and other diseases, (g) ensuring environmental sustainability, and (h) promoting global partnerships for development. Each goal has one or more targets. The targets are to be achieved by 2015. The year 2010 marks the two-thirds point on the MDG roadmap.

Changing Global Demographic Profiles

The world has experienced phenomenal changes in population size and composition, especially since the mid-twentieth century. These demographic shifts will significantly affect global economic activity. The time for the population to grow from 3 billion to 4 billion was half the time to grow from 2 to 3 billion- 15 years! Going from 4 billion to 5 billion and from 5 billion to 6 billion took 12 years each. In mid-2009, the world's population was 6.8 billion people, and demographers are predicting that the world's population will reach 7 billion by 2011, or another 12 years since achieving 6 billion (PRB, 2009).

TABLE 6
WORLD POPULATION GROWTH

World Population Size (Billions)	Year Achieved	Years Between Billions
1	1800	All of human history
2	1930	130
3	1960	30
4	1975	15
5	1987	12
6	1999	12
7	2011 (EST.)	12

Sources: McFalls (2007), PRB (2009).

Not only has world population grown dramatically over the last 79 years, its distribution has been altered in terms of location and composition. Starting in about 1950, the growth moved towards developing countries. Now, approximately 82% of the world's population lives in developing countries, and 99% of current population growth is occurring in developing countries (PRB, 2009).

World-wide the population is aging, especially in the industrialized countries where 16% of individuals are over age 65. In less developed countries, only 6% are aged 65 or older. By 2025, the respective figures are predicted to be 21% and 9%. Viewed another way, 30% of the population in less developed countries is aged 15 or younger while only 17% of the population in more developed countries is aged 15 or younger. In the least developed countries 40% of the population is aged 15 or younger and 3% are over age 65 (PRB, 2009).

The world is also experiencing an increase in international migration. In 1960 only 30 countries had at least one-half million international migrants. In 2005 there were 64 such countries (Bremner, Haub, Lee, Mather and Zuehlke, 2009). In 2005, there were 191 million international migrants which is 3% of the world's population (Martin and Zurcher, 2008).

The population is increasingly living in urban settings with over half of the world's population living in urban areas now compared to one –third in the mid 1970s. The process is particularly dramatic in less developed countries with the urban population growing from 304 million in 1950 to 2.2 billion in 2006 (McFalls, 2007).

FINAL COMMENTS

As the title states, the body of the foregoing paper was a brief overview of selected trends in the world economy. These are not the only important trends, and there is much more detail that could be discussed for those that were covered.

I want to mention a couple of other trends that have been, and still are, very important. One is the Increasing Pervasiveness of Computer and Information Technology that has been causing profound changes in industrial organization and production processes, and also directly affecting households. Another trend, Increasing Anti-Globalization Sentiment, is derivative of some of the other trends. This sentiment is due to the natural reaction to the redistribution of wealth that adversely impacts certain groups. This trend has a seamy underbelly that is violent opposition to just about anything to do with world organizations. This was seen in the violent street clashes in WTO meeting in Seattle in November, 1999. The WTO meeting failed but not due to the street violence. Instead, it failed because the developing nations were no longer going to be passive players in the agenda setting process. So the WTO meeting failed because the group could not agree on the agenda. This latter feature has changed the game for the foreseeable future. The violent demonstrations have also continued. The latest occurred at the G20 meeting taking place in Toronto, Canada during June 2010.

ENDNOTES

1. Economists classify types of RTAs according to the nature of the rules expected of member countries relative to non-members. A Free Trade Area (FTA) is an RTA in which members aim to eliminate barriers to trade between members; however, each member may specify different from other members if they wish. A Customs Union (CU) has the free trade expectation between members that an FTA has; however, a CU requires all members to adopt a common set of barriers facing all non-members. A Common Market is a CU with the free movement of the factors of production between members.

2. The SDR never lived up to its expectations as an additional source of liquidity in international currency markets.

3. Following the collapse of the fixed exchange rate system in March 1973, it was expected that after a period of time during which exchange rates would reveal a new equilibrium structure for a return to the fixed exchange rates system. However, during the turmoil in the world oil market associated with the Arab-Israeli war of October 1973 the floating (but managed) rates system performed better than was expected. This influenced the IMF, in January1974, which decided to support the floating exchange system in the Jamaica Agreement. It would take two more years to finalize the Agreement but the managed- floating rate system continued to operate with some exceptions for countries that wished to have less flexibility (such as in Europe).

4. Labor migration or the small size is a misleading indicator of globalization since most countries discourage immigration. In fact, only five countries are known to invite immigration (under certain conditions): Australia, Canada, Israel, New Zealand and the United States (Martin and Zurcher, 2008).

5. A consequence of countries pursuing RTAs is that they have shown less interest in supporting multilateral negotiations. The Doha Round which commenced in 2001 has struggled to continue. As of September 2010, Doha negotiations still have not been completed.

REFERENCES

Bremner, J., Haub, C., Lee, M., Mather, M., & Zuehlke, E. (2009). World Population.

Highlights: Key Findings from PRB's 2009 World Population Data Sheet. Population Bulletin, 64, (3), Population Reference Bureau, Washington D.C.

De Vries, T. (1976). Jamaica, or the Non-Reform of the International Monetary System. Foreign Affairs.

Ehrlich, P. R. (1968), The Population Bomb, New York: Ballantine.

European Central Bank (ECB) (2010). Map of euro area 2009. Retrieved 7-1-2010 from http://www.ecb,int/euro/intro/html/map.en.html. Frankfurt am Main, Germany.

International Monetary Fund (IMF) (2010). World Economic Outlook, April 2010, Washington D.C.

Martin, P. & Zurcher, G. (2008). Managing Migration: The Global Challenge.

Population Bulletin, 63, (1), Population Reference Bureau, Washington D.C.

McFalls, J, A. (2007). Population: A Lively Introduction, 5th edition. Population Bulletin, 62, (1), Population Reference Bureau, Washington D.C.

Population Reference Bureau (PRB) (2009). 2009 World Population Data Sheet. Washington, D.C.

The Economist (2006). A case of enlargement fatigue. May 13, p. 64.