

# Globalization and the Reconfiguration of the World Economic Order

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## Abstract

*The world witnesses significant changes in the functioning of the global economic relations that gravitate around three major global players; this analytical contribution proposed a new systematization in the form of three possible perspectives, in the context of moving from a multilateral system, organized around one great power to a multipolar one, dominated by bilateral and regional arrangements.*

*This article aimed to synthesize and logically structure the multitude of theories and ideas that revolve around the topic of reconfiguring the global economic order so that it becomes more accessible to a wider audience. We joined the economists concerned to decode where globalization is going, a mission that started decades ago but which remains one of the challenges of the 21<sup>st</sup> century. Thus, the elaboration of this paper involved an approach including several stages: documentation, information, synthesis and systematization, and finally, a personal approach on the world economic order.*

**Key words:** globalization, economic order, global players

**J.E.L. classification:** F02

## 1. Introduction

Globalization remains one of the most controversial debate themes at the moment, and the need for economists to define the concept in search of scientific explanations for certain phenomena in the economy is only partially satisfied. The various directions of investigation undertaken in the economic sphere are trying to explain its effects oscillating between large-scale presentations that reflect a multitude of aspects of global economic change and the trap of not demonstrating anything.

Many global problems are challenges for those who, in pursuit of identifying global solutions, launch, in the field of specialized literature such as socio-human, economic, international relations, questions similar to this one: *Globalization - phenomenon, ideology, strategy or all together - ?* From this dilemma, with profound implications in the evolution of the specialized literature, complex and dynamic analyzes are born, but it also explains the impossibility of defining globalization in a universally accepted and, even less, definitive form.

Our propose is not to answer the above-mentioned question through this article but to develop the idea that under the globalization dome, in the complexity of the phenomenon, we witness, in the 21<sup>st</sup> century, a reconfiguration of the world economic order.

We start our analysis from an aspect discussed by economists and supported by solid arguments, namely that the Western economic model can no longer be performing and productive by its own resources, and the maintenance of prosperity, the desideratum of any economy, is achieved by recourse to debt, consequently a processes of exogenous origin. Thus, following these coordinates, taking into account the evolution of some economic theories and political doctrines, the globalization process can be considered a replacement solution for the resources input in the colonies, the economic solution of the past centuries.

After more than a hundred years from World War I, inevitably, we are talking about a global economic reorganization. Today, new powers are emerging, of which China in particular, while the economic power of the world leader, the United States (US), is in decline, a situation that contrasts

with the geopolitical situation of the early twentieth century when China was Asia's "sick", Britain began its relative decline and Germany, Japan and the US were rising.

The purpose of this article is to synthesize the significant volume of information, ideas and data that revolve around the topic of reconfiguring the global economic order in a new structure of three perspectives under which this phenomenon can be understood and may become more accessible even for an audience not necessarily formed by specialists. The following chapters, present in an objective manner, three perspectives of the reconfiguration of the economic order pursuing to clearly state its determinants and what is and will be the role of globalization in the process.

## **2. Overview of current scientific contributions regarding economic change**

Researching the theme of this article, we find that there are many studies that generate a wealth of data and forecasts. Starting from a study conducted by Eurostat in 2017, entitled "Main Global Players for International Trade in Goods", to which we add the "World in 2018" report achieved by the British magazine "The Economist", we can say that we are observing a rare phenomenon - world economies grow synchronously: from the European economies to the US, from China's economy to Brazil and India. Analyzes of recent years, at the juncture of two major areas that dominate the public agenda of the moment, economics and international relations, anticipated correctly the series of tensions that characterize the world economy today, launching the concept of "Trumpism vs. Macronism" which refers to the type of economic policy practiced in the world. On the one hand, the US president is focused on the internal agenda explicitly defined in the "America First" program, and on the other hand, Europe is represented not only by the President of France, but also by the German Chancellor, seeking mechanisms to encourage competition and entrepreneurship, even globalization, but under the conditions of a proper social contract for employees and for states.

Numerous specialized articles deal with the theme of changes in the world economic hierarchy as effects of globalization, a common denominator of these articles is that the main global economic actors of the 21<sup>st</sup> century remain the US, China and the European Union (EU). Interestingly, however, are the divergences between economists about, perhaps the most anticipated moment in the world's economy, when China will replace the US and become the world's largest economic power. There are some opinions that China's role throughout history and the size of its economy predict a powerful China that will act independently and reshape the world order. In the same vision, China will want to assert its own values, returning to the tributary system in East Asia and, inevitably, provoking the US for global supremacy (Jacques, 2009, p. 14). Other voices, predicting a similar future for China, rely on its transformation into an urban, ecological and innovative society. In this way, China will provide for itself the necessary natural resources, situation that will increase its role within international organizations, changing the rules of the game (Economy, 2010, p. 1).

More pessimistic visions of China's future influence completely abandon the idea that it will become the world's first economic power and provide as main causes the impossibility of managing the increase in economic inequality, environmental and financial system degradation, domestic concerns also leading to its decay in the past (Bardhan, 2009).

Considering the idea that a stable world order is based on the Western key principles of democracy, rule of law and social justice, the challenge of the post-unipolar world is to apply these principles in a pragmatic manner by concluding partnerships with emerging powers that recognize cultural differences. China understands and accepts the general context, being an active player in this world order, but seeing itself more as a counterbalance to other major powers and focusing primarily on its big domestic economic challenges (Dobson, 2010a, p. 7).

From the Chinese perspective, there is not a single voice on China's role, but rather more voices depending on areas of activity, security or economy. An obvious disagreement in Chinese debates exists between military, intelligence and security communities, on one hand, and economic and institutional managers, on the other hand.

### 3. Methodology

The present paper is the first step of a descriptive scientific research that aims to become a new theoretical construction about the reconfiguration of the world economic order, with an interdisciplinary character because the investigated aspects fit mainly in the economic sphere, but have important and relevant connections with the field of international relations. The need to investigate a new approach on the topic came as a result of the debates launched by the practitioners in the field. The present research started from the idea that the multitude of global issues dealt with by economists or specialists in international relations must be systematized in the form of a set of perspectives to clarify what constitutes the reconfiguration of the world economic order.

In a qualitative approach, using the technique of analyzing and interpreting different known sets of data or opinions, we were able to launch three working hypotheses:

1. The economic power of multinational companies replaces the nation-states power
2. The world's largest economic power, the US, is about to suffer a rupture in its course, and its place will be taken by China
3. The system of multilateral agreements that characterized the 20th century is replaced by a bilateral system

In order to validate our hypotheses, we chose an inductive research strategy based on: opinions of economists with concerns in the sphere of globalization, members of think-tanks working in large university centers in Romania or the United Kingdom, like "Citadel" coordinated by a teaching staff of "Babeş-Bolyai" University in Cluj and The Royal Institute of International Affairs - Chatham House in London, speeches and comments belonging to heads of institutions that play key roles in setting global economic policies, such as the International Monetary Fund, the World Bank, the Organization for Economic Cooperation and Development, European Union, but also statistical interpretations by bodies recognized for this activity as Eurostat or the World Economic Forum, conscious that this kind of strategy provides conclusions with a relative character, probably because it operates with a large number of premises investigated.

The research methodology used in the paper included several stages: documentation and information (consultation of representative works in the field), synthesis and systematization, and finally, a personal approach on the complexity of the phenomenon regarding the world economic order.

### 4. The economic power of multinational companies replaces the nation-states power

Globalization, in terms of opening up national markets to free trade of goods, infusion of international capital and foreign investment, coupled with global technology flows, is the engine of this economic rebalancing. Globalization means interconnecting states as never before, and the idea that today's globalization resembles that of the early twentieth century is misleading. Over the past 30 years, globalization particularly determined prosperity within individuals among those economies that have opened up to its effects. Thus, GDP per capita in China has risen from \$ 314 in 1990 to \$ 8.836 in 2017 (The World Bank Data, 2017). Multinationals coming from economies of growing countries are now among the most efficient in the world developing trade relations with Western countries, but also more and more with countries in the Southern area.

There is talk of a "new globalism" that only serves the business interests of corporations, causing subordination of workers, consumers, public and social interests and even of profit.

Globalization seen as a process in which a state's borders are eroded, and the role of national governments is decreasing, is the biggest change in the world in the last 350 years.

The system of organization of the world through which the nation-state was the basic cell, also known as the Westphalian system, was replaced by a new system of world governance that has a number of new actors at the forefront: intergovernmental organizations, transnational corporations and non-governmental organizations. Globalization has redrawn the coordinates of the Modern International System, specialists believing that state sovereignty is undermined by international institutions such as the European Union or the United Nations. There are, of course, opinions that contradict this theory, arguing that the involvement of states in the process of globalization and the

work of international organizations is done in the national interest and to increase the "wealth of the nation."

Joseph E. Stiglitz, Nobel Prize-winning economist, former World Bank chief economist and vice president, believes that the rules of the game in the world economy are often fixed only by the interests of highly industrialized countries and by certain private interests within them and not by developing countries, which is why "globalization does not work" (Stiglitz, 2006, p. 276).

Reinventing the world's economic mechanisms, and creating bodies like the IMF and the GATT, after the First World War and continuing with the Second World War under the globalization dome, have succeeded in re-launching the world economy. International economic institutions and reconstruction and development programs have been relatively easy to impose by launching incentives that have led to a sharp increase in international trade.

On the opposite side, there are various phenomena that represent the expression of the failure of globalization. One of the promoted theories brings to the forefront that the world is no longer led by left-wing or right-wing parties, but by globalists, who promote the opening of borders and the free movement of economic immigrants, and the nationalists, those who want strict control of borders and the restriction of the movement of immigrants. Following the logic of this theory, in the last decades, the power belonged to the globalists, and the major goal of traders, multinationals, shareholders was profit. This profit has been achieved for decades on the back of the Western middle class.

Analyzing the effects of globalization on the middle class in Europe and the US, we find that companies' policies to maximize profits by cutting spending and relocating production to poorer countries place the middle class as a victim.

## **5. China's economic rise to becoming the world's largest economic power**

The world is going through a period of regaining the balance between the key states of globalization. In 2000, the US, Japan and the EU accounted for 31%, 14% and 26% of the global GDP, while China, the Association of South Asian States and Latin America with the Caribbean Islands represented 3.7%, 1.5% and respectively 6.6%. Percentages of export figures were similar. The forecasts for 2018 projected the US, Japan and the EU at 21.6%, 6% and 20% of GDP, while China, the Association of South Asian States and Latin America to 15.3%, 3.3% and respectively 8.3%. According to the World Bank data for the year 2017, the GDP analysis shows for the US a percentage of 24.32%, for China 14.4%, and for Japan 5.1% (The World Bank Data, 2017).

The profound transformation that takes place in the world economy was marked by a historic moment in August 2010: the Japanese government launched GDP data for the second quarter and the figures indicated that China's economy had exceeded Japan's size to become the second largest economy in the world after the US. Since then, China's size and dynamism have placed it among the top rankings. It is the largest foreign currency creditor and accumulator, the world's largest exporter of goods and the largest importer of iron, copper, potassium carbonate, wood products and crude oil from Saudi Arabia.

China's GDP continues to grow strongly. China now corresponds to one third of global growth. More than 800 million people have been raised out of poverty, and the country has achieved a higher level of average income. China's per capita GDP continues to converge to that of the US, even if at a more moderate speed in recent years. China's economic development remains one of the most controversial issues addressed by world economists. A question that rises in almost all scientific articles, irrespective of the author's nationality or economic policy embraced, is whether the BRICS states GDP will exceed that of the US, Japan, Britain, France and Germany, together, before the middle of the 21<sup>st</sup> century.

China's evolution has included socio-economic transitions, "from village to city, from sketch to market, from doctrine to pragmatism, from autarchy to interdependence, and from isolation to global engagement"(Gupta, 2011, p. 140). A key factor in China's extraordinary economic performance was the federal market preservation approach, which emphasized fiscal, financial and management decentralization. Regarding state policy, comparing, for example, the work of India's modernized governance with the Chinese totalitarianism, the latter wins the debate. Thus, the incorporation of the Chinese decentralized regional totalitarian system into the historical growth

models line is inherent, imperial China being a regionally segmented economic entity, united by an extremely firm central leadership.

On the other hand, we need to acknowledge that the Chinese state is still poor, if we relate to per capita income. Two important aspects confirm this reality: the aging of its population and the decreasing number of new entrants on the labor market. A consequence of the rapid growth registered in the last thirty years is the significant income and regional inequalities generated. Correcting imbalances is not an easy task, as strong interests around undervaluing production factors (energy, land, capital and the environment) will have to be offset.

Looking back, China's remarkable development was based on two essential aspects: discipline in taking rules-based decisions, and the capacity to accept advice and technical assistance from institutions. The opening with which China has embraced global institutions and their directives has helped in effectively manage its economic success. Fighting poverty with the right economic and social instruments remains a key factor in China's economic resurgence.

## **6. The bilateral system replaces the multilateral one**

The US is the EU's most important partner in trading and bilateral investment, upholding so far a multilateral trading system and European integration and providing a security guarantee to EU countries. But like other advanced economies, the relative weight of the US in the global economy has fallen.

The Republican administration installed in the US in 2017 is considered protectionist and nationalist and important actions already taken or planned to be taken show obvious intentions to replace multilateralism with bilateral negotiations. European leaders' common speech indicates that EU has a firm economic interest in preventing the collapse of the multilateral trading system. The opening, measured as the ratio between exports and the GDP of a country, is much higher in the EU (43.8%) than in China (22.1%) or in the US (12.6%). Protectionism would reduce EU and global well-being, affect global economic growth, and could mean lower standards and unfair competition (Demertzis, Sapir, Wolff, 2017, p.5).

But we may witness a future situation in which the EU will find itself unable to replace the US and become the global economic hegemon and this has, on the one hand, internal reasons, such as the state of the economy, the vulnerable security policy and the exposed position, and, on the other hand, external reasons, the twist in the global hierarchy with the significant economic growth of China and the BRICS countries. At the same time, all three global trade leaders have expanded the number of regional trade agreements. The world is therefore transformed from a multilateral system centered around the US to a multipolar system based on the three powerful poles of trade - China, the EU and the US - each with numerous bilateral and regional trade arrangements. This has been criticized as already compromising existing multilateral frameworks. Thus, two new fronts of debate are opened: Whether the three main poles of trade are jointly interested in supporting the existing multilateral system and whether the EU and China are willing and able to support together the multilateral system as the US quits its position in the multilateral system.

The current US administration, under the slogan "America first", may not only aim at reducing the US role as anchor of the global multilateral system. If we take into consideration the manner in which it keeps in stand-by the US participation in several important international agreements we could suppose that this is a strategy to provoke the exiting multilateral system openly. This can happen either by threatening to withdraw unilaterally or by imposing protectionist measures such as high taxes. In this situation, we believe that the EU should prioritize measures that help support the multilateral trading system. Projecting partnerships with as many players as possible, but especially with big economies such as China, will be important for defending the multilateral system.

Reinforcing EU-China cooperation, two major global actors interested in supporting multilateralism, could be the key to develop trade and investment. Nevertheless, the EU and China could also cooperate on environmental and climate issues to protect existing commitments undertaken within the Paris Agreement regarding climate change. Beyond China, the EU would also benefit from alliances with other countries relying on actual frameworks, protecting and

reinforcing existing agreements. This is crucial for meeting the Paris Agreement commitments or combating tax evasion and fraud, at a global level.

## 7. Conclusions

At a stage of profound economic rebalancing, the world of 2018 continues to witness the same dangers and tensions met a hundred years ago, but those who are still changing are the main global players. Under the dome of globalization, foreign investment and the global supply chain interconnect governments as much as the market.

The structural vulnerabilities of the powers that rise today are another characteristic that differentiates the world of the 20<sup>th</sup> century from that of the 21<sup>st</sup> century. China and India still have to overcome the average revenue trap. Current powers are also trying to maintain economic and political power, and the US still has the advantage of resource endowment. Western governments need to be aware of the need to treat countries with great economic potential as equal partners in institutions such as the International Monetary Fund, the International Energy Agency, etc. The emerging economies and the imminence of the reconfiguration of the global economic order have triggered nationalist ideas, but also some actions of territorial claims in the name of sovereignty. At the same time, it remains unclear whether the power of information and means of communication contributes to a damping or an inflammation of tension.

Besides the elements of reconfiguration of the world economic order, 2018 will bring some unusual situations, such as the use, alongside the gross national product indicator, of the one called the national product of happiness, the increasingly intense use of commercial drones, the expansion 5G technology or the use of artificial intelligence in the economy.

All in all, the subject proposed in this paper opens, in our opinion, at least two interesting research directions that could become topics for a suite of articles on globalization: identifying models of economic growth in the course of major global players and conducting an analysis of the way in which the world's governments have enforced measures to reduce major economic inequalities.

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