Global Journal of Management and Social Sciences ISSN 2519-0091
Vol 2, No.4 Oct-Dec, 2016.Page # 1-21.
www.gjmsweb.com.

# WAVE OF ANTI-GLOBALIZATION AND CAPITALISM AND ITS IMPACT ON WORLD ECONOMY

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## ABSTRACT

*Globalization has been dominating in the most part of the world and the countries have opened their markets to take its benefits. But after 15 years of globalization, some countries are feeling pains due high rate of unemployment, stagnant wage rate, racial conflict and development of anti-globalization sentiment. The British decision to quit European Union and the success of Donald Trump in US election are the two important events in this respect. The objective of this paper is to analyze post-Brixit and Post-US election scenario and likely effects of these events on the world politics and economy. Another objective is to study whether anti-globalization sentiment is developing due to inherent weakness of capitalism or international trade. For this purpose, we have intended to investigate the causes of Brixit protectionist election-manifesto of US president-elect, Donald Trump and analyze rapidly changing political and economic scenario of the world so that we will be able to draw the results whether the world is moving from globalization to protectionism. Donald Trump has announced to impose 45% tariffs on imports from China, deport 13 million illegal immigrants, scrap free trade agreements signed during Obama's period, and cancel nuclear deal with Iran, renegotiate with terms and conditions of World Trade Organization (WTO) and the expenditure of NATO alliance. We surmise if it happens it will cause an open trade war among the United States and European Union as well as among China and Western countries. Similarly, geo-strategic scenario of the world will also be changed because Japan, Germany and South Korea will have to build their military arsenals to counter impending threats from their rival countries as US military protection will not be available to them.*

**Kew Words**: geo-strategic scenario, Brixit, Globalization, Nationalism, Capitalism.

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## 1.INTRODUCTION

Capitalism and globalization are closely interlinked because capitalism is the goal of accumulation of wealth and resources while globalization is a strategy how to accumulate wealth and resources. Capitalism is used to accumulate wealth and resources at national and international level while globalization is the method of accumulating resources from international markets. Capitalism came into existence with the expansion of industrialization which accelerate economic growth and facilitate generation of wealth. Globalization has two phase. In first phase it was promoted by British Empire in 18th century to accumulate world resources and all countries were forced to open their economies to enable British companies to search and capture rare and valuable resources of other countries. But this move was ended with the eruption of world war I. The second move was started after 1950s and first GATT and then WTO were established to pursue members' countries to be involved in free trade. Under WTO all countries opened their markets after 2000 but this time globalization benefited to the developing countries such as China, India, Brazil, Russian Federation, Turkey, etc and these countries transformed from "poor economies" to "Emerging Economies". This was not acceptable for the world power such as the United States and Great Britain, which decided to opt protectionist policies in British referendum and US Presidential election held in 2016.

### 1.1 Main Research Question

The main research question of this paper is to investigate the positive and negative impact of capitalism and globalization on the world economy. Another research question is to analyze the transition from globalization to protectionism in the context of British referendum and US Presidential election held in 2016.

### 1.2 Objective of Research

The objectives of the study are:

1. To analyze the existing state of capitalism in the western countries particularly in the United States and its impact on its society.
2. To look into the emergence of state capitalism in emerging economies.
3. Can state capitalism pose any threat to free-market capitalism?
4. Can state capitalism may have spillover effect and spread in other countries to replace free market economic system?
5. To study the history of globalization and its effect on world economy.
6. To investigate whether globalization is beneficial for world powers or developing countries.

## 2. WHAT IS GLOBALIZATION?

Weil, (2011) said that "The economists have established view that during last few decades the world economy has been integrated on large scale. The historians regard current movement of world integration as a second move that has swept the whole world. The first move of globalization was started in the mid of 19$^{th}$ century and reached peak in the earlier years of World War –I. But after that there was a retreat from world integration and globalization during two the period 1914-1950 and in this period two world wars and Great Depression were occurred. Some economists assume that these three big events were the results of the first move globalization. However, since second world war, a new move of globalization was emerged and the United States and Great Britain were behind this move and the objective of that move was to return to previous level of the integration of world economy that existed before first world war. This tern of two waves of globalization, which shows world trade (specifically, the total value of world exports) to world GDP over period 1870-2005. A striking feature is that in 1950, trade as a fraction of GDP was at almost the same level as 80 years earlier.

Regarding the mobility of physical capital, we again observe two moves of globalization. During two decades before World War I there was a major flow of international capital because at that time the British were the "Bankers of the World" and total amount invested abroad, have of it was come from Great Britain. Awan (2015) revealed that Great Britain invested half of its saving abroad in 1911 and it was around 8.7 percent of its GDP. European countries invested in New World like Canada and Australia during 1870 and 1910. Foreigners invested 37 % in Canada and they owned half of physical capital in Argentina and 20% physical capital in Australia. However, the pace of world capital flows was dried up after world war I and did not return to previous level but after 1980s. Japan was the biggest capital exporter in 1990s its net foreign investment peaked at 4.7 %of its GDP per annum in 1992. New trends of investment were emerged in 1990s when wealthy countries and their multinationals have massively invested in emerging economies of developing countries due to their big size of consumer markets. Private capital flows to the emerging economies was rose from $42 billion in 1990 to $301 billion in 1997 and further rose to $555 billion in 2005. It was 5.7 percent of their GDP. However, labour mobility could not attain the level of 1914 because about 100 million people migrated, about 1/10$^{th}$ of world populated, moved from their native countries to other countries during 1870 and 1925 for better employment opportunities. Around fifty million people migrated from Eastern and Southern Europe to the United States and Australia. The remaining emigrants came from China, India and Africa. But after the disintegration of British Empire and inception of new states under the wave of nationalism the pace of immigration was slowed down. Only the United States was the country that welcomed immigrants from all over the world. The ratio of its foreign born population in 1910 was 14.5 percent but it was scaled down to 11.7 percent in 2005.

### 2.2 Benefits of Globalization

The benefits of globalization that world have enjoyed are the followings: -

#### 2.2.1. Transport Cost

Transport cost was reduced substantially due to which trade and transmission of goods and services was become possible all over the world. The goods and services were moved from surplus country to short country easily due to low transport cost. It saves countries from famine, hunger, labour shortage and vital commodities shortage during last thirty years. Free goods availability in international markets enables the desired countries to purchase required goods on soft terms. Future markets have made such transactions more convenience.

#### 2.2.2. Transmission of information

Free flow of information from one country to another made it possible for investors to make correct decisions and invest in the market where the expected rate of return is high and where their investment is secure. So the capital moved to booming economies. The foreigners heavily invested in China, India, Brazil, Turkey and other emerging economies to reap benefits of high rate of return. There was a large of number of surplus and cheap labour available in these countries. Foreigners invested in these countries to take benefit of cheap labour and for this purpose they did not only invest money there but also transfer latest technology to there. In this way, the multinationals of advanced countries produced cheap goods in China and India and exported them to the United States and European countries. This investment generated employment opportunities in the emerging economies and consequently poverty level was reduced there substantially. In contrast, unemployment rate and poverty level was increased in advanced countries that created a wave of unrest among the citizens who voiced against free trade and immigration policies of advanced countries. The British and the US citizens voted against free trade and free immigration policies of their countries. Anti-globalization movements have been launched in about all advanced countries.

### 2.2.3. Trade Policy.

After world war second, the advanced countries followed free trade policies because they had surplus goods and they wanted to dump them in the markets of developing countries. But their manufacturing capacity was declined due to shifting of dirty industries to developing countries under strict environment laws. It motivated developing countries to enhance their manufacturing capacities. The countries like China and India, which were closed economies and producing goods for their indigenous consumption, emerged big exporting powers of the world in 2000s.

### 2.2.4. Is Globalization in Trouble?

The economic and political scenario is rapidly changing and the leadership of advanced countries are following inward policies that has posed a serious threat to globalization. Now the globalism really appears to be in trouble because two big market economies, United States of America and United Kingdom, which were the champion of open market, free trade and free mobility of capital and labour in past, now are strongly opposing them and their people have voted against the philosophy, theory and practices of globalization, creating sense of uncertainty about the future direction of international trade, labour and capital mobility. These two countries are bent upon to follow protectionist policies because their new leaders have got mandate from their votes for doing so.

## 3. WHAT IS CAPITALISM?

Scott (2005) said that Karl Marx used term “Capitalism” in the existing modern sense and its truse sense is embedded in “capitalist mode of production”. Through this mode the capitalists maximize its profit (surplus value in Marx's term) by paying low wages to labour. This mechanism is commonly known as "Marxism". Friedrich Engels, who was an associate of Marks, propagated more "Capitalism" as a mode of generating surplus value. Skousen (2003) mentioned that the defenders of capitalism changed this term with free enterprises and private enterprise phrases to reduce the effects of propaganda against capitalism in 20th century.

### 3.1 Definition of Capitalism

Oxford Dictionaries (2013) defines "*Capitalism. an economic and political system in which a country's trade and industry are controlled by private owners for profit, rather than by the state. Capitalism, as a mode of production, is an economic system of manufacture and exchange which is geared toward the production and sale of commodities within a market for profit, where the manufacture of commodities consists of the use of the formally free labor of workers in exchange for a wage to create commodities in which the manufacturer extracts surplus value from the labor of the workers in terms of the difference between the wages paid to the worker and the value of the commodity produced by him/her to generate that profit.*"

Capitalism is defined in Macmillan Dictionary of Modern Economics, 3rd Ed., 1986, p. 54. as *"an economic system characterized by private or corporate ownership of capital goods, by investments that are determined by private decision, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market"*. How a capitalist generates surplus value this process has been described by Karl Marx in Chapter 16: "Absolute and Relative Surplus-Value". Das Kapital. − *"The prolongation of the working-day beyond the point at which the laborer would have produced just an equivalent for the value of his labor-power, and the appropriation of that surplus-labor by capital, this is production of absolute surplus-value. It forms the general groundwork of the capitalist system, and the starting-point for the production of relative surplus-value."*

Marxian economist Richard D. Wolff postulates that *"capitalist economies prioritize profits and capital accumulation over the social needs of communities, and capitalist enterprises rarely include the workers in the basic decisions of the enterprise."*

Following the banking crisis of 2007, Alan Greenspan told the United States Congress on October 23, 2008, *"The whole intellectual edifice collapsed. I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders. ... I was shocked."*Some labor historians and scholars have argued that unfree labor — by slaves, indentured servants, prisoners or other coerced persons — is compatible with capitalist relations. Tom Brass argued that unfree labor is acceptable to capitalists. Historian Greg Grandin argues that capitalism has its origins in slavery: "when historians talk about the Atlantic market revolution, they are talking about capitalism. And when they are talking about capitalism, they are talking about slavery."(Wheel, 2006).

### 3.2. Effects of Capitalism

The opponents of capitalism alleged that the economic system developed under capitalism has generated social inequality, unfair distribution of wealth, market monopolies, imperialism, terrorism, cultural exploitation, trade unions, unemployment, economic disparity, materialism and workers' exploitation. As big countries is exploiting small country, in the same way, big capitalists exploiting weak workers by paying him the wages of subsistence level, ignoring his economic prosperity. According to Immanuel Wallerstein, institutional racism has been *"one of the most significant pillars" of the capitalist system and serves as "the ideological justification for the hierarchization of the work-force and its highly unequal distributions of reward. Many aspects of capitalism have come under attack from the anti-globalization movement, which is primarily opposed to corporate capitalism. Environmentalists have argued that capitalism requires continual economic growth, and that it will inevitably deplete the finite natural resources of the Earth*.: (Harvey, 1979). Such critics argue that while this neoliberalism or contemporary capitalism has indeed increased global trade, it has also destroyed traditional ways of life, exacerbated inequality and increased global poverty - with more living today in abject poverty than before neoliberalism, and that environmental indicators indicate massive environmental degradation since the late 1970s. (Braudel,1979).

Some economists have expressed apprehension about the viability of capitalistic economic system in the long run because in the past two centuries it has facilitated accumulation of wealth while on the other hand it has generated inequality. Due to its purely materialistic approach it has overlooked the social aspects of human being. The economic growth recorded in the advanced countries during last 50 years has not brought any positive impact on the lives of lower segment of this society. It indicates that there is structural weakness in the system of capitalism. In this chapter, we will examine how other researchers have analyzed the performance of capitalism in order to understand the growing unrest in the advanced economies.

Stilwell (2005) argues that "political economists have long considered the recurrence of economic crisis to be capitalism's 'archiles heel'. Marx thought this tendency to crisis would create the material conditions in which radical change of the system would be both possible and necessary. Keynes agreed that, left to its own devices, capitalism would not ensure continuous full employment, although he envisaged the possibility of significant repair. Institutionalisms have also emphasized the need for economic regulation to deal with systematic instability. The problem evidently persists. An economic system that cannot consistently reproduce itself and expand-lapsing instead into periodic recessions with large-scale unemployment, and financial turmoil-necessarily has an uncertain future. So it is worth reflecting on the nature of the structural contradictions underpinning this system instability."

### 3.3. Structural Weakness of Capitalism

Stilwell (2005) mentions some structural weakness of capitalism which we briefly explain here: -

- **Problem of disproportionality**

Does the increased complexity of industry make more likely the possibility of structural imbalances, as Marx anticipated? Without central planning, incompatibility between production decisions of firms in the different sectors of the economy producing capital and consumer goods is always likely. The resulting gluts and shortages have the potential to trigger generalized recession. This is a specific manifestation of a general problem arising from the "anarchy of capitalist production".

- **Tendency of falling profit rate**

Whether the economic crisis associated with the tendency rate of profit to fall are likely to recur is yet more contentious. To the extent that industrial expansion leads to higher organic composition of capital, as mechanization continues and the capital-labor ratio arises, then one may infer that there will be a long-term tendency for the rate of the profit for capitalist industry as whole to be squeezed. Politically, it buoyant profits (and their distribution to corporate executives via inflated remuneration packages share-ownership) that fuel anti-capitalist sentiments-not a tendency to falling profits. But the relentless process of capital accumulation, particularly in a period of labour-displacing technological progress, continues to generate fundamental tensions.

- **Unemployment**

Unemployment is the most obvious manifestation of the structural contradictions of the capitalist economy. Neither Marxist nor Keynesian economists find anything surprising about that. Marxists have always argued that the existence of a reserve army of labour is integral to the accumulation process. Keynesians have consistently emphasized that there is no inherent tendency towards a full-employment equilibrium and the rejection of Keynesian policy by neo-liberals more concerned with balanced budgets adds further to the likelihood of recurrent, if not persistent, unemployment. The problem now assumes increasingly troubling forms. The tendency towards 'jobless growth' brings into question the future of wage-labour as the principal means by which income 'trickle down' to the bulk society and social stability is maintained under capitalism. Can the economic system be adapted in such a way that work is more evenly distributed? The French Government has made important attempts to do so imposing a limit on the permissible length of working week. The alternative is a society increasingly polarized between those who benefit materially from the capital accumulation process and those who have a marginal attachment to the mainstream economy.

- **Under-consumption**

The problem of under-consumption is related issue. In so far as wage incomes are pushed down and up or made more unequal, then the issue of who will buy the outputs of the production process become more problematic. Of course, luxury consumption by capitalists and the minority of the workface in well-paid positions provides one avenue for the absorption of the economic surplus, as does consumption and investment expenditure by the state. Veblen drew attention to these aspects of consumption spending a century ago, and they have frown spectacularly since then. The capacity of the system to continue matching the growth of productive capacity with a corresponding growth of effective demand for goods and services is more troubling at a time when global competition between the downward pressure on wage rates.

- **Consumerism**

Waves of new product development, based on new technologies, have made electronics equipment, personal computers, mobile phones, and so forth, the focal points for growth of production and consumption. Consumerism, promoted by commercial advertising, consumer goods, continue to spread. Contemporary political economists, such as Sweezy and Galbraith, have addressed the issue, the pointing to the vast resources 'propping up' the economy in this way. Yet therein lie further tensions and resources of potential crisis. Catering to the contrived wants of a consumerist society becomes more patently unsatisfying. As Esterlin puts it, the 'triumph of economic growth is not triumph of humanity over material wants: rather; it is the triumph of material wants over humanity'.

- **Casino Capitalism**

Consumerism also generates enormous social wastes, partly in the sales promotion process itself and partly in the built-in obsolescence of the products. To the extent the accumulation of capital depends on the proliferation of credit, it also means that the system become ever more vulnerable to crisis emerging from financial institutions: "casino capitalism" is an inherently unstable system. Modern capitalism also makes rapacious use of the physical environment: as such, it is inherently unsustainable system. The economists suggest if capitalists shift their focus from aggregation production and consumption to redistribution and prosperity of working class it may reduce existing social tension. Though the existing economic system demand efficiency for maximum output for profit motives which does not match with social welfare and equality, security and sustainability. The lust for profit and accumulation of wealth has divided society into classes: poor and rich, low and high, top and bottom. This social and economic inequality is dangerous for the whole world.

## 4. EMERGENCE OF STATE CAPITALISM

In the old concept of capitalism, the individual accumulates wealth and maximizes his individual welfare. In contrast. Now state capitalism is emerging in the world, aiming at to enhance state ownership and accumulation of resources through state enterprises. The theory of state capitalism is based on the principles of enhancing efficiency of state enterprises, productive capacity and ensuring fair distribution of wealth. Under this system the government exerts excessive influence on the economy through increasing its ownership and through its public enterprise. Previously, the governments appoint bureaucrats to run its companies. But now largest public enterprises are trading in the markets. The recurrence of economic crisis in advanced economies have paved the way for emergence of state capitalism in the emerging economies. A new model for state multinationals have been developed in the emerging economies to accumulate resources, widen trade horizon and outperform in the world market vis-à-vis Western multinationals.

Adrian Wooldridge (2012) argues that: "During the last 15 years the headquarters of Corporations have emerged like big cities where hundreds of professional are working. The building in which these headquarters are located are worth-seeing. For example, China Central Television's building resembles a giant alien marching across Beijing's skyline; the 88-storey Petronas Towers, home to Malaysia's oil company, soar above Kuala Lumpur; the gleaming office of VTB, a banking powerhouse, sits at the heart of Moscow's new financial district. These are all monuments to the rise of a new kind of Hybrid Corporation, backed by the state but behaving like a private-sector multinational." The growth of capitalism under the dictate of state is not a new idea and history is full of its example. The British East India Company is the best example of paving the way for the development of British Empire. This is the repetition of history and emergence of old wine in a new bottle. Almost all existing emerging economies multinationals were operating like public departments in 1990s and it was assumed that they would either be closed or privatized when the economy took a positive turn. But their role has changed as the emerging economies strengthen and gradually they have been expanding their feathers. The world top ten big oil and gas companies are all public sector entities. The state-owned companies have 80 percent stake in Chinese and 62 percent of Russian Stock Markets. They aggressively capturing new markets and new industries. For example, China Mobile customer's base is more than 600 million. Public sector companies of emerging economies have 30 percent share in world foreign direct investment in 2010.

Some economists contend that way of the operation of these companies is not they are heading towards liberalization but it is a new economic and business model. Now these companies are striving to make it successful so that it can be introduced in all world economies. The Brazilian Government, which was following privatization program, now compelling small firms to merge into big firms so that they unitedly compete with their rivals in the world market. It is yet to be seen whether the "state capitalism model" is sustainable. Its supporters advocate that it has inherent strength to bring stability as well as growth."

The wild privatization by Russia under Boris Yeltsin in the 1990s disturbed many developing countries and supported the theory that government can lessen stress that by providing infrastructure, which was ignored by capitalism and globalization. The government of Lee Kuan Yew in Singapore, first introduced this model and invited foreign firms to invest in infrastructure projects. Now China is the main player in this field. Chinese companies are working around the world to win contract for developing infrastructure projects. US$46 billion CEPEC projects in Pakistan is a remarkable example. Another important feature of this model is to acquire foreign companies in order to enhance skill, diversify business and enhance political influence around the world. Now the government does not like to run the companies just to provide employment to its workers but to use their skill efficiently and motivate them "to work more, to earn more". Similarly, the governments have its own priorities of corporate holdings. Apparently, the Chinse government has opened its economy gradually but it has trained its bureaucrats who focus on the market to make a difference and write success stories.

Wooldridge (2012) argues that the successes of free market theory has stopped working and the recession which eaten up Lehman Brothers has gradually taking the whole rich world into its fold. Greek is the weak western country which has already facing chaotic situation due to recession and financial mismanagement. Even the income US workers is contracting since 2009. The Canadian Institute (Fraser), which has competency to measure economic freedom for the last forty years disclosed that global freedom index steeply rise to 6.7 in 2007 from 5.5, in 1980 but afterwards it started retreating. The credit crisis of 2008 has given the way for emergence of state capitalism as alternative economic system. This system is not only using state power but also manipulating corporate powers. Now the emerging economies are also exploiting capitalistic instruments by getting enlisted public sector companies on equity markets to take benefits of globalization. State capitalism also emerged in different regions of the world in past. It dominated German economy in 1870s and Japan in 1950s. But it was not on such a large scale as it is expanding in the emerging economies such as in China, India, Brazil and South Africa with latest economic tools.

**Global Journal of Management and Social Sciences** **ISSN 2519-0091**
**Vol 2, No.4 Oct-Dec, 2016.Page # 1-21.**
**www.gjmsweb.com.**

The scope of state capitalism can be judged from the fact that the Chinese government is the majority shareholders in 150 big companies, besides having stake in hundreds of small companies. China 's economy has been growing at 9.5 percent per annum and its international trade is rising 18 percent per year for the last 30 years. In just one decade, China's GDP has grown three times to 11 trillion. Chinese government does not only manage its currency cleverly, supporting its companies operating in other countries and providing subsidies to business firms operating in the domestic markets. Almost all multinationals have strong resources base. For example, 13 world large firms having command over 75 percent of world oil resources are of state control companies. The success of these companies is not restricted to one sector. It is making headway in different fields. For example, China Mobile has captured 600 million customers, Russian Sberbank is the Europe third large bank, Dubai Ports is working as a big player in operation of ports and its rank is third. In chemical sector, Saudi Basic industries Corporation ranked among top chemical company of the world. State capitalism is rising with strong financial strength. It is flushed with cash and liquidity. It has established sovereign wealth funds which are manipulating markets from New York to Tokyo. The state is advancing while private sector is retreating all over the globe. The state capitalism is spreading with fast speed due to the following reasons: -

- It is growing on large scale. It is not growing alone, but together.
- China and Russia both are pushing state capitalism jointly.
- The emerging economies possess latest business weapons.
- On average they are growing 5.5 percent per year vis-à-vis 1.6 percent by advanced world.
- The governments in the free capitalist world are are following the steps of state capitalism. For instance, French government has also established a sovereign wealth fund to play in the global markets.
- State capitalism is appeared as a new trend and has attraction for the young world to opt it.
- The young economists at world banks are discussing emerging trends in the context of state capitalism.
- State-owned China's National Offshore Oil Corporation and had made efforts to take over US Company, Unocal in 2005 and Dubai's ports have purchased many US ports.

Most of Globalization economic theories have proved faulty because they could not work in the emerging economies. For example, Kenichi Ohmae's claimed that "nation state has eliminated" has proved wrong. Milton Friedman's contention that "the government should only disciplined market as it had not business experience" has proved an idea not workable in the 21st century. Naomi

Klein's conviction that "large corporations are large than government" has met its fate as the government is now dominating than the corporate entities. Francis Fukuyama's assertion that "democratic capitalism has established its victory all over the world" appears to be a fallacy. The fact is that government is establishing its grip over market while autocracy is establishing its dominance over the democracy all over the world.

## 5. END OF FREE MARKET CONCEPT

Bremmer (2010) states the strategies being used by the emerging economies to exploit the market for their political goals. He argues that invisible hand working behind free market is become visible in the shape of state capitalism. The international economic infrastructure is in a state of recession and the free market economies of the world are among the hardest hit. Consequently, many have posed the question: is the free market a failed economic system? He pleads that 'state capitalism,' is "a system in which the state plays the role of leading economic actor and uses markets primarily for political gain,". He assumed that the development of state capitalism is the most serious threat to existing free market capitalism and democracy. He elaborates different tools that modern state capitalist governments utilize to maintain power. The list includes direct influence over national oil and gas corporations (NOCs), various state owned enterprises (SOEs), privately owned national champions, and finally, sovereign wealth funds. He pointed out that different countries have developed different models of state capitalism. For example Saudi Arabia uses massive oil revenue for its political ends, UAE has its own state enterprise oil company, Ukraine government owns all agriculture land hold majority stake in railroads, telecommunication, electricity, chemicals, and civil aviation, Russia imposed restrictions on foreign investment to maintain its monopoly in strategically important sectors, Indian government is involved in politically sensitive consumer goods, fuel, fertilizers, electricity and water, Mexico owns an oil company raking 31$^{st}$ on 2009 Forbes Global list of top company by revenue and China provide financial resources to those companies which want to make investment in foreign strategic sectors. In the list of Forbes Global 2000, 117 companies are of China, Russia, Brazil and India while 239 belongs to the United States, Japan, Britain and Germany. The number of state-owned corporations of emerging economies are rising rapidly year after year.

## 6. NEW FUTURE GROWTH CENTRES

The World Bank in its Report "Global Development Horizons, 2011: Multi-polarity: The New Global Economy" predicted that "The coming decades will see global economic growth increasingly being generated in emerging economies. By 2025, global economic growth will predominantly be generated in emerging economies. Over the past two decades, the world has witnessed emerging economies rise to become a powerful force in international production, trade and finance. Emerging and developing countries' share of international trade flows has risen steadily, from 26 percent in 1995 to 42 percent in 2010.Much of this rise has been due to an expansion of trade not between developed countries and developing countries, but among developing counties. Similarly, more than one-third of foreign direct investment in developing countries currently originates in other developing countries. Emerging economies have also increased their financial holdings and wealth. Emerging and developing countries now hold three-quarters of all official foreign exchange reserves (a reverse in the pattern of previous decade, when advanced economies held two thirds of all reserves), and sovereign wealth funds and other pools of capital in developing countries have become key sources of international investment.

At the same time, risk of investing in emerging economies has declined dramatically. For example, borrowers such as Brazil, Chile and Turkey now pay lower interest rates on their sovereign debts than do several European countries. As investors and multinational companies increase their exposure to fast-growing emerging economies, international demand for emerging-economy currencies will grow, making way for a global monetary system with more than one dominant currency.

## 7. GROWING INCOME INEQUALITY

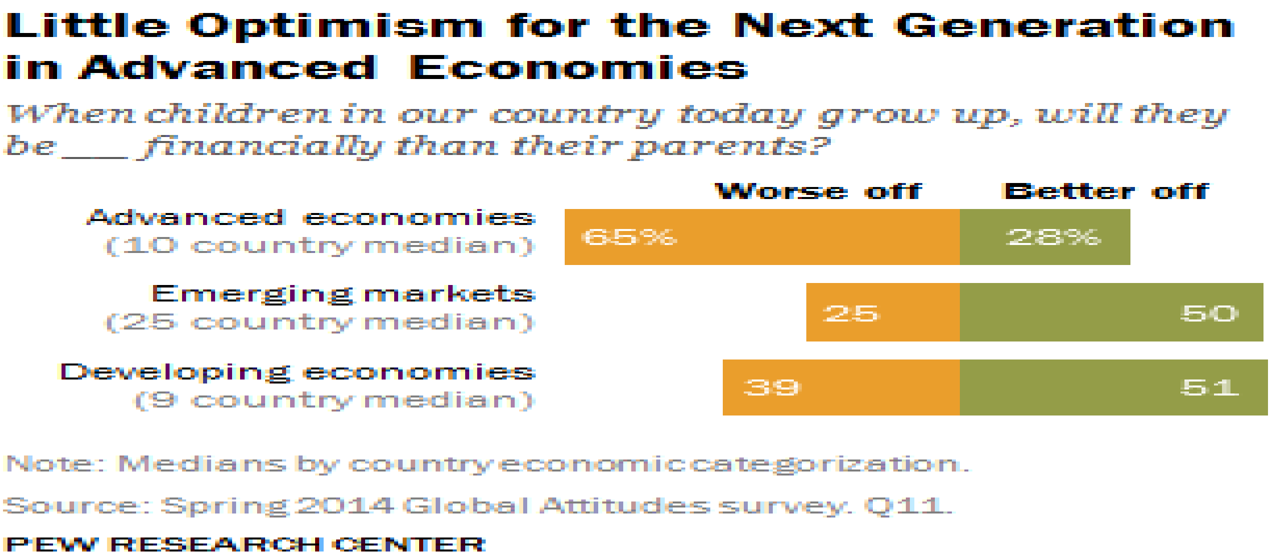
Income inequality is another serious problem of advanced societies where people have been divided into two groups: rich and poor. Some economists blame capitalism as the root cause of income inequality while other held ruling elites responsible for framing pro-rich policies and ignoring poor segments of society. The OECD Report,2014 says that

"High level of income inequality is the outcome of a long-term trend increase. Income inequality in the United States increased significantly in the recent decades and at a stronger pace than the OECD average. Between the mid-1980s and 2012, inequality (measured by the Gini coefficient) went up by almost five points (or 15%) in the United States, from 0.34 to little under 0.39. Meanwhile, on average across OECD countries, inequality increased from 0.29 to 0.32; only in Sweden (from a low level), Israel and New Zealand did inequality grow faster than in the United States. In the US the increase was concentrated in three periods: from the 1980s to the early 1990s; during the early 2000s; and since the late 2000s Two recent surveys illustrate the concern about economic inequality in the US. 65% of American adults believe that the gap between the rich and everyone else has increased during the past decade (PRC, January 2014). And 67% of American adults are dissatisfied with the way income and wealth are currently distributed in the US (Gallup, January 2014).

In most countries, increasing inequality was due to rich households faring much better than both low- and middle-income families. The share of top-income recipients in total gross income grew significantly in the past three decades in most countries, but it was particularly marked in the US, where the share of the richest 1 per cent in all pre-tax income more than doubled since 1980, reaching almost 20% in 2012. It was also large in a number of other English-speaking countries: Australia, Canada, Ireland and the UK. Elsewhere, increases tended to be greater in some of the Scandinavian and Mediterranean countries, especially in Portugal.

Even within the group of top-income earners, incomes became more concentrated. In the US, the share of the top 0.1 per cent in total pre-tax income quadrupled in the 30 years to 2010 from 2 per cent to over 8 per cent of total pre-tax incomes. In Canada, the UK and Switzerland, their share was 4 to 5 per cent, and close to 3 per cent in Australia, Italy, and France. Moreover, people who achieve such a high income status tend to stay there: from one year to the next, only 25% drop out of the richest 1% in the US, compared to some 40% in Australia and Norway. The benefits of growth did not trickle down: lower income households fell behind. In the United States, households at the bottom of the distribution – the poorest ten percent – could not keep pace with middle and higher income households. The average income of this poorest group actually fell by 10%, in real terms, between 2000 and 2008 and by a further 7% between 2008 and 2010, before recovering only modestly during 2011 and 2012. Even looking backward, the evolution of incomes at the bottom was also disappointing: between 1985 and 2005, average household income in the United States grew by 25%, but only by 3% for the poorest 10 percent of Americans. Comparing living standards in terms of income around the world, the average American is far richer than most: for every 100 Dollars the average OECD citizen makes, an American makes 123 Dollars. But this is not true for the poorest 10 percent Americans: they only make 73 cents for every Dollar of their OECD fellow counterparts. So while the US ranks third on average OECD incomes, behind only Luxembourg and Norway, it ranks only 18th for people in the bottom 10 percent. Average disposable annual income of the bottom 10%, in US$ PPP and inflation adjusted, total population, 1985-2012 or closest. There is less earnings mobility between generations in countries where income inequality is higher. More equal societies such as Denmark, Finland and Norway also have greater earnings mobility. Conversely, there is less intergenerational mobility in countries where income inequality is higher, particularly in Chile, but also in the United States, Italy and the United Kingdom. In the United States, intergenerational mobility remained remarkably stable over a long period of time. American children who enter the labor market today have no greater (nor less) chances of moving up the income ladder relative to their parents than children born in the 1970s or 1980s (Chetty et al., 2014).

Figure 1. Income inequality and intergenerational earnings mobility, mid-2000s




Note: Intergenerational earnings mobility is measured by the earnings elasticity between fathers and sons.

The Figure shows that the 65 percent of children of advanced countries will be worse off than their parents while 28 percent will better off. The 50 percent children of emerging economies will be better off than their parents while 25 percent of will be worse off. Similarly, 51 percent of children of developing countries will be better off than their parents and 39 percent will be worse off. In short, the majority of children in the emerging and developing countries will be better off than their parents because of better intergenerational distribution of income and wealth.

Bakija et al, (2012) revealed that between 2008 and 2010, youth and children replaced the elderly as the groups facing the largest relative poverty risk. In the US, the share of 18 to 25 year olds living in households with less than half the median income (about US $ 14,500 in 2010). The growth of the financial sector also played a role. In the US, the share of financial professionals among top earners increased continuously over the years, from 8 to 14%. Real estate and financial professionals within the top 0.1% group realized higher income growth than people in other occupations (such as lawyers or medical professionals), leading to a growing divergence of average incomes across professions among top earners.

## 8. WORLD TRADE IS SLOWING

World trade is slowing because the world is moving towards protectionism. The European Union in June 2016 has imposed 81.1 percent anti-dumping duties on Chinese steel. Vice President of European Commission, Jyrki Katainen, on November 9, 2016 stated that “Free trade must be fair, and only fair trade can be free, adding that 30 million European jobs depend on free trade.". Chief Asia Economist in Singapore, Tom Orlik, in an interview with Bloomberg, said that over the past two decades, consumers and businesses have spent heavily on laptops, tablets and smartphones, but despite efforts by Apple and others to popularize smart watches, there is no must-have device to boost global trade. Stagnant income growth in the West also forces politicians to show they understand voters' worries. "The pressure grows for governments to appease those voices by giving them the things they want and things they want are trade restrictions". The Obama administration in June 2016 raised U.S. tariffs on steel from China, India, Italy, South Korea and Taiwan. In July, 2016, China accused Japan, South Korea and European Union of dumping electrical steel used in generators and announced penalties of its own. Similarly, India on November 2,2016 imposed antidumping duties on Chines steel imports. Malaysia in May 2016 imposed penalties on Chines, Korean and Vietnamese steel. Peru placed antidumping duties on imports of biodiesel from Argentina in October, 2016. Chief Economist with Royal Bank of Scotland in Singapore, Harrison Hu, disclosed that China's entry into WTO basically reshaped the global production chain and Chinese companies importing more components and exporting completed products to the United States and other countries. Today more Chinese companies can make parts themselves: components and raw materials accounted for 52 percent of China's imports in 2007, but that is now 42 percent in 2016. US president-elect, Ronald Trump, has announced to scrape Trans-Pacific Partnership, renegotiate the North American Free Trade Agreement, or penalize Chinese imports. The chairman of Chinese Foreign Affairs Committee, Fu Ying, while criticizing the plan of the new US president, said "Globalization is still the trend in the world. The United States started it, you benefited from it and now you don't like it. So what is next? Do you have a substitute? Do you have a better option? The trend is not going to wait", Fu asked (Bloomberg, Nov, 18,2016).

This brief statements show how the leaders of world powers are perceiving world trade and every country is taking measures to protect its economy. If protectionist policies are continuing to follow by big countries it will bring adverse effect on world trade, capital and labour mobility. It may lead the world power to a third world war as was happened before first world war when all major powers closed their economies and denied to provide required natural resources and raw material to each other, resulting the eruption of war among them.

## 9. CONCLUSIONS

In this paper we have discussed inherent weakness of capitalism which advocates free market, perfect competition, resources accumulation, mass production, mass consumption, and casino culture. All these characteristics, in fact, are weakness of capitalism because the myth of free market has lost importance. Similarly, perfect competition is just an illusion and in real life there is monopolistic competition and in some market there is complete monopoly of certain business firms. The accumulation of resources for further investment has also lost significance because it has caused concentration of wealth and wealth disparity in capitalist economies. Mass production just to reduce cost has generated surplus supply and economic glut, resulting in slow demand. To create demand artificially as suggested by the British Economist, Lord Keynes has generated further complications in the economy and made more complex to understand and to manage. This is the reason in the current era macroeconomics theories have failed to attain desired results during recessions in Japan, Great Britain and the United States. The failure of free market capitalism has paved the way for the development of state capitalism, which is flourishing in China, India, Russia and Brazil where state enterprises are dominating domestic and international markets. In this scenario, some economists, believe that it is the end of free market because the markets operating under state capitalism are operating successfully and generating huge wealth. Similarly, free international trade under globalization is losing stream and now big world power are heading towards protectionism due to rising unemployment and stagnant wages in the Europe, Japan, Britain and the United States. Now the people of these countries are voicing against free trade, immigrant policies of their government. US presidential election and British referendum are the clear reaction of people. So the world is moving from globalization to protectionism. It is dangerous in a sense it may cause trade war among world big power, which may lead to military conflict.

When we look deeply we will find that the model of state capitalism has also had weakness which will be exposed with the passage of time. For example, state-owned companies soak up finance and talented human capital, leaving little behind fore private enterprises. Some studies reveal they are using capital less efficiently as compared to private enterprises and their pace of growth is slow. They are building fancy towers and paying less attention on entrepreneurship. They are copying the products of other companies under the umbrella of government. In future their cost will likely to rise. They are likely to in competitive unless they produce their innovations and develop new ideas. By supporting these big enterprises, the governments in emerging economies are ignoring small firms, which are assumed to be innovators if they have required financial resources and necessary skill.

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Global Journal of Management and Social Sciences ISSN 2519-0091
Vol 2, No.4 Oct-Dec, 2016.Page # 1-21.
www.gjmsweb.com.