ECONOMIC AND BUSINESS HISTORY 24/25

LECTURE 8 – GLOBALIZATION (SPREAD AND LIMITS)

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Globalization (Spread and limits)

1. Direct impacts

2. Losers?

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1. Direct Impacts

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1st Globalization

With the 1st Globalization, growth spread from a small core of industrialised countries (GB, France, Belgium, Switzerland and parts of Germany) to the globe

For most countries (including colonies) this was the beggining of modern economic growth

But was the impact of the 1st Globalization necessarily positive in all its dimensions?

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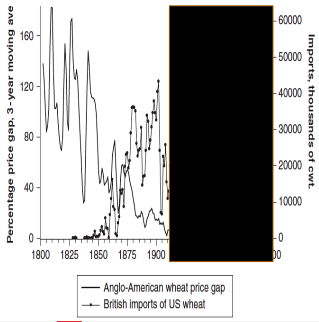
1st Globalization Trade

The key benefit of international trade was reduction of prices. This was allowed by steam shipping & the reduction of tariffs by advanced countries

An excellent illustration is how Britain reduced tariffs for grains in the 1820s, and in the 1840s (with the progress of steam navigation) and saw its wheat prices integrating with those of the world's most efficient producer: the US



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Effect on Real Wages

First decade with reduced tariffs!

Decreasing grain prices were extremely beneficial for the workers, who thus saw increasing real incomes, even without wages rise. The impact was deeply felt in England, as graph shows

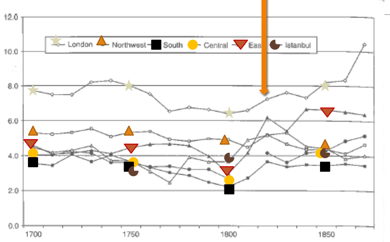

Figure 9.1 Real wages of European unskilled construction workers, 1700–1870 (Allen, 2001; Ozmucur and Pamuk, 2002)

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1st Globalization: Labour Flows

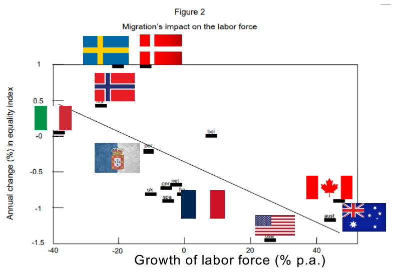
However, abundant capital imports could create a dependency on foreign capital and poor investment choices (incl. financing public debt) risking the sovereignty of borrowing countries. In this case however, the flaw is the receiving country's poor institutions or policies

	Δ Active Pop. 1870-1913	Δ Real wages 1870-1913	Real wages / British real wages	
			1870	1913
Ireland	-45%	32%	73%	92%
Italy	-39%	28%	48%	95%
Norway	-24%	10%	40%	56%

Source: Daudin et al, 2008, p. 21

1st Globalization: Labour Flows

Mass migration contributed to rising inequalities in labor-importing countries (but increasing equality in exporting ones)



Source: O'Rourke and Williamson 2006.

Capital Flows

Capital flows also benefitted poorer countries. A comparison between the top destinations of capital exports in 1913 (compared with 2001) shows many poor and a clear prevalence of peripheral economies (incl. USA)

Table 2. Main recipients of foreign investment

US dollar billion	1913/1914	%	Cumulative		2001	%	Cumulative
USA	7.1	15.8	16	USA	6277	26.9	27
Russia	3.8	8.4	24	United Kingdom	2204	9.4	36
Canada	3.7	8.2	32	Germany	1866	8.0	44
Argentina	3.0	6.7	39	France	1431	6.1	50
Austria-Hungary	2.5	5.6	45	Netherlands	1027	4.4	55
Spain	2.5	5.6	50	Italy	943	4.0	59
Brazil	2.2	4.9	55	Japan	871	3.7	63
Mexico	2.0	4.4	60	Belgium/Luxemb.	741	3.2	66
India and Ceylon	2.0	4.4	64	Hong Kong	608	2.6	68
South Africa	1.7	3.8	68	Canada	597	2.6	71
Australia	1.7	3.8	72	China	534	2.3	73
China	1.6	3.6	75	Switzerland	521	2.2	76
				...			
				Brazil	443	1.9	
				India	130	0.6	

Note: The figures for end-2001 refer to international liabilities from direct and portfolio investments and long-term bank loans.
Sources: For 1913/1914 the source is Wilkins (1989). For 2001 the data for portfolio debt investments are taken from the International Financial Statistics of the International Monetary Fund (2004), foreign direct investment data come from the World Investment Directory of UNCTAD (2004), loans from commercial banks are taken from the Bank for International Settlements (2004). Debt data for Brazil, China and India were calculating using World Bank statistics: World Bank (2004a). Equity investments were derived from the Coordinated Portfolio Investment Survey of the International Monetary Fund (2003).

Source: Schularick 2006.

Capital Flows

However, abundant capital imports could create a dependency on foreign capital and poor investment choices (incl. financing public debt) risking the sovereignty of borrowing countries. In this case however, the flaw is the receiving country's poor institutions or policies

Table 1 Dates of Financial Crises, 1880-1913

Country	Banking Crisis
Argentina	1890
Argentina	1891
Australia	1893
Austria	1882
Austria	1883
Austria	1884
Belgium	1885
Brazil	1890
Brazil	1891
Brazil	1897
Brazil	1900
Brazil	1901
Chile	1889
Chile	1898
Chile	1907
Denmark	1885
Denmark	1907
Egypt	1907
Finland	1900
France	1882
France	1889
France	1907
Germany	1901

Country	Banking Crisis
Italy	1891
Italy	1893
Italy	1907
Japan	1901
Japan	1907
Mexico	1884
Mexico	1885
Mexico	1907
Mexico	1908
Netherlands	1897
New Zealand	1893
New Zealand	1894
New Zealand	1895
Portugal	1891
Sweden	1897
Sweden	1907
Turkey	1895
UK	1890
USA	1884
USA	1893
USA	1907
Uruguay	1913

Country	Currency Crisis
Argentina	1885
Argentina	1890
Argentina	1908
Brazil	1889
Brazil	1898
Canada	1891
Canada	1893
Canada	1908
Chile	1887
Chile	1889
Chile	1898
Egypt	1900
France	1888
Germany	1893

Country	Currency Crisis
Germany	1907
Greece	1885
India	1891
Italy	1894
Italy	1908
Japan	1900
Japan	1904
Japan	1908
New Zealand	1903
Portugal	1891
Russia	1891
Turkey	1886
Turkey	1903
USA	1891

Country	**Sovereign Debt Crisis**
Argentina	1890
Brazil	1898
Chile	1880
Greece	1894
Italy	1894
Mexico	1880
Portugal	1892

Country	**Sovereign Debt Crisis**
Russia	1885
Spain	1882
Spain	1900
Turkey	1880
Uruguay	1891

Notes: Sources for these dates are data Underlying Bordo, Eichengreen, Klingebiel, and Martínez-Peria (2001), Beim and Calomiris (2001) and Reinhart, Rogoff and Savastano (2003). The crisis in Belgium was not dated by BEKM but was highlighted by Buyst and Maes (2007). The debt default in Italy (1894) was discussed in Tattara (2003) and Spain (1900) in Comín (2012).

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2. Losers?

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Int'l Division of Labour

This 1st Globalization inaugurated the international division of labour, giving poorer countries an opportunity to identify their comparative advantages

Industrialisation made agricultural goods too expensive to produce domestically and increased the demand for raw materials

This created a centre (the industrialised goods) and a periphery specialised in agrarian goods and raw materials, including the US

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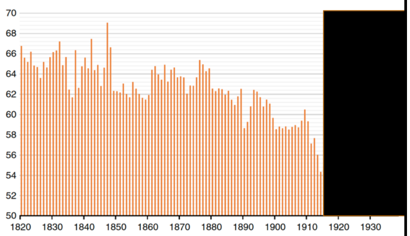
Early Globalization stimulated trade on agrarian goods

Primary goods in the first stages of Gobalization were the main traded goods, although its share decreaseds as their price decreased, as competition increased and new producers were found (e.g. Argentinian meat and wheat replacing earlier European and US exports to GB)

SHARE OF PRIMARY PRODUCTS IN EXPORTS, BASELINE SERIES, 1820-1938



Source: Tena & Junguito 2013

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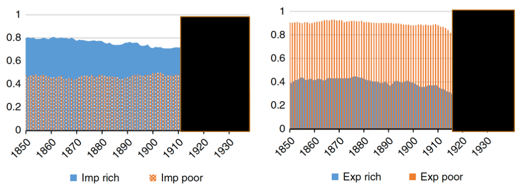
Clear Specialization Pattern

SHARE OF PRIMARY PRODUCTS IN EXPORTS AND IMPORTS IN RICH AND POOR COUNTRIES



Sources: «product composition» http://www.uc3m.es/tradehist_db and text.

Source: Tena & Junguito 2013

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Sectors and Globalization

- Specializing in agricultural and mining production and exchanging their surpluses of primary products for manufactures, in countries where the primary sector was more profitable (or increased more real income)
- Specialisation left economies vulnerable without the mounting demand for foodstuffs and raw materials of the industrializing regions at the centre
- As a consequence, few of the peripheral countries became industrialised, although the main exception is very important: the USA (see next slide)

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From the Centre to the Periphery

- At the Centre growing, industrial demand on natural resources and prompted the search for cheaper supplies in the periphery
- Outflow of capital and skilled labour to develop peripheral sources of supply.
- Growth in the Periphery via export of primary products and inflow of foreign capitals and labour, associated with the expansion of the export sector.
- Particularly favoured by these developments were the US and, later, the regions of recent settlement, including Canada, Argentina, Uruguay, South Africa, Australia and New Zealand

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Manufactures per Population : Europe and elsewhere (100 = US in 1913)

UK	90
Belgium	73
Germany	64
Switzerland	64
Sweden	50
France	46
Denmark	46
Netherlands	44
Norway	39
Austria	31
Czechoslovakia	28
Finland	27
Italy	20
Hungary	19
Spain	15
Poland	13
Russia	9
Yugoslavia	6
Romania	6
Greece	4

Canada	84
Australia	75
New Zealand	66
Argentina	23
Chile	17
Japan	6
Mexico	5
South Africa	5
Brazil	2
India	1

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Opportunity for the poor economies

- Industrial demand for primary materials of the central economies created an opportunity for specialization in some hitherto loosely connected areas of the globe.
- This led to the development of highly-specialised economies and to good infrastructure
- Also, the First Globalization also introduced many new products at a planetary scale: rubber in Asia, Coffee in Brazil, Tea in Ceylon, Cotton and Tea in Africa, etc, etc....
- While these economies grew, there are little signs of convergence after the 1870s

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The Danger of Enclave Economies

- An ‘enclave economy’ is a country where external demand for a few specific commodities or raw materials (typically cash crops like rubber, cotton, cocoa, bananas, coffee, palm oil) develops a strong export sector but leaves the rest of the economy unchanged
- Thus, for instance:
- In Gambia, 1858-63, groundnut represented in average 89% of exports
- In Angola, 1887-1912, rubber represented 64% of exports.
- In Nigeria, 1881-1889, palm oil (and by-products) represented 75% of exports

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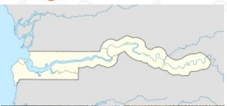
An enclave economy in an enclave colony: Gambia

Gambia is an enclave country, whose territory is surrounded by Senegal



It started in the 1840s as a British protectorate, where “merchants collected oil palm and groundnuts from African producers to meet the rising European demand for oils and fats to produce soap, candles, cooking oils and lubricants” (Sindwell and Jeng)

Soon, groundnut represented about 90% of exports, which led Britain to expand its rule inland, occupying the groundnut-growing margins

Exports thrived but there was no development of industrial sectors. Also, specialization created an agricultural problem:

In late 19th.cent, historians conclude: “The growing dependency on imported rice combined with groundnut exports, rendered Gambian producers much more vulnerable to the fluctuation in world prices for both these commodities. [The] scenario of commercial export crops stimulating local food production had now changed; exports had stimulated food imports." Swindwell and Jeng, p. 134.

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Between-country Convergence or Divergence?

Comparison of mean income (unweighted): Inequality between countries increasd gently during Globalization (detail: more in Theil than in Gini, because the former also reflects inequality between groups).

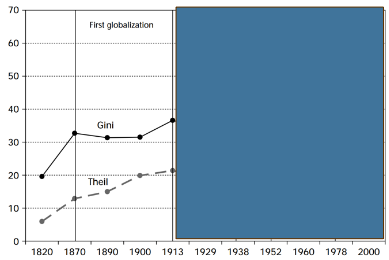

Figure 2.1 Concept 1 inequality, 1820–2000

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A weighted comparison shows different results

Weighted comparison of mean income (with large countries with low growth like China and India pulling their weigth)

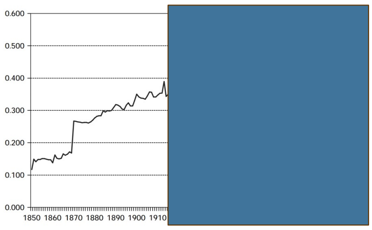

Figure 2.2 Concept 2 inequality (Gini coefficient), 1820–2000

Source: Calculated from Maddison (2004)

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'Self-imposed [institutional] limits' mattered more

- Although enclave economies did not converge, they grew
- Others did not:
  - "the major obstacles to the diffusion of modern technology were to be found within countries rather than between them" (Text 5)
- Non-economic influences, particularly social attitudes, customs, beliefs and motivation to succeed economically, are important determinants of the rate at which new techniques are diffused throughout an economy.
- Rigid societal norms, regulation of markets, low education levels, as well as the low social value attached to industry and profit in the culture of some of countries constituted insurmountable barriers to the adoption of the new industrial technology,

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National: the roles of the state

- By contrast, in many Euro countries, institutions and especially the executive government contributed directly to growth (v. Text 5):
  - In France, strong concern for continuity meant that technical change was relatively slow and that the government did not play a major role in promoting economic development.
  - In Germany, on the other hand, achieved rapid industrialization led by the state, despite the fact that the old order retained much of its force.
  - Denmark and Sweden created expansionary economies as much by changing the direction of their economic efforts as by altering the structure of their institutions or the habits of their peoples.

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The Archetypical contrast: Japan vs China

- Displaying a common policy of exclusiveness and virtual absence of contracts with foreign countries, as well as a social structure and system of land ownership that acted as a barrier to industrialization, their responses to Western intervention in their affairs were totally different.
- With a high receptivity to the new technology, Japan began industrializing rapidly towards the end of the nineteenth century without any major social or cultural changes
- The Chinese government remained contemptuous of Western civilization and opposed to social and economic change (prohibition of steam boats)

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Chinese Railways: a True Tale (1)

- After the Treaty of Tianjin in 1860 that ended the Opium Wars, Britain and France expected to reap rich rewards.
- A group of foreign Shanghai businessmen proclaimed 'A crusade of commerce… The honor of opening-up the resources of an ancient Empire.'. Railways were to be the chief instrument for opening up the trade, as it happened in India.
- At this time, apart from the slow Grand Canal, most transportation was still carried by foot.
- The British Captain Margery led a small expedition to survey a possible railroad from Bhamo in Burma (on the upper River Irrawaddy) to Shanghai. He was murdered by Chinese on his return on 21st Feb 1876. Uproar on his death in Britain led to further reparations being exacted from the Qing government. Britain went on to take the kingdom of Burma 1886, which had up until then shown fealty to the Qing Empire.
- In Shanghai, entrepreneurs, once again led by the British, built a short 15 miles [24 kms] railway north to Baoshan in 1876 on the banks of the Yangzi. This met with some local opposition because of the belief that railways bring very bad Feng Shui. In Feng Shui a straight line allows damaging sha qi to move too rapidly and this effect is made worse by the hard, cold metal tracks.
- To mitigate this influence un-necessary curves were added to the route of the track.
- The railway engines were considered demonic and devilish as they spewed smoke and burned coal. y to build its own railways.

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Chinese Railways: a True Tale (2)

- Also, fears of unemployment, prior to railways virtually everything was carried on the backs or in the wheelbarrows of porters; the railways posed a real threat of unemployment and financial ruin.
- To quell the unrest the Qing government bought up the railway in 1877, only to have it dismantled and sent to Taiwan. This was a most inauspicious start to railway development in China.
- t was only in the 1880s and 90s that railway building really got going in China. The first functional 50 miles [80 kms] railway built in 1881 ran north from the port of Tianjin to Tangshan, Hebei (known as the Kaiping Tramway ↗).
- The Qing government at first saw the railways as a threat, as they allowed foreign troops, missionaries and their influence to penetrate deep into China. Railway companies were given full control of territory in a twenty mile wide corridor, here, foreign not Chinese laws applied just as in the concessions. T
- he convention that the emperor owned everything gave rise to problems over ownership - foreign powers could only lease and not own the land. They could be used to move troops and armaments with little government control over them.
- The Dowager Empress forbade a railway to go within Beijing's walls. However a minister built a miniature railway donated by the French within the Forbidden City between the living quarters and a dining hall; but eunuchs rather than a steam railway engine pulled the carriages as an engine was considered such bad feng shui.

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Conclusion of Text 5

"*What was an even greater obstacle to the spread of industrialization was the fact that many countries, even when they received inflows of foreign labour and capital, lacked absorptive capacity, the knowledge base, institutions and flexibility necessary to take advantage of the changing technological opportunities that presented themselves.*"

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