ECONOMIC AND BUSINESS HISTORY 24/25

LECTURE 9 – GLOBALIZATION FAILURE AND REFUSAL

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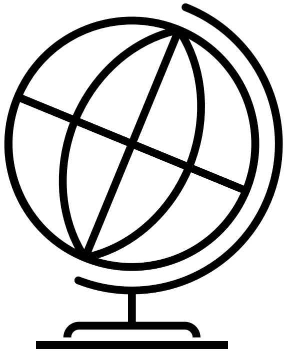
1. The Issue

2. Spread

3. Limits

1. The Issue

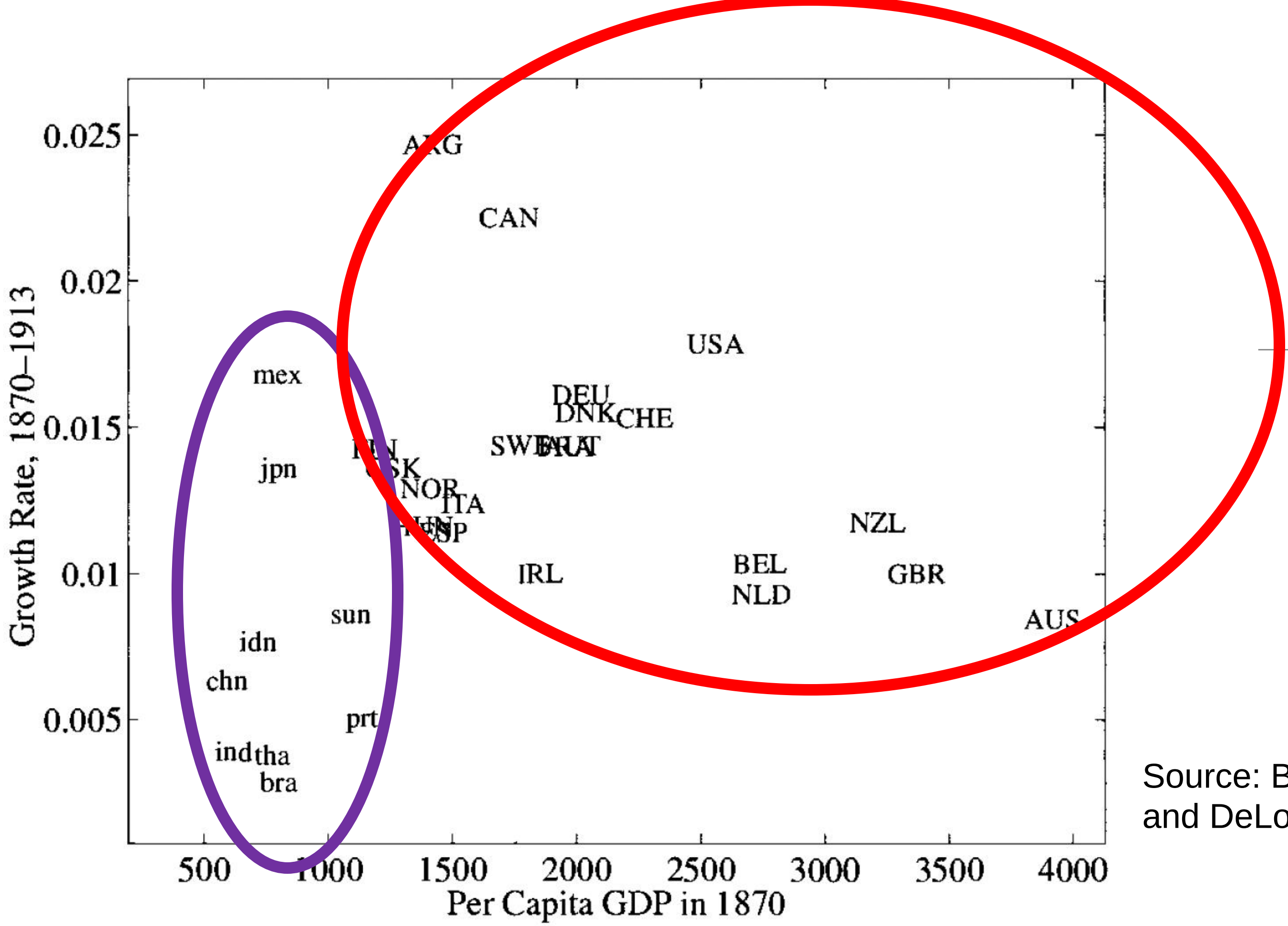


The Advantages of Globalization

- Lecture 7 and Text 2 showed the potential benefits of Globalization
  - “Without legal barriers and exchange rate uncertainty, foreign trade is in principle simply an extension of domestic trade” (Text 2)
  - The efficiency-enhancing trade based on comparative advantage was reinforced by the transfer of capital and labor factors to capital- and labour-scarce countries

The Controversy on Globalization

- The overall impact of the First Globalization is widely discussed
  - Did it benefit all countries?
    - Overall, yes (all countries that took part)
  - Did it allow for convergence (i.e. poorer countries growing faster than the wealthier)?
    - Not always (see next figure)
    - Why?



Source: Bradford and DeLong 2003

Fig. 4C.3 Growth rates in the first globalization era

Note: Upper-case letters indicate countries in the "charmed circle," and lower-case letters indicate countries in the "poor periphery." *Source:* Author's calculations using Maddison (1995).

2. Spread of Econ Growth

From the Centre to the Periphery

- With industrial and agrarian innovation, GB was the initial Centre of growth
- As GB technology improved and other countries saw their interest rates lowering and wages increasing, flows of physical capital and skilled labour from GB created a wider Centre in continental, coal-rich Europe (Belgium, France and Germany, mostly).
- In the middle of the century, GB and the other Centre countries spread growth to the Periphery, especially by imports of primary products

From the Centre to the Periphery

- Growing industrial demand for natural resources and prompted the search for new (like rubber) or cheaper (African cotton or tea) supplies in the periphery
- Since the 1850s, large scale migration allowed some countries to acquire the human capital and workforce to exploit natural resources
- After 1870, capital started to flow to the Periphery, especially to be invested in the mineral and agricultural sectors and the infrastructural works it required (railways and ports).
- Exports of primary products and inflow of foreign capitals and labour together with the expansion of the export sector led to growth in Periphery.

From the Centre to the Periphery

- Part of the Periphery industrialised, as a response to the flows of capital and labour
- 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
- The US even overcame GB as the leading industrial power and also in terms of GDPpc (see tables in Text 2)
- Yet, some peripheral countries failed to converge, in Europe (Portugal, notably) but most of all in Africa and Asia. Why?

Manufactures per Population: Non-European countries (100 = US in 1913)

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

Source: Text 2

3. Limits

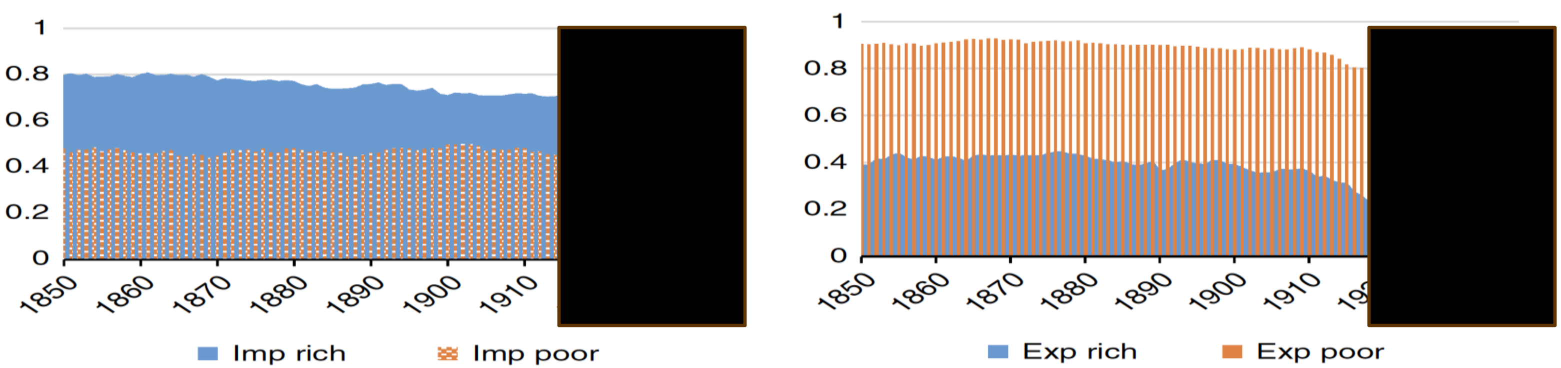
Limits of Globalization

- Two possible reasons for failure to converge during Globalization:
- 1. Failure of Globalization
  - The demands of Globalization failed to stimulate convergence
- 2. Refusal of Globalization
  - The country's institutions and political regimes rejected Globalization

Limitations: Globalization & Primary Products

- Most of exports during the 19th-cent Globalization were primary-sector goods
- A clear specialization pattern emerged: periphery economies specialized in agricultural and mineral products (corresponding to c. 90% of their exports, 1850-1913), whereas 60% of centre economies exports were industrial products
- This 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

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



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

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Enclave Economies

- Failure to converge is a trait of many 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
- For instance:
  - 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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The Danger of Enclave Economies

- Especially in Africa, these cash crops did little to stimulate the development of local human capital or migration as they depend on a low-paid, low-skilled workforce (Labour flows aimed at low-rent/high-wage countries, leaving with Asia and Africa little involved in these flows)
- Specialization in a few cash crops also left economies vulnerable to changes in the demand for foodstuffs and raw materials
- Finally, primary goods prices decreased in the long-term as the demand from the Centre countries intensified competition
  - Intense trade and investment also transformed absolute advantage goods into comparative advantage goods:
    - British entrepreneurs and investors brought tea from China to India, cotton from India to Africa, rubber from Brazil to Asia and later Africa, cattle breeds from India to Brazil, coffee from Caribbean to S America

Refusal: self-imposed limits

- “The major obstacles to the diffusion of modern technology were to be found within countries rather than between them“ (Text 2, p. 9)
- Social and cultural values, political decision-making and laws largely dictated the pace of the adoption of tech and institutional innovations
- Rigid societal norms, regulation of markets, low education levels, as well as the low social value attached to production and profit in some cultures constituted insurmountable barriers to the convergence (which requires adoption of new industrial technology and investment)

A good illustration: Japan vs China

- China and Japan had deliberately limited foreign contacts until the 1850 and 1860s, when Globalization was forced upon then by Western powers
- Despite similar social and economic structure and conditions, their responses were different:
  - The Japanese state deliberately adopted Western military, financial and even political institutions (often against the traditional elites)
  - The Chinese elites and government remained contemptuous of Western civilization and opposed foreign investment (including at times, prohibition of steam boats and trains)

Another illustration: Chinese railways

- A good illustration of these failures is provided by China's troubles in adopting one of the most transformational technologies of the age: the railways
- After peace between GB and China in 1860, foreign and domestic businesses sought to finance railways in China
- The construction of the early lines was often pillaged and embargoed by local authorities, the emperors provided no security for investors, the public did not trust trains and, as a concession to superstition, straight lines were avoided
- A combination of a state uninterested in growth, corporative interests of the elites (owners river transport), weak rule of law and cultural prejudices led to a very modest network in comparison

	Railroad length (kms)	Area (km^2)	Density (kms per km^2)
Argentina (1914)	36	2,780	13
China (1911)	8	11,418	0.7
Japan (1910)	8	378	21

Sources: Encyclopaedia Britannica; Mitchell 2007 (Japan)