


# ECONOMIC AND BUSINESS HISTORY 25/26

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## LECTURE 16: THE SECOND GLOBALIZATION



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**1. Business in the 2nd Globalization**



**2. The Great Moderation**



**3. The Lonely Dragon**



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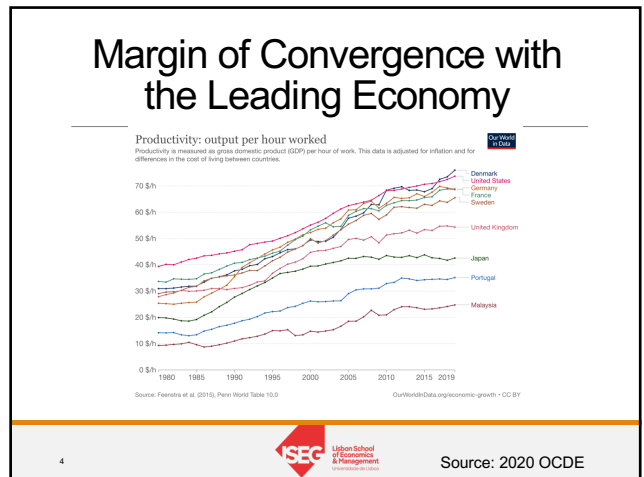


## 1. Business in the 2nd Globalization



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## New Push for Globalization: Trade

As policies shifted, governments further reduced protectionism since the 1980s:

- Advance of Free World Trade
- Uruguay Round (1986-94) inclusion of services in GATT
- GATT enlarged to other countries (incl. China and Russia in 2002 and 2010)
- Doha Round (2001-...) effort to include agrarian commodities in GATT

Trade openness created opportunities for business oriented towards global markets

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## New Push for Globalization: Labour

- International labour flows
- Not a return to open borders, like the 19th cent. Glob.
- Still, international migration flows very strong within the advanced world, ex. UE
- South-North flows regulated, but still in existence

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## New Push for Globalization: Capitals

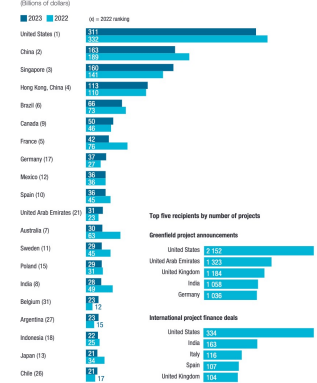
- International capital flows
- Capital controls lifted with the neoliberal turn in the 1980s
- 'Flat World' for Capital (since 1990s)
- Despite no gold or dollar standard, currency stability
- Like with 19th century Globalization, capital mostly flows from the wealthy countries, although recent growth in the 'Rest of the World' means some flow of capitals from poor to wealthy countries (especially US).

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## Capital Inflows (2022)

Figure 1.4 Inflows declined in more than half of the top 20 recipients Foreign direct investment inflows, top 20 host economies (Billions of dollars)



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## 2. The End of the Great Divergence



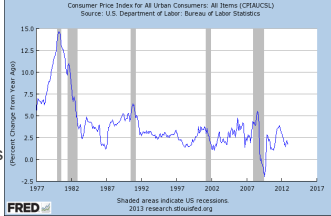
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## The “Great Moderation”

In the Western countries, the priority of econ policy shifted to the control of the price variation (*inflation-targetting* at 2%) as practiced by the Central Banks (FED and ECB, founded to control euroland inflation, legacy of the German *Bundesbank*)

This followed the post-1973 efforts to attract foreign capital flows and multinationals

Nevertheless, growth-friendly reforms were not politically easy (except in former-communist countries, which were developed many pro-market reforms)





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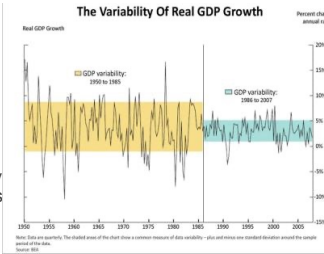
## “Great Moderation” (2)


**Success?**

- Growth variability decreased
- Stable inflation

**Yet,**

- Growth was also moderate, unlike the Golden Age, when countries at the edge of the Production Possibility Frontier were also the growth leaders
- Neoliberal policies coincided with a large welfare state, rigid workforce and an ageing population





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## The End of the Great Divergence

After more than two centuries, the Great Divergence stopped by 2007, as non-Western countries grew faster than Western

Although the 2008 Suprime Crisis contributed to this event, the background was clear:

- moderate growth in the West
- rapid growth elsewhere

The Asian Tigers provide a ...



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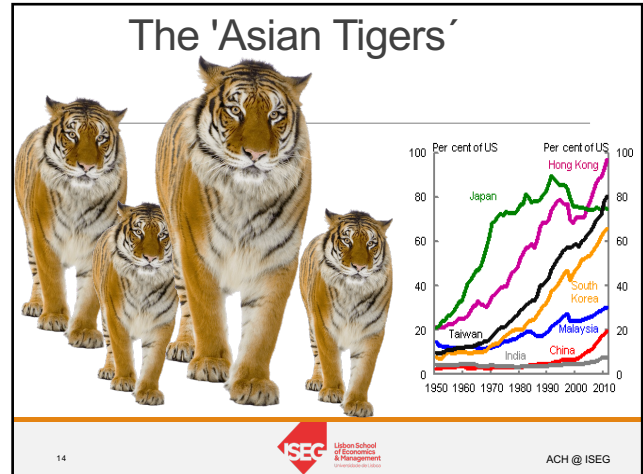
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### West /Rest (GDPpc; 1990 US\$)

	1	1000	1500	1820	1870	1950	1973	2003	2008
West*	569	426	753	1.202	2.050	6.279	13.379	23.710	24.650
Asia	456	465	568	581	556	717	1.718	4.434	4.533
S America	400	400	416	691	676	2.503	4.513	5.786	7.614
E Europe**	406	400	498	686	941	2.602	5.731	5.705	8.199
Africa	472	428	416	421	500	890	1.410	1.549	1.780
<b>World</b>	<b>467</b>	<b>450</b>	<b>567</b>	<b>667</b>	<b>873</b>	<b>2.113</b>	<b>4.091</b>	<b>6.516</b>	<b>7.614</b>
West/Rest	1,3	0,9	1,4	2,1	2,3	4,5	5,6	5,7	5,5

Source: 1-2003 Maddison, 'Ressurrection'; 2008: derived from "Maddison Homepage"

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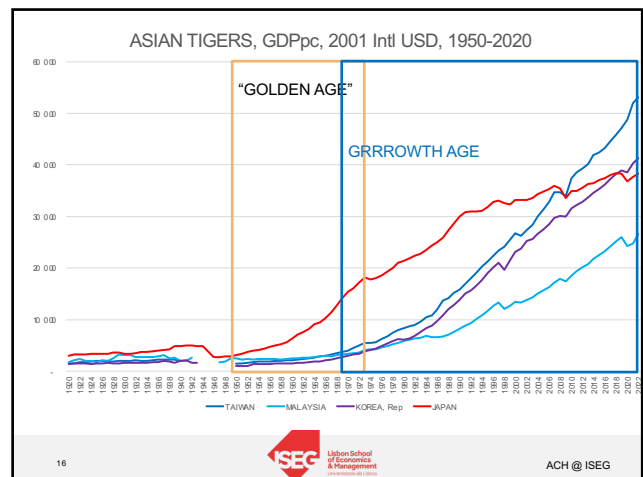
### Grrrowth and Dragrowth

'Grrrowth': The Four Asian Tigers: S Korea, Taiwan, Malaysia (Singapore, H-Kong, excluded as these were financial centres)

- Growth-friendly neoliberal policies
- Capitalism (private businesses)
- Participation in Globalization

These conventional liberal policies and institutions contrast with those adopted in China (Dragrowth, Lonely Dragon, see below)

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## Grrrowth

Sustained high growth over decades, especially after the Gold Age (only Japan had a proper Golden Age)

Like with the European 'Golden Age', there were the right conditions for growth in the 1970s-2020s

Extensive Growth:

- High levels of investment (domestic savings + FDI)
- Fast structural transformation (agriculture → manufacturing/services)
- Increasing labour participation (female and agricultural productivity and rising levels of human capital)
- Rising participation in Globalization

Intensive Growth

- Identification of comparative advantages, via international trade
- Education, Research & Development

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## Internal Reforms

**Budget and Central Bank Discipline :**

- Balanced budgets
- Sustained focus on low inflation

**Strategic State Intervention**

- Some planning, directed credit/industrial, but oriented towards exports
- Public investment complemented private capital formation (Jap, Kor, Taiw), not Mal
- Financial Repression favoured high savings

**Culture ( 'Asian values' )**

- High levels of Social Capital, with emphasis on collective achievements)
- Rapid expansion of basic education and skills formation
- High-level of private savings

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## Free-trade = Grrrowth?

Shift towards export-led growth and integrating the economy in global demand,

Search for comparative advantages on the industrial sector (human capital allowed for learning-by-doing and technology absorption).

As such, unlike the 1st Globalization, the Asian Tigers evaded the danger of becoming 'enclave economies'

Finally, the negotiations with multilateral institutions allowed for a careful opening of these countries to trade

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## GATT

The Asian Tigers benefitted from free trade in very favourable conditions (which US and allies were ready to concede in a Cold War setting)

The Tigers negotiated what is called "managed openness" with the multilateral institutions, especially with GATT

Taiwan, GATT 1947 (left in 1950) and 2002 (kept tariffs high until 1958, when it devalued the currency to become competitive)

Japan, GATT in 1955, free trade with restrictions until 1961

S Korea, GATT in 1967, restrictions lasted until 1979, special tariff regimes

Malaysia, GATT in 1957, exception in the sense that Malaysia relied on multinational production networks and FDI supply chains, so it opened more quickly than the others

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### 3. Dragrowth: China

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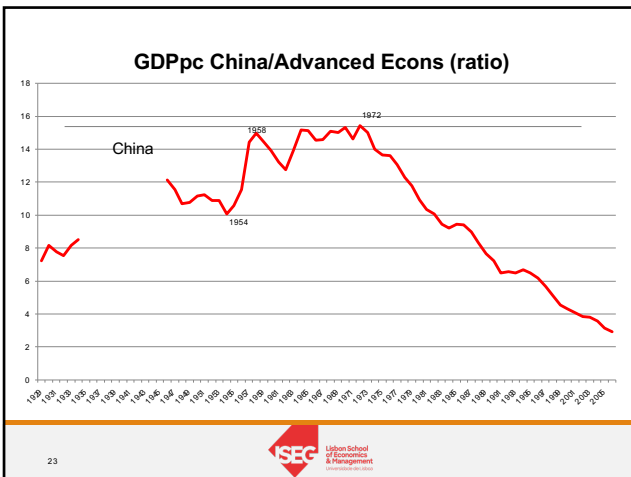
### The “Century of Humiliations”, 1820-1912



Ano	PIBpc (US\$ 1990)
1500	550
1820	600
1850	600
1870	530
1890	540
1900	545
1912	552

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### Abyss (1937-49)

- Chang Kai Chek regime, 1926-37, finally quells internal troubles
- Railroads and stable currency allow for some industries and agrarian recovery
- Japanese Invasion (Manchuria in 1932; China in 1937-45) and Civil War (1940-9) interrupted stability and plunged the country into an abyss:
  - GDPpc in 448 USD; roughly the same as in years 50 or 960, according to estimates

Ano	GDPpc (US\$1990)
1820	600
1912	552
1929	562
1936	597
1949	448

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## Mao's rule (1949-76)

Mao regards China as "a blank sheet of paper"

Uprooting of all traditional institutions, norms, culture and elites, who see their property and political role erased

Five-year plan (1953-7), with Soviet support


- Focus on heavy industry
- Savings are concentrated in the state

Great Leap Forward ("anti-economic policy"), from 1958-66:

- Forced reallocation of labour
- No individual or family incentives with total collectivization of agriculture (and even family life)
- Agrarian Output increases but per capita consumption diminishes! (Large-scale famines)

Cultural Revolution:

- Destructive reforms in the teaching system, especially technical teaching in exchange for ideological alignment



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## Results

All Maoist economic programs fail to converge

Convergence limited to post-war boom (1949-54)

Poor productivity on agriculture dooms recovery ('Agrarian Deadlock' in a closed economy)

However:

- Scientific research (on rice)
- Complete literacy (even if tech and applied education disrupted with the Cultural Revolution)



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## Enter Deng Xiaoping's Reforms




After Mao Tse Tung died (1976), CCP was led by Deng Xiaoping

Party reforms against personality cult and introduction of "meritocratic" careers (against Cultural Revolution)

No clear agenda; instead, meritocracy meant competition among CCP officers to obtain results

This pragmatic, agenda-less approach became known as "Chinese Gradualism"




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"Better red than educated!"; Mao Tse Tung, 1966

"The colour of the cat doesn't matter, as long as it catches mice" Deng Xiaoping, 1976?



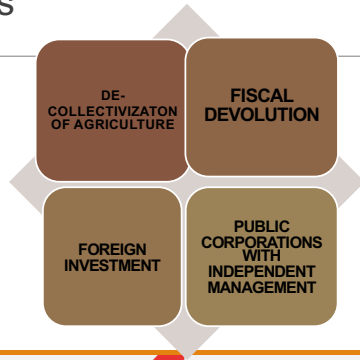


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## Deng Xiaoping's "Four-legged" Reforms



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## Results of Early Reforms

"Chinese gradualism" (loose agenda and freedom for local officers in a very meritocratic environment)

Regions with more liberal policies typically showed better results:

- End of price controls
- Performance-related wages in state businesses
- Concession of land for families

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## Pro-Global Reforms in 1990s

A second phase of reforms explicitly aimed at competing on a global level:

- Adherence to the WTO (2002)
- Free international capital flows
- Liberal-looking reforms:
  - Legal protected "Private Property"
  - State sector trimmed (millions of state workers fired)
  - End of price controls

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## China's 'Great Convergence'

The most important condition for China's 'Great Convergence' is the participation in the Globalization

Unlike what had happened in the 19th cent., Globalization allowed for China to cancel its large productivity gap via:

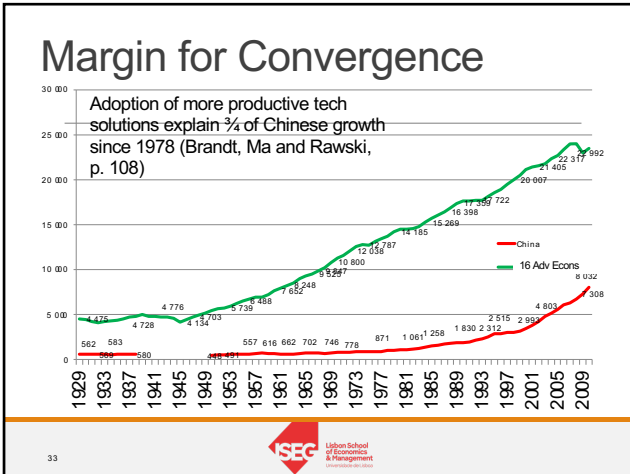
- Foreign investment and technology transfers
- Foreign demand, making the most of China's comparative advantages

The adoption of (existing) better technology explains about ¾ of Chinese Growth from 1978

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### Challenges Ahead for China

- Recent Chinese growth is, from a historical perspective, exceptional for its strength and because it was achieved by the state
- However, China was deeply below the technological frontier.
- As China approaches the technological frontier, the potential social and institutional problems of the regime tend to affect more the potential for growth:
  - Corruption and state capture on behalf of the communist party elite which dominates public sector and banks ("merit")
  - Red tape stifling internal investment and entrepreneurs
  - Abundant capital and investment level but large inefficiencies in capital markets and low returns of investment
  - Aging and other demographic problems

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