

# ECONOMIC AND BUSINESS HISTORY 22/23

## LECTURE 7 – GLOBALIZATION: WHAT? WHEN?



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1. What and When?



2. Trade



3. Factor Flows



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## 1. What and When?



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## (Economic) Globalization

Straightforward definition: Markets enlarged to the world scale

- **Investment (in financial and fixed capital)**
- **Capital** moves from countries where its abundant to countries where it is scarce, and where it commands higher **interests**
- **Migrations/Labour Market**
- **Labour** moves from countries where its abundant to countries where it is scarce, and where it commands higher **wages**
- **Country specialisation**
- International trade allows that each country identifies its comparative advantage
- Integration of the world markets of tradable commodities



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## World Trade, pre-1815

- High transport costs
- Mostly limited to high value/volume commodities (ex: spices, tobacco, sugar, diamonds, silk, china...)
- Absolute, rather than comparative advantages
- Protectionism in every border
- European Empires trade exclusively with the mainland
- **World Trade** in mercantilism, means **world war**:
  - Anglo-Dutch Wars (1652-4; 1665-7; 1672-4; 1781-4)
  - Nine Years War (1701-14)
  - War of the Spanish Succession (1702-14)
  - War of the Austrian Succession (1740-48)
  - Seven Years War (1756-63)
  - American Independence (1775-83)
  - Napoleonic Wars (1791-1815)

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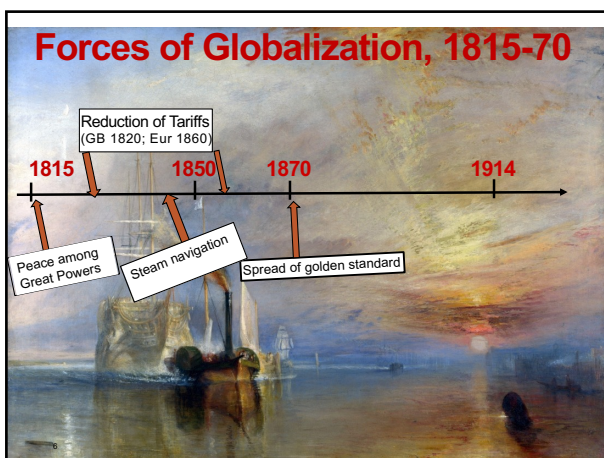
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## Forces of Globalization, 1815-70



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## 2. Trade

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## External Trade

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Three main causes for the increase in int'l trade:

- International order ensures peace among Great Powers (since 1815)
- States voluntarily open economic borders (since 1820)
  - Voluntary liberalization in some countries
  - Bilateral trade agreements (mostly in Europe) since 1860
- International transport costs decrease (since 1850)

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## Voluntary Liberalization

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Free-trade initiatives across Europe

- Denmark and Holland (small countries) had been open since the early 19<sup>th</sup> century
- Pressed by the British public opinion, Parliament approved a series of laws aiming at freeing international trade, just like domestic trade was free
  - 1820, *Navigation Acts* are abolished
  - 1822, *Redução das Corn Laws* (abolished in 1846)
  - 1820s-30s, Gradual decrease of tariffs
- *Zollverein*, 1833 (customs union among German principalities)

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## Trade and Growth

All countries, industrialised or not, take part in the opening of trade

Non-industrialised countries identify their comparative advantages and export raw materials and agricultural goods, benefitting from low transport costs and liberal tariffs

- Denmark exporting agr commodities (bacon, butter) to the UK

New World and non-Western countries specialised in new raw materials

- African countries exporting raw materials for industry, like palm oil, chocolate, tea, minerals
- US exporter of agr. commodities (wheat, bacon, cotton)

This contributed to growth in globalization-participating powers, as foreign, more efficient producers substituted national producers

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## 3. Factor Flows

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## 3.1 Foreign Investment



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## Foreign Investment

Negligible until 1870

- a) High exchange rate risk
- b) potential investors discouraged by risk of devaluations and excessive government debt

Adoption of the gold standard from 1871 throughout the world (Portugal since 1854; England de facto since 1821) changed this

Gold standard implied that national currencies are convertible in gold

- a) low exchange rate risk
- b) balanced budgets and low public debts

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## Initiative

This is about essentially private investors who sought countries with

- Gold standard
- High interests/ high capital returns
- Natural Resources and/or productive agriculture

This is about essentially private investors who sought countries where returns were higher

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### Classical Gold Standard






↑ ↓ 1000 réis  
↔ 1,626 g Au


ISSUING BANKS






↑ ↓ 1 pound  
↔ 7,32 g Au

ISSUING BANKS



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### Classical Gold Standard

1 £ ↔ 1000 rs  
7,32/1,626  
1 £ ↔ 4.500 rs

1000 rs  
1,626 g Au  
BANKS

1 £  
7,32 g Au  
BANKS

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### Classical Gold Standard

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1 £ ↔ 4.500 rs

1000 rs  
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BANKS

1 £  
7,32 g Au  
BANKS

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### Classical Gold Standard

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## Migration Flows

From Europe to the New World. Why?

- Sending countries wealthier. So why migrate?
- Wage differential (wages were higher in the the New World), despite sending countries being wealthier
- New World contained large resources, that were unexplored for lack of labour stock high
- Pop density of sending countries very high, meaning that the New World offered lower rents and higher wages

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Table 1.5 Crude Emigration rates (in 1/1000 of average pop.)

	1851-60	1861-70	1871-80	1881-90	1891-1900	1901-10
Italy			10,5	33,6	50,2	107,7
Norway	24,2	57,6	47,3	95,2	44,9	83,3
Ireland	58,0	51,8	66,1	141,7	88,5	69,8
Great-Britain			50,4	70,2	43,8	65,3
Portugal		19,0	28,9	38,0	50,8	56,9
Spain				36,2	43,8	56,6
Finland				13,2	23,2	54,5
Austria-Hungria			2,9	10,6	16,1	47,6
Sweden	4,6	30,5	23,5	70,1	41,2	42,0
Denmark			20,6	39,4	22,3	28,2
Switzerland			13,0	32,0	14,1	13,9
Belgium				8,6	3,5	8,1
Holland	5,0	5,9	4,6	12,3	5,0	5,1
Germany			14,7	28,7	10,1	4,5
France	1,1	1,2	1,5	3,1	1,3	1,4

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## New and Old Worlds (Pop. Mill.)

	Portugal	Brazil	UK	USA
1820	3,2	4,6	10,4	9,6
1870	4,0	9,9	21,3	38,6
1900	5,0	17,4	30,1	76,2

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### New and Old Worlds (Pop./km2)

	Portugal	Brazil	UK	USA
1820	34,8	0,6	80	1,0
1870	43,5	1,2	163,8	3,9
1900	54,3	2,1	231,5	7,8

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