ECONOMIC AND BUSINESS HISTORY 26/27

LECTURE 6 – GLOBALIZATION: WHAT? WHEN?

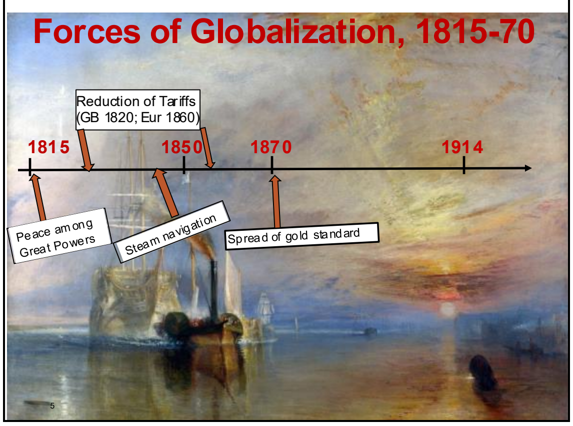
1. What and When?
2. Trade

1. What and When?

(Economic) Globalization

Straightforward definition: Markets enlarged to the world scale

- **Capital market**
  - **Capital** moves from countries where its abundant to countries where it is scarce, and where it commands higher **interests**
- **Labour Market**
  - **Labour** moves from countries where its abundant to countries where it is scarce, and where it commands higher **wages**
- **Trade**
  - International trade allows that each country identifies its **comparative advantage** and leads to specialisation
  - Integration of the world markets of tradable commodities



2. Trade

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 mainlaind
- **World Trade** in mercantilism, means **world war**:
  - Anglo-Ducth 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 Sucession (1740-48)
  - Seven Years War (1756-63)
  - American Independence (1775-83)
  - Napoleonic Wars (1791-1815)

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External Trade

Three mains causes for a large increase in Int'l trade:

1. International order ensures peace among Great Powers (since 1815)
   - Imperial rivalries existed, but they were nearly always contained by adjustments in the balance of power
2. Voluntary opening of economic borders (since 1820):
   - Voluntary liberalization in some countries
   - Billateral trade agreements (mostly in Europe) since 1860
3. International transport costs decrease (since 1850)

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Exports (million US$1990)

country	1820	1913
Belgium	92	114,540
Spain	137	75,350
USA	251	3,014,510
France	487	302,427
Italy	339	144,753
Switzerland	147	95,991

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Voluntary Liberalization

- Free-trade initiatives across Europe
  - Denmark and Holland (small countries) opened since the early 19th century, uninterested in protecting their uncompetitive industries from British competition
  - 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, Moderation of the *Corn Laws* (abolished in 1846)
    - 1820s-30s, Gradual decrease of tariffs
  - In Germany, creation of a customs union among German principalities (*Zollverein,* 1833)

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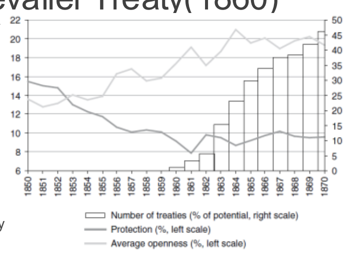
Billateral Liberalization: Cobden-Chevalier Treaty(1860)

- In 1859, French and English MPs Cobden and Chevalier started lobbying their governments and arguing that trade would avoid military rivalry
- Appointed by their governments as negotiators they drafted a treaty (without the knowledge of the French minister of finances, as they feared protectionist interests)
- The treaty created the 'most favourable nation clause', which prevented discriminatory tariffs
- It set in motion, equivalent bilateral treatises for other countries



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Impacts of trade liberalization: the case study of Denmark

- Small country with few absolute advantages (Greenland's rare metals, notwithstanding)

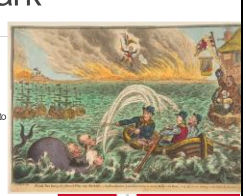
- Navy obliterated by the Napoleonic Wars (2nd Battle of Copenhagen 1807), Norway seceded in 1814

- Caribbean colonies unprofitable (auctioned and eventually sold to the US in 1852 for 25 USD Mill)

- While lacking empires and absolute advantage goods, Denmark made the most of Globalization:

- Growth GDPpc from 1820 to 1914: 2,000 to 6,500 (1990USD)

- Export-Led Agricultural Modernization:
  - High-quality, exportable goods
  - Dairy and meat sectors
  - Steam-powered cream separation



International Trade (Imp.+Exp./GDP)

	1790	1820	1830	1870	1913
Hollanda	110%	33%	25,8%	115,4%	179,6%
Denmark		7,5%	17,5%	35,7%	61,5%
UK	24%	21,4%	18,8%	43,6%	51,2%
Germany				36,8%	37,2%
Spain	16%		6,0%	12,1%	22,3%
Europe		13,5%	11,5%	29,9%	36,9%
Europe (extra-European trade)			3,8%	9,2%	13,4%

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Case study: Denmark (2)

How did Denmark identify its comparative advantages and became an open economy:

- Trade Policy of deliberate liberalization since the 1810s : light import duties for (mostly British) industrial goods and coal.
- This contributed to the increase in real wages, as foreign, more efficient producers substituted national producers and capital moved to the farm sector, especially in animal products, which became more capital intensive.

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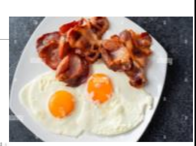
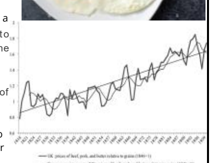
Case study: Denmark (3)

Danish agricultural specialization in dairy, meat and poultry was motivated by improving English living standards, as shown in the English Full Breakfast:

- The Full English Breakfast originated in the 1840s and became popular in the following decades. By the 1890s, bacon, butter and eggs were consumed at any time of day



As agricultural prices in industrial England were high, a consequence of growth, a foreign importer, Denmark, was able to capture the market for this growing share of the components of the breakfast



By 1913, Denmark sold to the UK with 45% of its butter output, 39% of the bacon and 9% of the eggs.

In 1875–9, 49% of Denmark's total agricultural export value went to the UK. By 1900, this had increased to 73%, and as much as 90% for specific products such as butter and pork.

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Trade and Growth

- All countries, industralised or nor, took part in the opening of trade
- With trade, non-industralised countries identified their comparative advantages and exported raw materials and agricultural goods, benefitting from low transport costs and liberal tariffs
- New World and non-Western countries specialised in new raw materials
  - African countries exported raw materials for industry, like palm oil, chocolate, tea, mineralis
  - US and S America exported of agrarian commodities (wheat, bacon, cotton)
- This contributed to growth in globalization-participanting countries, as foreign, more efficient producers substituted national producers

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