LECTURE 8 – SPREAD AND LIMITS OF THE FIRST GLOBALIZATION

ECONOMIC AND BUSINESS HISTORY 22/23 (2ND TERM)

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PLAN

1. The Issue
2. Spread
3. Limits

1. The Issue

The advantages of Globalization

- Lecture 7 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 in all cases (See next figure)
  - Why?

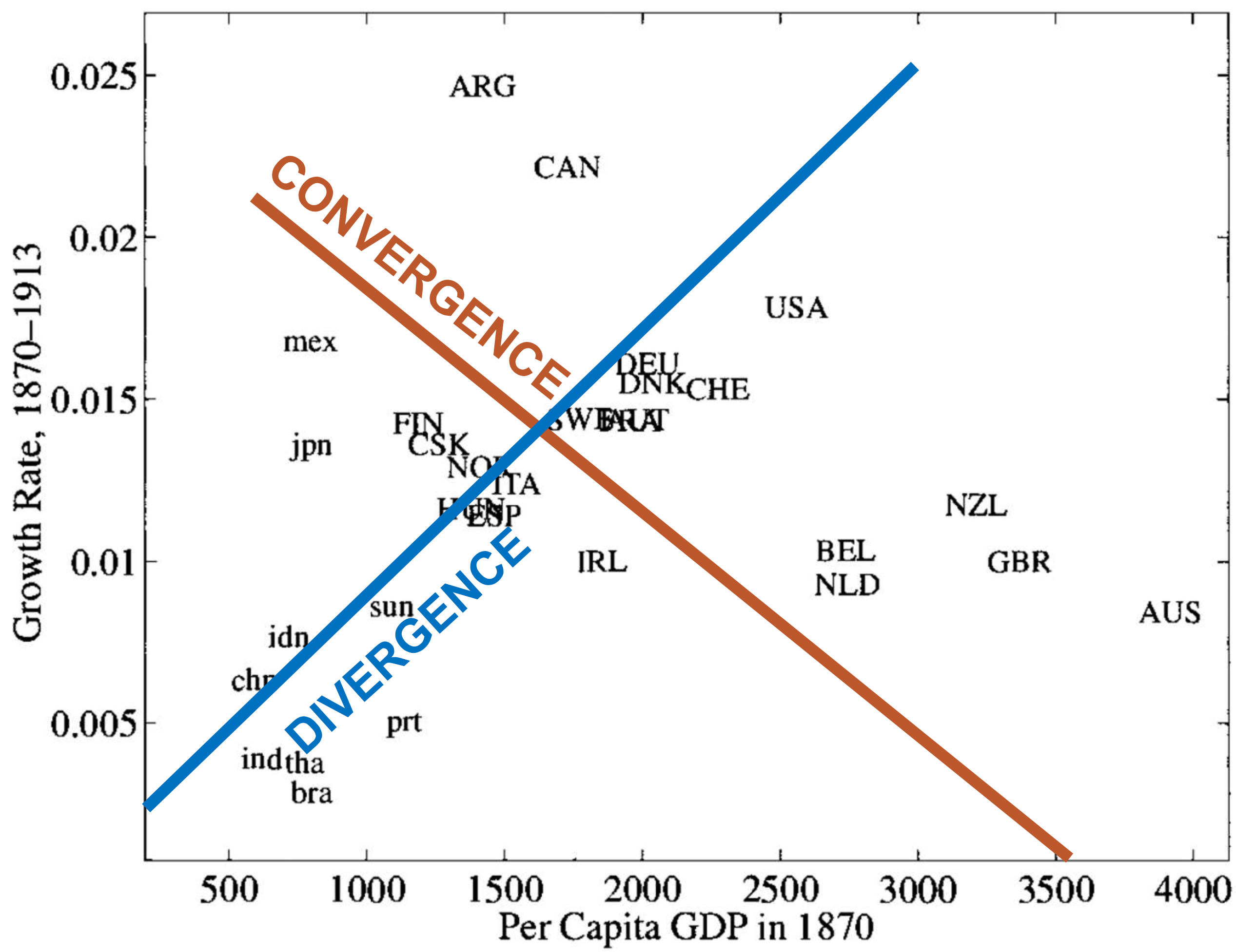


Fig. 4C.3 Growth rates in the first globalization era

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).

Source: Bradford and DeLong 2003

2. Spread of Econ Growth

From the Centre to the Periphery

- With industrial and agrarian innovation, GB was the initial Centre of growth process
- 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 began transmitting growth to the peripheral regions
- In the peripheral regions, this international growth process through a steady and persistent increase in the demand for primary products

From the Centre to the Periphery

- At the Centre growing, industrial demand on natural resources and prompted the search for new (like rubber) or cheaper (African cotton or tea) supplies in the periphery
- This generated an 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.

From the Centre to the Periphery

- Part of the periphery industrialised as a response to these flows
- 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, many peripheral countries failed to converge, in Europe or elsewhere (Portugal and Spain, notably)

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

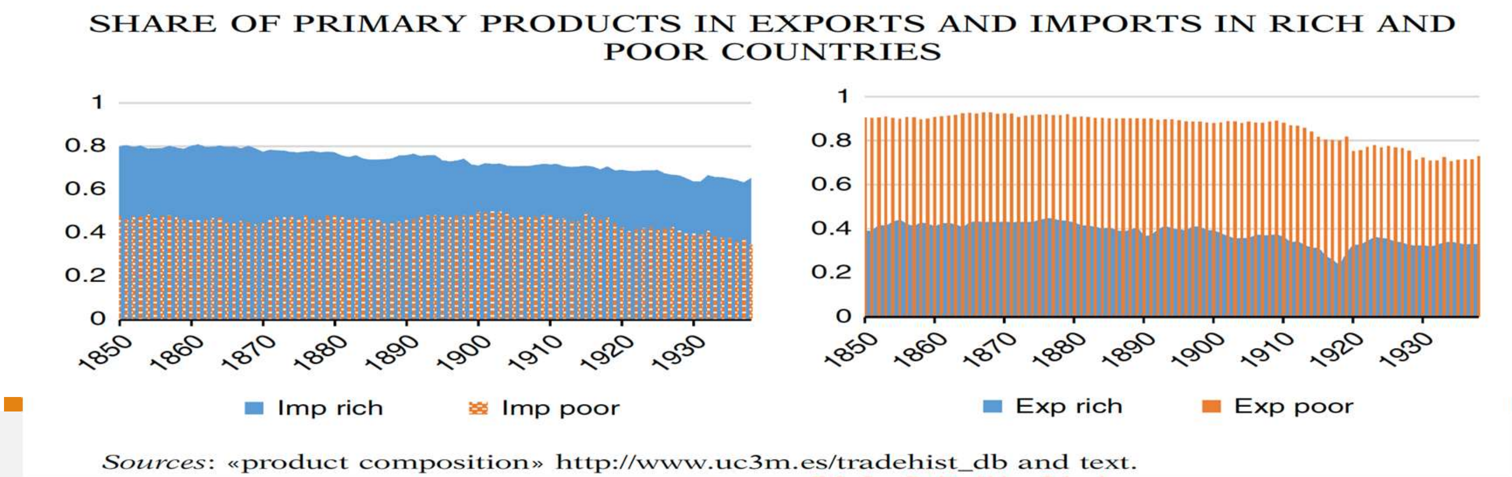
3. Limits

Limits of Globalization

- The countries that did not converge during Globalization did so because of one of two possible reasons
- Limitations of the Globalization process
  - The demands of Globalization failed to stimulate growth
- Refusal to take part in the Globalization process
  - The country's institutions and political regimes rejected Globalization

Limits of Globalization

- Most of the goods exported during the 19th-cent Globalization were primary-sector goods
- The industrial and urban demand of primary products led to specialization of peripheral countries in agricultural and mining production and exchanging their surpluses of primary products for manufactures
- A clear specialization pattern emerged: see graphs



SOURCE: FEDERICO AND TENA-JUNQUGUITO 2018

The Danger of Enclave 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: rubber in Asia, Coffee in Brazil, Tea in Ceylon, Cotton and Tea in Africa, etc. etc....

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 Angola, 1887-1912, rubber represented 64% of exports.
- In Nigeria, 1881-1889, palm oil (and by-products) represented 75% of exports

The Danger of Enclave Economies

- These cash crops contributed little to the development of local human capital nor immigration as they depend on a local, low-skilled workforce
- This created a dependency on a few cash crops
- Specialisation left economies vulnerable to changes in the demand for foodstuffs and raw materials of the industrializing regions at the centre and to subject to intense competition (investors take rubber away from Brazil to Asia and then to Africa, tea from China to India or cotton from India to Africa)

Self-imposed limits

- Nevertheless, “the major obstacles to the diffusion of modern technology were to be found within countries rather than between them“ (Text 2, p. 9)
- 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,

Self-Imposed limits

“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.” (Text 2, p. 10)

A good illustration of these failures is provided by China’s troubles in adopting one of the most successful technologies of the age: the railways

After peace with GB in 1860, foreign and domestic businesses thought about implementing railways, however a state uninterested in growth, corporative interests, weak rule of law and cultural prejudices led to a very modest network in comparison to equally poor countries like India and Japan (Details can be found here: https://www.chinasage.info/railways.htm)

A good illustration: 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 all forms of social and economic change (prohibition of steam boats and trains).