

ECONOMIC AND BUSINESS HISTORY 23/24

LECTURE 8 – THE LIBERAL ORDER



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PLAN



1. The Liberal Order



2. Imperialism & Globalization

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1. Liberal Order

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Globalization

As a model, Globalization implies that borders between countries are not obstacles to economic forces.

Otherwise, there wouldn't be:

- trade according to comparative advantage
- capital moving from capital-rich to capital-poor countries
- high-wage economies receiving workers from low-wage ones.

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Liberal Order

Globalization flourished in a particular set of institutions

With little coordination (there were no multilateral institutions), countries eventually adopted similar institutions unilaterally

The result of these 'spontaneous' decisions by states in the international dimension can be called a 'Liberal Order'

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Liberal Order Liberal State

Free international movements of labour, capital and goods can only exist under liberal states.

A truly liberal 'state' is willing to dismantle barriers to these flows:

- Dismantle Tariffs and other restrictions on trade
- Abolish capital controls (taxes and prohibitions of capital exportation)
- Let go migration controls (preventing migrants to leave and/or enter)

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GB, Leader of the Liberal Order

During the first Globalization, Great-Britain was the economic leader and, as such, it was a model for the remaining states:

- Pioneer in migration of free labour
- Voluntary, one-sided liberalization of trade
- Gold Standard (in England and in some British colonies and dominions)

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British Gov and Emigration


- Despite being an advanced, high-wage economy, GB pioneered mass migration
- Importantly, abolition of Slavery in the Empire (1807) and Slave Trade Worldwide (1833)
- Active government support of early emigration (first, to Canada and S Africa; then US and Australia) for social reasons (to alleviate poorhouses and mitigate social conflict) in 1700-1820
 - After 1830s, Gov stimulate migration as a colonial strategy:
- No controls on emigration by steamboat (1840s), allowing loss of labour force

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Crude Emmigration rates (in 1/1000 of average pop.)						
	1851-60	1861-70	1871-80	1881-90	1891-1900	1901-10
Itály			10,5	33,6	50,2	107,7
Norway	24,2	57,6	47,3	95,2	44,9	83,3
Ireland			66,1	141,7	88,5	69,8
Gret-Britain	58,0	51,8	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
Áustria-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
CH			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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British Gov and Investment

- Foreign investment was nealy entirely from private initiative
- Yet, Gov helps in dealing with difficult debtors :
 - Example in 1902, after Venezuela defaulted on its sovereign debt, German, British and Italian **gunboats** blockaded the country's ports until the government paid up.

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Destination of Foreign Investment, 1870-1913				
		UK	France	Germany
Europe	Russia	3,4%	25,1	7,7%
	Ottoman Empire	1,0%	7,3%	7,7%
	Austria-Hungary	1,0%	4,9%	12,8%
	Portugal and Spain	0,8%	8,7%	7,2%
	Italy	1,0%	2,9%	17,9%
	Outros	2,5%	12,2%	0
	Total	9,7%	61,1%	53,3%
New World (except S and C América)	USA	20,5%	4,4%	15,7%
	Canada, Australia & NZ	20,5%		
	Total	41,0%	4,4%	15,7%
S and C America	Brazil & Argentina	12,8%		
	Total	17,7%	13,3%	16,2%
Africa	Total	9,1%	7,3%	8,5%
Asia	India	7,8%	4,9%	4,3%
	Japan	1,9%	0	0
	China	1,8%	0	0
	Total	11,5%	4,9%	4,3%
Rest	Total	11,0%	9%	2%
TOTAL		100%	100%	100%
Colonies		16,9%	8,9%	2,6%

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British influence

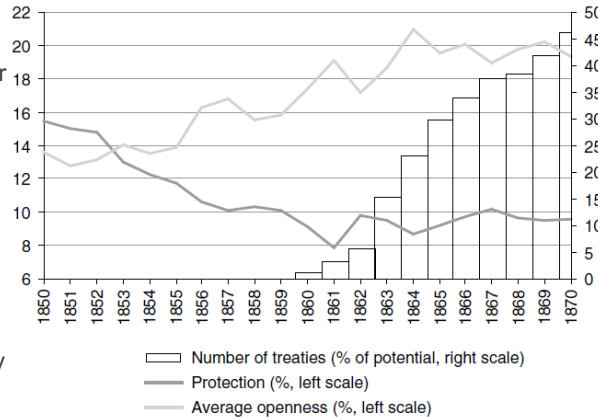
- Since the 1820s, national states became closer to British models:
 - Parliamentary constitutions (allowing for a better representation of interests and control of state decisions)
 - Free-trade policies (uneven, but systematic since 1860)
 - After 1871, countries adopted en masse the gold standard and, by 1900 all countries apart from China, and some Central American countries, were on a Gold Standard.

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Cobden-Chevalier Treaty(1860)

- In 1859, French and English economists 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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2. Globalization & Imperialism

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Globalization & Imperialism

- The drive for Globalization (in trade and factor flows) belonged to the private sector
- Need for some level of cooperation amongst states, especially bilateral trade treaties
- Nevertheless, major powers continued to rival and had their competing geopolitical ambitions
- Thus, outside of Europe and the Americas, they started to expand politically together with their trade
- Also, the technology that gave these countries an economic edge also created a clear technological asymmetry vis-à-vis Asian, African and Pacific polities

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Globalization & Imperialism

- Thus, 1914 Globalization was intertwined with the imperial expansion of the most successful economic powers:
 - Great-Britain
 - France
 - Russia
 - The United States
 - Germany (unified in 1871)
 - Belgium (founded 1830)

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Globalization & Imperialism

- Inter-state competition (the norm in European history) was 'exported' overseas since the 15th century, but only in a few valuable areas (African West Coast, Caribbean, India, S America).
- With the expansion of trade under the Globalization, more territory became valuable, tech improved and new strong states emerged (Germany and Italy)
- Their competing interests gave rise to many 'crises', that created tensions that would ultimately destroy Globalization in 1914
- Many Examples

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The 'Great Game'

Since the 1830s the British considered that their hold in India was threatened by Russia, whereas Russians feared British influence over Central Asia

GB had thwarted British ambitions before (Crimean War of 1853-6)

Thus, influence over the Asian steppes and Persia became a bone of contention between Britain and the Russian Empire

This rivalry was called the 'Great Game'



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The 'Great Game'

Russia and GB harmonised their competing interests, with a series of agreements

In 1907, the Entente with the two powers and France led them to adjust their imperial borders

A good example is modern-day Afghanistan, which was left as a buffer state between British India and Imperial Russia, and whose border was designed to separate the two major powers



WAKHAN CORRIDOR

British India

Imperial Russia

Persia

Qing Dynasty

1000 km

stepmap.de

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The 'Naval Race'

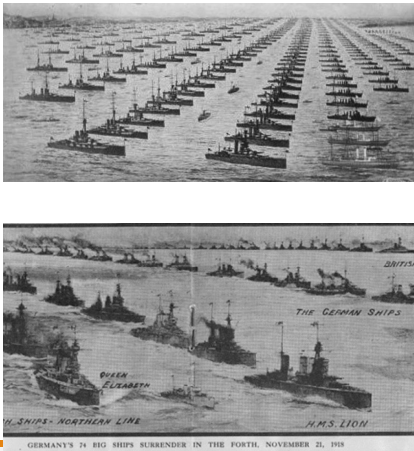
An especially relevant event was the economic (and later political) ascent of Germany

With its high levels of human capital and coal mines, Germany became a continental industrial power (in financial and fixed capital) leading in some sectors (chemical and steel)

English-German relations saw little friction during the 19th cent

However, in 1895, G sought to expand its fleet, a move that attracted the hostility of GB and their relations did not improve

German ambitions in the early 1900s led GB to become closer to F



BRITISH SHIPS - NORTHERN LINE

THE GERMAN SHIPS

QUEEN ELIZABETH

H.M.S. LION

GERMANY'S 14 BIG SHIPS SURRENDER IN THE FORTH, NOVEMBER 21, 1918


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The Case of Gambia



France and GB rivalled overseas

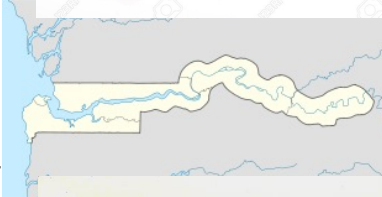
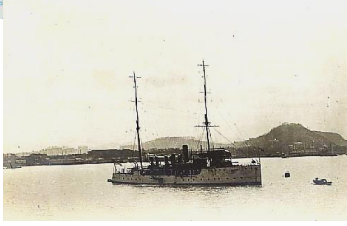
Gambia, a country embedded into Senegal, provides an interesting case of harmonising interest between these two colonial powers.

Whereas France controlled Senegal, British had trading rights in the river Gambia

This was important because the river allowed for access to the groundnut plantations inland, for Senegambia's main export crop

The solution was to create a colony named Gambia without harming French interests

The country's unique shape is compatible with the borders were draw using shots from gunboats. The borders corresponded to the range of the guns fired.

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Gunboat Diplomacy

- Since the 1840s, GB also used her powerful navy to obtain commercial advantages and/or territory
- This became known as gunboat diplomacy
- The better known 'success' was the Opium Wars when the British forced China to cede Hong Kong and open up its ports

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The 'Scramble for Africa'

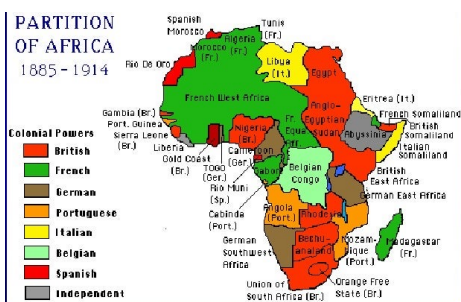


In Africa, during the 19th century, European powers (PT, GB, F and Sp) only had a few coastal possessions

Most of the continent was under stateless societies or loosely-organized polities

By 1880, F, PT and GB alleged 'historical rights' to expand their possessions and limit trade

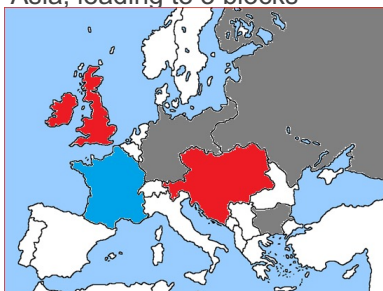
The 'Scramble for Africa' (2)



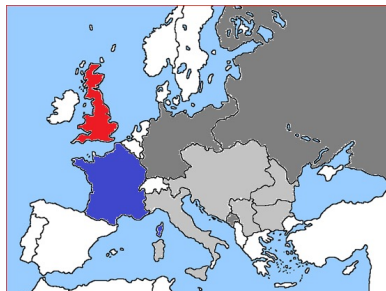
- The 1885 Berlin Conference started, after Portugal and England signed a bilateral treaty on , with Portugal closing the mouth of the Congo river to int'l trade
- As Germany, France and Belgium protested, an international conference was held in Berlin to assign the spheres of influence within Africa
- As a result, G and Belgium obtained overseas empires

Balance of Power (1)

1871 – Franco-German hostility, with Russia on G side; Austria and GB rival Russia in, respectively, the Balkans and Asia, leading to 3 blocks



1883 – As England and AH broke, Germany and Russia attracted AH to an alliance. AH also made agreements with potential enemies (Serbia and Italy)



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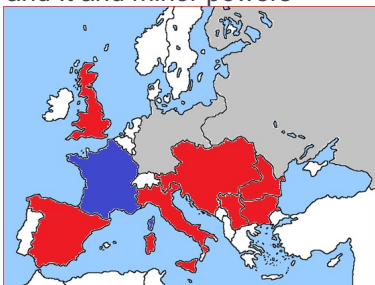


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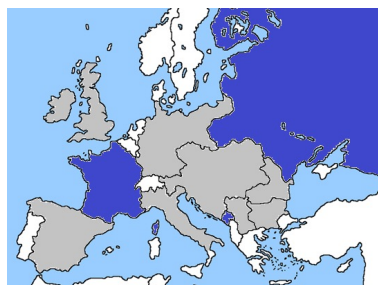
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Balance of Power (2)

1887 – AH broke with G and R in order to support Bulgaria against Russia and created the 'Mediterranean Agreement' with GB, AH and It and minor powers



1891 – Disputes about tariffs and loans led to break between G and R; F seized the occasion to ally to Russia, using financial aid, Triple Alliance (G, AH and It is formed)



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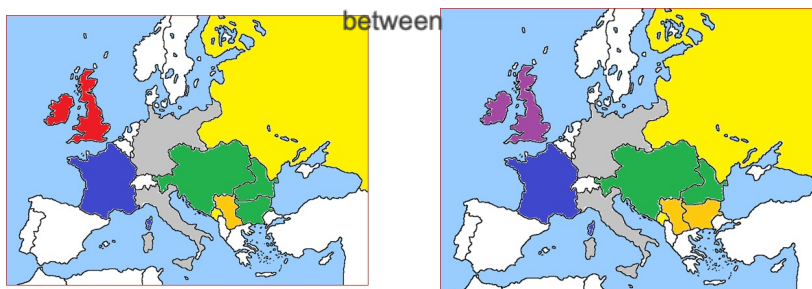
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Balance of Power (3)

1897 – Agitation in the Balkans led to the a new break between AH and Serbia, England moved away from AH

1904 – France and England celebrate an agreement, and harmonise their positions in Europe and in the world



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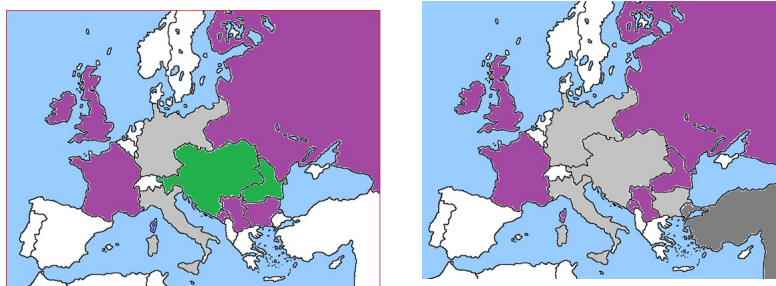
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Balance of Power (4)

1909 – R and GB end the Great Game, whereas the Naval Race continued. AH pursuit an independent policy in the Balkans against Russia-supported Serbia and Bulgaria

1914 – The 1912-3 Balkan War in which Russian allies beat the Turks led AH to get close to Germany again



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System Failure

- Overall, the balance of power mechanism allowed the major powers to manage their conflicting interests
- Several tensions (Great Game, Morocco Crisis, the Boer War, the Balkan War) were solved with the re-alignment of alliance
- Likewise, the assassination of the heir to the Austrian-Hungarian throne, which opened the doors to more Austrian influence in the Balkan, could have been avoided.
- Nevertheless, the mechanics of modern warfare (railways ensuring mobilized soldiers arriving at the front of battle in days) meant a misstep could send the military alliances in motion
 - In 1914, one of those crisis was responded by a series of miscalculation of all major powers

