

# ECONOMIC AND BUSINESS HISTORY 23/24

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## LECTURE 7 – GLOBALIZATION: WHAT? WHEN? WHY?



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## (Economic) Globalization

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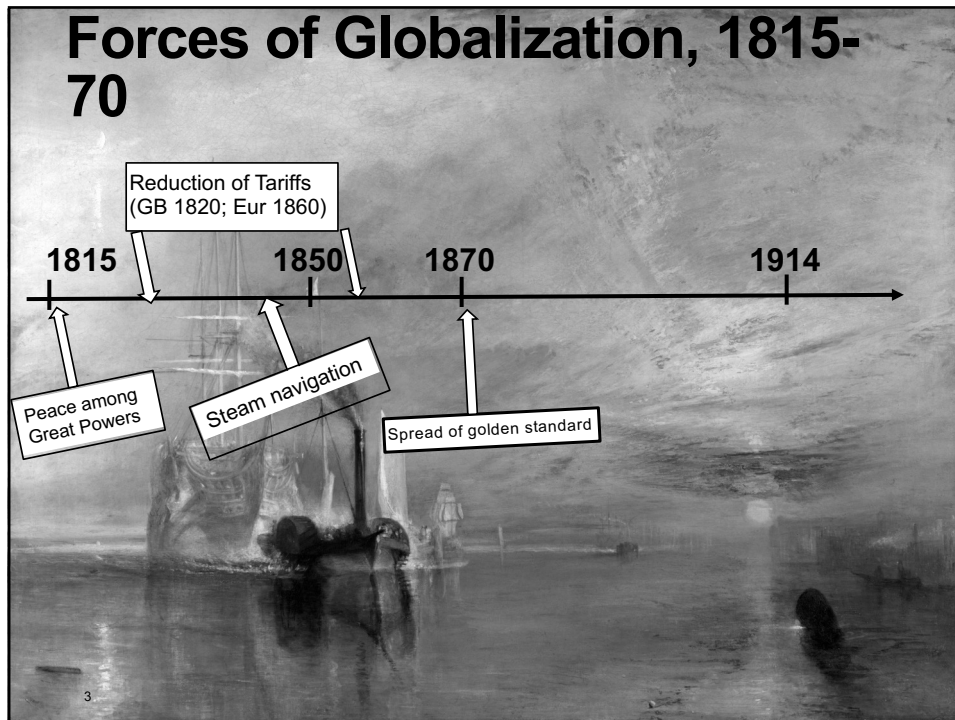
Markets enlarged to the world scale

- **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



2

2



3

## World Trade, 1650-1815

High transport costs  
 Mostly limited to high value/volume commodities (ex: spices, tobacco, sugar, diamonds, silk, china...)  
 Absolute, rather than comparative advantages (Port-Engl is the exception with Port traded for woollen cloth)  
 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)

4

## External Trade

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Three main causes for this increase:

- International order ensures peace among Great Powers (since 1815)
- States voluntarily open economic borders (since 1820);
- International transport costs decrease (since 1850);

5



5

## Voluntary Liberalization (1)

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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


6



6

## International Trade (Imp.+Exp./GDP)

	1790	1820	1830	1870	19133
Hollanda	110%	33%	25,8%	115,4%	<b>179,6%</b>
<b>Denmark</b>		7,5%	17,5%	35,7%	<b>61,5%</b>
UK	24%	21,4%	18,8%	43,6%	<b>51,2%</b>
Germany				36,8%	<b>37,2%</b>
Spain	16%		6,0%	12,1%	<b>22,3%</b>
Europe		13,5%	11,5%	29,9%	<b>36,9%</b>
Europe (extra-European trade)			3,8%	9,2%	<b>13,4%</b>



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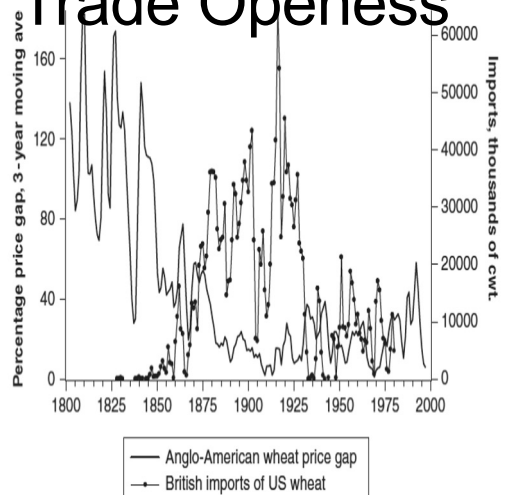
7


## Impact of Trade Openness

Market integration of main commodities:

- E.g., wheat, meat, cotton

This contributed to the increase in real wages, as foreign, more efficient producers substituted national producers





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8

# International Capital Flows

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

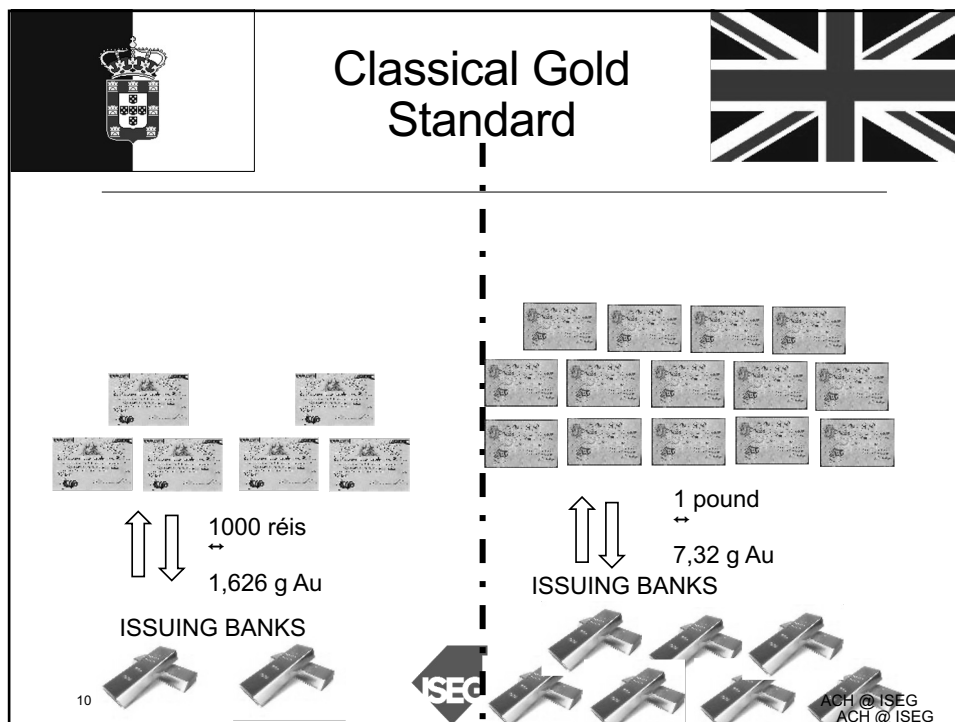
Gold standard implied that national currencies are convertible in gold

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

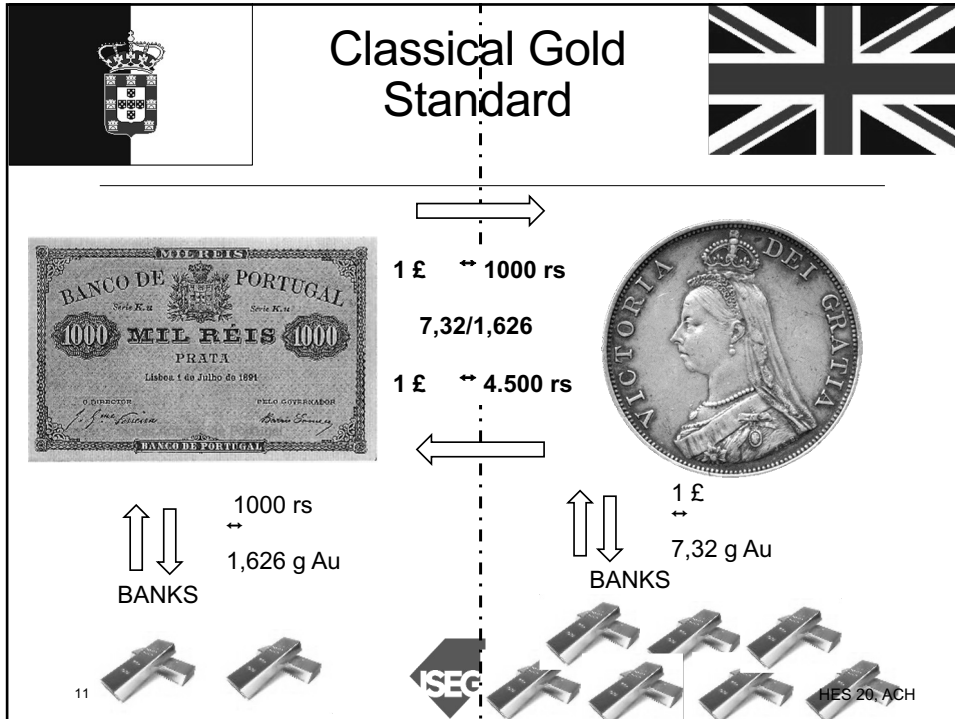
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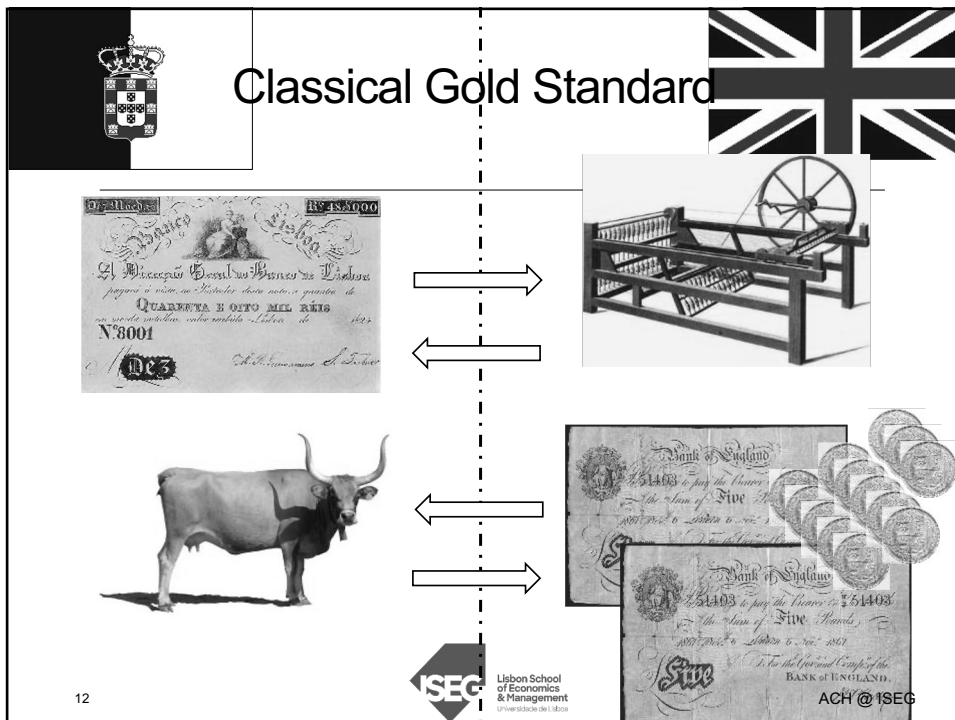
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10



11



12



13

**Table 1.4 Destination of Foreign Investment, 1870-1913**

		UK	France	Germany
Europa	<i>Russia</i>	3,4%	25,1	7,7%
	<i>Ottoman Empire</i>	1,0%	7,3%	7,7%
	<i>Austria-Hungary</i>	1,0%	4,9%	12,8%
	<i>Portugal and Spain</i>	0,8%	8,7%	7,2%
	<i>Itály</i>	1,0%	2,9%	17,9%
	<i>Outros</i>	2,5%	12,2%	0
	<b>Total</b>	<b>9,7%</b>	<b>61,1%</b>	<b>53,3%</b>
New World (except S and C América)	<i>USA</i>	20,5%	4,4%	15,7%
	<i>Canada, Australia &amp; NZ</i>	20,5%		
	<b>Total</b>	<b>41,0%</b>	<b>4,4%</b>	<b>15,7%</b>
S and C América	<i>Brazil &amp; Argentina</i>	12,8%		
	<b>Total</b>	<b>17,7%</b>	<b>13,3%</b>	<b>16,2%</b>
África	<b>Total</b>	<b>9,1%</b>	<b>7,3%</b>	<b>8,5%</b>
Ásia	<i>India</i>	7,8%	4,9%	4,3%
	<i>Japan</i>	1,9%	0	0
	<i>China</i>	1,8%	0	0
	<b>Total</b>	<b>11,5%</b>	<b>4,9%</b>	<b>4,3%</b>
Resto	<b>Total</b>	<b>11,0%</b>	<b>9%</b>	<b>2%</b>
<b>TOTAL</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>
Colónias		<b>16,9%</b>	<b>8,9%</b>	<b>2,6%</b>

14

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14

## Main capital exporters, 1870-1913

	England		France	Germany
	Internal Savings/GDP	External Investment / Internal Savings		
<b>1870-79</b>	12,3%	32,5%	23,9%	10,2%
<b>1880-89</b>	12,2%	38,5%	5,1%	18,8%
<b>1890-99</b>	11,0%	30,9%	16,5%	12,1%
<b>1900-4</b>	12,6%	29,4%	19,1%	8,3%
<b>1905-14</b>	13,1%	49,6%	17,3%	7,5%
<b>% total global investment</b>	41,8%		19,8%	12,8%

15



Fonte: Daudin et al, p. 10

15

## Initiative

This is about essentially private investors who sought countries with

- Gold standard
- High interests/ high capital returns
- Sound Institutions
- Natural Resources

16



16



# Impacts

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## Benefits to capital exporting countries

- “[British] overseas portfolio investments yielded a higher realized return than domestic portfolio investments between 1870 and 1913”

Daudin et al, p. 23

## Benefits to capital importing countries

- “Capital imports after 1870 served to make Swedish capital stock 50% bigger than it would have been in their absence, increasing Swedish real wages by 25%” Daudin et al, p. 22

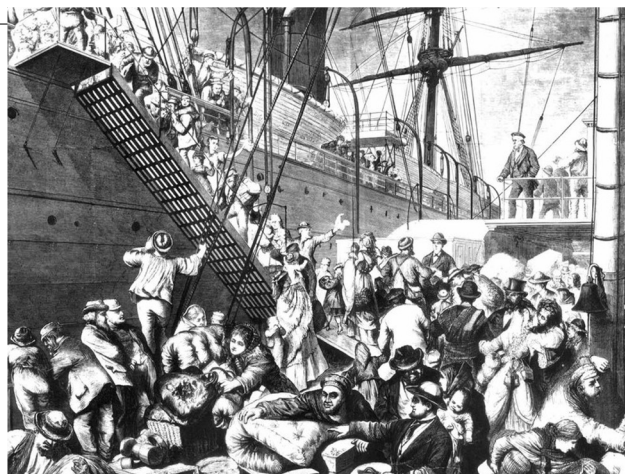
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17

# Mass Migration

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18



18

## 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

19



19

## New and Old Worlds (Pop./km<sup>2</sup>)

	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

20




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	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	58,0	51,8	66,1	141,7	88,5	69,8
Gret-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
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
Bélgium				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


21



21

	$\Delta$ Active Pop. 1870-1913	$\Delta$ Real wages 1870-1913	Real wages / british real wages	
			1870	1913
Ireland	-45%	32%	73%	92%
Itály	-39%	28%	48%	95%
Norway	-24%	10%	40%	56%
Fonte: Daudin et al, p. 21.				

22



22