ECONOMIC AND BUSINESS HISTORY 22/23

LECTURE 17: THE END OF THE GREAT DIVERGENCE

1. Business in the 2nd Globalization

2. The Great Moderation

NOT FOR TEST

3. The Lonely Dragon

1. Business in the 2nd Globalization

New Push for Globalization: Trade

As policies shifted, governments further reduced proteccionism since the 1980s:

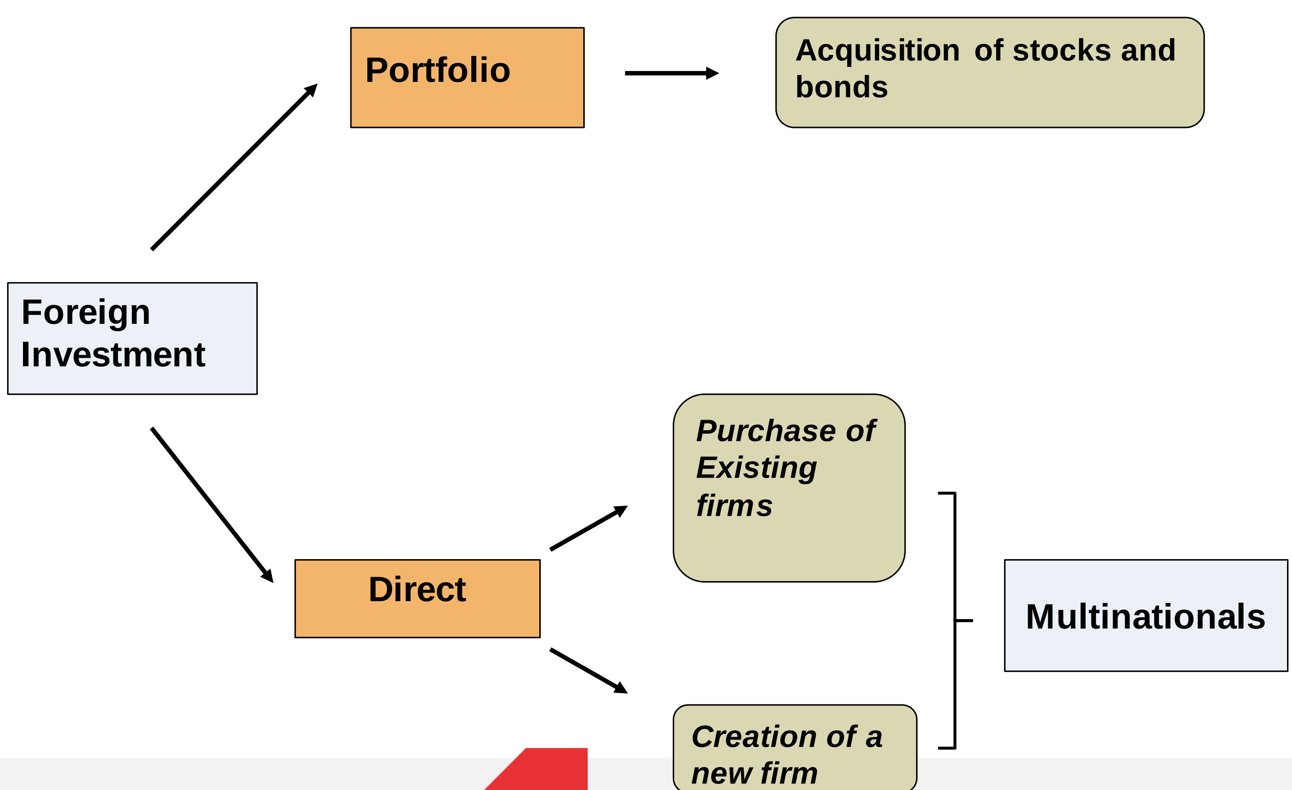
- Advance of Free World Trade
  - Uruguay Round (1986-94) inclusion of services in GATT
  - GATT enlarged to other countries (incl. China and Russia in 2002 and 2010)
  - Doha Round (2001-…) effort to include agrarian commodities in GATT

Trade oppenness created opportunities for business oriented towards global markets

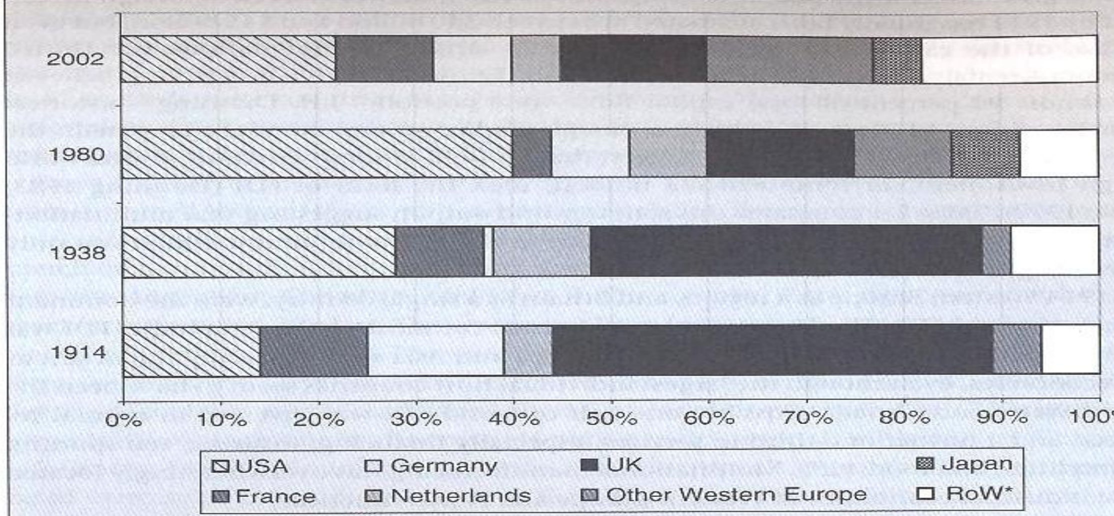
New Push for Globalization: Capitals

- International capital flows
  - Deregulation of the 1980s and capital controls lifted (fully liberal by 1990)
  - ‘Flat World’ for Capital
  - Monetary union in Europe
  - Stable currencies
- Like with 19th century Globalization, capital mostly flows from the wealthy countries, although recent growth in the 'Rest of the World' means some flow of capitals from poor to wealthy countries (especially US). See graphs for 2002.

The 2nd Globalization Opened Up new Opportunities for Firms



Outward FDI



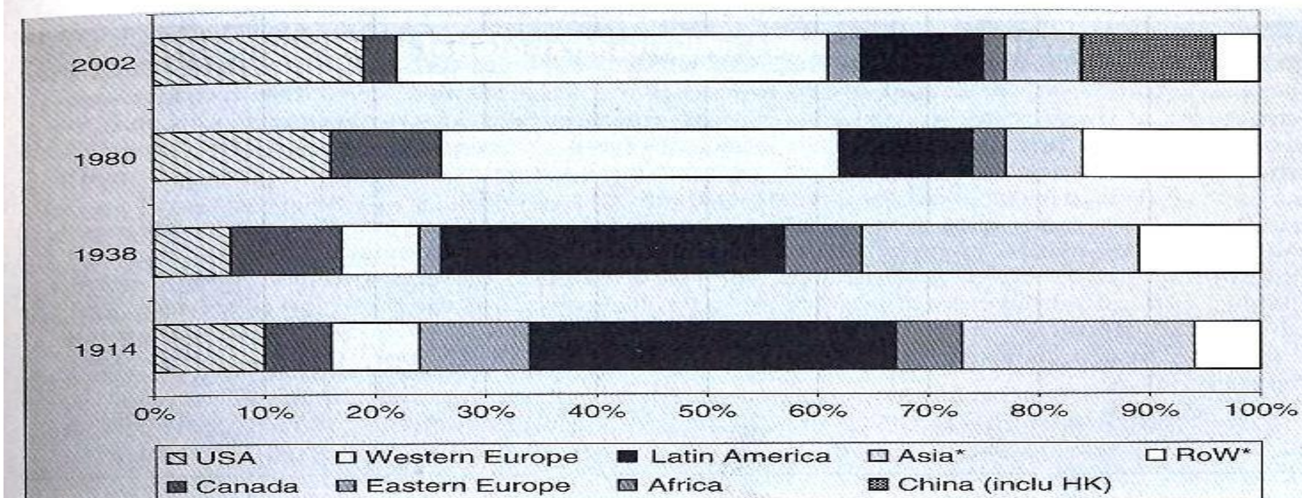
Box Fig. 2.1 Stock of outward FDI by home economy 1914–2002 (% total world outward FDI).

*Rest of the world, includes Japan for 1914 and 1938

(*Source*: Dunning 1983, 1988a, 1992; Stopford and Dunning 1983; United Nations 1993; UNCTAD 2003.)

Geoffrey Jones. *Multinationals and Global Capitalism: From the Nineteenth Century to the Twenty-First Century*. New York: Oxford University, p. 22.

Inward FDI



Box Fig. 2.2 Stock of inward FDI by host economy and region 1914–2002 (% total world inward FDI).

*Rest of the world, includes China and Hong Kong for 1914, 1938, and 1980.

(*Source*: Dunning 1983, 1988a, 1992; Stopford and Dunning 1983; United Nations 1993, 2003.)

Geoffrey Jones. *Multinationals and Global Capitalism: From the Nineteenth Century to the Twenty-First Century*. New York: Oxford University, p. 22.

New Push for Globalization: Labour

- International labour flows
  - Not a return to open borders, like the 19th cent. Glob.
  - Still, international migration flows very strong within the advanced world, ex. UE
  - South-North flows regulated, but still in existence

Multinational Firm

- Has at least one country branch
- Conducts business operations or owns assets in more than one country
  [=/= Exporting]
- Has Investments abroad
- According to the UNCTAD (United Nations Conference on Trade and Development), it has at least a participation of 10% in one branch abroad.

Impacts on FDI-investment receiving countries

- Knowledge Transfer (both technological and organizational)
- Capitals transfers (like in 19th cen. Glob.)
- Job creation
- Increase of domestic competition.
- Increase in foreign competitiveness (Multinationals help identify comparative advantages)

- HOWEVER,

- Like in 19th-cent. Glob, these impacts only benefit countries whose institutions are well-suited for growth (Remember TEXT 3).

Largest non-Financial Multinationals (2016)

Table I.6. The top non-financial SO-MNEs, ranked by foreign assets, 2016 (Millions of d

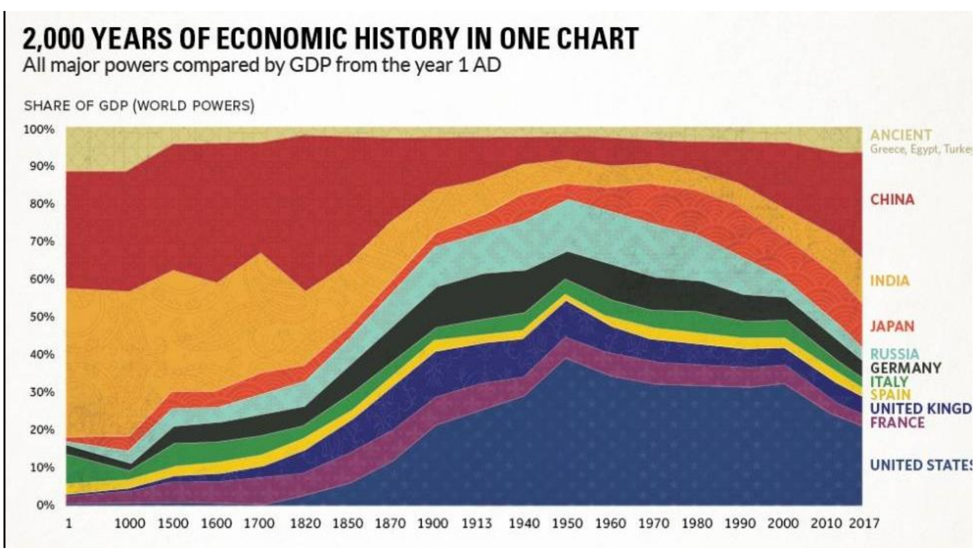
Ranking by: Foreign assets	TNI	Corporation	Home economy	Industry	State ownership (%)
1	7	Volkswagen Group	Germany	Motor vehicles	20.0
2	12	Enel SpA	Italy	Electricity, gas and water	23.6
3	10	Eni SpA	Italy	Petroleum refining and related industries	25.8
4	8	Deutsche Telekom AG	Germany	Telecommunications	17.4
5	23	EDF SA	France	Electricity, gas and water	84.6
6	13	Engie	France	Electricity, gas and water	32.0
7	22	China National Offshore Oil Corp (CNOOC)	China	Mining, quarrying and petroleum	100.0
8	4	Airbus Group NV	France	Aircraft	11.1[b]
9	15	Orange SA	France	Telecommunications	13.5
10	21	Nippon Telegraph & Telephone Corp	Japan	Telecommunications	32.4
11	20	Statoil ASA	Norway	Petroleum refining and related industries	67.0
12	2	Renault SA	France	Motor vehicles	15.0
13	18	Petronas - Petroliam Nasional Bhd	Malaysia	Mining, quarrying and petroleum	60.6
14	17	China COSCO Shipping Corp Ltd	China	Transport and storage	100.0
15	16	Vale SA	Brazil	Mining, quarrying and petroleum	Golden shares
16	24	China Minmetals Corp	China	Metals and metal products	100.0
17	11	Inpex Corp	Japan	Mining, quarrying and petroleum	19.0
18	3	Deutsche Post AG	Germany	Transport and storage	24.9
19	5	Japan Tobacco Inc	Japan	Tobacco	33.4
20	1	OMV AG	Austria	Petroleum refining and related industries	31.5
21	14	Sabic - Saudi Basic Industries Corp	Saudi Arabia	Chemicals and allied products	70.0
22	25	China State Construction Engineering Corp Ltd (CSCEC)	China	Construction	100.0
23	9	Vattenfall AB	Sweden	Electricity, gas and water	100.0
24	6	PSA Peugeot Citroen	France	Motor vehicles	13.7
25	19	Oil and Natural Gas Corp Ltd	India	Mining, quarrying and petroleum	68.9

2. The Great Moderation

The “Great Moderation”

After more than two centuries, the Great Divergence stopped by 2007, as non-Western countries grew faster than Western

Although the Suprime Crisis contributed to this event, the background was clear: moderate growth in the West, rapid growth elsewhere



West /Rest (GDPpc; 1990 US$)

	1	1000	1500	1820	1870	1950	1973	2003	2008
West*	569	426	753	1.202	2.050	6.279	13.379	23.710	24.650
Asia	456	465	568	581	556	717	1.718	4.434	4.533
S America	400	400	416	691	676	2.503	4.513	5.786	7.614
E Europe **	406	400	498	686	941	2.602	5.731	5.705	8.199
Africa	472	428	416	421	500	890	1.410	1.549	1.780
World	**467**	**450**	**567**	**667**	**873**	**2.113**	**4.091**	**6.516**	**7.614**
West/Rest	1,3	0,9	1,4	2,1	2,3	4,5	5,6	5,7	5,5

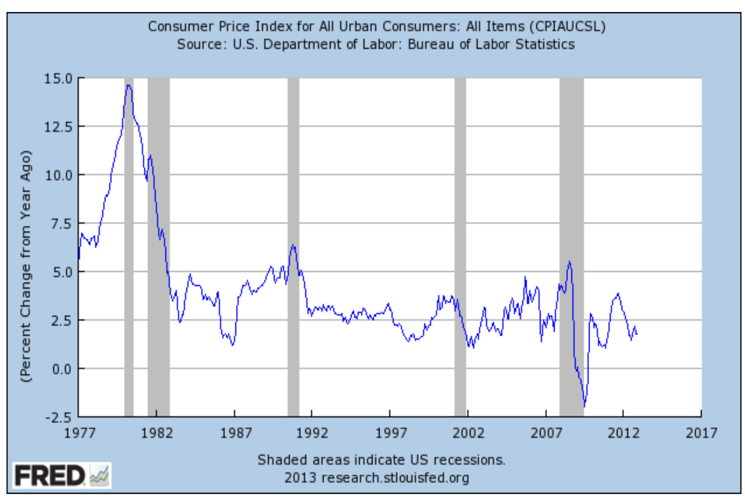
Source: 1-2003 Maddison, 'Ressurection'; 2008: derived from "Maddison Homepage"

The "Great Moderation"

In the Western countries, the priority of econ policy shifted to the control of the price variation (*inflation-targetting* at 2%) as practiced by the Central Banks (FED and ECB, founded to control euroland inflation, legacy of the German *Bundesbank*)

This followed the post-1973 efforts to attract foreign capital flows and multinationals

Nevertheless, growth-friendly reforms were not politically easy (except in former-communist countries, which were developed many pro-market reforms)



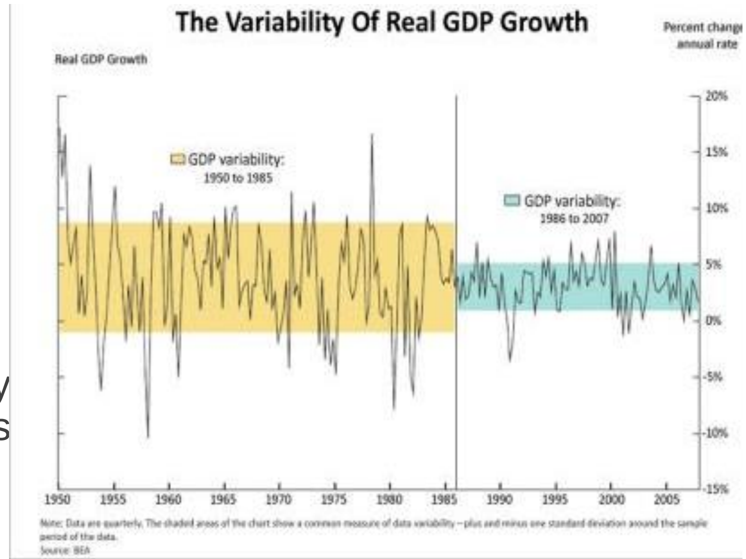
“Great Moderation” (2)

Success?

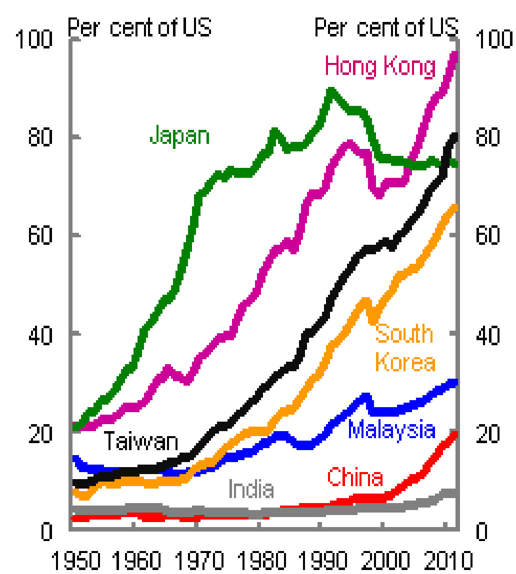
- Growth variability decreased
- Stable inflation

Yet,

- Growth was also moderate, unlike the Golden Age, when countries at the edge of the Production Possibility Frontier were also the growth leaders
- Neoliberal policies coincided with a large welfare state, rigid workforce and an ageing population



The 'Asian Tigers´



Two Tales: Grrrowth vs Dragrowth

- 'Grrrowth': The Four Asian Tigers: S Korea, Taiwan, Singapore, H-Kong, in the 1980s and 1990s
  - High Economic Freedom and Western-inspired institutions
  - Participation in Globalization (FDI, low tariffs, stable currencies)
  - Growth-friendly policies in the labour market
  - High levels of Social Capital (so-called 'Asian values', with emphasis on collective achievements)
  - High levels of Human Capital

- These are conventional liberal policies and institutions, in contrast with those adopted in the alternative tale (Dragrowth, Lonely Dragon, see below)

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3. A very lonely dragon: China

The “Century of Humiliations”, 1820-1912

Ano	PIBpc (US$1990)
1500	550
1820	600
1850	600
1870	530
1890	540
1900	545
1912	552

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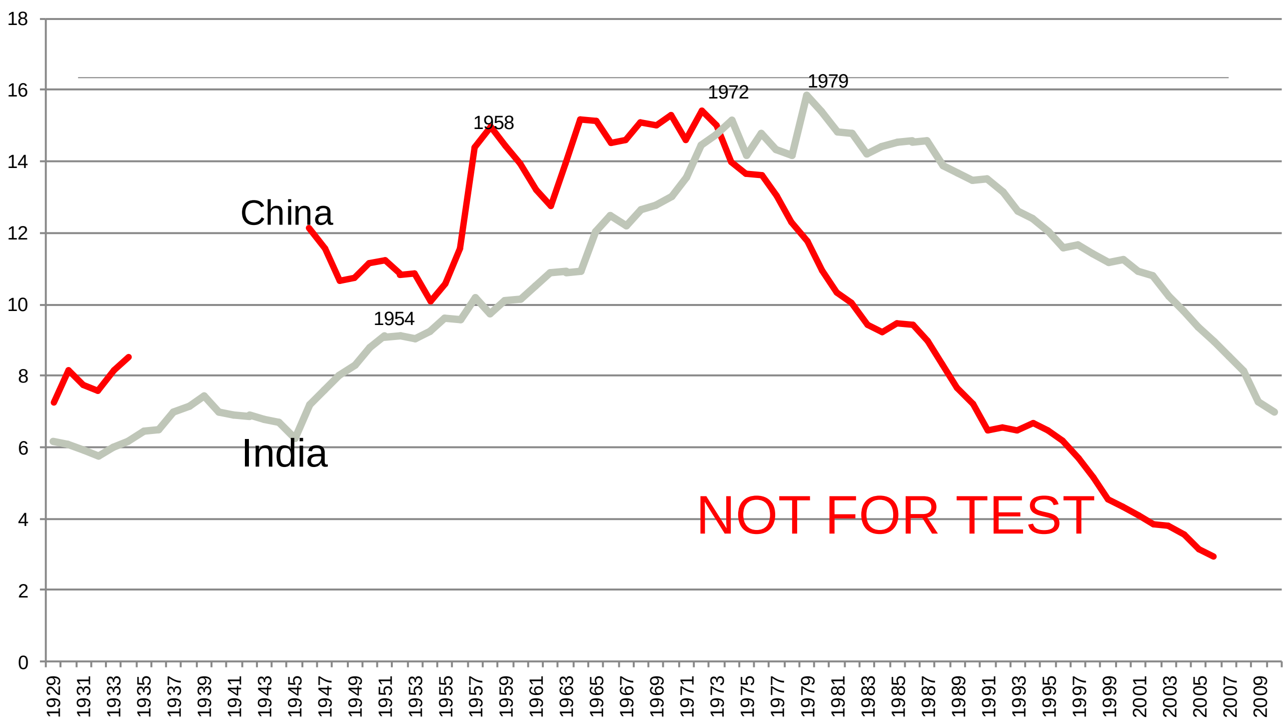
GDPpc China/Advanced; India/Advanced



Brief Recovery (1926-37) and Abyss (1937-49)

Chang Kai Chek regime, 1926-37 provides railroads and stable currency:

- Some industrialization and agrarian progress
- Central Banks

Japanese Invasioon (Manchuria in 1932; China in 1937-45) and Civil War (1940-9) interrupted growth

Ano	PIBpc (US$1990)
1912	552
1929	562
1936	597
1949	448

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Mao's rule (1949-76)

Traditional Elites see their property and political role deleted

Five-year plan (1953-7), with Soviet support

- Heavy industry
- Savings are concentrated in the state

Great Leap Forward ("anti economic policy), from 1958

- Agrarian Output increases but per capita consumption diminishes!
- Large-scale famines
- No individual or family incentives with total collectivization of agriculture (and even family life)

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Results

Vastly improved literacy

Growth (1949-54)

Scientific research (on rice)

However, poor productivity on agriculture and no convergence

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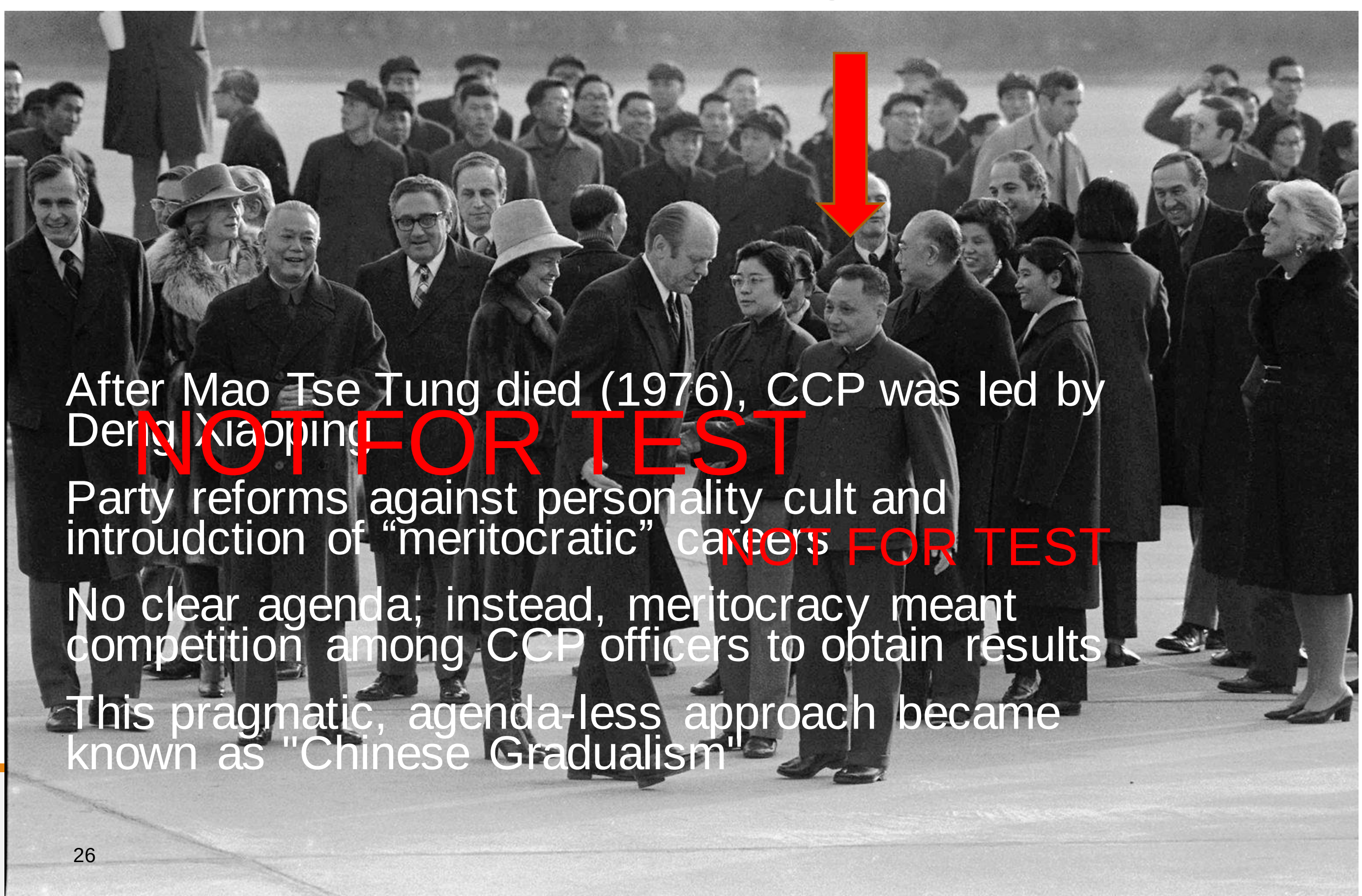
Enter Deng Xiaoping’s Reforms



After Mao Tse Tung died (1976), CCP was led by Deng Xiaoping

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Party reforms against personality cult and introudction of “meritocratic” careers

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No clear agenda; instead, meritocracy meant competition among CCP officers to obtain results

This pragmatic, agenda-less approach became known as "Chinese Gradualism"

“Better red than educated!”; Mao Tse Tung, 1966

“The colour of the cat doesn’t matter, as long as it catches mice“ Deng Xiaoping, 1976?

Mao in 1959

Deng in 1960

Deng Xiaoping’s “Four-legged” Reforms

DE-COLLECTIVIZATON OF AGRICULTURE

FISCAL DEVOLUTION

FOREIGN INVESTMENT

PUBLIC CORPORATIONS WITH INDEPENDENT MANAGEMENT

Results of Early Reforms

Regions with more liberal policies typically showed better results:

- End of price controls
- Performance-related wages in state businesses
- Concession of land for families

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Pro-Global Reforms in 1990s

A second phase of reforms explicitly aimed at competing on a global level:

- Adherence to the WTO (2002)
- "Free" international capital flows
- Price controls end
- Became "Private Property" legal
- "Austerity" in the state sector (with tens of million state officers and workers fired)

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China's 'Great Convergence'

The most important condition for China's 'Great Convergence' is the participation in the Globalization

Unlike what had happened in the 19th cent., Globalization allowed for China to cancel its large productivity gap via:

- Foreign investment and technology transfers
- Foreign demand, making the most of China's comparative advantages

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The adoption of (existing) better technology explains about ¾ of Chinese Growth from 1978

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Challenges Ahead for China

- Recent Chinese growth is, from a historical perspective, exceptional for its strength and because it was achieved by the state
- However, China was deeply below the technological frontier.
- As China approaches the technological frontier, the potential social and institutional problems of the regime tend to affect more the potential for growth:
  - Corruption and state capture on behalf of the communist party elite which dominates public sector and banks ("merit")
  - Red tape stiffling internal investment and entrepreneurs
  - Abundant capital and investment level but large inefficiencies in capital markets and low returns of investment
  - Inequality/ Feeble internal consumption
  - Aging and other demographic problems

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