

ECONOMIC AND BUSINESS HISTORY 25/26

LECTURE 6 – GLOBALIZATION: WHAT? WHEN?

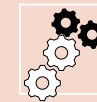
1. What and When?



1. What and When?



2. Trade



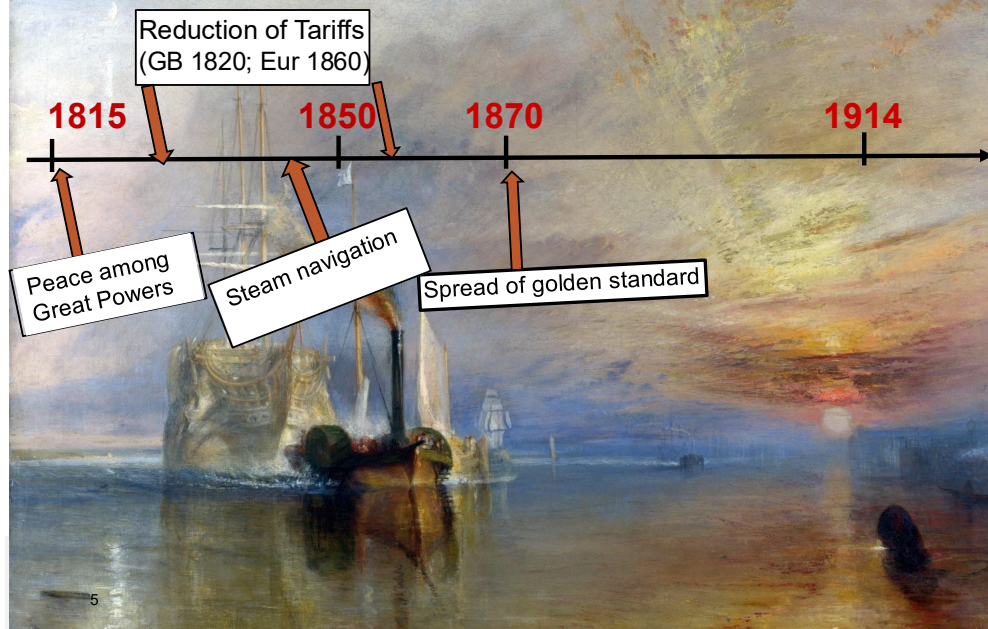
3. Factor Flows

(Economic) Globalization

Straightforward definition: Markets enlarged to the world scale

- **Investment (in financial and fixed capital)**
 - **Capital** moves from countries where it is abundant to countries where it is scarce, and where it commands higher **interests**
- **Migrations/Labour Market**
 - **Labour** moves from countries where it is 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

Forces of Globalization, 1815-70



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 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)

2. Trade



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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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External Trade

Three main causes for the increase in int'l trade:

- International order ensures peace among Great Powers (since 1815)
- States voluntarily open economic borders (since 1820)
- Voluntary liberalization in some countries
- Bilateral trade agreements (mostly in Europe) since 1860
- International transport costs decrease (since 1850)

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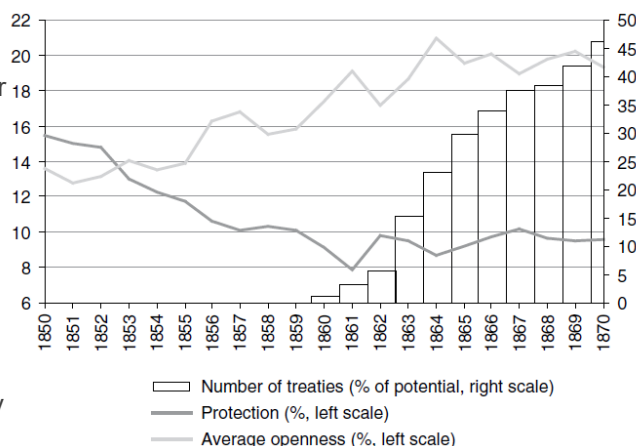
Voluntary Liberalization

- Free-trade initiatives across Europe
 - Denmark and Holland (small countries) had been open since the early 19th 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 (customs union among German principalities)

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Cobden-Chevalier Treaty(1860)

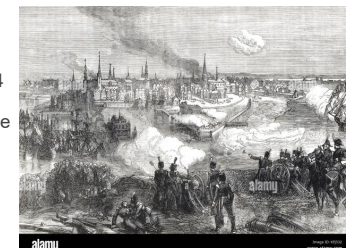
- In 1859, French and English economists Cobden and Chevalier started lobbying their governments and arguing that trade would avoid military rivalry
- Appointed by their governments as negotiators they drafted a treaty (without the knowledge of the French minister of finances, as they feared protectionist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



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Case study: Denmark

- Small country with few comparative advantages (Greenland's rare metals, notwithstanding)
- Navy obliterated by the Napoleonic Wars, Norway seceded in 1814
- Caribbean colonies unprofitable (auctioned and eventually sold to the US in 1852 for 25 USD Mill)
- Trade Policy of deliberate liberalization : light import duties for industrial goods and coal
- **Export-Led Agricultural Modernization:**
 - High-quality, exportable goods
 - Dairy and meat sectors
 - Steam-powered cream separation
- Denmark's economic development was deeply intertwined with global energy, agrarian and industrial markets.
- Growth GDP pc from 1820 to 1914: 2,000 to 6,500 (1990USD)



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Impact of Trade Openness

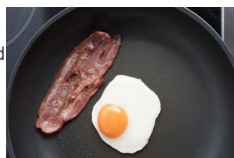
Denmark Provides the best example:

- No important empire (
- No absolute advantage goods

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

Without major industrial sectors, agricultural specialization towards animal products, helped by improving living standards in English:

- 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 (Burnett 1966).



Denmark captured the market for the growing share of this type of breakfast foods, supplying the UK with 45% of its butter, 39% of the bacon and 9% of the eggs by 1913

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%

Trade and Growth

- All countries, industrialised or nor, take part in the opening of trade
- Non-industrialised countries identify their comparative advantages and export raw materials and agricultural goods, benefitting from low transport costs and liberal tariffs
 - Denmark exporting agr commodities (bacon, butter) to the UK
- New World and non-Western countries specialised in new raw materials
 - African countries exporting raw materials for industry, like palm oil, chocolate, tea, mineralis
 - US exporter of agr. commodities (wheat, bacon, cotton)
- This contributed to growth in globalization-participating powers, as foreign, more efficient producers substituted national producers

3. Factors



3.1 Foreign Investment



Foreign Investment

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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Classical Gold Standard

1000 réis ↔ 1,626 g Au
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1 pound ↔ 7,32 g Au
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Classical Gold Standard

1 £ ↔ 1000 rs

7,32/1,626

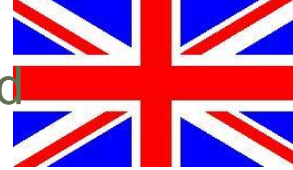
1 £ ↔ 4.500 rs

1000 rs ↔ 1,626 g Au
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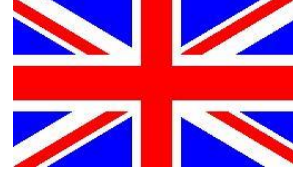
1 £ ↔ 7,32 g Au
BANKS

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Classical Gold Standard

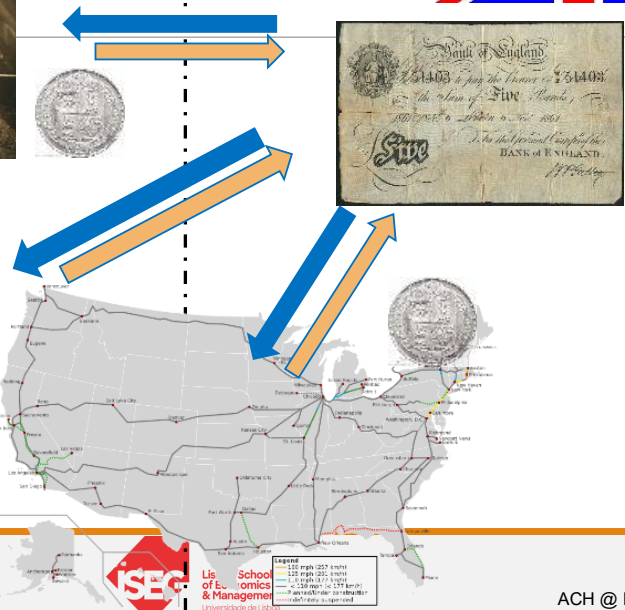
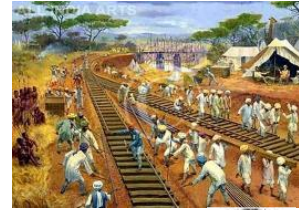


Classical Gold Standard



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Table 1.4 Destination of Foreign Investment, 1870-1913

		UK	France	Germany
Europa	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%
	Itály	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 América	Brazil & Argentina	12,8%		
	Total	17,7%	13,3%	16,2%
África	Total	9,1%	7,3%	8,5%
Ásia	India	7,8%	4,9%	4,3%
	Japan	1,9%	0	0
	China	1,8%	0	0
	Total	11,5%	4,9%	4,3%
Resto	Total	11,0%	9%	2%
TOTAL		100%	100%	100%
Colónias		16,9%	8,9%	2,6%

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Initiative

This is about essentially private investors who sought countries with

- Gold standard
- High interests/ high capital returns
- Natural Resources and/or productive agriculture

This is about essentially private investors who sought countries where returns were higher

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Main capital exporters, 1870-1913

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

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Impacts

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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3.2 Mass Migration



Emigrants by Domingos Rebelo (1926)

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Migration Flows

From Europe to the New World. Why?

- Sending countries wealthier. So why migrate?
- Wage differential (wages were higher in the New World), despite sending countries being wealthier
- New World contained large resources, that were unexplored for lack of labour stock high
- Pop density of sending countries very high, meaning that the New World offered lower rents and higher wages

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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

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New and Old Worlds (Pop./km2)

	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

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Table 1.5 Crude Emmigration rates (in 1/1000 of average pop.)

	1851-60	1861-70	1871-80	1881-90	1891-1900	1901-10
Italy			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

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Impact

- Increase of real wages in labour-exporting countries, as poorer, uncompetitive workers leave the labour market
- In the labour-importing countries, increase of labour supply allows for rapid agrarian and industrial growth

	Δ Active Pop. 1870-1913	Δ Real wages 1870-1913	Real wages / british real wages	
			1870	1913
Ireland	-45%	32%	73%	92%
Italy	-39%	28%	48%	95%
Norway	-24%	10%	40%	56%

Fonte: Daudin et al, p. 21.

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