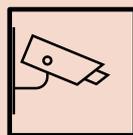


ECONOMIC AND BUSINESS HISTORY 25/26

LECTURE 6 – GLOBALIZATION: WHAT? WHEN?



1. What and When?



2. Trade



3. Factor Flows

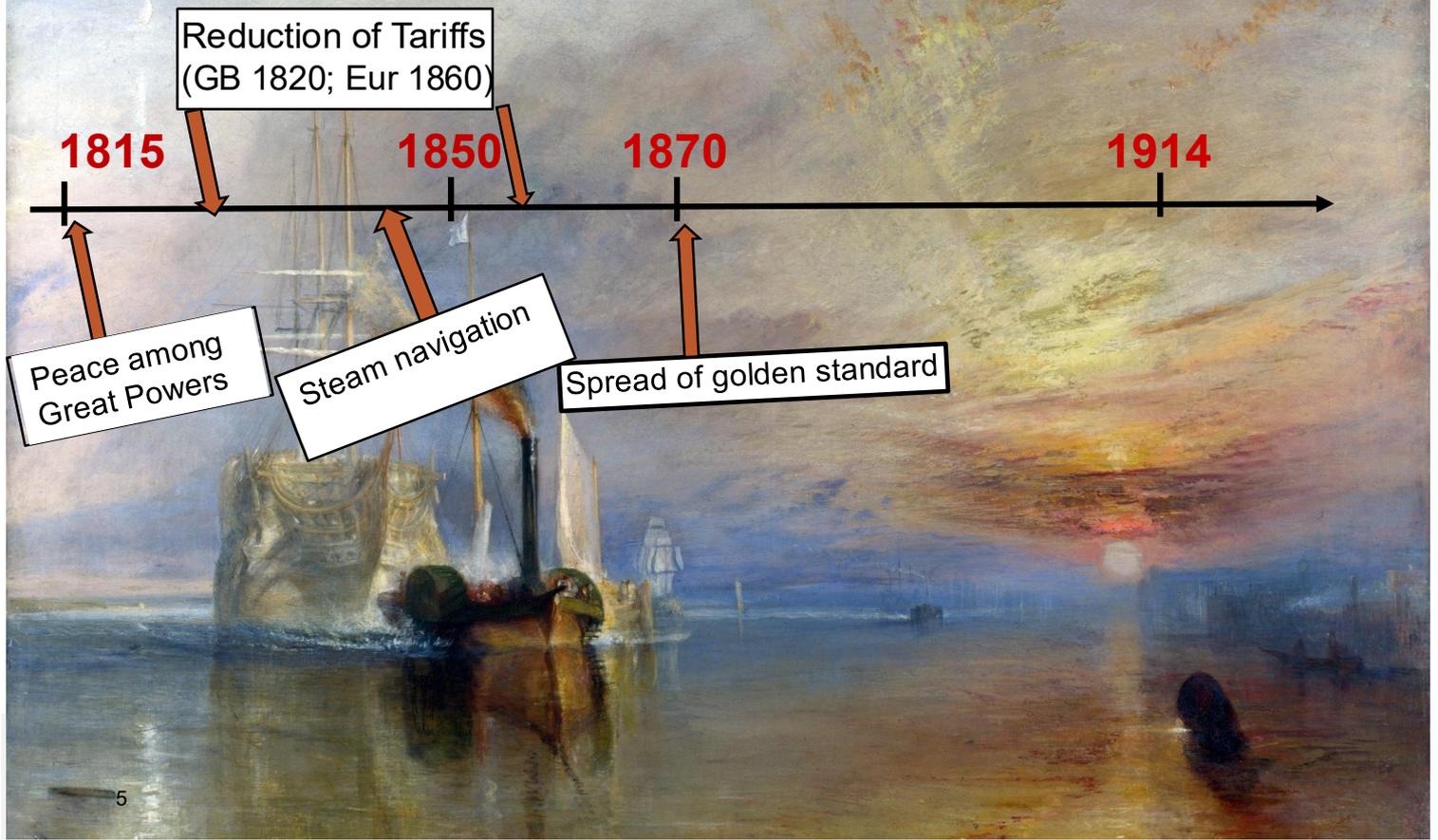
1. What and When?

(Economic) Globalization

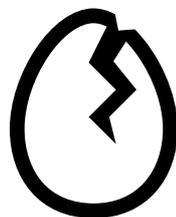
Straightforward definition: Markets enlarged to the world scale

- **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

Forces of Globalization, 1815-70



2. Trade



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)

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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

External Trade

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

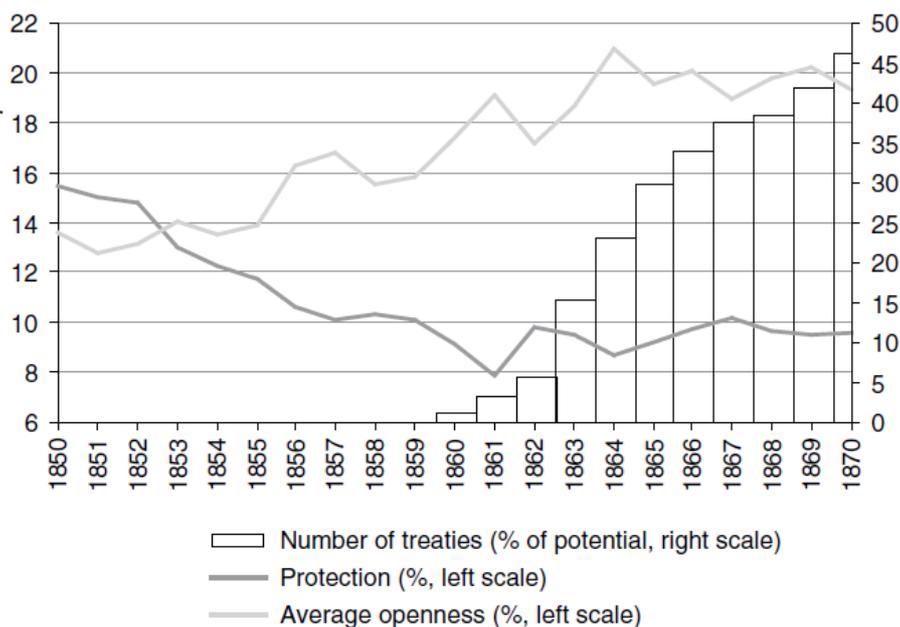
1. International order ensures peace among Great Powers (since 1815)
2. Voluntary opening of economic borders (since 1820):
 - Voluntary liberalization in some countries
 - Bilateral trade agreements (mostly in Europe) since 1860
3. International transport costs decrease (since 1850)

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, Moderation of the *Corn Laws* (abolished in 1846)
 - 1820s-30s, Gradual decrease of tariffs
 - *Zollverein*, 1833 (customs union among German principalities)

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 (2nd Battle of Copenhagen 1807), Norway seceded in 1814
- Caribbean colonies unprofitable (auctioned and eventually sold to the US in 1852 for 25 USD Mill)

YET,

- Growth GDP pc from 1820 to 1914: 2,000 to 6,500 (1990USD)
- Export-Led Agricultural Modernization:
 - o High-quality, exportable goods
 - o Dairy and meat sectors
 - o Steam-powered cream separation



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Case study: Denmark (2)

Denmark Provides the best example:

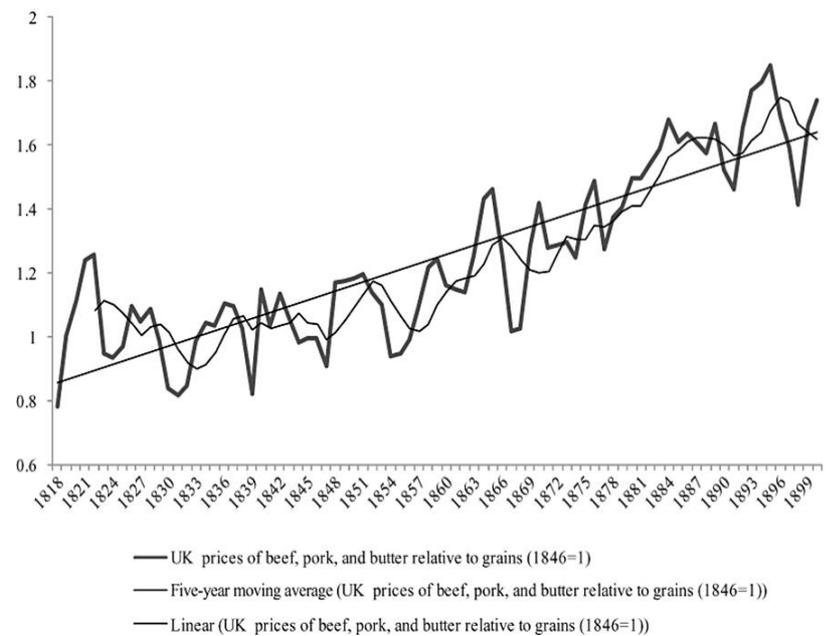
- No important empire
- No absolute advantage goods
- BUT, large growth

HOW?

- Trade Policy of deliberate liberalization since the 1810s : light import duties for industrial goods and coal

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

Secondly, Denmark made the most of England's growth and relatively open economic borders



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Case study: Denmark (3)

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](#)).



In 1875–9, 49 per cent of Denmark's total agricultural export value went to the UK. By the beginning of the twentieth century, this had increased to 73 per cent, and as much as 90 per cent for specific products such as butter and pork.

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

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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