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GLOBALISATION: PAST AND PRESENT

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This article compares and contrasts the two modern eras of globalisation, namely the one that started in the mid-nineteenth century and ended on the eve of World War I, and the contemporary era. Although in both periods globalisation brought down national barriers and integrated economies and societies, there were distinct characteristic features of both periods. For example, the scale of global integration through trade and financial channels during the contemporary era was unmatched by the previous phase of globalisation. Furthermore, never in history had global integration involved so many countries and people, both in absolute numbers and as a percentage of the global population.

Keywords: Globalisation, financial flows, free trade.

Introduction

Neither the concept nor the phenomenon of economic or financial globalisation can be considered as novel.[1] In their earlier forms they can be traced back to ancient civilisations and empires such as Maurya (322–185 BC), Roman, Parthian and the Han Dynasty (206 BC to AD 220).[2] The global economy has undergone several waves of rapid and sluggish globalisation as well as de-globalisation. The objective of this article is to compare the two modern periods of globalisation: the first began in the nineteenth century and ended in the early twentieth century, on the eve of World War I. As for the contemporary phase of market-driven globalisation, many economic historians believe that it set off around 1980, although Mundell (2000) disagreed. It could be argued that the ongoing global recession put an end to the contemporary phase in 2008 – it certainly provides a useful point at which to take stock.

Globalisation: what it is and how it operates

Although it will not be unreasonable to assume that most knowledgeable readers have some familiarity with the concept of globalisation we will begin with a functional definition. A definition is not a mere lexicographical pursuit. It has an intellectual objective, that of initiating the way to understand the issue at hand and provide an insight into it. Broadly defined, globalism implies networks of connections spanning multi-continental distances, drawing them close together economically, socially, culturally and informationally.

In its quintessential form globalisation brings down national boundaries and integrates world economies, financial markets and societies. Although the three terms – globality, globalism and globalisation – are often narrowly defined in their economic meaning, they are broad in their meaning and implications.[3] Driven by innovation and technological progress and with an objective to advance material well-being, economic and financial globalisation has occurred over a long period of history.

From an economic point of view, globalisation represents a process of increasing the international division of labour on the one hand and growing integration of national economies through trade in goods and services, cross-border corporate investment, and capital flows on the other. In the contemporary phase of globalisation, technological innovations, particularly in digital technology, combined with the swift worldwide reach of communications and falling transportation costs, have markedly increased the possibilities for global production and exchange. That said, mere technological advancement cannot usher in the phenomenon of global economic integration. Economic globalisation is a policy-induced process. It cannot take place without adoption of a liberalised policy stance at the national or domestic economic level. Trade and financial sector reforms, liberalisation and deregulation, followed by market-based institutional reforms are the *sine qua non* of global economic and financial integration. Innovations in information and communication technology (ICT) and the popularity of the internet enabled the modern business community to access information and resources across the world and co-ordinate production activities in real time. Endemic use of ICT brought down transaction costs, particularly in the financial sector.

Preceding phases of globalisation

The famous voyages of discovery by Christopher Columbus, Vasco da Gama and other explorers expanded trade and economic ties over large distances. These voyages were made possible by advances in European shipbuilding technology and the science of navigation. Noteworthy improvements in the quality of compass, rudder and sail design also contributed to advancement in nautical technology. The sea lanes opened by these voyages assisted in promoting thriving intercontinental commerce. Before the sixteenth and seventeenth centuries, the Portuguese and Spanish empires had expanded to the Americas and to many other parts of the globe, promoting and expanding economic and political globalisation. As these voyages had high cost and risk, trade was logically limited to goods of high value relative to their weight and bulk. Some of the important items of trade included sugar, tobacco, spices, tea, silk, porcelain, and gems and precious metals. While trade and migration had their positive income effect, inequality was rampant. Estimates show that during the pre-industrial period, income inequality was lower in the East Asian economies than in Europe and the Middle Eastern countries (Milanovic *et al.*, 2007).

The naissance of large state-sanctioned trading companies was the next noteworthy development; they began to have increasing control over trade. In the seventeenth century the Dutch East India Company, the first transnational corporation, was established. It was also the first business firm to share risk by enabling joint ownership by issuing shares. Subsequently, the British East India Company and the Hudson's Bay Company were created. All of them enjoyed monopolistic powers, aggressively protected their high mark-ups and profits and were instrumental in playing a meaningful role in both economic and political globalisation. Believing in mercantilist philosophy, they regarded international trade as a zero-sum game. As markets were a rich and rewarding source of profits during this period, European nation-states competed for market dominance. This intense competition frequently crossed the economic arena and turned into military conflict (Bernanke, 2006).

As large parts of the world did not participate in the above-noted periods of pre-modern globalisation, some analysts do not think that this could be termed globalisation. However, non-participation of several countries is also a characteristic of the current period of globalisation. Other arguments for not regarding the past episodes as periods of globalisation are as follows: in comparison with the present, the means of transport and communication during these periods were far from swift and this did not allow firms and markets to be organised and function efficiently at the global level; second, the present global financial markets are characterised by a far larger volume of operations in terms of gross flows and variety of instruments being traded. However, these are inaccurate and non-tenable arguments for rejecting the globalism of the pre-modern periods.

Early modern phase: vintage nineteenth and twentieth centuries

The period before the Napoleonic Wars went down in history as the anti-globalism mercantilist period (Williamson, 2002). The first modern period of globalisation began after the end of the Napoleonic Wars and continued up to World War I. This phase of globalism is believed to have picked up momentum during the 1870s. International trade and financial flows as well as cross-border migration of labour expanded significantly during this phase. The growth rate of world trade was more rapid than that of world output. The former grew at an average rate of 3.5% a year, the latter at 2.7%. Steady reductions in tariffs and transport costs, particularly during the latter half of this period, advanced global economic integration. Owing to the advent of railroads and steamships, transport costs declined sharply and communications costs fell as telegraph technology and services expanded. The trans-Atlantic telegraph cable, laid in 1866, was extolled for 'annihilating both space and time in the transmission of intelligence' (Standage, 1998, p. 90). Ambitious public works projects, such as the opening of the Suez Canal in 1869, truncated travel time between Asia and Europe, which promoted both travel and commerce. These technological advancements were consistently pro-globalisation. During this era, forces of capitalism were unleashed in their full form.

Policy measures that buttressed globalisation during the first modern period, included abolition of the Corn Laws in Britain in 1846. As Britain unilaterally moved to free trade, it set in motion a trade liberalisation trend in Europe. The Cobden–Chevalier Treaty of 1860 between Britain and France reinforced this trend. The most favored nation (MFN) clause was the most significant element of this treaty. Accordingly, the two contracting parties agreed to extend any reduction of tariff agreed between them to their other trading partners as well. This set the ball rolling and many European economies signed such treaties. Growing appreciation of the classical economic principle of comparative advantage made policy-makers abandon the mercantilist approach of the past. In 1913, the share of exports in world output peaked. World trade did not reach this level again until 1970 (Bairoch and Kozul-Wright, 1996; Irwin, 1996). Expanding trade had increased the variety of goods available, in the process enriching the quality of life. The trade monopolies of the past were supplanted by intensely competing firms. Consequently, global prices converged on a wide range of traded commodities, including spices, wheat, cotton, pig-iron and jute (Findlay and O'Rourke, 2002). The pre-World War I period also enjoyed almost entirely free movement of capital and a remarkably free movement of the labour force. Between 1871 and 1915, approximately 36 million people left Europe in search of a new life and opportunities. An unexpected spin-off of this migration was a sharp rise in productivity in those industries that had been facing labour surplus. This was the period when globalisation reached its crescendo. The latter half of the nineteenth century, until World War I, was a period of intense economic integration.

Globalisation has ebbed and flowed during different periods. The favourable trading environment changed with the outbreak of World War I. The liberal global economic order collapsed and quantitative restrictions (QRs) and tariffs became rampant among the belligerents. This was the initiation of de-globalisation. The Great Depression stifled the liberalisation that began after the war under the Gold Exchange Standard (1925–31) and tariffs began to rise again. The USA enacted its ill-conceived Smoot–Hawley Act, raising tariffs to 23%, triggering immediate retaliation from its trading partners. QRs also returned. Both world output and trade plummeted rapidly, with world trade declining more sharply than output.

Like trade flows, capital flows were buoyant in the first modern period that spanned from the early nineteenth century to World War I. Large volumes of investible capital gushed from the industrialised countries of Western Europe to the rapidly developing economies in Australia, Canada, Latin America and some developing countries, that were colonies of other European countries. Bairoch and Kozul-Wright (1996) quantified the capital outflows. At their peak they were 9% of GNP for Britain and not much lower in France, Germany and the Netherlands. During the first modern period, private global capital movements did not suffer restrictions. Much of these financial flows took the form of bond financing. They were essentially used, first, for the purpose of infrastructure construction, particularly railroads and ports, and second, as foreign direct investment (FDI) in the infant industrial sector in the capital-importing countries. Britain was the largest capital exporter, Canada the largest importer, while the USA was a relatively smaller one. The free flow of capital before 1914 was aided by the fact that much of the world followed the gold standard, i.e. national currencies maintained convertibility into gold. This also meant that countries could not use monetary policy instruments for stabilising the domestic economies.

The outbreak of World War I caused global capital movements to come to a near standstill. They did not pick up until 1970.

Contemporary phase: vintage twenty-first century

The second, or contemporary, era of market-driven globalisation is deemed to have begun around 1980. Paul Krugman (2008) called it 'the second great age of globalisation', comparable to the much-quoted John Maynard Keynes' familiar description of globalisation on the eve of World War I. This time-point is significant because for the first time in the contemporary period governments in the mature industrial economies, and increasingly in the emerging economies of the developing world, began to foster liberal economic policy regimes that were broadly supportive of globalisation. Slashing trade barriers and liberalising capital flows reflected this mindset of policy-makers. This is not to imply that liberalisation was adopted across the board and by all countries; protectionism persisted. Also, there were countries that participated in the ongoing global integration only modestly.

The policy ambience that began to develop since the early 1980s was that of lowering artificial and policy-driven barriers to international transactions, which nurtured a generally permissive policy background for global economic integration. The pace of global economic integration accelerated during the decade of the 1990s, as many governments reduced policy-induced barriers that impeded international trade and investment flows. These two decades witnessed an unprecedented revival of global economic integration. Consequently, the volume and value of global trade and financial transactions rose dramatically. The revival was underpinned by technological advancements and given an impetus by international economic policies, born of multilateral co-operation. This process of global integration affected (and is affecting) the evolution of national, regional and global economies. Few economies, developing or industrial, have remained untouched by the influences of contemporary globalisation. It has also had a profound microeconomic impact as well as bearing on how the residents of different nation-states interact with each other.

A general policy shift towards greater reliance on market forces is one of the features of contemporary phase of globalisation. Gradually, the post-1980 period saw a momentous transformation in the global economy. Its characteristic features were rapid growth in multilateral trade and global financial flows, including FDI. The long-term average growth rate of FDI is approximately twice that of multilateral trade, which in turn grew at almost twice the rate of global GDP. Furthermore, during the current phase of globalisation, multilateral trade and financial services are far more developed and deeply integrated globally than ever in the past. Transport costs continued to decline further with advances in containerisation and far greater use of airfreight in international trade.

Average ocean freight and port charges, in 1990 US dollars, declined from $90 to $29 per tonne between 1920 and 1990 (Frankel, 2000). A much larger proportion of cargo is now transported by air than in the past. Between 1930 and 1990, air transport revenue per passenger-mile declined from $0.68 to $0.11. The modern transport revolution saves time and also dramatically reduces transport costs as a percentage of the value of the goods shipped, in the process strengthening the performance and profits of the trading firms. A fall in transport costs acts like a fall in tariffs, allowing greater specialisation. With rapid growth in FDI, operations of transnational corporations (TNCs) have expanded briskly. TNCs are widely regarded as agents of economic globalisation. The behaviour and production organisation of companies of all sizes have changed dramatically in response to globalisation; the production of many goods and some services is increasingly organised globally. In addition, completely new methods of trade, such as outsourcing and production networks, have come into being. With the passage of time they are becoming increasingly mature, complex and popular.

Advances in ICT, the newest sinew of the modern period of globalisation, are also important. ICT is a general-purpose technology, or meta-technology, having a pervasive impact on the economy. This industrial sector was dynamic, i.e. rapidly changing, and depended relatively heavily on a highly educated workforce. Brisk progress in ICT influenced the economic and social parameters to an unmatched degree by increasing our ability to communicate and access information. Access to the internet had grown rapidly and transport and communications costs continued to fall. In constant (1998) dollars, the cost of a three-minute New York–London telephone call in 1931 was $293; in 1950 it came down to $50, and in 2001 it fell to $1 (Krueger, 2006). By 2007, it was just $0.23 (OECD, 2007).

Advances in ICT favourably influenced both the speed and scale of globalisation during the contemporary phase. Advances in computing power as well as emergence and widespread utilisation of the internet enabled sharp cost cuts in processing and transmitting information. They also facilitated international transactions in goods and services. Furthermore, the ICT-enabled services were instrumental in the creation of regional production networks which exploited vertical specialisation as well as geographical fragmentation of production processes to an unprecedented degree. The mature industrial economies have taken to large-scale outsourcing of the production of goods and services.

Owing to the creation of a globalised labour force, many of the production processes and services can be performed remotely. While vestiges of the model of international production chains existed in the early twentieth century, this process is far more advanced and pervasive now than ever before. Dramatic improvements in value-chain, or supply-chain, management have not only altered manufacturing processes but also reduced costs of production. Production processes have been broken down among globally distributed suppliers; techniques such as just-in-time management enable efficient production. The advent of a group of emerging-market economies (EMEs) on the global economic stage, with China gearing up to take a conspicuous place, affected the global economy in an unmatched manner. The ultimate outcome is close integration of a large number of economies. While exclusive and distinctive in their own right, these remarkable attributes are being driven by the same fundamental forces, and are having similar effects, as they did in the preceding era of globalisation. Technological advancement and advances in the mode of transport and communication are still major enabling factors.

One characteristic of contemporary globalisation is increased intra-firm cross-border collaborations in the form of joint ventures, non-equity agreements and minority participations which enable firms to engage in producing products or services that are beyond the individual technical and financial resources and capabilities of firms. Such collaborations steadily increased since the early 1980s. Large and resourceful firms in mature industrial economies that are technology leaders frequently take initiatives in putting together such collaborations. An increasing number of small and medium-sized firms have also begun taking such initiatives and devising ways to form cross-border inter-firm collaborative ventures.

In terms of scale, the contemporary era of globalisation is unmatched. Never in history has global integration involved so many people, both in absolute numbers and as a percentage of the global population. For instance, in the latter half of the nineteenth century when economically advanced economies of Europe were integrating with North America, Australia and Latin American economies, their total population was half the size of the advanced economies. In contrast, China and India alone represent 2.5 times the current population of the mature industrial economies. Similarly, the scale of goods, services and capital traded at present is unprecedented.

The contemporary globalisation is also marked by a large broadening of the range of products and services that have become tradable. Trade in services has become the fastest-growing component of multilateral trade. This is the consequence of having a far more open global economy than ever before. Trade consistently grew faster than the global GDP. Merchandise exports are 20% of global GDP during the current phase of globalisation, compared with 9% a century ago, during the earlier phase of globalisation (Alexander and Warwick, 2007). Advances in the ICT have not only reduced the cost of communication but also made it possible to actively trade a range of services which were regarded as non-tradables until the recent past, such as financial, legal, medical, engineering and research services. Lower costs facilitate communications between buyers and sellers, brokers and middlemen that particularly affected trade in various kinds of services. In 1994, the WTO created a GATT-like institution, called the General Agreement on Trade in Services (GATS). Its mandate was to facilitate and monitor trade in services, which heralded a new era in the globalistion of trade in services (Das, 2007). Restrictions of cross-border financial flows were markedly reduced by governments during the contemporary period and the so-called soft infrastructure, which includes legal and accounting frameworks, has steadily improved.

Summary and conclusions

Globalisation is an ancient concept and phenomenon. This article compares and contrasts the two modern periods of globalisation, namely the one that started in the nineteenth century and ended on the eve of World War I and that of the contemporary era. In an ideal world, globalisation brings down national barriers and integrates economies and societies. In so doing, it increases international division of labour, and elevates multilateral trade in goods and services, cross-border corporate investment and capital flows. The two voyages of discovery, by Christopher Columbus and Vasco da Gama, had a noteworthy impact on world trade and economic integration. Global integration since this point in time is well-chronicled.

The nineteenth-century globalisation was given impetus by the promulgation of appropriate free-trade laws and treaties reinforcing the trend in freeing of trade. Global trade and financial flows picked up momentum after the 1870s, and cross-border migration of labour expanded at an extraordinary pace. Railways and steamships brought the cost of transportation down and communications costs fell due to the invention of telegraph. Likewise, trans-Atlantic cables helped to reduce the cost of transmitting information and data. In this ambience, policy mandarins in many countries appreciated the classical economic principle of comparative advantage, and adhered to the concept of free trade and capital flows. This phase of globalisation was characterised by almost entirely free movement of capital. Large volumes of investible capital gushed from the industrialised countries of Western Europe to the rapidly developing economies in Australia, Canada, Latin America and some developing countries, that were colonies of the European economies. This era is also known for an exceedingly rapid global movement of the labour force.

The contemporary era of globalisation developed after 1980. Since this juncture, governments in the mature industrial economies, and increasingly in the emerging economies of the developing world, began to foster liberal macroeconomic economic policy regimes that were broadly supportive of globalisation. Slashing trade barriers and liberalising capital flows reflected the mindset of policy-makers. Accordingly, artificial and policy-induced barriers to international transactions were brought down. The pace accelerated markedly after 1990. A general policy shift towards greater reliance on market forces is one of the features of the contemporary phase of globalisation. Multilateral trade was promoted by the reinforcement of the GATT/WTO framework and a steady decline in freight and port charges.

The newest sinew of globalisation during this era was the advances in the ICT. Technological advances complemented policy changes by facilitating trade in a wider range of products and services than would have been the case otherwise. The scale of global integration through trade and financial channels during the contemporary era was unmatched by the previous phase of globalisation. Never in history had global integration involved so many countries and people, both in absolute numbers and as a percentage of the global population. The danger is that this phase of globalisation now goes into sharp decline.

1. The two expressions 'financial integration' and 'financial globalisation' are being used interchangeably here. Both of them are aggregate concepts implying progressive integration of individual economies with global markets.
2. Chapter 1 in Das (2009) provides a succinct historical account.
3. For a detailed exposition on this issue see Das (2004a, 2004b), Keohane and Nye (2001), and Norris (2001).

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