Paul Bairoch and Richard Kozul-Wright. 1996. Globalisation Myths: some historical reflections on integration, industrialisation and growth in the world economy. UNCTAD discussion paper 113 (March).

The issue: proponents of globalisation and liberalisation argue that prior to the WWI the world economy was being integrated through a process of increasing liberalisation and trade, that accelerated growth, economic transformation and convergence. Further, they argue that this process was interrupted by the disturbances created by WWI and WWII (and the interim period between them) and the emergence of socialist countries. Finally, they conclude that the current process of liberalisation resumes the interrupted process of globalisation and is generating similar results. Therefore, they argue, there is much that can be learned from history to ensure that the current process of globalisation results in greater growth, development and convergence.

Whether the current process of globalisation is or not conducive to growth and convergence is outside the scope of this paper. What this paper discusses is whether the interpretation of past experience passes the test of historical facts.

Liberalisation?

Was the period referred to as “past globalisation” characterised by liberalisation and increasing trade, integration and convergence?

- trade was far from being liberalised, though policies and degrees of protection and liberalisation varied considerably across countries and over time:
  - the export share of GDP (indicator of economic openness and unbiased economic incentives, or liberalisation) varied very considerably across countries. Exports grew as economies grew and modernised; as opposed to the neo-liberal version that says that economies grew and modernised as exports grew.
  - in the USA, the levels of protection were higher than elsewhere: average tariff protection reached 45% (ranging between 25% and 60%), although it then reduced gradually to 30% over more than two decades;
  - in Europe, protection rose as a result of the alliance between agrarian interests and some industries, which found in protection a response to the arrival of cheaper grains from the USA and Russia;
  - in most LDCs the degree of liberalisation of trade and finance with the colonial power was very high (as it was in the interest of colonial powers to acquire cheap raw materials, expand the market for cheaper manufactures and for finance). However, the colonies were also fairly closed economies with respect to the rest of the world (excluding the colonial power and its zone of influence). Many independence wars were based on the interests of local entrepreneurs calling for protection from the colonial power, as the more modern and more cost competitive producers of the colonial power were wiping out small industries in the colonies. As they acquire their independence, Latin American countries introduced protection and adopted ISI policies for the late 19th century;
  - at the time, the developed world was described as islands of liberalisation surrounded by an ocean of protection, and the developing world was described as islands of protection surrounded by an ocean of liberalisation.

- was trade increasing and promoting integration and convergence?

    - 60% of trade was amongst developed countries, and 40% amongst European countries alone;
    - North/South trade was limited to a few countries and very specialised.

- pressures shaping the organisation of production were of dynamic (rather than static) nature: the struggle for profit opportunities in an increasingly competitive world were state and entrepreneurs were operating together in a massive scale:
    - the share of intra-firm trade grew very substantially as international production and finance expanded;
    - FDI, which brought together the state, industrial entrepreneurs and traders and the banking system, was highly concentrated and mostly used to:
        - exploit "natural" resources – minerals, land, and the presence of large armies of unskilled labour;
        - provision of infrastructures and services (transports and communications and marketing facilities), many associated wit the exploitation of "natural" resources;
        - offset trade barriers by locating productive facilities closer to the markets.

- the internalisation of finance was organised to respond to the pressures shaping the organisation of production and trade:
    - well over 50% of international financial transactions took place amongst the small group of developed economies;
    - 24% of international financial flows went to Latin America, of which two thirds went to Argentina and Uruguay alone;
    - the bulk of foreign investment went into infrastructures and utilities, and public borrowing was essential: well over 50% of international flows of capital were associated with government and railway bonds.

In brief, production, trade and finance internationalised quickly but very unevenly. The wealthiest countries absorbed most of trade and capital flows.

What happened to manufacturing?

- the most dynamic sector of the world economy at the time was the least liberalised:
    - manufacturing was the engine of growth, associated with technological development, socio-economic and political transformation. Manufacturing development was being brought about by accelerated technological progress and capital flows, both of which required significantly levels of protection;
    - the world share of the 3 leading economies (USA, Germany and UK) in the most important industries increased from 1/3 to 2/3 from 1870 to 1913. Hence, there was a very strong trend towards divergence rather than convergence;
    - catching-up was a very rare phenomenon, and when it happened it had not very much to do with liberalisation, but with the development of institutions (including property rights and the link between finance and the industry), the scale of the firms, the development of entrepreneurial abilities and organization, as well as the absorption of technological externalities due to development of local domestic capabilities;
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- although until the early XX century the richest countries were exporters of primary products (with probably the exception of the UK), this fact does not provide evidence

for the positive role of specialisation nor the linkage primary products/industrial products, because:

  - o those countries were wealthy prior to globalisation;
  - o this period was marked by a favourable shift in the terms of trade of primary products, partly because the demand increased very substantially due to industrialisation, but the supply did not increase as much due to primary production falling behind in productivity;
  - o only the countries that established an industrial base (and all made use of protection to achieve it) managed to continue to be wealthy and became wealthier;
  - o the ability to benefit from increasing revenue from exports of primary products rests on the ability to improve productivity, standards and quality, which require the development of local technological and productive capacities.

Conclusions

- the period under analyse (mid 19th century early 20th century), was not characterised by smooth globalisation-cum-liberalisation, but rather by:
  - o divergence and uneven development;
  - o growth that was higher than past records but lower than current records, which was not driven by liberalisation, but by:
    - ▪ development of industrial institutions in the developed world;
    - ▪ industrialisation, which was not liberalised;
  - o the relationship between growth and trade was from growth to trade and not vice-versa;
  - o FDI was concentrated, sector specialised, very unevenly distributed, volatile (at least the re-invested component of it) and reinforced the pattern of uneven development;

- the ability (technological and socio-economic) to generate and absorb technological capabilities is a far more important determinant of growth than trade and liberalisation. This ability was not an exogenous factor, but resulted from:
  - o state and technological change: demand and provision of guarantees for transports and communications, new products (including the military), and technology related finance;
  - o capital accumulation: links between finance and industry and international capital flows were very important, as excessive savings due to growth were relocated abroad, the demand fro more resources forced capital flows, and capital flows were often tied to exports and imports.

"(…the question of) why some countries were able to harness industrialisation to a successful process of catching-up cannot be restricted to a question of appropriate policies and the presence of a good (or bad) state. The wider institutional dynamics which are part of this process are, for better or worse, the product of social and political actions, and link changes in international forces to the context of political economy" (pp. 26)