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Globalization

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Globalization is not a new phenomenon, nor is opposition to it. The world has experienced several eras of expansion of global trade, flows of capital, and labor migration. Each era has aroused opposition from workers and others who blame globalization for a variety of economic, social, and environmental problems. Their response, historically and currently, has been to demand more restrictions and regulation of trade, labor, and capital markets. Two recent proposals seek to counter these anti-globalization forces.

Globalization is a term that has come into general use to refer to trade in goods and services and flows of labor and capital among countries, with the implication that the process is worldwide. In fact, there is a long way to go before globalization is fully in place. Other terms for the same phenomenon are global openness, global economic integration, and global economic interdependence.

A broad definition of the phenomenon holds that it has been going on for thousands of years, ever since a road was built between two regions, or a shipping lane connected them. The Roman Empire has been cited as an example of economic integration of widely separated regions, unified by transport and a common language, legal system, and currency. My definition is narrower, limiting it to two historical episodes, one beginning at the end of the fifteenth century of great explorations, and the second, the late nineteenth century age of integration that World War I ended. The current episode may be dated from 1950 on. I first discuss what is distinctive about each of them. I then note forces that opposed each era of globalization and, for the current era, I report two proposals to counter anti-globalization forces.

The Age of Great Explorations

Before the voyages of Columbus, Vasco da Gama, and others, trade linked Europeans living along the Mediterranean, the Atlantic, and the Baltic. The transoceanic explorations by the new breed of adventurers like Cortés and Pizarro expanded contacts to completely alien worlds. The long voyages, made possible by improvements in ship navigation, sail design, and the compass, stimulated the growth of international trade in directions previously unknown. Because of the high costs and risks both outbound and inbound, trade was limited to high value commodities such as tobacco, spices, coffee beans, tea, sugar, silk, and precious metals. Trading companies that the British and Dutch established as monopolies soon took control of the trade that

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brought them great wealth. Martin Luther, at the height of the Protestant Reformation, condemned the sinfulness of indulging in the newly available commodities that drained money from the nation to make foreign lands rich. On this view, foreign trade is a zero-sum game, and the wealth of those who are enriched by commercial activity is illegitimate. These negative responses foretell events of our own time, namely, that economic integration arouses opposition.

Colonization by the French, Spanish, and British following the explorations abroad, required some migration of labor, but predominantly the migrations between 1600 and 1790 were coerced slaves and contracted indentured labor. International capital flows were basically precious metals.

Negative consequences included price inflation produced by inflows of gold and silver, which in turn paid for military ventures that disturbed the peace.

The Age of Integration Before World War I

I turn now to economic integration during the mid-nineteenth century to 1913. The worldwide growth of trade far exceeded past increases. The belief in the advantage of trade for economic growth was widespread. Goods of wider variety became available. Countries with more developed financial systems tended to conduct more foreign trade and to be better integrated with other economies. Financial reforms were deemed necessary when the status quo threatened disruptions to global trade. Trade monopolies created by government in the past were weakened by competition.

Two features of the nineteenth-century world were the role played by the gold standard from the 1870s on and that of the central banks. Before the 1870s only Britain and Portugal were adherents. When unified Germany adopted the gold standard, other countries followed suit, in the belief that adherence signified that their monetary and fiscal policies were sound and therefore would win them access to the world capital market. Capital-rich countries all adhered to the gold standard, whereas capital-poor countries often tried to abide by gold standard rules but their efforts were defeated by periodic panics, financial crises, and defaults, associated with the external debts they incurred to obtain foreign capital. It was available only when denominated in currencies of capital-rich countries. Many national central banks were also created, ostensibly to manage the gold standard, but in fact to channel capital to politically desirable recipients. Thus French loans to Russia gave that country preferential access to French markets.

By 1913 the world was highly integrated economically. Markets became interconnected thanks to improved communication. National markets were created by the reduced costs of new forms of transportation, including the opening of the Suez Canal. Steamships replaced ships with sails and barges. Railroads replaced wagons. Tariffs and trade barriers did little to interfere with trade. Above all, people moved by rail and ship, often undertaking long uncomfortable journeys, to countries promising greater job opportunities and higher standards of living, as well as religious freedom.

It has been estimated that 36 million people left Europe between 1871 and 1915. The immigrants contributed to economic growth in the countries they moved to by building cities and transport systems that the capital inflows financed. At the same time, the countries losing population benefited from the outflow of low-productivity individuals, and experienced renewal, as happened in Ireland and Norway.

Economist Brinley Thomas believed that cyclical recessions in Britain correlated with cyclical expansions in the United States, promoting emigration from Britain that strengthened the American economy and increased the demand for British exports, helping its economy to revive. The return on capital, land, and labor was equalized. It has been estimated that 70 percent of real wage convergence during this period resulted from the integration of labor markets through migration, and 30 percent from international trade. Prices of many commodities also converged globally.

Capital moved freely between nations and continents. International integration, measured by net capital movements in relation to Gross National Produce (GNP), was much greater by 1913 than it is in today's globalized world. Between 1870 and 1890, Argentina imported capital equivalent to 18.7

percent of national income. In the 1990s, it was 2.2 percent. The difference in capital exports is even more striking. Britain in 1913 exported capital amounting to 7 percent of its national income. No country since 1945 has come close to matching that figure.

A similar comparison holds for international trade. In 1913 British exports were about 30 percent of national income, and Germany's were 20 percent. These levels were not surpassed until the 1980s or the 1970s, respectively. Another way of measuring integration is the extent to which the standardization of products proceeded before 1913 across countries.

Free-trade treaties between countries, it was believed, fostered peace. Instead, a global economy and international society produced nationalism, in response to a perception of an external threat. Its primary goal was national defense. Modern states, however, offered social defense as well. At the same time that states became open to international trade, the belief arose that it was the duty of the state to protect those threatened by foreign goods. Tariffs in the later nineteenth century, particularly grain tariffs, were described not as social but as national defense. Higher food prices for the consumer were said to be justified if food protection increased cultivated areas, raising the defense capacity of the state in longer struggles against others. A social variant of this argument was that an effective army depended on rural recruits, so farmers were the chief support of military as well as social order.

Europe adopted protective tariffs as a response to lower freight rates and falling grain prices in the 1870s. The price declines affected land prices and thus the political power of an agrarian society. Agrarians built coalitions to protect their interests, and incidentally altered the function of the state as one that provides security for victims of global events, in particular, trade protection. In 1887, Britain enacted the Merchandise Marks Acts in response to protests against competition by German producers of consumer goods. The legislation required imports to be stamped with their country of origin, and was copied by other countries. Protests were fueled by the labeling. Germans retorted to British trade envy.

Another response to trade and financial crises in countries of mass immigration and in some advanced countries was to restrict the movement of people. In the 1890s, Australia began its "white Australia" policy. Americans claimed new immigrants were taking the jobs of skilled native workers. In 1897 Congress debated a reading test for immigrants. In 1907, a commission sought a way to restrict new immigrants coming only for economic reasons and for a short time. In Canada farmers protested against "the scum of Continental Europe; we do not want men and women who have behind them a thousand years of ignorance, superstition, anarchy, filth and immorality." In Germany, inflows of foreign labor were vigorously controlled after 1887.

Attempts to regulate and control capital markets in the nineteenth century occurred even as capital flowed freely, even if not smoothly, from mid-century on. There were waves of British capital: in the 1820s to new South American republics (halted in 1825, when a default happened), then a wave to North America in the 1830s, followed by a new wave of lending to South America in the 1850s and 1860s, then another to the post-Civil War United States that collapsed in 1873. Lending to build railroads resumed in the 1880s, until a crisis in 1890.

For political reasons particular bond issues were either supported or blocked, but long-term capital movements were relatively unregulated. Short-term capital movements, because of their effects on money and hence prices, were less welcome.

World War I and Its Aftermath

The guns of August 1914 shattered the world of international integration. When the war ended, people were nostalgic for the lost pre-war world. They sought to restore it through international institutions. The new League of Nations promoted financial stabilization, and the Bank for International Settlements coordinated central bank activities. Trade negotiations, no longer bilateral, were conducted within a framework of large international conferences under the League's auspices. Problems of the 1920s overwhelmed the drive for integration. The decline in raw materials prices, in part owing to wartime extension of areas of production, in part owing to misguided commodity stabilization

schemes, made difficulties for capital-importing countries. Lower food prices, however, benefited industrial countries. Trade restrictions were adopted in response to economic problems, of which the U.S. Smoot-Hawley tariff is the prime exhibit. In addition, the international political situation was poisoned by conflict over war debts and reparations.

The attempts to find new means to achieve integration failed, destroyed by the Great Depression of the 1930s. Economic nationalism and protectionism emerged. Autarky and war preparations were the order of the times. Globalization ended.

The Current Era

The process of globalization resumed after World War II ended. Technological developments again influenced the process. Cheap air travel, new shipping techniques such as air freight fleets and containerization, enhanced telephone communication, the digital computer, and the rise of the Internet all changed the way the world works. Political changes also contributed to the restoration of international trade and the monetary system. Liberalization of international trade in goods and services has proceeded by fits and starts. Integration of the more advanced industrialized economies is far ahead of conditions in less developed nations.

As mentioned earlier, decades passed after 1945 before trade as a share of global output equaled that of the era of globalization before World War I. Recently, however, the scale of growth in exports has vastly exceeded the 1913 peak. Merchandise exports are now over 20 percent of global output, versus only 8 percent in 1913. The pace at which people of China, India, and the former Soviet republics have been integrated into the world economy is unprecedented. Trade in the current era is distinguished by the prevalence of trade between industrial countries with similar resource endowments producing similar types of manufactured goods. Comparative advantage doesn't drive this trade. Multinational firms engage in this cross-country trade for reasons of economies of scale. The products and services traded internationally in the current era are more varied than ever. To save on costs, components of a product may be produced in different countries and assembled in another country. International trade in legal, financial, medical, and engineering services has also expanded. In addition, the location of world manufacturing capacity has changed. In the nineteenth century, advanced countries exported manufactured goods, and less developed countries exported commodities. Nowadays, the share of world manufacturing capacity keeps growing in less developed countries.

The current era began with widespread use of controls on capital movements that gradually declined, first in advanced countries. The supply of capital expanded greatly as hedge funds, pension funds, college endowments, mutual funds, and individual investors became participants in the world capital market. Net capital flows in the nineteenth century era were higher than in the current era, but gross capital flows currently are higher. Capital flows today aren't limited to railroad bonds and government securities, as they were in the nineteenth century; they now include varied debt instruments, equities, derivatives, and claims on many private and public sector borrowers. Foreign direct investment as a share of world output currently is much greater than it was in the past. A striking difference from the nineteenth century era is that back then the British trade surplus was used to export capital to less developed countries. In the current era, the U.S. trade deficit is financed by capital exports from less developed countries.

Capital account liberalization enabled banks and corporations, as well as developing countries, to fund themselves offshore. Capital movements, however, revealed weaknesses in domestic financial systems. The fear that the benefits of free trade will be destroyed by monetary disorder is a powerful goad to prevent financial crises.

The third pillar of globalization, along with trade and capital, is migration. In the post-World War II period, immigration policies that the receiving countries introduced earlier in the century initially controlled inflows. The policies changed in the 1960s in the United States, Canada, Australia, and New Zealand, shifting from quotas that favored northeast Europe immigrants. Immigration to these countries rose gradually to one million per annum in the 1990s. The absolute numbers are similar to immigration a century earlier, but, relative to the pres-

ent population of the receiving countries, are much smaller. In the United States, the foreign-born were 15 percent of the population in 1910, 4.7 percent in 1970, increasing to 10 percent in 2000, thanks to the growing postwar immigration. Illegal immigration has risen as demand for visas has exceeded the supply the receiving countries make available.

Why is There Opposition to Globalization?

Having reviewed past and current eras of globalization, I need to discuss why opposition to the process has arisen in the past and in our own day.

The protests in our own day have been violent, directed against meetings of the international trade and financial organizations. In November 1999, a ministerial meeting in Seattle of the World Trade Organization was disrupted by street riots by citizens of mainly wealthy countries. They demanded that the trade talks introduce environmental and labor standards in trade negotiations. Developing countries regard these conditions as forms of protectionism harmful to their interests. The chaotic scene in Seattle became a protest against American influence, exemplified by the international spread of McDonalds.

The 2000 meetings of the IMF and World Bank in Washington, D.C. again provoked street rioters complaining about the injustices of the global economy that have made the world more unequal, and permitted monopoly multinationals to rule trade.

It is not only global trade that arouses protest. The volume and volatility of capital movements, it is contended, destabilize emerging economies rather than promote their development. Controlling capital movements, rather than liberalizing them, was the solution favored by critics.

A backlash against the international order, both against goods markets and international migration, has also been identified. The proposed solutions are more trade protection and control of immigration.

It is not only ordinary people who express their disapproval of the workings of the global economy by street riots. Respected economists also are among vociferous objectors. Kevin O'Rourke and Jeffrey Williamson argue that each era of globalization has planted the seeds of self-destruction. Nobel Laureate Joseph Stiglitz is the author of a book, *Globalization and its Discontents*.

Responses to Anti-Globalization Views

Dr. Stiglitz has just published a new book, *Making Globalization Work*, with a more positive message than in his earlier work. His remedies to make globalization more equitable are freer trade, eliminating loopholes for rich countries and corporate lobbies, curtailing intellectual property rights, changing GDP accounting to factor in resource depletion and ecological damage, more transparency in international finance to curb corruption, and debt forgiveness by foolhardy creditors for low-income country borrowers. He writes, "It seemed terribly unfair that in a world of richness and plenty, so many should live in such poverty."

Dr. Stiglitz prescribes that after developing countries get their "fair share," they must use "the money well." So they will need non-kleptocratic governments, uncensored media, enforced property rights, and the rule of law. In support of his preference for regulation over market solutions, he cites Japan and South Korea as examples of successful management of an economic boom. Other evidence contradicts Stiglitz's view.

Another version of how globalization can be increased has been offered by Gordon Brown, the new British Prime Minister. Previously he was the Chancellor of the Exchequer, and he was also the chairman of the International Monetary and Finance Committee at the annual meeting of the IMF and World Bank in Singapore in 2006.

These annual meetings have attracted protests by dissidents demonstrating against trade, environmental and economic policies of the capital rich countries. The meetings in 1999 and 2000 nearly were shut down by violence. In recent years the protests have been more peaceful. The IMF and World Bank have tried to mollify angry protestors by inviting groups to their meetings. For the 2006 meeting, about 500 representatives from more than 45 countries were accredited. However, much to the embarrassment of the World Bank, Singapore police barred representatives of several such groups at their meeting with leaders of poor countries. Singapore acted out of fear of violence. The IMF and World

Bank urged the Singapore government to reverse the decision to bar individuals who had been accredited, and eventually some were allowed to attend. But Singapore has a low tolerance for political protests and unruly behavior, and public protests were largely banned.

Let me turn to the proposals Gordon Brown has made, at the Singapore meeting and since then, to improve prospects for globalization.

He proposes championing the benefits of free trade by reviving the stalled Doha round of world trade talks, which were supposed to achieve reductions in agricultural subsidies in developed countries that would open their markets to agricultural exports of less developed countries. Developed-country concessions would be balanced by the opening of trade in services and manufactured goods in less developed countries. The chief barrier to a successful Doha round was developed-country agriculture. The failure of the Doha round in July 2006 has encouraged anti-free trade and anti-Americanism sentiments. Brown believes pro-trade leaders need to defend more globalization, not less, as the best route out of poverty for poor countries, not the isolationist route.

World trade has grown at six percent a year since 1975, and is the main source of the three percent annual rate of world economic growth since then. Further trade liberalization could lift 95 million people out of extreme poverty. The key players in the Doha round are the United States, Europe, India, and Brazil. Each of them should be pressured to reverse the collapse of the trade talks. Europe must do better than its initial offer of a 39 percent cut in agricultural tariffs, and even the 51 percent recently proposed. The United States must do better than the proposed 53 percent cut in trade-distorting domestic support for its farmers. Brazil should go beyond its pledge to reduce its tariffs on industrial goods to a maximum of 50 percent. India should respond by lowering barriers to service imports.

In the developing world, transport costs in the form of cargo shipping rates can be ten times the costs of tariffs as barriers to trade. Brown hopes to increase support from the United Kingdom, the United States, Japan, and Europe to do more to improve the infrastructure for trade in the developing world, demonstrating that by complementing open flexible markets and free open trade, globalization can be made fairer to developing countries. Investment in infrastructure there, education, and equipping unskilled workers and poor ones will also be required.

Brown says that the greatest damage to globalization today has not been inflicted by the demonstrations and running protests that have marked trade negotiations in past years, but is self-inflicted by the failure of the world's wealthiest countries to agree to trade liberalization.

Conclusion

The world has experienced several eras of expansion of global trade, flows of capital, and migration of workers to countries promising job opportunities and improved living standards. Each era has provoked opposition as workers blamed cheap imports for destroying the competitive strength of domestic firms that employed them; as workers blamed foreign-born immigrants for lowering wages of and taking jobs from the native-born; and critics blamed capital imports for creating booms that ended with a bust when foreign owners capriciously withdrew their capital. The question that time will answer is, will today's anti-globalization forces prevail?

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