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**ECONOMIC GLOBALIZATION:
HISTORICAL EXPERIENCES
AND DRIVING FORCES**

Abstract

On the basis of historical analysis it is shown that globalization has a unique history in the development of life spheres and mankind activities. At the same time, the current stage of the development is characterised by such tendencies in economic sphere that totally change the world economy. In particular, the direct foreign investment growth is greater than that of gross domestic product. The international economic exchange results in an improvement of all countries' well-being, number of international labour division participants grows, computerisation significantly promotes international exchange reducing transportation costs. History lessons testify that globalization is not a unilateral and not irreversible process. It is more or less politically influenced and thus can be changed to a certain degree. There is made a concluding in the article that the globalization process has to be controlled in such a way that its advantages could be used for compensation to those social groups or countries that turned to become losers as a result of the process. Otherwise national or international conflicts could arise or intensify.

Key words:

Direct foreign investment capital flow, export, foreign trade, globalization, integration, international labour division, international labour migration, international loan, international transportation, liberalization, nationalism, new technologies, non-economic globalization, oil crisis, protectionism, world economy.

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I. Non economic aspects of globalization

Although the actual, controversial debate on globalization concentrates on economic aspects, it is worth – while considering also forms of globalization in quite different fields of human life. Some of them only have started in recent decades, others can be observed over a longer period of time.

1. Let me start with the simple example of sport which has a long tradition of global competition: think of the Olympics or since several decades of different world championships. Nowadays in some popular sport disciplines like football or ice hockey additional developments are taking place: The best players «emigrate» to those countries where they are best paid for their sport. Thus for example in the prime football leagues of Italy, Spain, England or Germany true multinational or global teams are competing now. In economic terms one can interpret this development as the arising of a global labour market for top athletes.
2. Presently, we also experience a serious globalization process in the field of environmental problems: A gradual global warming is changing the world climate, the ozone hole is growing.
3. One also can observe global tendencies in some fields of culture. What is true for the classical music of Bach and Haendel, of Mozart and Beethoven, of Verdi and Wagner and their famous actual interpreters (singers, instrumentalists or conductors) is just as true for the popular songs of the Beatles or of Michael Jackson. A lot of classical or modern literature has found global audiences as well and the same is true for some (especially American) films or television broadcasts.
4. In some other fields of culture we come upon the very old history of global claims: for example that of the Christian (or Islamic) religion. In the holy books the demand for mission was formulated: «Go out in the world and teach all peoples». And when nowadays the bishops of the Catholic Church are meeting in Rome you can see the result: a truly global assembly!
5. What is true for religion is also true for some modern ideologies, such as Marxism. Its thinking started in 1848 with the demand: «proletarians of all nations unite!» And its followers expected the world revolution in the end. But our Western ideas or values like human rights, freedom, democracy and market economy as well are interpreted as global values which should be realized for all people in the world.
6. In the sphere of politics we know the long history of (global) empire building. The wars of conquest of Alexander the Great or of Napoleon and Hitler, the politics which brought about the Roman and – later on – the British Empire or the politics of block building in the phase of the

Cold War: their basic idea always was very similar, namely to dominate or to control the – then known – world. If such aspirations could not be realized globally, often it was only because of the existence of strong rivalries that opposed domination or tried to build empires of their own often resulting in bloody conflicts. In the 20th century a consequence of such historic experiences was drawn by establishing international institutions like the United Nations or some international law courts or – in the field of economics – the Worldbank and the IMF, and in the last decade the WTO. The underlying idea of such supranationalism is always some sort of global decision making or global governance.

The just mentioned institutions of international economic policy also can be interpreted as instruments for making economic globalization workable. But before we turn to this topic, let us shortly summarize our first findings:

- Tendencies of globalization can be observed in many fields, not only in economics. (If you wonder why technology was not yet mentioned, although technologies tend to spread all over the world, you will agree that this process is closely linked to economic globalization. It makes no sense to deal with it separately.)
- Some of the mentioned tendencies already have a long history, others have developed in our life-time, only.
- How are the mentioned tendencies of globalization judged? Very differently! For example one can find broad consensus for the thesis that our global environmental problems have to be fought against. But other aspects of globalization were and are more controversially judged. Religious mission, for example, often was counteracted by rival religious communities, even within Christianity. And not only empire building was opposed by those who felt to be victims of such strategies, but even the worldwide exchange of culture often was resisted by some countries or their governments. Thus Western pop or jazz music was blocked from communist countries; for a while. Some Islamic countries – like Iran or the Taliban regime in Afghanistan – tended to ban all forms of intercultural exchange with arguments against bad foreign influences or cultural imperialism. Even the idea of worldwide human rights is not accepted by all countries or their representatives in our times, denouncing it a mere Western interpretation.

II. The indicators of economic globalization

Let us now deal with tendencies of economic globalization which in the last decades increased enormously but at the same time are more and more criticized on a worldwide scale. The protest culminated in the past years in street demonstrations during several international conferences: Seattle, Davos, Prague, Geneva and so forth.

First, what are the main indicators of actual economic globalization? In the literature one usually finds the following: foreign trade, foreign direct investment, international financial or portfolio investments, technology transfer and migration.

The overall picture is relatively simple. In the decades after World War II global economic growth was astonishingly high, especially in the years before the first world oil crisis (1973), sometimes referred to as the «Golden Years of Economic Growth». Considering this, it would be difficult, however, to calculate the contribution of internal growth factors against those of international economic exchange.

Empirically, it is obvious that during the last decades the growth rates of foreign trade, on the average, were significantly higher than the growth rates of output. Between 1950 and 1990, for example, world exports growth rates were more than two times as large as the rates of output growth. After the first oil crisis in the middle of the 1970s the growth rates of world output and trade slowed down, but international trade still grew faster than world output (see Fig. 1). One reason for this can be seen in a new strategy of international companies to externalize parts of their production process according to international cost advantages (see the paper by Sandretto, here).

With regard to the capital flows, their globalization process seems to have started in the middle of the 1980s. It was then, that the annual amount of FDI tended to explode (see again Fig. 1); part of this results from increases in international corporate mergers, some as friendly, some as unfriendly takeovers. It is well known that also the flows of short- and long- term capital increased enormously during this period, e. g. international lending between 1973 and 1993 had an annual growth rate of 16 % against 10 % for total world trade. Other indicators of the globalization of financial markets are difficult to show with precise figures as they are handled inside or between banks in a high degree.

During the time period discussed, international labour migration was relatively low, at least compared to the mass migration waves before the First World War.

III. Driving forces of current economic globalization

What about the reasons or the driving forces of actual economic globalization tendencies which have attracted so much international attention over recent years? An answer to this question also should answer the question: How will globalization develop in the future? Is globalization, as many people seem to assume, a unilinear, irreversible historical process which will continue without a visible end?

Theoretically one can distinguish between four main groups of causes which in reality, of course, are running at the same time and are partly interconnected.

III.1. The process of continuous regional and global liberalization

It was the special task of the GATT agreement of 1947 to abolish the different restrictions countries imposed on international trade. By several negotiation rounds especially customs duties and quotas for industrial goods were massively reduced or abolished. One result of the last «Uruguay round» (1986 – 1994) was the liberalization of some services and the agreement on a new international institution: the «World Trade Organization».

In recent decades most international capital transactions were liberalized, too. These processes of liberalization were carried out even more rapidly and at a larger scale in some regional economic communities, such as the EU, for example. Since 1993 the European Union has accomplished the project of a true domestic single market with four economic freedoms: free exchange of goods, services, and capital, and free movement of persons.

The remarkable feature regarding all these processes of integration is that they did not happen automatically but were established by political decisions based on the ideas – first formulated by the classics of political economy, Adam Smith and David Ricardo – that international economic exchange, i.e. international division of labour, is not a zero-sumgame. International economic exchange rather means increasing the wealth of all those countries involved by its productivity effects.

III.2. The growing number of participants in international division of labour

Especially during the two last decades the number of participants in international division of labour remarkably increased

- by the breakdown of the 'eastern block' and its transformation to market economies and the gradual opening up to the world markets in the nineties;
- by the success of the export oriented Japanese development model which also worked well with the neighbouring Asian 'Tigers' like South Korea, Taiwan, and later on Malaysia, Indonesia and the Philippines; more recently China, too;
- by the gradual opening of economies like India and South America which in the seventies rather followed the idea of economic development by self reliance and import substitution.

Altogether with these participants, more than 50 % of the entire world population became newcomers in international trade and investments! This also means that the so-called 'first world' countries not only gained new customers for their goods and services, but also new competitors whose labour costs pose a real challenge for their economies and their own workers.

III.3. New technologies

The advancement of microtechnologies and their applications to computers and modern information and communication technologies have broadened immensely the international possibilities for economic exchange. Contributing factors to this development also were their falling prices and the easy ways of learning to operate them.

III.4. Reduction of distance costs

Generally speaking international trade is restricted not only by different political barriers (as mentioned above) but also by transport- and information-costs. The latter ones have been reduced drastically, too. For example: since 1930 world shipping costs have fallen by 50%, the air freight charges by 85%, and telephone communication by 99%!

Which conclusions can be drawn from this overview on different driving forces of economic globalization? All these factors or forces on the one hand tend to intensify the international economic exchange with the effect of increas-

ing international competition, and accelerating structural change worldwide. On the other hand they all are quite different in character:

- The first and the second causes result from political decisions (based on economic experiences and calculations), and that is why they are reversible up to some degree.
- The third factor is a pure technological one; and the development of new technologies cannot and will not be stopped in the future.
- The fourth driving force above all is the economic consequence of new technologies which tend to bring about lower prices as long as they are politically welcomed and allowed.

Thus these reflections teach us that economic globalization must not be seen as an one-way road to the future. At least it can be influenced or run politically, to a certain degree. This result can be substantiated by a lot of historical experience which I will turn to in the last section.

IV. Economic globalization and history

In 2001 Harold James, the well-known economic historian from Princeton university, published a new book with the title: «The end of globalization» (James, 2001). Did he want to forecast the end of actual globalization tendencies, may be under the pressure of street protests during international conferences or as a political consequence of terrorism? Not at all. It is the subtitle of his book «Lessons from the Great Depression» which explains what he really meant: That the world economic crisis of the thirties of last century cut off a process of globalization whose small beginnings started in the forties of the 19th century. This process was very similar to economic globalization in our times in many respects. Before demonstrating this by some details it is worthwhile to mention that even that period was not the first era of globalization in history.

For example, in 1938 the German historian Fritz Heichelheim in his book on «Economic History of antiquity...» described networks of foreign trade which already existed 3000 BC, connecting the then known world between North Africa and inner Asia. And in our times André G. Frank and Barry K. Gills hold the thesis that globalization started 5000 years ago. The Swiss Christian Marek recently published an article on «The first global players», which in his mind were the ancient Greeks, the Arabs and the Indians, and Karl Moore together with David Lewis in 1999 called a new book «The Birth of the Multinational: 2000 Years of Ancient Business History».

In the period of the Roman Empire trade developed by land and sea far beyond the immediate Mediterranean region up to Eastern Europe on the one hand, to India and China on the other hand. A lot of authors called this the an-

cient world economy. After the break down of the Roman Empire and the period of migration of nations, only in the Middle Ages a new system of a world economy developed, which reached from the Mediterranean up to the Atlantic Ocean and the North Sea (Hanseatic League). International trade relations still increased in the era of the discovery of the New World on the one hand, but were restricted step by step by the idea of mercantilism, which especially hindered the importation of goods, and European colonialism, which was based on domination and exploitation instead of free trade relations, on the other hand.

The next globalization wave started, as mentioned above, in the middle of the 19th century, based on the combination of the following four driving forces: the idea of (classical) economic liberalism (which was politically carried through only hesitantly); the Industrial Revolution with its new technologies and products, the developing of huge estates with a lot of raw materials and fertile grounds, and new means of transportation which reduced the distance costs remarkably.

What was the economic consequence of these factors up to First World War? «By 1914, there was hardly a village or town anywhere on the globe whose prices were not influenced by distant foreign markets, whose infrastructure was not financed by foreign capital, whose engineering, manufacturing, and even business skills were not imported from abroad, or whose labor markets were not influenced by the absences of those who had emigrated or by the presence of strangers who had immigrated. The economic connections were intimate, poor regions had enjoyed significant convergence gains ... and flourishing export sectors enjoyed the benefits associated with the global trade boom.» (O'Rourke, Williamson 1999, p. 2). Seen macroeconomically, the export quotas (related to GDP) of most European countries on the average were as high as only again in the seventies of the 20th century. The story with exports of capital was even more dramatic. «On the eve of First World War, Great Britain was exporting 7% of its national income. No country in the post-1945 world has even approached such a level.» (James, 2001, p.12). Certainly, England was number one among the capitalist countries, then, but other countries exported or imported capital enormously, too. But above all, people were moving in this period. In a search for prosperity, security and freedom 60 million people left Europe between 1820 and 1915. They did not need even passports, then. Thus, before the First World War, also a global labor market had developed.

The question remains, why this process of globalization again came to an end in the interwar period. It was not only World War One or the Great Depression of the thirties, which stopped this process. The roots are to be found in the criticism which arose during globalization in the 19th century. «Not everyone was happy with the new global economy. Farmers voiced populist complaints about railroads and bankers. Rich landowners demanded protection from cheap farm products. Workers pointed to unfair competition from imports made with cheap foreign labor and claimed that immigrants were robbing their jobs. Capitalists in declining import-competing industries argued that it was only fair that they get compensation for those losses they suffered on sunk investments. And domestic policymakers began to feel that they were losing their ability to manage prices,