Globalisation once more

Comparing the process of globalisation today to that of the late 19th century

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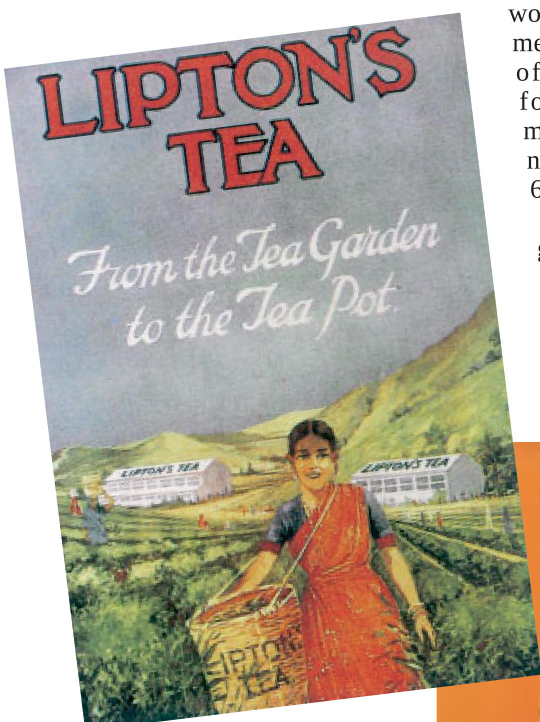
There is common presumption that the present conjuncture, when globalisation is changing the character of the world economy, is altogether new and represents a fundamental departure from the past. But this presumption is not correct. Globalisation is not new. Indeed, there was a similar phase of globalisation, which began a century earlier, circa 1870, and gathered momentum until 1914 when it came to an abrupt end. Globalisation in our times has to be situated in a historical perspective through a comparison with the late 19th century and its implications for development, then and now, must be examined. There is much that we can learn from history for there is always the past in our present.

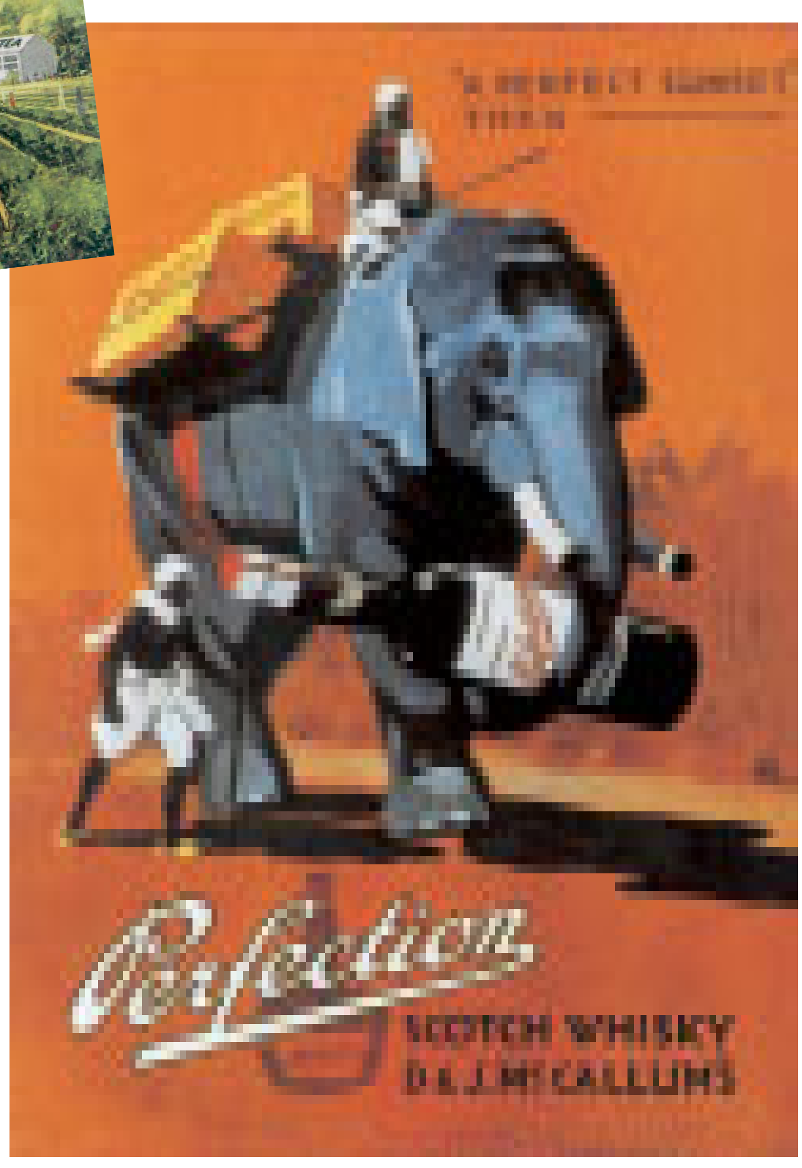
The word 'globalisation' is often used in two ways, which is sometimes a source of confusion and sometimes a cause for controversy. It is used in a positive sense to describe a process of increasing integration into the world economy. It is used in a normative sense to prescribe a strategy of development.

The world economy has experienced a progressive international economic integration since 1950. There are three manifestations of this phenomenon—international trade, international investment and international finance, which also constitute its cutting edge. But there is much more to globalisation than the world of economics, for it extends to the worlds of polity, society and even culture. It is a process associated with increasing economic openness, growing economic interdependence and deepening economic integration in the world economy. It encompasses not only trade flows, investment flows and financial flows but extends also to the flows of services, technology, information, and ideas across political boundaries of nation-states. The cross-border movement of people however is closely regulated and highly restricted.

The gathering momentum of globalisation has brought about profound changes in the world economy. It is worth highlighting some striking characteristics of these changes.

- An increasing proportion of world output today enters into world trade, while an increasing proportion of world trade is made up of intra-firm trade. Between the early 1970s and mid-1990s the share of world exports in world GDP rose from 12% to 18%, while the share of intra-firm trade in world trade rose from one-fifth to one-third.
- There was a surge in international investment flows between, say, 1980 and the late 1990s. The stock of direct foreign investment as a proportion of world output rose from less than 5% to more than 10% while world direct foreign investment flows as a proportion of gross fixed capital formation (or investment) in the world economy rose from 2% to 6%.
- The explosive growth in international finance has simply dwarfed trade and investment. Foreign exchange transactions have soared from 60 billion dollars per day in 1983 to 1500 billion dollars per day in 1998.





Advertisements from the 'Times of India Annuals' in the 1920s

There is an urgent need to analyse globalisation in terms of the economic factors which underlie it and the political conjuncture, which has enabled it to gather momentum. The economic factors which have made globalisation possible are:

- *A sequential dismantling of barriers to international economic transactions*: Trade liberalisation came first. The liberalisation of regimes for foreign investment came next. Financial liberalisation, the deregulation of the domestic financial sector and the introduction of convertibility on capital account in the balance of payments came last.
- *The development of enabling technologies:* The technological revolution in transport and communication—jet aircraft, computer and satellites has pushed aside barriers implicit in distance and time.
- *New forms of industrial organisation:* The emerging flexible production system is exercising a very strong influence on the strategy and behaviour of firms in the process of globalisation. The nature of technical progress and the declining share of wages in production costs are constantly forcing firms to choose between trade and investment in their drive to expand activities across national borders.

The process of globalisation, which began in early 1970s, has coincided with the political dominance of United States as a superpower. This political dominance has grown stronger with the collapse of communism and the triumph of capitalism. The concept of globalisation has been transformed into what I call a virtual ideology of our times. While political dominance is conducive to the economics of globalisation, it alone does not suffice. Globalisation requires a dominant political power with a national currency, which is accepted as the equivalent of international money as a unit of account, as a medium of exchange and as a store of value. The US dollar, we know, performs this role. A century earlier, this role was performed by the pound sterling. The period from 1870 to 1914 was, in a classical sense, the age of *laissez-faire*. The movement of goods, capital and labour across national boundaries was almost unhindered and government intervention in economic activity was minimal. It was believed by many, including John Maynard Keynes in his youth, that the virtuous circle of rapid economic growth and the process of international economic integration in this era were closely related. In many ways, the world economy in the late 20th century and early 21st century resembles that in the late 19th century.

There are striking similarities, I believe, in the underlying factors that made globalisation possible both then and now. There were almost no restrictions on the movement of goods, capital and labour across national boundaries and thus little need for dismantling barriers or liberalising regimes for international transactions. The advent of steamship, the railway and the telegraph had brought about a revolution in transport and communications. The substitution, for instance, of steam for sails, and of iron for wodden hulls reduced ocean freights by two-thirds between 1870 and 1900. The railway and the telegraph produced similar results. The foundation for emerging new forms of industrial organisation—in sharp contrast to craft manufacturing—were laid by the introduction of moving assembly lines developed by Ford and methods of management evolved by Taylor. Not only was Pax Britannica the politically dominant force, it also provided a reserve currency in the form of pound sterling, the equivalent of international money. For this was what Eric Hobsbawm has described as the "Age of Empire," when Britain more or less ruled the world.

Yet, there is a fundamental difference between the two phases of globalisation. This lies in the sphere of movements of people across borders. In the late 19th century there were no restrictions on the mobility of people across national boundaries—passports were seldom needed and immigrants were granted citizenship with ease.

Between 1870 and 1914, international labour migration was enormous—over 50 million people left Europe, of whom two-thirds went to the USA, while the remaining one-third went to Canada, Australia, New Zealand, South Africa, Argentina and Brazil. This emigration from Europe accounted for one-eighth of its total population in 1900 and in some countries, it was as much as 20% of their total population. But that was not all. Beginning somewhat earlier, and following the abolition of slavery in the British Empire, about 50 million people left India and China to work as labourers on mines, plantations, and construction in Latin America, the Caribbean, Southern Africa, Southeast Asia and other distant lands. The destinations were mostly British, French, Dutch and German colonies that combined European capital with Asian labour for profit. In the second half of the 20th century—between the late 1940s to the early 1970s—there had been a limited amount of labour migration from developing countries to the industrialised world. Since then, however, international migration has been reduced to a trickle because of draconian immigration laws or restrictive consular practices. The present phase of globalisation has found substitutes for labour mobility in the form of trade flows and investment flows. For one, industrialised countries import manufactured goods that embody scarce labour. For another, industrialised countries export capital that employs scarce labour abroad to provide such goods.

Ideologues like Jeffrey Sachs argue that globalisation led to rapid industrialisation and economic convergence in the world economy during the late 19th century. In their view, the promise of the emerging global capitalist system was wasted for more than half a century, to begin with by three decades of conflict and autoarchy that followed the World War I, and subsequently, for another three decades, by the socialist path and a statist worldview. The return of globalisation in the late 20th century is seen as the road to salvation, particularly for the developing and erstwhile communist countries, where governments are being urged or pushed into adopting a comprehensive agenda of privatisation (to minimise the role of the State) and liberalisation (of trade flows, capital flows and financial flows). The conclusion drawn is that globalisation now, as much as then, promises economic prosperity for countries that join the system and economic deprivation for the countries that do not.

It needs to be emphasised that this normative and prescriptive view of globalisation is driven in part by ideology and in part by hope. It is certainly not borne out by history. For those who recall the development experience of the late 19th century, it should be obvious that the process of globalisation will not reproduce or replicate United States everywhere just as it did not reproduce or replicate Britain everywhere a century earlier. It was associated with uneven development then. It is associated with uneven development now, not only between countries but also within countries.

This is a lesson that emerges from history. The economic consequences of globalisation in the late 19th century were, to say the least, asymmetrical. Most of the gains from international economic integration in this era accrued to imperial countries that exported capital and imported commodities. There were a few countries like the USA and Canada—new lands with temperate climate and white settlers—which also derived some benefits. In these countries, the preconditions for industrialisation were already being created and international economic integration only strengthened this process. Direct foreign investment in manufacturing activities, stimulated by rising tariff

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AMITAVA KUMAR / PASSPORT PHOTOS

▲ *Sikh immigrant labourers working on the Western Pacific railroad, California, 1908*

◀ *Trinidadian Indian cane worker near the Port of Spain, 1997*

There is a fundamental difference between the two phases of globalisation. This lies in the sphere of movements of people across borders. In the late 19th century there were no restrictions on the mobility of people across national boundaries—passports were seldom needed and immigrants were granted citizenship with ease. About 50 million people left India and China to work as labourers on mines, plantations, and construction in distant lands. The destinations were mostly British, French, Dutch and German colonies that combined European capital with Asian labour for profit

barriers combined with technical and managerial flows, facilitated and reinforced this process. The outcome was industrialisation and development. But this does not happen everywhere.

Development was very uneven even in the industrial world wherein much of southern and eastern Europe lagged behind. The income gap between the richest and the poorest countries, for instance, which was 3:1 in 1820 more than doubled to 7:1 in 1870 and had increased further to 11:1 by 1913. Countries in Asia, Africa and Latin America, particularly the colonies, which were also an integral part of this globalisation, were even less fortunate. Indeed, during the same period of rapid international economic integration, some of the most open economies in that phase of globalisation—India, China and Indonesia—experienced deindustrialisation and underdevelopment. Let us remind ourselves that between 1870 and 1914, these three countries practised free trade as much as United Kingdom and Netherlands. While the average tariff levels in the UK and The Netherlands were 3% to 5%, they were close to negligible in India, China and Indonesia. In contrast, tariff levels in Germany, Japan and France were significantly higher at 12% to 14% and in the USA as high as 33%. What is more, these three countries (India, China and Indonesia) were also the largest recipients of foreign investment that is seen as a solution for all ills these days. Their globalisation did not lead to their development. There were similar experiences elsewhere in Asia, Africa and Latin America. So much so that between 1860 and 1930, the share of developing countries in world manufacturing output declined from one-third to less than one-tenth. Export-oriented production in mines, plantations and cash crop agriculture created enclaves in these economies, which though integrated with world economy in a vertical division of labour had almost no backward or horizontal linkages. Productivity levels outside export enclaves stagnated at low levels, resulting in the creation of dualistic economic structures where the benefits of globalisation acrrued mostly to the outside world and in small part to the local elites.

The growing inequalities between and within countries, particularly in the industrial world, were perhaps a significant factor underlying the retreat from globalisation after 1914. The following pasage, written by John Maynard Keynes in 1919, vividly highlights the benefits of globalisation for some people and some countries, but also recognises how economic and political conflicts associated with the process stopped what had seemed irreversible at that time.

> "What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914. The greater part of the population, it is true, worked hard and lived at a low standard of comfort ... But escape was possible for any man of capacity or character at all exceeding the average, into middle or upper classes, for whom life offered at a low cost and with the least trouble, conveniences, comforts and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth in such quantity as he may see fit and reasonably expect early delivery upon his doorstep. He could at the same moment and by the same means adventure his wealth in the natural resources or new enterprises in any quarter of the world and share without exertion or trouble in their prospective fruits and advantages, or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure, forth with if he wished, cheap and comfortable means of transit to any country or climate without any passport or

▶ **In some important respects, the world economy fared better in the 'golden age of capitalism', from the late 1940s to the early 1970s, than it has in the age of globalisation** other formality, could despatch his servants to the neighbouring office of a bank for supply of precious metals as might seem convenient and then proceed to foreign quarters, without knowledge of their religion, language or customs, bearing coined wealth upon his person and could consider himself greatly aggrieved and much surprised at least interference. But most important of all, he regarded this state of affairs as normal, certain and permanent except in the direction of further improvement and any deviation from it as scandalous, abhorrent and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions and exclusions, which were to play the serpent to this paradise, were little more than amusement of his daily newspaper and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalisation of which was nearly complete in practice."

The reality that has unfolded so far clearly belies the expectations of the ideologues. From the early 1970s to the late 1990s, the world economy has experienced a divergence, rather than convergence, in levels of income between people. Economic inequalities have increased during the last quarter of a century as the income gap between rich and poor countries, between rich and poor people within countries, as also between the rich and the poor in the world's population has widened. And income distribution has worsened almost everywhere in the world. The incidence of poverty has increased in mnay parts of the developing world and in most transitional economies. Over the same period, the rate of growth in the world economy has registered a discernable slowdown. And the slower growth has been combined with greater instability. It would seem that, in some important respects, the world economy fared better in the golden age of capitalism, from the late 1940s to the early 1970s, than it has in the age of globalisation.

It is obviously not possible to attribute cause-and-effect simply to the coincidence in time, but it is possible to think of mechanisms through which inequalities may have been accentuated. Trade liberalisation has led to growing wage inequality between skilled and unskilled labour not only in industrialised countries but also in developing countries. As a consequence of privatisation and deregulation capital has gained at the expense of labour almost everywhere, for profit shares have risen while wage shares have fallen. Structural reforms, which have cut tax rates and brought flexibility to labour markets, have reinforced this trend. The mobility of capital in conjunction with the immobility of labour has changed the nature of the employment relationships and has reduced the bargaining powers of trade unions everywhere.

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The object of managing inflation has been transformed into a near obsession by the sensitivity of the international financial markets so that governments have been forced to adopt deflationary macro-economic policies which have squeezed both growth and employment. The excess supply of labour has reppressed real wages. Financial liberalisation, which has meant a rapid expansion of public as well as private debt, has come to be associated with the emergence of a new rentier class. The inevitable concentration in the ownership of financial assets has probably contributed to the worsening of income distribution. Global competition has driven large international firms to consolidate market power through mergers and acquisitions resulting in market structures that are more oligopolistic than competitive. The competition for export markets and foreign investment, between countries, has intensified in what is termed as a 'race to the bottom,' leading to an unequal distribution of gains from trade and investment.

In the late 1990s, a quarter century after the present phase of globalisation gathered momentum, the share of the 20% of the richest people of the world living in high income countries, in world GDP was 86% while that of the poorest 20% people of the world, living in low income countries, was a mere 1%. The income gap—and recall also the late 19th century—between the richest 20% and the poorest 20% in the world widened from 32:1 in 1970 to 75:1 in 1980 to 60:1 in 1990 and 74:1 in 1997. This sharp divide between rich and poor countries is no surprise but the spread of globalisation is just as uneven in the developing world. There are no more than a dozen developing countries that are an integral part of this process of globalisation. These countries account for 70% of the exports, 80% of the investment inflows and receive more than 90% of the portfolio investment in the developing world. Sub-Saharan Africa, West Asia, Central Asia and much of South Asia are simply not in the picture, apart from many countries in Latin America, Asia and the Pacific which are left out altogether.

Joan Robinson once said, "There is only one thing worse than being exploited by capitalists, and that is, not being exploited by capitalists." Much the same can be said about globalisation, which may not ensure prosperity for everyone but may exclude a significant proportion of people.

Globalisation has indeed created opportunities—at least for some people and some countries—that could not even be dreamed of three decades ago. But it has also introduced new risks, if not threats, for many others. There might be some winners but there are many losers too. If we think of people—asset owners, profit earners, rentiers, the educated, the mobile and those with the professional, managerial and technical skills are the winners, whereas the assetless, wage earners, the uneducated, the immobile, the semiskilled or the unskilled are losers. If we think of economies—capital exporters, technology exporters, net lenders, those with strong physical and human infrastructures and those with structural flexibilities are the winners, whereas capital importers, technology importers, net borrowers, those with weak infrastructures and those characterised by structural rigidities are losers. It needs to be said that this classification is suggestive, not definitive, for it paints a broad-brush picture of a more nuanced situation. But it does convey the simultaneous yet asymmetrical inclusion and exclusion that characterises the process of globalisation. And this is a fact of life ignored by the ideologues.

Globalisation has introduced a new dimension to the exclusion of people from development. Exclusion is no longer simply about the inability to satisfy basic human needs in terms of food, clothing, shelter, health care and education for a large number of people. It is much more complicated. The consumption patterns and the lifestyles of the rich associated with globalisation have a powerful demonstration effect. People everywhere, even the poor and excluded, are exposed to these frontiers of consumption possibilities because the electronic media has spread the consumerist message far and wide. This creates both expectations and aspirations. But it is a simple fact of life that those who do not have income cannot buy goods or services in the market. Thus when the paradise of consumerism is unattainable, which is the case for common people, it only creates frustration and alienation. The reaction of people who experience such exclusions differs. Some seek shortcuts to the consumerist paradise through drugs, crimes and violence. Some seek refuge in ethnic identities, cultural chauvinism or religious fundamentalism. Such assertion of traditional and indigenous values are often the only things that offer poor and excluded people an identity and meaning to their lives. It is indisputable that globalisation inevitably tends to erode social stability. Thus, economic integration with the outside world may accentuate social tensions or provoke social fragmentation within countries in the early 21st century in exactly the same way that it did in the late 19th century.

History may not repeat itself but it would be wise to learn from history. The process of globalisation is sustainable only if it is democratised to include a much larger number of countries and a much higher proportion of people. The concern for efficiency must be balanced by a concern for equity, just as a concern for economic growth must be balanced by the concern for social progress.

The fundamental objective should be to ensure decent living conditions for people—ordinary people—as the welfare of humankind is the essence of development. The quest for a more equitable distribution of income, wealth and power between countries will have to be an integral part of any attempt to move from a world economy to a world community.

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