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COMMENTARY

This section is designed for the discussion and debate of current economic problems. Contributions which raise new issues or comment on issues already raised are welcome.

Globalisation, history and development: a tale of two centuries

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This paper situates globalisation in historical perspective to analyse its implications for development. It sketches a picture of globalisation during the late nineteenth and twentieth centuries. A comparison of these two epochs reveals striking parallels, unexpected similarities and important differences. It shows that globalisation did not lead to rapid growth and economic convergence in the world, either then or now. Indeed, growth slowed down, and income levels diverged, while the gap between the industrialised and developing countries widened, in both epochs. The story of globalisation, it turns out, does not conform to the fairy tale about convergence and development.

Key words: Globalisation, Uneven Development, Convergence, Divergence, Exclusion
JEL classifications: F02, O10, N00

Introduction

Globalisation means different things to different people. What is more, the word globalisation is used in two ways, which is a source of some confusion. It is used in a *positive* sense to *describe* a process of integration into the world economy. It is used in a *normative* sense to *prescribe* a strategy of development based on rapid integration with the world economy.

Even its characterisation, however, is by no means uniform. It can be described, simply, as an expansion of economic activities across national boundaries. There are three economic manifestations of this phenomenon—international trade, international investment and international finance—which also constitute its cutting edge. But there is much more to globalisation. It is about the expansion of economic transactions and the organisation of economic activities across the political boundaries of nation states. More precisely, it can be defined as a process associated with increasing economic openness, growing economic interdependence and deepening economic integration in the world economy.

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Economic *openness* is not simply confined to trade flows, investment flows and financial flows. It also extends to flows of services, technology, information and ideas across national boundaries. But the cross-border movement of people is closely regulated and highly restricted. Economic *interdependence* is asymmetrical. There is a high degree of interdependence among countries in the industrialised world. There is considerable dependence of developing countries on the industrialised countries. There is much less interdependence among countries in the developing world. It is important to note that a situation of interdependence is one where the benefits of linking and costs of delinking are about the same for both partners; where such benefits and costs are unequal between partners, it implies a situation of dependence. Economic *integration* straddles national boundaries as liberalisation has diluted the significance of borders in economic transactions. It is, in part, an integration of markets (for goods, services, technology, financial assets and even money) on the demand side, and, in part, an integration of production (horizontal and vertical) on the supply side.

The world economy has experienced progressive international economic integration since 1950. However, there has been a marked acceleration in this process of globalisation during the last quarter of the twentieth century. There is a common presumption that the present situation, 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. In fact, 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. In many ways, the world economy in the early twenty-first century resembles the world economy in the late nineteenth century. And there is much that we can learn from history, for there is the past in our present (Nayyar, 1995).

This essay seeks to explore the theme of globalisation and development in historical perspective. In doing so, it analyses the implications of globalisation for development in retrospect and prospect. The structure of the paper is as follows. Section 1 sketches a picture of globalisation during the late nineteenth century. Section 2 outlines the contours of globalisation during the late twentieth century. Section 3 examines the parallels, the similarities and the differences between these two epochs of globalisation. Section 4 discusses the implications of globalisation for the Third World then, arguing that it led to uneven development in the past. Section 5 considers the consequences of globalisation for the Third World now, concluding that it has been associated with an exclusion of poor countries and poor people from the process of development in the present. The story of globalisation during the long twentieth century, it turns out, does not conform to the fairy tale of development, convergence and prosperity. For much of the Third World, it is about underdevelopment, divergence and exclusion.

1. The late nineteenth century

The period from 1870 to 1914 was the age of *laissez faire*. The movement of goods, capital and labour across national boundaries was almost unhindered. Government intervention in economic activity was minimal. There were, of course, differences among countries. In general, however, these attributes were more clearly discernible in the Third World than in the Atlantic economies. The openness of economies that characterised this era was associated with a rapid expansion in trade, investment and finance across borders.

There was a rapid expansion of international trade from 1870 to 1913. It is estimated that, during this period, the growth in world trade at 3.9% per annum was much faster than the growth in world output at 2.5% per annum (Maddison, 1989). Another estimate suggests that these growth rates were 3.5% per annum and 2.7% per annum, respectively (Michie and Kitson, 1995). Consequently, the share of world trade in world output registered a steady increase. This is confirmed by evidence available for select countries. In Western Europe, the share of exports in GDP rose from 13.6% in 1870 to 18.3% in 1913 (Bairoch and Kozul-Wright, 1996). Similarly, for 16 developed countries, now in the OECD, the share of exports in GDP rose from 18.2% in 1900 to 21.2% in 1913 (Maddison, 1989). Even among these sub-sets of countries, there were significant variations. The export–GDP ratios in some small European economies such as Belgium, the Netherlands and Switzerland were much higher than in the larger European economies such as France, Germany and Italy. The export–GDP ratios were significantly lower in the US and Japan (Maddison, 1989).

It is believed that this expansion in international trade was attributable to trade liberalisation. It was in part, but only in part. During the first half of the nineteenth century, free trade was practised only by Britain. Starting around 1860, trade barriers began to come down in Europe. The Anglo-French treaty on trade was a first step. But the tariff disarmament in Europe was driven by the most-favoured-nation clause (Kenwood and Lougheed, 1994). However, this trade liberalisation was confined to Europe and lasted just two decades (Bairoch, 1989). The US practised protection throughout the period 1870–1913 as average tariff levels remained in the range of 40–50% (Chang, 2002). Between 1875 and 1913, the average level of import duties on manufactured goods rose from 12% to 20% in France, 10% to 20% in Italy, and 5% to 13% in Germany. Much the same was true of most other European countries (Bairoch, 1993). The only exceptions were Britain and the Netherlands, which continued to practise free trade.

Free trade was, however, imposed on the rest of the world. Imperialism prised open markets in the Third World, through gunboat diplomacy or colonial dominance. In 1842, China signed a treaty with Britain which opened its market to trade and capped tariffs at 5%. In the 1840s, free trade was imposed on India by Britain and on Indonesia by the Netherlands. In 1858, Japan signed the Shimoda–Harris treaties, persuaded by the American gunboats of Commodore Perry, to switch from autarchy to free trade. Korea followed the same path, through its market integration with Japan. Similar treaties, which put a ceiling of 5% on import duties, were imposed on most Latin American countries somewhat earlier.[1] This was achieved mostly through British gunboat diplomacy. Towards the end of the nineteenth century, however, some Third World countries turned to protection in their quest for industrialisation.

The reality of trade policy, it would seem, did not mirror the myth of free trade. The West practised protection wherever necessary, but imposed free trade on the Third World. In the sphere of trade, even in 1913, the developed world is best described as 'islands of liberalisation surrounded by a sea of protectionism', whereas the developing world is best described as an 'ocean of liberalisation with islands of protectionism' (Bairoch and Kozul-Wright, 1996).

There was a similar expansion of international investment from 1870 to 1913. Foreign direct investment increased rapidly during this period. And, by 1914, the stock of foreign direct investment in the world was $14bn. An estimate made by the United Nations suggests that this stock of foreign direct investment in the world economy was the equivalent of 9% of world output in 1913 (UNCTAD, 1994, p. 130). The growth in

[1] For a discussion on the advent of free trade in the Third World, see Williamson (2002).

portfolio investment was even more rapid. Consequently, by 1914, the stock of long-term foreign investment in the world reached \$44bn, of which \$30bn, about two-thirds, was portfolio investment (UNCTAD, 1994, pp. 120–1). It is not surprising that, in this age of imperialism, Western Europe was the primary source of foreign capital. In 1914, Britain, Germany and France together accounted for \$33bn from a total of \$44bn (Bairoch and Kozul-Wright, 1996). For the world as a whole, in 1914, about half of total foreign investment went to Asia, Latin America and Africa, while the remaining half, in almost equal parts, went to Europe and North America. The latter half was concentrated in a small group of newly industrialising countries in North America and Europe, for some of which it constituted as much as 50% of gross domestic investment (Panić, 1992, p. 101). The stock of foreign investment in developing countries, direct and portfolio, rose from \$5.3bn in 1870 to \$11.4bn in 1900 and \$22.7bn in 1914 (Maddison, 1989, p. 30). Such foreign investment was probably equal to about one-third of the GDP of developing countries at the turn of the century (Maddison, 1989, pp. 30, 113). Imperialism exercised an important influence. Between 1870 and 1914, the share of British foreign investment going to Europe and the US dropped from 52% to 26% of the total, whereas the share of Latin America and the British colonies rose from 33% to 55% of the total (Kenwood and Lougheed, 1994, p. 30). And income from foreign investments constituted around 10% of British national income (Foreman-Peck, 1983, p. 133).

The late nineteenth and early twentieth century witnessed a significant integration of international financial markets to provide a channel for portfolio investment flows. The cross-national ownership of securities, including government bonds, reached very high levels during this period. In 1913, for example, foreign securities constituted 59% of all securities traded in London. Similarly, in 1908, the corresponding proportion was 53% in Paris (Morgenstern, 1959). It is worth noting that there was a correlation between interest rates, exchange rates and stock prices in the leading markets. There was also an established market for government bonds.[1] In 1920, for instance, Moody's rated bonds were issued by 50 governments.[2] International bank lending was substantial. Both governments and private investors floated long-term bonds directly in the financial markets of London, Paris and New York. Merchant banks or investment banks were the intermediaries in facilitating these capital flows from private individuals and financial institutions, in the developed countries of Europe, in search of long-term investments, on the one hand, to firms or governments mostly in the newly industrialising countries or the underdeveloped countries which issued long-term liabilities, on the other (Kregel 1994). This was so much the case that, during the period 1880–1913, the principal capital exporter in the world economy, Britain, ran an average current account surplus in its balance of payments, which was the equivalent of 5% of its GDP (Keynes, 1919; Panić, 1992). And, in some years, this was as much as 8% of GDP. In fact, by 1914, such capital flows were in the range of 5% of GDP in most capital exporting countries (Bairoch and Kozul-Wright, 1996, p. 11).

2. The late twentieth century

The essential attribute of globalisation, then and now, is an increase in the degree of openness in most countries. The three important dimensions of this phenomenon now, as much as then, are international trade, investment and finance.

[1] In 1914, as much as 70% of outstanding British and French long-term foreign investments consisted of government bonds and railway bonds (Bloomfield, 1968, p. 4).

[2] Cf., A survey of the world economy, *The Economist*, London, 7 October 1995.

The second half of the twentieth century has witnessed a phenomenal expansion in international trade flows. World exports increased from $61bn in 1950 to $883bn in 1975 and $6338bn in 2000. Throughout this period, the growth in world trade was significantly higher than the growth in world output, although the gap narrowed after the mid-1970s. Consequently, an increasing proportion of world output entered into world trade. The share of world exports in world GDP rose from 6% in 1950 to 14.3% in 1975 and 20.2% in 2000. For the industrialised countries, this proportion increased from 13.6% in 1975 to 16.7% in 2000. For the developing countries, this proportion increased from 17.5% in 1975 to 31.2% in 2000.[1]

The story is almost the same for international investment flows. The stock of foreign direct investment in the world economy increased from $68bn in 1960 to $636bn in 1980 and $6258bn in 2000. The flows of foreign direct investment in the world economy increased from $5bn in 1960 to $55bn in 1980 and $1492bn in 2000.[2] Consequently, the stock of foreign direct investment in the world as a proportion of world output increased from 4.4% in 1960 to 6.1% in 1980 and 20% in 2000.[3] Over the same period, world foreign direct investment flows as a proportion of world gross fixed capital formation rose from 1.1% in 1960 to 2.3% in 1980 and 22% in 2000.[4] In the industrialised countries, as an annual average, this proportion increased from 2.3% during 1981–85 to 4.4% during 1986–90, dropped to 3.6% during 1991–95 but rose sharply to 12.8% during 1996–2000. In the developing countries, as an annual average, this proportion rose from 2.4% during 1981–85 to 2.7% during 1986–90, but rose rapidly thereafter to 5.7% during 1991–95 and 11.7% during 1996–2000.[5]

The last quarter of the twentieth century witnessed an explosive growth in international finance. The movement of finance across national boundaries is enormous—so much so that, in terms of magnitudes, trade and investment are now dwarfed by finance. This internationalisation of financial markets has four dimensions: foreign exchange, bank lending, financial assets and government bonds. Consider each in turn.

In foreign exchange markets, trading was a modest $15bn per day in 1973. It rose to $60bn per day in 1983. It soared to $590bn per day in 1989, $820bn per day in 1992, $1190bn per day in 1995 and $1490bn per day in 1998.[6] Consequently, the ratio of worldwide transactions in foreign exchange to world exports rose from 9:1 in 1973 and 12:1 in 1983 to 80:1 in 1992, 85:1 in 1995 and 100:1 in 1998. And some absolute

[1] The data on world exports cited in this paragraph, as also the data on world GDP used to calculate the proportions, are obtained from the UNCTAD *Handbook of International Trade and Development Statistics* and *Handbook of Statistics*, various issues. The data on GDP for country-groups are obtained from World Bank, *World Development Indicators, 2003*.

[2] For data on stocks and flows of foreign direct investment in the world economy, cited here, see United Nations, *Transnational Corporations and World Development, 1978*, and UNCTAD, *World Investment Reports 1994* and *2002*.

[3] UNCTAD, *World Investment Report 1994*, p. 130, and *World Investment Report 2002*, p. 328

[4] UNCTAD, *World Investment Report 1994*, p. 130, and *World Investment Report 2002*, p. 319

[5] The data on foreign direct investment as a percentage of gross fixed capital formation, cited in this paragraph, are obtained from UNCTAD *World Investment Report 1994*, pp. 421–6, and *World Investment Report 2002*, pp. 319–20.

[6] These statistics on the average daily turnover in foreign exchange markets are based on the Bank of International Settlements, *Survey of Foreign Exchange Activity*, Basle, various issues, conducted by central banks and reported by BIS. The surveys are triennial. The data relate to average daily turnover in the global foreign exchange market during April each year, including spot transactions, outright forwards and foreign exchange swaps. The figures are adjusted for double-counting and estimated-gaps in reporting. The latest survey reports that this average daily turnover dropped to $1190bn in April 2001. For the purpose of comparison in this paragraph, the values of world exports and world GDP have been converted into an average daily figure.

numbers would help situate these magnitudes in perspective. In 1997, for example, world GDP was $82bn per day, while world exports were $15bn per day, compared with global foreign exchange transactions of $1490bn per day in April 1998, while the foreign exchange reserves of all central banks put together were $1550bn in 1997.

The expansion of international banking is also phenomenal. As a proportion of world output, net international bank loans rose from 0.7% in 1964 to 8.0% in 1980 and 13.5% in 2000. As a proportion of world trade, net international bank loans rose from 7.5% in 1964 to 42.6% in 1980 and 66.9% in 2000. As a proportion of world gross fixed capital formation, net international bank loans rose from 6.2% in 1964 to 51.1% in 1980 and 62.8% in 2000.[1] It is worth noting that the gross size of the international banking market, which includes claims on (or liabilities to) banks, was more than double that of net international bank lending. Cross-border inter-bank liabilities rose from a modest $ 455bn in 1970 to $5560bn in 1990 and $8998bn in 2000.[2]

The international market for financial assets experienced a similar growth starting somewhat later. The evidence is incomplete but revealing. Between 1980 and 1993, gross sales and purchases of bonds and equities transacted between domestic and foreign residents rose from less than 10% of GDP in the US, Germany and Japan to 135% of GDP in the US, 170% of GDP in Germany and 80% of GDP in Japan. In the UK, the value of such transactions was more than ten times that of the GDP in 1993. Similarly, between 1980 and 1993, the share of foreign bonds and equities in pension-fund assets rose from 10% to 20% in the UK, from 0.7% to 6% in the US, and from 0.5% to 9% in Japan.[3] Yet another dimension of transactions in the international market for financial assets provides evidence on subsequent years. Cross-border mergers and acquisitions rose from $75bn in 1987 to $151bn in 1990 and $1144bn in 2000. The pace of expansion was about the same as that of foreign direct investment inflows in the industrialised countries but somewhat slower in the developing countries and the transition economies. The value of such cross-border mergers and acquisitions, which was about 0.5% of world GDP during the late 1980s, rose to 3.6% of world GDP in 2000.[4]

Government debt has also become tradable in the global market for financial assets. Available evidence suggests that there is a growing international market for government bonds. Between 1980 and 1992, the proportion of government bonds held by foreigners rose from less than 1% to 43% in France, from 9% to 17% in the UK, from 10% to 27% in Germany, while it remained steady at about 20% in the US.[5]

Between 1993 and 2000, the value of outstanding international bonds, as a proportion of GDP, rose from 8% to 23% in the world economy, from 8% to 26% in the industrialised countries and from 2% to 7% in the developing countries.[6] But all international bonds do not constitute government debt, for the global bond market is made up of public debt and

[1] For data on 1964 and 1980, UNCTAD, *World Investment Report 1994*, p. 128. The proportions for 2000 are calculated. The statistics on international bank loans are obtained from BIS *Quarterly Review*, June 2003. The data on world GDP, world exports and world gross fixed capital formation are obtained from UNCTAD statistics.

[2] Inter-bank claims/liabilities increased faster during the 1990s, so that, by 2000, gross international lending by banks was three times net international lending by banks.

[3] The proportions cited so far in this paragraph, are estimated from data compiled by BIS and IMF, and are reported in 'A Survey of the World Economy', *The Economist*, London, 7 October 1995.

[4] The data on cross-border mergers and acquisitions cited in this paragraph are obtained from UNCTAD, *World Investment Report 2002*, p. 341. See also UNCTAD, *World Investment Report 2000*, pp. 106–23.

[5] See 'A Survey of the World Economy', *The Economist*, London, 7 October 1995.

[6] The data cited here are from Observatoire de la Finance and UNITAR, *Economic and Financial Globalisation: What the Numbers Say*, New York and Geneva, 2003, p. 145.

private debt. Evidence from another source suggests that, in 2000, public sector debt (including debt issued by state and local governments and government-sponsored enterprises) constituted 21% of international bonds in the world as a whole, 19% of international bonds in the industrialised countries and 35% of international bonds in the rest of the world.[1] On the basis of these proportions, it would be reasonable to infer that, at the end of 2000, the size of the international market for government debt was the equivalent of 4.8% of GDP in the world economy, 5% of GDP in the industrialised countries and 2.5% of GDP in the developing countries.

3. Two epochs of globalisation: a comparison

The preceding discussion shows that the world economy experienced a rapid internationalisation of trade, investment and finance during the last quarter of the twentieth century, which continues apace. It also shows that there was a similar internationalisation of trade, investment and finance during the last quarter of the nineteenth century, which continued until 1914. It would seem that the long twentieth century witnessed two phases of globalisation. A comparison of these two phases reveals striking parallels. It also suggests that there are both similarities and differences between these two phases of globalisation. The similarities are in the underlying factors, which made globalisation possible then and now. The differences are in the form, the nature and the depth of globalisation then and now.

3.1 The parallels

There are parallels in each of the three dimensions: trade, investment and finance. It is important to highlight some.

It would seem that the integration of the world economy, through international trade, was about the same at the beginning and end of the twentieth century. This is borne out by available evidence for selected industrialised countries. In the UK, the share of exports in GDP rose from 16.4% in 1973 to 19.7% in 2000, compared with 14.9% in 1900 and 20.9% in 1913. In France, the share of exports in GDP rose from 14.4% in 1973 to 23.1% in 2000, compared with 12.5% in 1900 and 13.9% in 1913. In Germany, the share of exports in GDP rose from 19.7% in 1973 to 29.4% in 2000, compared with 13.5% in 1900 and 17.5% in 1913. In Japan, the share of exports in GDP rose from 8.9% in 1973 to 10.1% in 2000, compared with 8.3% in 1900 and 12.3% in 1913. In the US, the share of exports in GDP rose from 5% in 1973 to 8% in 2000, compared with 7.5% in 1900 and 6.1% in 1913.[2] The striking thing is that the average tariff rate on imports of manufactured goods in these industrialised countries then, with the exception of the UK, were in the range 20–40% (Bairoch, 1993). Tariffs were much higher then but non-tariff barriers are stronger now.

The significance of foreign direct investment in the world economy was also similar at the beginning and at the end of the twentieth century. In 1913, the stock of foreign direct investment in the world economy was the equivalent of 9% of world output. The stock of foreign direct investment in the world economy as a proportion of world GDP increased steadily from 6.1% in 1980 to 8.9% in 1990 and remained in the range of 9% through the

[1] See http://www.imf.org/external/pubs/ft/icm/2001/01/eng/pdf/annex.pdf p.222, which reports IMF estimates of the size of global bond markets in December 2000. The total value of international bonds issued for the world as a whole was $6003.2bn, of which $1262.8bn was public debt. The total value of international bonds issued by US, Canada, Japan and EU-15 was $5196.4bn, of which $977.3bn was public debt.

[2] The proportions for 1973 and 2000 are calculated from UNCTAD and United Nations statistics on world exports and world GDP. The estimates for 1900 and 1913 are obtained from Maddison (1989, p. 143).

first half of the 1990s.[1] This proportion rose sharply and surpassed its 1913 level only in the late 1990s. The significance of foreign investment in the developing world is also comparable. In 1914, the stock of foreign investment in the developing countries, direct and portfolio, at 1980 prices, was $179bn, which was almost double the stock of foreign direct investment in developing countries, in 1980, at $96bn.[2] At the beginning of the century, in 1900, foreign investment in developing countries, direct and portfolio, was equal to about one-third of the GDP of developing countries.[3] At the end of the century, in 2000, the stock of foreign direct investment in developing countries was about 30% of their GDP. [4]

There was a significant integration of international financial markets in the early twentieth century which is, in some respects, comparable with the late twentieth century. The only missing dimension then, as compared with now, was international transactions in foreign exchange which were determined entirely by trade flows and capital flows, given the regime of fixed exchange rates under the gold standard. The cross-national ownership of securities, including government bonds, was similar. In 1920, Moody's rated bonds issued by 50 governments. As late as 1985, only 15 governments were borrowing in the capital market of the US. The number reached 50, once again, in the 1990s. In relative terms, net international capital flows were perhaps larger at the beginning than at the end of the twentieth century. During the period 1880 to 1913, Britain ran an average current account surplus which was the equivalent of 5% of GDP (Panić, 1992). In contrast, since 1950, the current account surplus of the US to begin with, or Germany or Japan in subsequent years, did not exceed 3% of GDP.

3.2 The similarities

There are four similarities that are worth noting: the absence or the dismantling of barriers to international economic transactions; the development of enabling technologies; emerging forms of industrial organisation; and political hegemony or dominance.

The four decades from 1870 to 1913 were the age of *laissez faire*. There were almost no restrictions on economic transactions across borders. It was believed that a virtuous circle of rapid economic growth and international economic integration in this era created the core of a global economy (Keynes, 1919). This was followed by three decades of conflict and autarchy. The two World Wars and the Great Depression interspersed these troubled times. International economic transactions were progressively constrained by barriers and regulations that were erected during this period of economic and political conflict. These barriers and regulations were dismantled step by step during the second half of the twentieth century. Globalisation has followed the sequence of deregulation. Trade liberalisation came first, which led to an unprecedented expansion of international trade between 1950 and 1970. The liberalisation of regimes for foreign investment came next. And there was a surge in international investment which began in the late 1960s. Financial liberalisation came last, starting in the early 1980s. This had two dimensions: the

[1] Cf., UNCTAD, *World Investment Report*, online database.

[2] The figure for the stock of foreign direct investment in developing countries in 1980 is obtained from UNCTAD, *World Investment Report* 1993, p. 248, while the estimate of the stock of foreign capital in developing countries in 1914, at 1980 prices, is obtained from Maddison (1989, p. 30).

[3] It has been estimated by Maddison (1989) that, at 1980 prices, in 1900, the stock of foreign capital in developing countries was $108.3bn (p. 30), while the GDP of 15 selected developing countries in Asia and Latin America was $333.8bn (p. 113).

[4] UNCTAD, *World Investment Report 2002*, p. 329. It is worth noting that this proportion rose sharply in the late 1990s, as it was much less at 10.2% in 1980 and 13% in 1990.

deregulation of the domestic financial sector in the industrialised countries and the introduction of convertibility on capital account in the balance of payments.[1] The globalisation of finance, at a scorching pace since the mid-1980s, is not unrelated to the dismantling of regulations and controls.

Both phases of globalisation coincided with a technological revolution in transport and communications which brought about an enormous reduction in the time needed, as also the cost incurred, in traversing geographical distances. The second half of the nineteenth century saw the advent of the steamship, the railway and the telegraph. The substitution of steam for sails, and of iron for wooden hulls in ships, reduced ocean freight by two-thirds between 1870 and 1900.[2] The opening of the Suez Canal in 1869 halved the distance from London to Bombay, which also brought about a sharp reduction in the cost of freight. The decline in freight rates between 1870 and 1914 was just as dramatic on shipping routes passing through the Black Sea and Egyptian ports.[3] The spread of the railways, everywhere, brought the hinterland of countries into the world economy. The arrival of the telegraph revolutionised communication and shrank the world. The second half of the twentieth century witnessed the advent of jet aircraft, computers and satellites. The synthesis of communications technology, which is concerned with the transmission of information, and computer technology, which is concerned with the processing of information, has created information technology, which is remarkable in both reach and speed. These technological developments have had an even more dramatic impact on reducing geographical barriers. The time needed is a tiny fraction of what it was earlier. The cost incurred has come down sharply. Obviously, enabling technologies made the globalisation of economic activities that much easier in both phases.

Emerging forms of industrial organisation, in both phases, played a role in making globalisation possible. In the late nineteenth century, it was the advent of mass production which was characterised by a rigid compartmentalisation of functions and a high degree of mechanisation. The production of perfectly interchangeable parts, the introduction of the moving assembly line developed by Ford and methods of management evolved by Taylor provided the foundations for this new form of industrial organisation. Mass production realised economies of scale and led to huge cost reductions compared with craft manufacturing. The accumulation and concentration of capital reinforced the process of globalisation.[4] In the late twentieth century, the emerging flexible production system, shaped by the nature of the technical progress, the changing output mix and the organisational characteristics (based on Japanese management systems), forced firms constantly to choose between trade and investment in their drive to expand activities across borders. The declining share of wages in production costs, the increasing importance of proximity between producers and consumers, and the growing externalisation of services, are bound to influence the strategies and the behaviour of firms in the continuing process of globalisation.[5]

[1] The latter was not simultaneous. The US, Canada, Germany and Switzerland removed restrictions on capital movements in 1973, Britain in 1979, Japan in 1980, while France and Italy made the transition as late as 1990.

[2] Freight costs began to decline from the mid-nineteenth century but the spectacular downturn came after 1870 (Lewis, 1977).

[3] See Williamson (2002). Around this time, there was another innovation, refrigeration, which had major trade implications. In 1876, Australian meat and New Zealand butter were also being exported in large quantities to Europe.

[4] See Lewis (1978) and Chandler (1990).

[5] For a detailed discussion on the relationship between forms of industrial organisation and globalisation, see Oman (1994).

The politics of hegemony or dominance is conducive to the economics of globalisation. The first phase of globalisation from 1870 to 1913 coincided with what has been described as 'the age of empire', when Britain more or less ruled the world.[1] The second phase of globalisation beginning in the early 1970s coincided with the political dominance of the US as the superpower. This political dominance has grown stronger with the collapse of communism and the triumph of capitalism, which has been described as 'the end of history' (Fukuyama, 1989). Apart from dominance in the realm of politics, there is another similarity in the sphere of economics between *Pax Britannica* and *Pax Americana*. That is the existence of a reserve currency, which is the equivalent of international money: as a unit of account, a medium of exchange and a store of value. In the late nineteenth century and the early twentieth century, this role was performed by the pound sterling. In the late twentieth century and the early twenty-first century, this role is being performed by the US dollar, ironically enough after the collapse of the Bretton Woods system, when its statutory role as a reserve currency came to an end. It would seem that, in both phases, globalisation required a dominant economic power with a national currency that was, and is, acceptable as international money.

3.3 The differences

There are, also, important differences between the two phases of globalisation. It is important to highlight four such differences: in trade flows, in investment flows, in financial flows and most important, perhaps, in labour flows, across national boundaries.

In the sphere of trade flows, there are differences in the composition of trade and in the channels of trade. During the period from 1870 to 1913, a large proportion of international trade was constituted by inter-sectoral trade, where primary commodities were exchanged for manufactured goods. The leading trading nation during this era, Britain, exported manufactures to, and imported primary commodities from the developing world (Foreman-Peck, 1983). However, the British pattern of trade was not the norm for the industrial world. For Western Europe and the US, in 1913, two-thirds to three-quarters of their trade was with other industrialised countries. Some of this intra-North trade was in primary commodities, and some of it was in manufactured goods.[2] But much of this trade was, to a significant extent, based on absolute advantage derived from natural resources or climatic conditions. It is possible to discern two phases since 1950. During the period 1950–75, inter-industry trade in manufactures, based on differences in factor endowments, labour productivity or technological leads and lags, constituted an increasing proportion of international trade (Glyn *et al.*, 1990). During the period 1975–2000, intra-industry trade in manufactures, based on scale economies and product differentiation, constituted an increasing proportion of international trade. At first sight, it may seem that trade flows were in the domain of large international firms then as much as now. There are, however, two important differences. First, the large trading firms of the nineteenth century, such as the East India Company or the Royal African Company 'were like dinosaurs, large in bulk but small in brain, feeding on the lush vegetations of the new worlds' (Hymer, 1972). The forerunners of what we now describe as transnational corporations were not these giant trading firms but the small workshops and the entrepreneurial firms of the late nineteenth century. Second, during the present phase of globalisation, an increasing proportion of international trade

[1] For a succinct and perceptive historical analysis of this period, see Hobsbawm (1987).
[2] For an analysis of, and evidence on, international trade flows during this period, see Maizels (1963).

is intra-firm trade, across national boundaries but between affiliates of the same firm. In the early 1970s, such intra-firm trade accounted for about one-fifth of world trade, but by the early 1990s, this proportion was one-third of world trade (UNCTAD, 1994, p. 143). Even more important, perhaps, is the changed composition of intra-firm trade. The second half of the twentieth century witnessed a steady decline in the importance of primary commodities, and a sharp increase in the importance of manufactured goods and intermediate products, in intra-firm trade.

Consider, next, investment flows, where there are differences in the geographical destination, the sectoral distribution and the risk-form of the investment. In 1914, the stock of long-term foreign investment in the world economy was distributed as follows: 55% in the industrialised world (30% in Europe, 25% in the US) and 45% in the underdeveloped world (20% in Latin America and 25% in Asia and Africa). In 2000, the stock of foreign direct investment in the world economy was distributed in a more uneven manner: 66% in the industrialised countries and 32% in the developing countries.[1] Comparable data for flows of foreign investment during the two periods are not available. But in 2000, industrialised countries absorbed 82% of the inflows of foreign direct investment in the world economy, whereas developing countries received only 16%.[2] It is clear that developing countries are now far less central to the process. Yet, the spatial web of foreign direct investment is almost certainly more extensive than it was at the beginning of this century. The principal recipients then were China, India and Indonesia in Asia, with Argentina, Brazil and Mexico in Latin America. The number of recipients now is much larger and the sectoral distribution is also considerably different. In 1913, the primary sector accounted for 55% of long-term foreign investment in the world, while transport, trade and distribution accounted for another 30%; the manufacturing sector accounted for only 10% and much of this was concentrated in North America or Europe (Dunning, 1983). In 2000, the primary sector accounted for less than 10% of the stock of foreign direct investment in the world, while the manufacturing sector accounted for about 35% and the services sector for the remaining 55%.[3] The nature of the risk borne by foreign investors was discernibly different in the two phases. In the early twentieth century, such investment was only long term: two-thirds of it was portfolio while one-third of it was direct. In the late twentieth century, much of such long-term investment was direct, although portfolio investment rose sharply in the 1990s.

In the sphere of financial flows, the most striking difference is the size of international financial markets in absolute if not relative terms. There are, however, important differences in the destination, the object, the intermediaries and the instruments. In the last quarter of the nineteenth century, capital flows were a means of transferring investible resources to underdeveloped countries or newly industrialising countries with the most attractive growth opportunities. A century later, these capital flows were destined mostly for the industrialised countries which have high deficits and high interest rates to finance public consumption and transfer payments rather than productive investment.[4] During the first phase of globalisation from 1870 to 1913, the object of financial flows was to find

[1] In 1914, the total foreign investment of $44bn was distributed as follows: $14bn in Europe, $10.5bn in the US, $8.5bn in Latin America, and $11bn in Asia and Africa. See UNCTAD, *World Investment Report 1994*, p. 158. For data on 2000, see UNCTAD, *World Investment Report 2002*, pp. 310–13. The percentages do not add up to 100, as Central and Eastern Europe accounted for the remaining 2%.

[2] UNCTAD, *World Investment Report 2002*, pp. 303–6. Once again, Central and Eastern Europe accounted for the remaining 2%.

[3] Cf. UNCTAD, *World Investment Report*, online database.

[4] For a comparison of the destination of such financial flows, during the two phases, see Kregel (1994).

avenues for long-term investment in search of profit. During the second phase of globalisation since the early 1970s, financial flows are constituted mostly by short-term capital movements, sensitive to exchange rates and interest rates, in search of capital gains. The intermediaries, too, are different. In the late nineteenth century, banks were the only intermediaries between lenders and borrowers in the form of bonds with very long maturities. In the current phase, institutional investors such as pension funds and mutual funds are more important than banks; the latter continue to act as intermediaries but now borrow short to lend long, thus resulting in a maturity mismatch. Consequently, the financial instruments need to be far more sophisticated and diversified than earlier. In the late nineteenth century, there were mostly long-term bonds with sovereign guarantees provided by the imperial powers or the government in borrowing countries. In the late twentieth century, there has been an enormous amount of financial innovation through the introduction of derivatives (futures, swaps and options). These derivatives (which are also not entirely new to the world and are reported to have existed in the seventeenth and eighteenth centuries: options in the Amsterdam stock exchange and futures in the Osaka rice market) are a means of managing the financial risks associated with international investment. This is essential now because, unlike the earlier phase of globalisation, there is a maturity mismatch, and there is no effective securitisation provided by nation states. International financial markets have simply developed the instruments to meet the needs of the times. It is paradoxical that such derivatives, which have been introduced to counter risk may, in fact, increase the risk associated with international financial flows by increasing the volatility of short-term capital movements.

The fundamental difference between two phases of globalisation is in the sphere of labour flows. In the late nineteenth century, there were no restrictions on the mobility of people across national boundaries. Passports were seldom needed. Immigrants were granted citizenship with ease. Between 1870 and 1914, international labour migration was enormous. During this period, about 50 million people left Europe, of whom two-thirds went to the US while the remaining one-third went to Canada, Australia, New Zealand, South Africa, Argentina and Brazil (Lewis, 1977, p. 14). This mass emigration from Europe amounted to one-eighth its population in 1900. For some countries such as Britain, Italy, Spain and Portugal, such migration constituted 20–40% of their population (Stalker, 1994). But that was not all. Beginning somewhat earlier, following the abolition of slavery in the British Empire, about 50 million people left India and China to work as indentured labour on mines, plantations and construction in Latin America, the Caribbean, Southern Africa, Southeast Asia and other distant lands (Tinker, 1974; Lewis, 1978). The destinations were mostly British, Dutch, French and German colonies. In the second half of the twentieth century, there was a limited amount of international labour migration from the developing countries to the industrialised world during the period 1950–70. This was largely attributable to the post-war labour shortages in Europe and the post-colonial ties embedded in a common language (Nayyar, 1994). Since then, however, international migration has been significantly reduced because of draconian immigration laws and restrictive consular practices.[1] The only significant evidence of labour mobility during the last quarter of the twentieth century is the temporary migration of workers to Europe, the Middle East and East Asia. But the advent of globalisation is conducive to new forms of labour mobility (Nayyar, 2002). The present phase of globalisation has also found substitutes for labour mobility in the form of the trade flows and investment flows. For one

[1] For an analysis of, and evidence on, international migration in historical perspective, see Nayyar (2002).

thing, industrialised countries now import manufactured goods that embody scarce labour: the share of developing countries in world manufactured exports rose from 5.5% in 1970 to 26.9% in 2000, while the share of manufactured exports in total exports of developing countries rose from 18.7 in 1970 to 64.6% in 2000.[1] For another, industrialised countries export capital which employs scarce labour abroad to provide such goods. In 1992, for example, total employment in transnational corporations was 73 million, of which 44 million were employed in the home countries, while 17 million were employed in affiliates in industrialised countries and 12 million were employed in affiliates in developing countries; the share of developing countries in such employment rose from one-tenth in 1985 to one-sixth in 1992 (UNCTAD, 1994, p. 175).

The first phase of globalisation in the late nineteenth century was characterised by an integration of markets through an exchange of goods that was facilitated by the movement of capital and labour across national boundaries. The second phase of globalisation is characterised by an integration of production with linkages that are wider and deeper, except for the near absence of migration. It is reflected not only in the movement of goods, services, capital, technology, information and ideas, but also in the organisation of economic activities across national boundaries. This is associated with a more complex—part horizontal and part vertical—division of labour between the industrialised countries and a few developing countries in the world economy.

4. Uneven development: the past

The ideologues believe that globalisation led to rapid industrialisation and economic convergence in the world economy during the late nineteenth 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 autarchy that followed the First World War and subsequently, for another three decades, by the socialist path and a statist world view. The return of globalisation in the late twentieth century is thus seen as the road to salvation. The conclusion drawn is that globalisation now, as much as then, promises economic prosperity for countries that join the system and economic deprivation for countries that do not (Sachs and Warner, 1995).

This perspective extends beyond the ideologues. Some economic historians juxtapose the past with the present. An analysis of the past provides the foundations for prescriptions about the present. The argument runs as follows. The integration of markets through an exchange of goods led to commodity-price convergence in the world economy during the first epoch of globalisation. This commodity-price convergence, in turn, led to a factor-price convergence.[2] It is believed that, ultimately, this process was associated with a convergence of growth and income among the participating countries. It is worth exploring whether this convergence hypothesis is borne out by the experience of the world economy during the late nineteenth century.

[1] These percentages have been calculated from data in UNCTAD *Handbook of International Trade and Development Statistics* and *Handbook of Statistics*, various issues.

[2] See, for example, Williamson (1996, 2002). Orthodox trade theory provides the analytical foundations for this argument. The factor-price equalisation theorem emerged as a corollary of the Heckscher–Ohlin formulation of comparative advantage. Samuelson (1948) considered a situation in which there is free trade but there is no factor-mobility. The Heckscher–Ohlin assumptions about production conditions ensure a unique relationship between the factor-price ratio and the commodity-price ratio. In this world, free trade equalises commodity prices. If complete specialisation is ruled out, commodity-price equalisation necessarily leads to factor-price equalisation.

Available evidence suggests that there was, indeed, a commodity-price convergence. The price gaps between exporting and importing countries, which were substantial in 1870 diminished rapidly until 1914, mostly because of the transport revolution.[1] The contribution of trade liberalisation in this convergence process was limited. This convergence in commodity prices extended beyond the Atlantic Economy to Latin America, the Middle East and Asia. It is claimed that the commodity-price convergence improved the terms of trade (prices of exportables relative to prices of importables) for all countries that were part of this process. However, the improvement in the terms of trade was significant for land-abundant countries and modest for land-scarce countries. From the perspective of the Third World, the distribution of gains was perhaps even more asymmetrical, because the gains accrued in large part to countries such as Argentina and Uruguay, or to the large trading firms from the metropolis rather than the producers in the colonies.

There was some factor-price convergence during the age of globalisation from 1870 to 1914. But this process was confined to the Atlantic economies. Indeed, much of this convergence vanishes if we include Eastern Europe and evaporates altogether if we include the Third World.[2]

The logic of the argument is simple enough. Globalisation led to an increase in the wages of workers in land-scarce countries, where wage rates were low, and an increase in the rent of land in land-abundant countries, where wage rates were high. Available evidence shows that, in the period from 1870 to 1914, land-scarce Europe experienced a surge in wage–rental ratios, while land-abundant US and Australia witnessed a sharp drop in wage–rental ratios.[3] But that is not all. There was, also, some convergence in real wages.[4] Yet, it must be recognised that the convergence hypothesis is overstated, for it was confined to a few countries in Europe, such as Denmark, Ireland, Norway and Sweden. There was little in terms of catch-up for Italy, while Spain and Portugal witnessed a widening gap in wages.

What is more, the Heckscher–Ohlin–Samuelson parable is not quite validated by the late nineteenth century experience. Computable general equilibrium models show that the factor-price convergence, such as it was, cannot be attributed simply to commodity-price convergence, even in the Atlantic economies. In fact, commodity-price convergence can explain only about three-tenths of real wage convergence between the US and Britain during the period 1870–95, and about one-tenth of the real wage convergence between the US and Sweden during the period 1870–1910 (Williamson, 1996, p. 287). An econometric analysis of trends in the wage–rental ratio for seven Atlantic economies provides confirmation. The commodity-price convergence could explain just about a quarter of the wage–rental convergence between the Old and New Worlds separated by the Atlantic Ocean (O'Rourke *et al.*, 1996).

[1] For example, the difference in wheat prices between Liverpool and Chicago came down from 58% in 1870 to just 18% in 1895 and 16% in 1912. Similarly, the price spread on Egyptian cotton, between Liverpool and Alexandria, plunged from more than 40% in the 1860s to 5% in the 1890s. The story was more or less the same for the raw cotton price spread between Liverpool and Bombay or the jute price spread between London and Calcutta. There were similar reductions in price gaps between London and markets in South America or Southeast Asia. See Williamson (2002).

[2] This is accepted even by Williamson (2002), who is the principal exponent of the hypothesis about such convergence during the late nineteenth century.

[3] In Britain, Ireland, Denmark and Sweden, on an average, the wage–rental ratio rose by 50% between 1875–79 and 1890–94 and by 27% between 1890–94 and 1910–14. In contrast, between 1870–74 and 1910–14, the wage–rental ratio fell by 69%, on average, in the US and Australia. See Williamson (2002, p. 74).

[4] During the period 1870–1900, as a proportion of the real wage in Britain, real wages rose from 54% to 85% in Denmark, from 73% to 89% in Ireland, from 42% to 82% in Sweden, and from 42% to 65% in Norway. Indeed, by 1913, wages in these countries almost caught up with wages in Britain and significantly narrowed the gap with the US. Williamson (1996, pp. 284–5).

The obvious question is: what explains the observed factor-price convergence in the Atlantic economies? The answer is to be found in migration, which is simply assumed away in the factor-price equalisation theorem. Emigration from Europe had a profound impact on the labour market in these countries, for it lowered unemployment and raised the real wage. Immigration into the US, in effect, augmented the labour force to exercise a profound influence on the labour market, for it dampened real wages and employment opportunities.[1] It has been estimated that, between 1870 and 1910, mass migration explains seven-tenths of the real wage convergence between the Atlantic economies (Williamson 1996, p. 295). It is clear that, in the absence of mass migration across the Atlantic, real wages would have been much lower in the Old World and much higher in the New World.

The story about growth, it turns out, does not quite conform to the fairy tale of acceleration and convergence. The growth was uneven over time and across space. For one thing, growth did not accelerate. The average growth rate of 1.4% per annum for the world economy between 1890 and 1913 was somewhat faster than that achieved in the preceding two decades but was not significantly different from that achieved in the subsequent three decades. It is also worth noting that during the period 1867–69 to 1889–91, GNP per capita in Europe increased by a mere 0.2% per annum, compared with 1.1% per annum during the preceding 25 years and 1.5% per annum during the following 25 years (Bairoch, 1989, p. 246). For another, growth did not converge. Growth rates in the developing world were significantly lower than growth rates in the developed world, so that there was a widening of the gap. In developing countries, the growth in GNP per capita did increase from −0.2% per annum during 1830–1870 to 0.1% per annum during 1870–90 and 0.6% per annum during 1890–1913. In developed countries during the same periods, the corresponding rates were 0.6%, 1% per annum and 1.7% per annum respectively.[2]

It is clear that there was no convergence of growth, let alone income, across countries in the world economy during the age of globalisation from 1870 to 1914. This era was characterised by uneven development. Industrialisation and growth was concentrated in a very small group of countries. In 1860, Britain, the US, France and Germany accounted for two-fifths of industrial production in the world. By 1913, their share was more than two-thirds of a much larger total. Similarly, in 1913, as much as 60% of world trade was among the industrialised countries. The same economies also absorbed a disproportionately large share of the international capital flows for they were at the core of the gold standard (Bairoch and Kozul-Wright, 1996). There was, in fact, a small group of industrialising economies which experienced rapid growth and income convergence to catch up with Britain and France. Much of it was attributable to the inclusion of the US.

Indeed, most of the gains from international economic integration of this era accrued to the imperial countries which exported capital and imported commodities. There were a few countries like the US and Canada—new lands with temperate climates and white

[1] This was, perhaps, an important factor underlying the political economy of immigration restrictions in the US. In fact, the era of open immigration in the US came to an abrupt end with the final passage of the Literacy Test in February 1917. For a discussion on this issue, see Nayyar (2002).

[2] See Bairoch (1993). The belief that trade liberalisation was conducive to growth during this era is not borne out by the available evidence. In continental Europe, the story was the opposite, as intensified protectionism was associated with faster economic growth. It is significant that, during the period 1889–1913, GNP growth in Britain, which remained faithful to free trade, at 0.9% per annum, was slower than that in continental Europe at 1.5% per annum. Indeed, the US, which did not practise free trade, experienced the most rapid economic growth during this era, so that, by 1913, it had overtaken Britain not only in industrial production but also in per capita income. See Bairoch (1989) and Bairoch and Kozul-Wright (1996).

settlers—which also derived some benefits. In these countries, the pre-conditions for industrialisation were already being created, and international economic integration strengthened this process. Foreign direct investment in manufacturing activities stimulated by rising tariff barriers, combined with technological and managerial flows, reinforced the process. The outcome was industrialisation and development. But this did not happen everywhere. Development was uneven in the industrial world. Much of southern and eastern Europe lagged behind. This meant divergence rather than convergence in terms of industrialisation and growth.[1] At the same time, inequality rose in the resource-rich labour-scarce industrialising countries of the New World.[2]

Clearly, it is not correct to characterise this era of globalisation during the late nineteenth century as one of rapid growth across countries and convergence between countries. In fact, it was associated with uneven economic development. The industrialised countries prospered. A small group of newly industrialising countries were able to reinforce their domestic efforts through links with the international economy. But, for countries in the developing world, the same integration with the world economy led to de-industrialisation and underdevelopment. Consequently, this epoch witnessed a growing divergence in income per capita and average living standards between the centre and the periphery (Williamson, 2002).

There was, in fact, an increase in economic inequalities between countries and within countries. The income gap between the richest and the poorest countries, for instance, which was just 3:1 in 1820, more than doubled to 7:1 in 1870 and increased further to 11:1 in 1913 (Maddison, 1995). Countries in Asia, Africa and Latin America, particularly the colonised ones, which were also a part of this process of globalisation, were even less fortunate. Indeed, during the same period of rapid international economic integration, some of the most open economies in this phase of globalisation—India, China and Indonesia—experienced de-industrialisation and underdevelopment. We need to remind ourselves that, in the period from 1870 to 1914, these three countries practised free trade as much as the UK and the Netherlands, where average tariff levels were close to negligible (3–5%); in contrast, tariff levels in Germany, Japan and France were significantly higher (12–14%); whereas tariff levels in the US were very much higher (33%).[3] What is more, these three countries were also among the largest recipients of foreign investment (Maddison, 1989). But their globalisation did not lead to development. The outcome was similar elsewhere: in Asia, Africa and Latin America. So much so that, between 1860 and 1913, the share of developing countries in world manufacturing output dropped sharply from 36.6% to 7.5%: a share that was just about one-fifth its level at the beginning of this era (Bairoch 1982). Export-oriented production in mines, plantations and cash-crop agriculture created enclaves in these economies which were integrated with the world economy in a vertical division of labour. But there were almost no backward linkages. Productivity levels outside the export enclaves stagnated at low levels. They simply created dualistic economic structures where the benefits of globalisation accrued mostly to the outside world and in small part to the local elites.

[1] See Bairoch and Kozul-Wright (1996), who show how globalisation led to uneven development in the world economy during the period 1870–1913, not simply between the colonisers and the colonised but also within Europe.

[2] Inequality remained unchanged in countries such as Britain, France, Germany and the Netherlands that were leaders and already industrialised. Inequality fell only in a few resource-poor labour-abundant agrarian economies in the Old World of Europe such as Ireland, Italy, Portugal, Spain and Sweden. For a detailed discussion, see Williamson (1997).

[3] For evidence on tariffs during this era, see Maddison (1989) and Bairoch (1982).

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 passage, written by John Maynard Keynes at the time, vividly highlights the benefits of globalisation for some people and some countries, those included, but also recognises how economic and political conflicts associated with the process stopped what had seemed irreversible at the 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, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and 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 their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of 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 forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without any passport or other formality, could dispatch his servants to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could 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 aberrant, scandalous 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. (Keynes, 1919, pp. 9–10).

5. Development and exclusion: the present

The process of globalisation, which gathered momentum during the last quarter of the twentieth century, has brought about profound changes in the international context. It could have far-reaching implications for development. The reality that has unfolded so far, however, belies the expectations of the ideologues. The development experience of the world economy from the early 1970s to the late 1990s, which could be termed the *age of globalisation*, provides cause for concern, particularly when it is compared with the period from the late 1940s to the early 1970s, which has been described as the *golden age of capitalism*. Any such periodisation is obviously arbitrary, but it serves an analytical purpose.[1]

Growth did not accelerate. It slowed down. During the 1960s, the average rate of growth of world GDP per capita was 3.5% per annum. Deceleration set in thereafter. The average

[1] The quarter century that followed the Second World War was a period of unprecedented prosperity for the world economy. It has, therefore, been described as the *golden age of capitalism*. See, for example, Marglin and Schor (1990) as also Maddison (1982). The *age of globalisation*, however, is not a phrase that has been used in the literature to describe the world economy during the last quarter of the twentieth century. It was suggested in an earlier paper by the author (Nayyar, 2003), as this periodisation facilitates comparison. The discussion that follows, in part, draws upon the argument developed in that paper. For an analysis of the implications of globalisation for development during the last quarter of the twentieth century, see also Nayyar (2001).

rate of growth of world GDP per capita was 2.1% per annum during the 1970s, 1.3% per annum during the 1980s and 1% per annum during the 1990s.[1] This growth was more volatile compared with the past, particularly in the developing world.[2] The growth was also unevenly distributed across countries. Between 1985 and 2000, the growth in GDP per capita was negative in 23 developing countries, 0.2% per annum in 14 developing countries, 1.2% per annum in 20 developing countries, 2.2% per annum in 12 developing countries, and more than 5% per annum in just 16 developing countries. Over the same period, growth in GDP per capita was negative in 17 transition countries and 1.8% per annum in 22 industrialised countries.[3]

Available evidence suggests a divergence, rather than convergence, in levels of income between countries and between people. Economic inequalities have increased in the late twentieth century as the income gap between rich and poor countries, between the rich and the poor in the world's population, as also between rich and poor people within countries, has widened. The ratio of GDP per capita in the richest country to GDP per capita in the poorest country of the world rose from 35:1 in 1950 to 42:1 in 1970 and 62:1 in 1990.[4] The ratio of GDP per capita in the 20 richest countries to GDP per capita in the poorest 20 countries of the world rose from 54:1 during 1960–62 to 121:1 during 2000–2002.[5] The income gap between people has also widened over time. The ratio of the average GNP per capita in the richest quintile of the world's population to the poorest quintile in the world's population rose from 31:1 in 1965 to 60:1 in 1990 and 74:1 in 1997.[6]

Income distribution within countries also worsened. This is borne out by a study on trends in the distribution of income, during the period from the 1960s to the 1990s, for 73 countries comprising developed, developing and transitional economies. It shows that income inequality increased in 48 countries, which account for 59% of the population and 78% of the PPP-GDP in the sample of 73 countries. Income inequality remained the same in 16 countries which account for 36% of the population and 13% of the PPP-GDP in the sample of 73 countries. Income inequality decreased in only nine countries, which account for 5% of the population and 9% of the PPP-GDP in the sample of 73 countries (Cornia and Kiiski, 2001). The increase in income inequality was striking in some industrialised countries. Between 1975 and 2000, the share of the richest 1% in gross income rose from 8% to 17% in the US, from 8.8% to 13.3% in Canada and from 6.1% to 13% in the UK (Atkinson, 2003).

The incidence of poverty increased in most countries of Latin America, the Caribbean and Sub-Saharan Africa during the 1980s and the 1990s. Much of Eastern Europe and

[1] These figures are calculated from data on annual growth in world GDP per capita, drawn from World Bank, *World Development Indicators 2003*, as the arithmetic mean of annual growth rates for each decade.

[2] For evidence on the volatility of growth in the world economy during the period 1975–2000, see World Bank, *World Development Indicators 2003*. For evidence on the volatility of growth in developing countries during the period 1980–2000, as compared with the period 1960–80, see UNCTAD, *Trade and Development Report 2003*, p. 59.

[3] These growth rates are calculated from the basic data compiled by the World Bank, *World Development Indicators 2003*, for 124 countries (which accounted for 92% of the estimated world population in 2000) for which consistent information is available over time. The growth rates for transition economies relate to the period 1991–2001.

[4] Calculated from Maddison (1995, Appendix D, pp. 194–206), which provides data on levels of GDP per capita.

[5] Between 1960–62 and 2000–2002, in constant 1995 US dollars, GDP per capita in the 20 richest countries rose from 11,417 to 32,339, while GDP per capita in the poorest 20 countries barely increased from 212 to 267 (World Bank, *World Development Indicators 2003*).

[6] For 1965 and 1990, these ratios are obtained from UNCTAD, *Trade and Development Report 1997*, p. 81. For 1997, the ratio is obtained from UNDP, *Human Development Report 1999*, p. 3.

Central Asia experienced a sharp rise in poverty during the 1990s. However, East Asia, Southeast Asia and South Asia experienced a steady decline in the incidence of poverty during this period. But most of this improvement is accounted for by changes in just two countries, with large populations, China and India.[1]

The employment situation during the last quarter of twentieth century provides a sharp contrast with the preceding quarter century, during which full employment was almost the norm in industrialised countries. Unemployment in the industrialised countries has increased substantially since the early 1970s and remained at high levels since then. During the 1980s and 1990s, the unemployment rate has been in the range of 10% in the European Union and about 7% in the OECD countries. The US is the exception, where the unemployment rate has been around 5%. In contrast, Japan has witnessed a sharp increase in the unemployment rate from near-zero to more than 5%.[2] In the developing countries, employment creation in the organised sector continues to lag behind the growth in the labour force, so that an increasing proportion of workers are dependent upon low productivity and casual employment in the informal sector. Inequality in terms of wages and incomes has registered an increase almost everywhere in the world. This has been associated with an increasing casualisation of the workforce, for employment opportunities in the organised sector have stagnated so that labour absorption is possible largely in the informal sector of economies. The share of non-agricultural self-employment as a proportion of total non-agricultural employment, for the world economy as a whole, rose from 26% during the 1980s to 32% during the 1990s. These proportions were the same at 26% and 32% respectively for Asia, but rose from 29% to 44% in Latin America and from 44% to 48% in Africa. (ILO, 2002, p. 22)

It would seem that, in some important respects, the world economy fared better in the golden age 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 globalisation may have accentuated inequalities. Trade liberalisation has led to a growing wage inequality between skilled and unskilled workers, not only in industrialised countries but also in developing countries.[3] 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.[4] Structural reforms, which have cut tax rates and brought flexibility to labour markets, have reinforced this trend. The mobility of capital combined with the immobility of labour has changed the nature of the employment relationship and has reduced the bargaining power of trade unions. The object of managing inflation has been transformed into a near-obsession by the sensitivity of international financial markets, so that governments have been forced to adopt deflationary macroeconomic policies which have squeezed both growth and employment. The excess supply of labour has repressed real wages. Financial liberalisation, which has meant a rapid expansion of public as well as private debt, has been associated with the

[1] For supporting evidence, see World Bank, *World Development Report* and *Global Economic Prospects*, several issues.

[2] Cf., OECD, *Economic Outlook* and *Employment Outlook*, Paris, 1998.

[3] For evidence in support of this proposition, see UNCTAD (1997). In addition, see Wood (1994) and Wood (1997). Stewart (2003) also suggests that trade liberalisation (associated with globalisation) provides an explanation for rising inequality, and cites supporting evidence.

[4] Some evidence on the increase in profit shares in industrialised countries and the decrease in wage shares in developing countries is reported in UNCTAD (1997). Stewart (2003) develops a similar argument that globalisation may have led to an increase in inequality through an increase in returns to capital as compared with labour.

emergence of a new rentier class. And the inevitable concentration in the ownership of financial assets has probably contributed to a worsening of income distribution.[1] Global competition has driven large international firms to consolidate market power through mergers and acquisitions which has made market structures more oligopolistic than competitive. The competition for export markets and foreign investment, between countries, has intensified, in what is termed 'a race to the bottom', leading to an unequal distribution of gains from trade and investment.

It must also be recognised that the spread of globalisation is uneven. The exclusion of people and of countries, from the process, is a fact of life. Consider some evidence, for 2000, on international trade, international investment and international finance, which constitute the cutting edge of globalisation.[2] Industrialised countries accounted for 64% of world exports, while developing countries accounted for 32% and transitional economies for the remaining 4%. Industrialised countries accounted for 82% of foreign direct investment inflows in the world economy, whereas developing countries accounted for 16% and transitional economies for the remaining 2%. Industrialised countries accounted for 95% of cross-border mergers and acquisitions in terms of purchases, whereas developing countries accounted for just 4% and transitional economies accounted for a mere 1%.

This sharp divide between rich and poor countries is no surprise but the spread of globalisation is just as uneven within the developing world. There are no more than a dozen developing countries which are an integral part of the process of globalisation: Argentina, Brazil and Mexico in Latin America; China, Hong Kong, India, Indonesia, Korea, Malaysia, Singapore, Taiwan and Thailand in Asia. During the 1990s, these countries accounted for 70% of total exports from the developing world and 75% of manufactured exports from the developing world, absorbed almost 72% of foreign direct investment flows to the developing world and received about 90% of foreign portfolio investment flows to the developing world.[3] Countries in Sub-Saharan Africa and West Asia are simply not in the picture, apart from many countries in Latin America, South Asia and the Asia Pacific, which are left out altogether. The exclusion of the least developed countries, everywhere in the world, is almost complete.

The exclusion of poor countries and poor people extends beyond trade, investment and finance, in so far as their access to globalisation, in terms of communication and technology, is exceedingly limited. Indeed, the excluded are barely connected with the globalised world. For example, in 2000, the distribution of access to the Internet was most unequal: of the Internet users in the world, 75.8% were in the industrialised countries, 18.4% were in Asia, just 4.6% in Latin America and the Caribbean, and a mere 1.2% in Africa.[4] Similarly, in 1999, the access to telecommunications systems was most unequal: there were 100–125 telephone lines per 100 inhabitants in the OECD countries compared with 25 telephone lines per 100 inhabitants in the rest of the world. The difference was much greater in other

[1] This argument is developed in UNCTAD (1997).

[2] For evidence on the share of country-groups in world exports, see UNCTAD, *Trade and Development Report 2003*. For evidence on the share of country-groups in foreign direct investment inflows, as also cross-border mergers and acquisitions, see UNCTAD, *World Investment Report 2002*.

[3] The share of these 12 countries in total exports and manufactured exports from developing countries is calculated from data in UNCTAD *Handbook of Statistics 2002*. Their share in foreign direct investment inflows to the developing world is calculated from data in UNCTAD *World Investment Report 2002*. The evidence on the share of these 12 countries in portfolio investment flows to the developing world relates to the period 1992–97 and is drawn from UNCTAD, *World Investment Report 1998*, p. 15.

[4] The ITU reports that, in 2000, the number of Internet users in the world was distributed as follows: 137 million in North America, 110.8 million in Europe, 38 million in Japan, 8.2 million in Australia-New Zealand, 71.3 million in Asia, 17.7 million in Latin America and the Caribbean and 4.6 million in Africa.

modes. In the OECD countries, for 100 people, the number of personal computers was in the range 25–30, while the number of mobile phones was in the range 20–40. In the rest of the world, the number of personal computers and mobile phones, for 100 people, was less than 5.[1] These are averages for the non-OECD world. Obviously, such access was probably far less in most developing countries and minimal in the least developed countries.

The story of globalisation in the late twentieth century, it turns out, does not quite conform to the fairy tale of growth and convergence. There is, of course, a commodity-price convergence, driven by the revolution in transport and communication and the progressive dismantling of barriers of trade associated with a sharp reduction in tariffs. There is no evidence of factor-price convergence. This is not surprising, because the migration of people across national boundaries has been limited in this era. Globalisation is conducive to some forms of labour mobility, particularly professionals and guest workers, but these may have accentuated wage inequalities across countries or left them unchanged. The outcome is a globalisation of prices without a globalisation of incomes.

It would seem that this era of globalisation, as much as the earlier era, is characterised by uneven development. For a few, rich countries and rich people, it has led to prosperity. For the many, poor countries and poor people, it has led to marginalisation if not exclusion. The benefits have accrued essentially to the industrialised world and a small number of developing countries. For many developing countries, and their people, the process of integration with the world economy has not yielded benefits in terms of economic growth or poverty reduction either because they did not create the necessary pre-conditions or because the process of integration was too rapid. The least developed countries, as also their people, have simply been marginalised and almost excluded from the process.

Globalisation has, indeed, created opportunities for some people and some countries that were not even dreamed of three decades ago. But it has also introduced new risks, if not threats, for many others. It has been associated with a deepening of poverty and an accentuation of inequalities. The distribution of benefits and costs is unequal. There are some winners: more in the industrialised world than in the developing world. There are many losers: numerous both in the industrialised world and in the developing world. It is, perhaps, necessary to identify, in broad categories, the winners and the losers.[2]

If we think of people, asset-owners, profit-earners, rentiers, the educated, the mobile and those with professional, managerial or technical skills are the winners, whereas asset-less, wage-earners, debtors, the uneducated, the immobile and the semi-skilled or the unskilled are the losers. If we think of firms, large, international, global, risk-takers and technology-leaders are the winners, whereas small, domestic, local, risk-averse and technology-followers are the losers. If we think of economies, capital-exporters, technology-exporters, net lenders, those with a strong physical and human infrastructure, and those endowed with structural flexibilities are the winners, whereas capital-importers, technology-importers, net borrowers, those with a weak physical and human infrastructure, and those characterised by structural rigidities are the losers. It needs to be said that this classification is suggestive rather than 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. It is not surprising, then, that the spread of globalisation is uneven and limited both among people and across countries.

[1] See Observatoire de la France and UNITAR, *Economic and Financial Globalization*: *What the Numbers Say*, New York and Geneva, 2003, p. 23

[2] The paragraphs that follow draw upon earlier work by the author. For a more detailed discussion, see Nayyar (2003).

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 large numbers of people. It is much more complicated. For the consumption patterns and lifestyles of the rich associated with globalisation have powerful demonstration effects. People everywhere, even the poor and the excluded, are exposed to these consumption possibility frontiers because the electronic media has spread the consumerist message far and wide. This creates both expectations and aspirations. But the simple fact of life is that those who do not have the incomes cannot buy goods and services in the market. Thus, when the paradise of consumerism is unattainable, which is the case for common people, it only creates frustration or alienation. The reaction of people who experience such exclusion differs. Some seek short cuts to the consumerist paradise through drugs, crime or violence. Some seek refuge in ethnic identities, cultural chauvinism or religious fundamentalism. Such assertion of traditional or indigenous values is often the only thing that poor people can assert, for it brings an identity and meaning to their lives. Outcomes do not always take these extreme forms. But globalisation inevitably tends to erode social stability.[1] Thus, economic integration with the world outside may accentuate social tensions or provoke social fragmentation within countries.

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[1] The argument about reactions in the form of chauvinism or fundamentalism is set out by Streeten (1996). The hypothesis that there are actual or potential sources of tension between global markets and social stability is developed, at some length, by Rodrik (1997).

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