

ECONOMÍA INTERNACIONAL

Globalization / Mercantilism

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Agenda

Globalization

Mercantilism

There exist no single definiton of Globalization

- Oxford Dictionary
the fact that different cultures and economic systems around the world are becoming connected and similar to each other because of the influence of large multinational companies and of improved communication.
- Wikipedia
the process of interaction and integration among people, companies, and governments worldwide. As a complex and multifaceted phenomenon, globalization is considered by some as a form of capitalist expansion which entails the integration of local and national economies into a global, unregulated market economy.
- Carbaugh
the process of greater interdependence among countries and their citizens. It consists of the increased interaction of product and resource markets across nations via trade, immigration, and foreign investment...It also includes non-economic elements such as culture and the environment. Simply put, globalization is political, technological, and cultural, as well as economic.

Pre-industrial globalisation – 1500 to 1820

- Although trade and migration has a long history, both took mainly place on a regional (Mediterranean) and intercontinental ([Europe, Asia and North and East Africa](#)) level until the 16th century
- Two events that led to a surge in globalisation (Al-Rodhan, 2006):
 1. Advance of trading technology (especially shipping and mapping)
 2. Global Colonialism (e.g. the ‘discovery’ of America by Columbus in 1492)
- Between 1500 - 1820, international **trade** experienced an **average annual growth rate of 1%** – three times the annual global **GDP growth rate of 0.3%** (Maddison, 2007)
- Pre-industrial trade was mainly in high-value and low-bulk goods, like quality silks, precious metals, ceramics, spices, tea, coffee, sugar (O’Rourke and Williamson, 2004)
- Tariff barriers were relatively high, due to protectionist policies

First wave of industrial globalisation – 1870 to 1913

- Triggered by technological developments in transportation – steam engine and railroads – the world became globalised at a much more rapid pace
- The growth in world trade and GDP became much faster
 - Annual **growth in trade was 3.4%** while **GDP grew by 2.1%** per annum between 1870 and 1913 (Maddison, 2007)
 - Exports as a share of world income nearly doubled: from 4.6% to 7.9% (Maddison, 2001)
- This development was dominated by European and American businesses (great divergence started)
- The growth in trade **came to an end with WWI** in 1914: between 1914 and 1950 trade grew only at 0.9%, which was much lower than world GDP growth (1.8%); hence exports as a share of GDP fell to around 5% in 1945 (Maddison, 2002)

**Average tariff rates on manufactured products
(weighted average; in percent of value)**

	1820	1875	1913	1925	1931	1950
Austria ¹	R	15-20	18	16	24	18
Belgium ²	6-8	9-10	9	15	14	11
Denmark	25-35	15-20	14	10	n.a.	3
France	R	12-15	20	21	30	18
Germany ³	8-12	4-6	13	20	21	26
Italy	n.a.	8-10	18	22	46	25
Japan	R	5	30	n.a.	n.a.	n.a.
Netherlands ²	6-8	3-5	4	6	n.a.	11
Russia	R	15-20	84	R	R	R
Spain	R	15-20	41	41	63	n.a.
Sweden	R	3-5	20	16	21	9
Switzerland	8-12	4-6	9	14	19	n.a.
United Kingdom	45-55	0	0	5	n.a.	23
United States	35-45	40-50	44	37	48	14

Chang, 2002

Second wave of industrial globalisation – 1950 to mid-1970s

- After 1950 trade flows and world income rose rapidly to previous unknown levels:
 - The volume of world **trade grew by 7.9%** and **world GDP grew** on average by **4.9%** (Maddison, 2007)
 - Exports as a share of world income doubled: from 5.5% to 10.5% (Maddison, 2001)
- The so called **golden age of capitalism** was beneficial for developed and developing countries
- It came to end in the mid-1970s due to:
 - Failure of Bretton Woods (1971)
 - First oil crisis (1973)
 - Stock market crash (1973/1974)
 - Decreasing productivity growth rates, whereas wage growth rates stayed high
 - Stagflation in Europe and the USA

Two different stories that explain the golden age of capitalism

1) 'Mainstream' view:

- Falling transportation costs
- Government cooperation to decrease nationalism
- Decreasing trade barriers; especially for manufactured goods and between developed countries ([GATT](#))
- Specialisation and clustering which led tremendous productivity increases

2) 'Heterodox (Keynesian) view' (see e.g. Marglin, 1988; Glynn et al. 1990)

- Decreasing tariffs, technology and productivity growth were important, but as important were:
 - Industrial policies which helped to increase productivity and fostered aggregate demand (e.g. the Marshall plan)
 - Low real interest rates
 - Balance between productivity and wage growth, and increased welfare spending
 - Stricter financial market regulations: stable exchange rates and a stable financial sector (Bretton Woods)

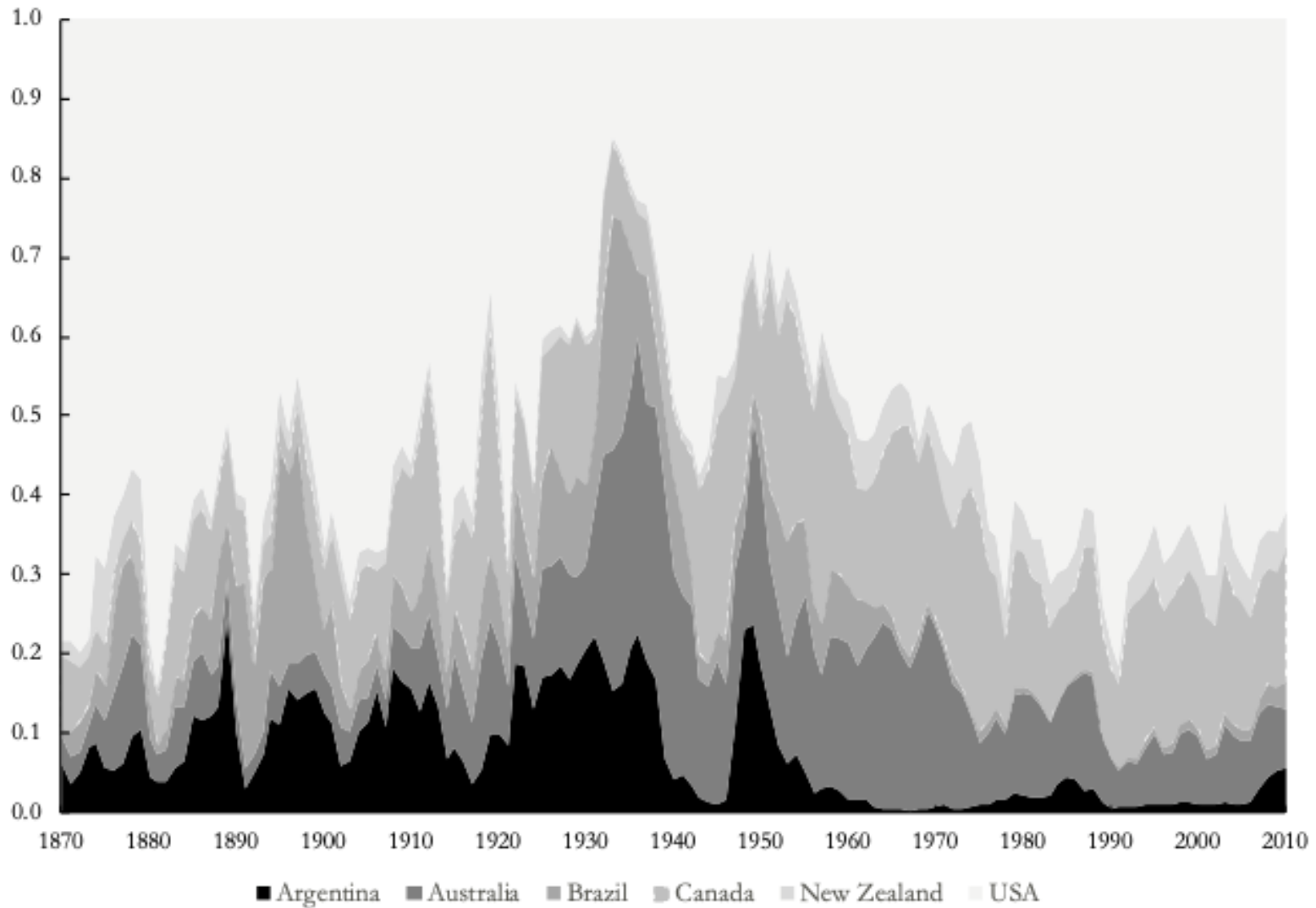
Third wave of industrial globalisation – 1980 to 2007

- Trade flows increased significantly from the mid-80s onwards in developed and developing countries; this trend was driven by
 - technological progress (computer and communication) and development of services that support international business
 - decreasing tariffs – during the Uruguay round tariffs were cut by 34% - and liberalisation of capital flows
 - Increased global competition (need to decrease production costs) and growing consumer pressure
 - changing political situation (e.g. fall of the iron curtain)
- But, the main distinctive feature of the post-1980 wave is the strong increase in capital flows

Third wave of industrial globalisation – 1980 to 2007

- Also **outsourcing** became more prevalent with both blue collar jobs moving from the U.S. and Europe into lower cost areas
- The minimum wage in
 - the US is approximately US\$ 7.25/hour
 - China is approximately US\$ 1.65/hour
 - **Colombia is approximately US\$ 1.50/hour**
- White collar jobs are also increasingly transferred to cheaper locations, e.g., according to salary surveys engineers earn approximately:
 - US\$ 7,600/month in the US
 - US\$ 3,350/month in China
 - **US\$ 1,700/month in the Colombia**

However, labour mobility declined...



Source: Jacks & Tang (2018)

... the increase in trade and capital flows did not lead to an increase in global growth

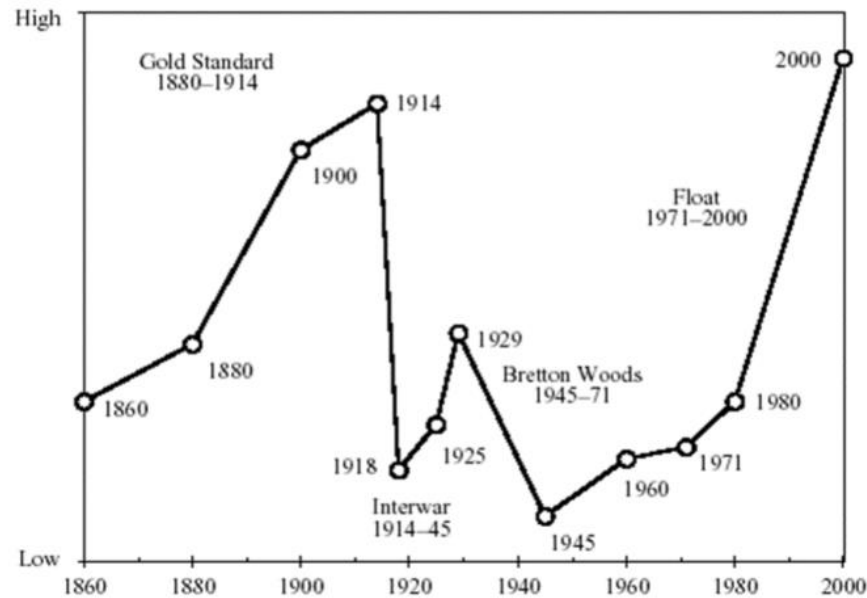
**Average GDP per capita growth
(in %)**

	1960s	1970s	1980s	1990s	2000s	2010s
Low- & middle-income countries	2.9	3.3	1.3	1.0	4.3	3.6
<i>East Asia & Pacific</i>	1.5	4.9	5.7	6.5	8.0	6.5
<i>Europe & Central Asia</i>				-3.4	5.2	2.8
<i>Latin America & Caribbean</i>	2.7	3.7	-0.1	0.8	1.6	0.7
<i>Middle East & North Africa</i>	7.5	2.4	-2.0	2.0	2.5	1.0
<i>South Asia</i>	1.9	0.6	3.2	3.3	4.2	5.3
<i>Sub-Saharan Africa</i>	1.6	1.6	-1.3	-0.8	2.5	0.9
High income	4.4	2.7	2.2	1.9	1.1	1.4

Data source: World Bank, 2020

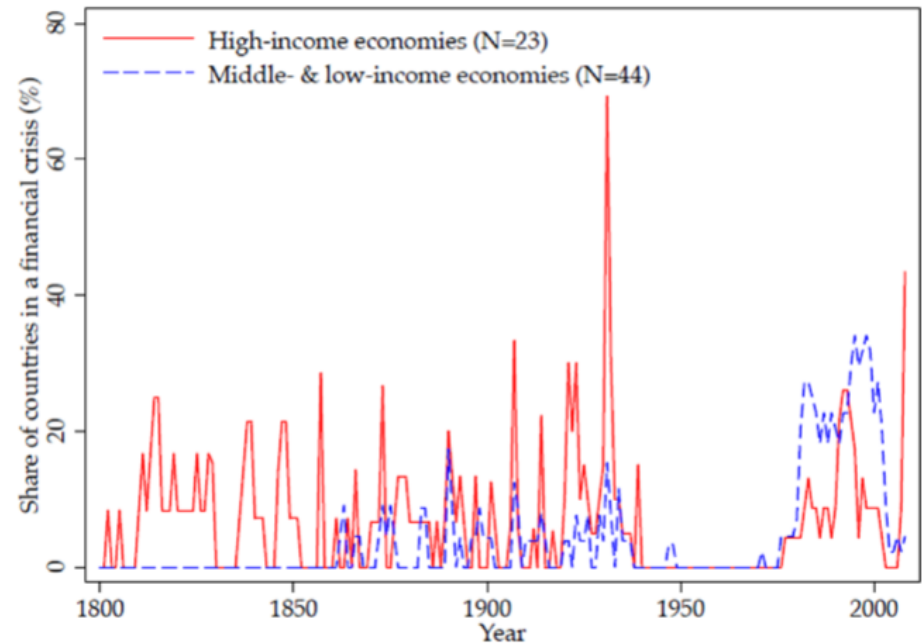
...and financial crisis became more frequent

Financial Globalization



vs.

Financial Crises



Data source: Schularick, 2017

Nowadays manufactures are bound to international value chains. But, developed countries still dominated trade in manufactures

- Today supermarkets are international food bazaars: beef from Argentina, Kiwis from New Zealand, olive oil from Italy, coffee from Colombia, cinnamon from Sri Lanka, wine and cheese from France
- But, [manufactured goods](#) are by far the most important in world trade (while the role of agricultural and mining has decreased)
- The increase of manufacturing good production in developing countries (e.g. due to low costs) means that international [value chains](#) are an integral part of production process
- However, most [trading volume](#) still takes place between developed countries and mainly Asian developing countries could gain from globalisation

Why is (a critical analysis of) globalization important?

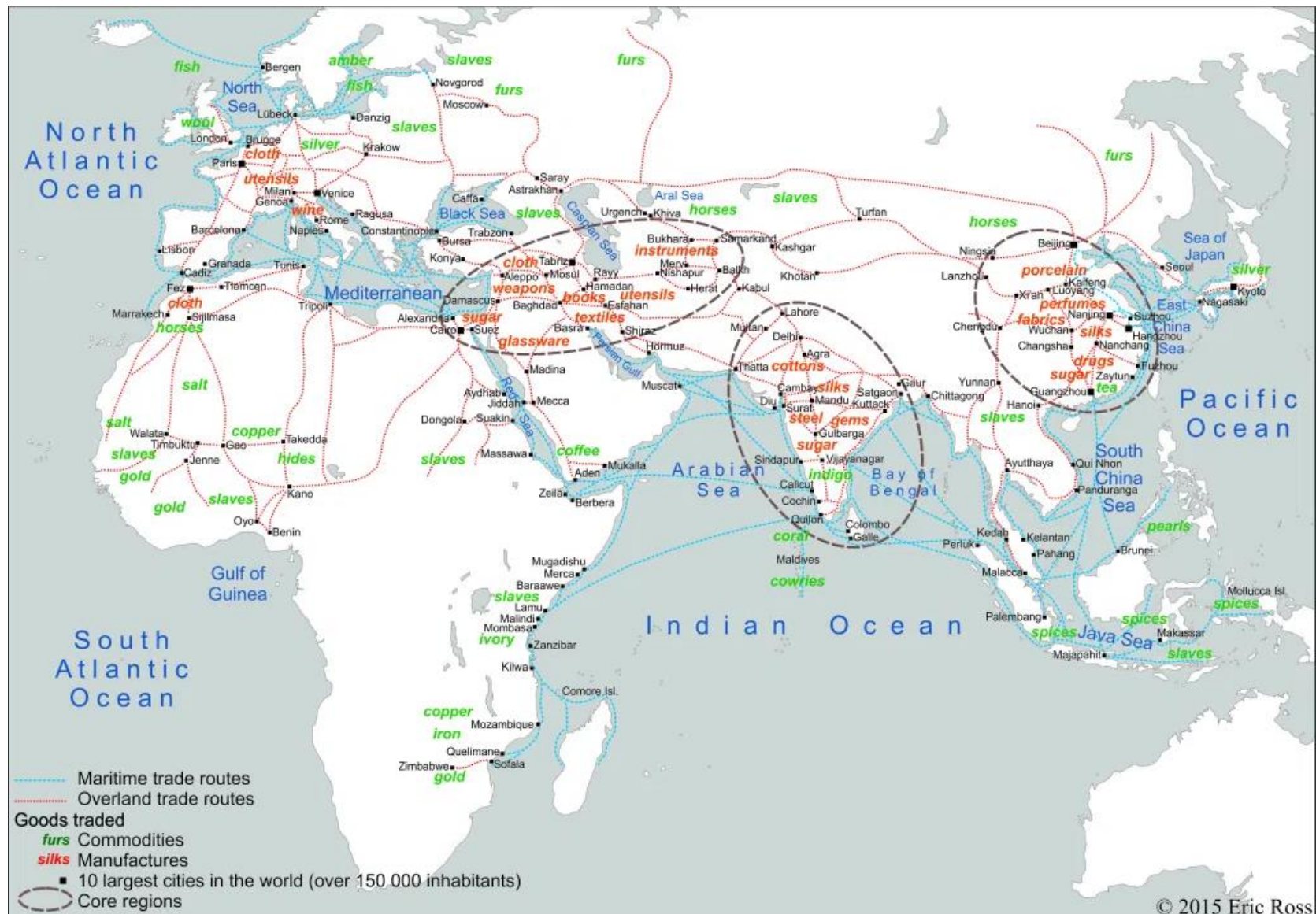
- Individuals, firms, regions, and nations can specialize in the production of things they do well (comparative advantage); win-win situation (e.g. US wheat for Colombian coffee)
- International competition leads to innovation and gains for consumers; consumers have a greater choice and receive cheaper and/or higher quality goods
- As production gets cheaper and competition increases, inflation rates around the world are kept low, but
- Developing countries can use exports and technology imports as policy tools to catch up with developed countries (e.g. Japan, South Korea, China)

Why is (a critical analysis of) globalization important?

- However, it is questionable if [lower tariffs](#) and free capital flows on their own are enough to achieve high global growth rates
- Global oligopolies and monopolies might form and engage in rent seeking
- Certain sectors/companies/ worker might suffer and globalisation can lead to higher [inequality](#)
- A crisis in an important country (e.g. US) or region (e.g. Asia) can spread globally and lead to so called “contagion effects”
- International financial flows (speculation) can be destabilising
- The main question probably is, however, whether globalisation is [ecological sustainable](#)?

Appendix

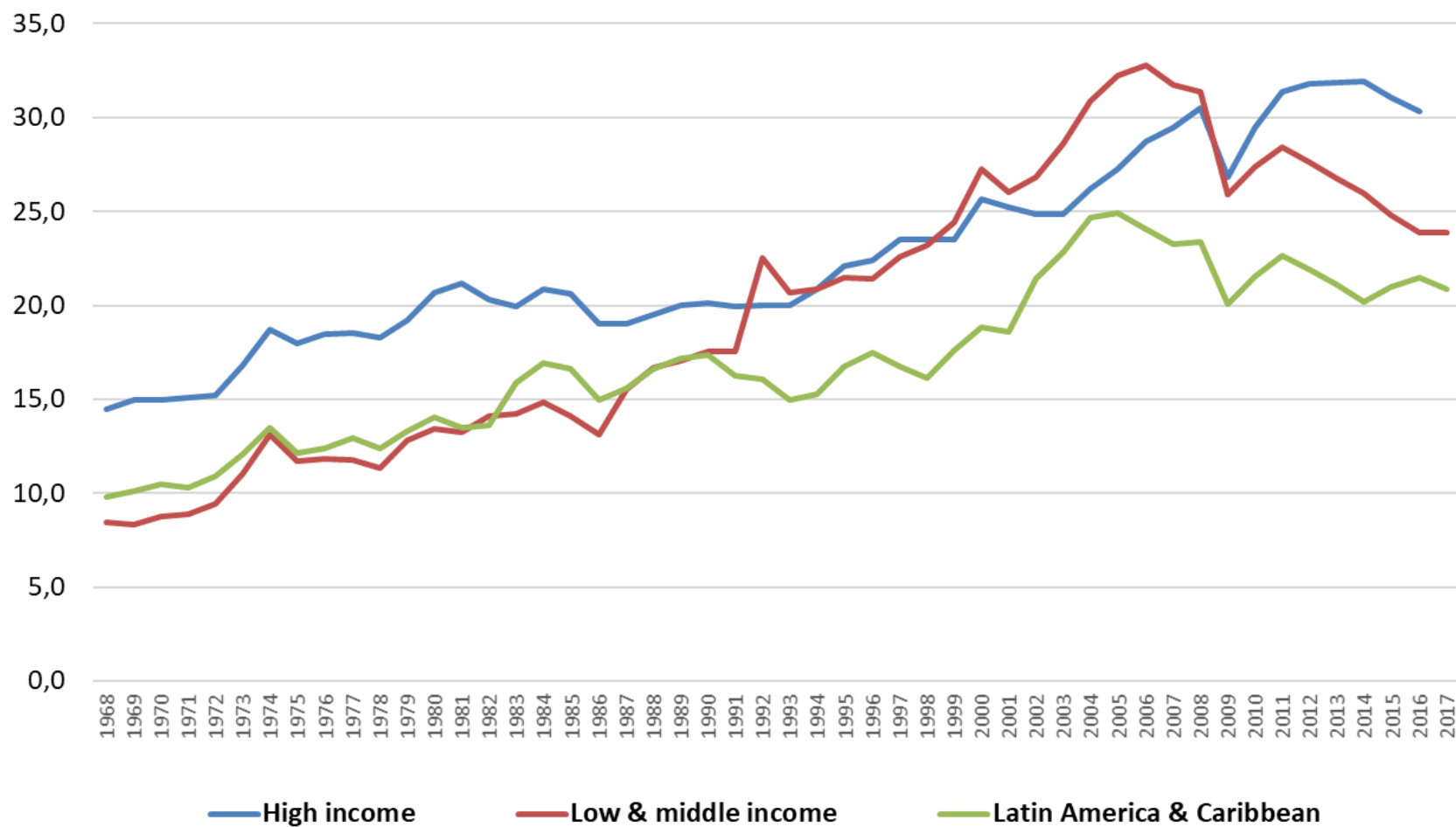
The silk road in 1340



GATT NEGOTIATING ROUNDS

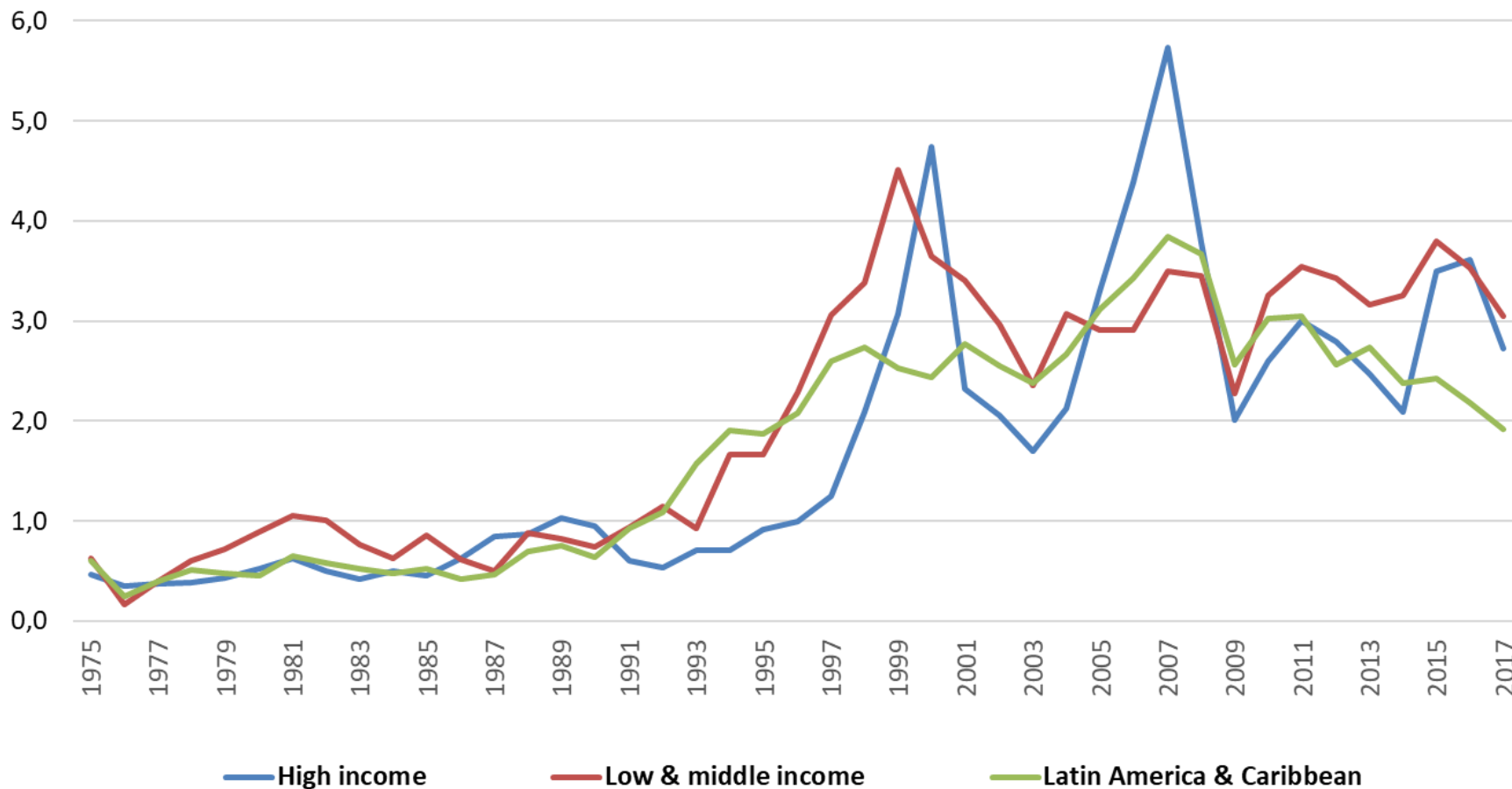
Negotiating Round and Coverage	Dates	Number of Participants	Tariff Cut Achieved (percent)
Addressed tariffs			
Geneva	1947	23	21
Annecy	1949	13	2
Torquay	1951	38	3
Geneva	1956	26	4
Dillon Round	1960–1961	26	2
Kennedy Round	1964–1967	62	35
Addressed tariff and nontariff barriers			
Tokyo Round	1973–79	99	33
Uruguay Round	1986–93	125	34
Doha Round	2002–	149	—

Exports of goods and services (% of GDP)



World Bank, 2018

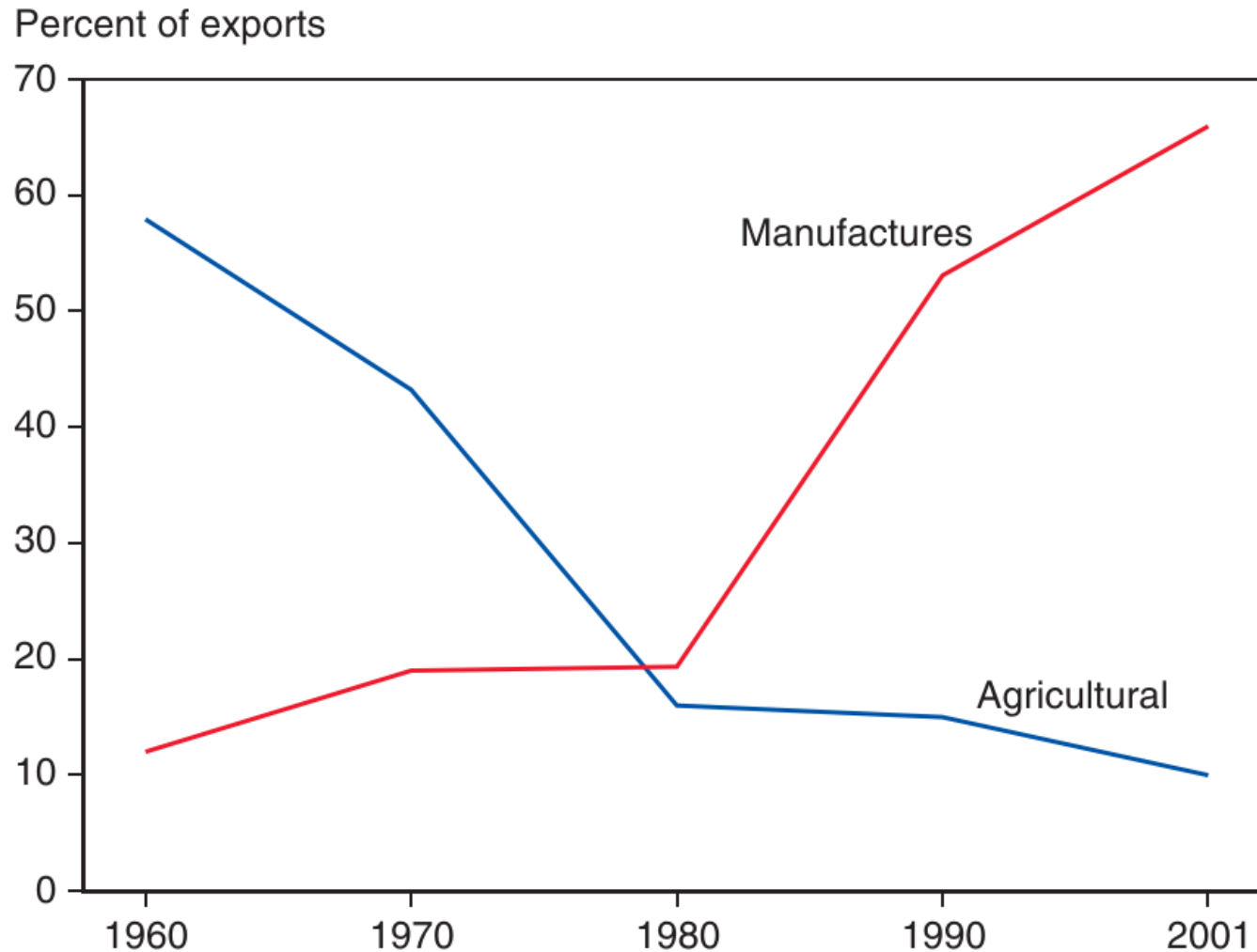
Inward foreign direct investment flows (% of GDP)



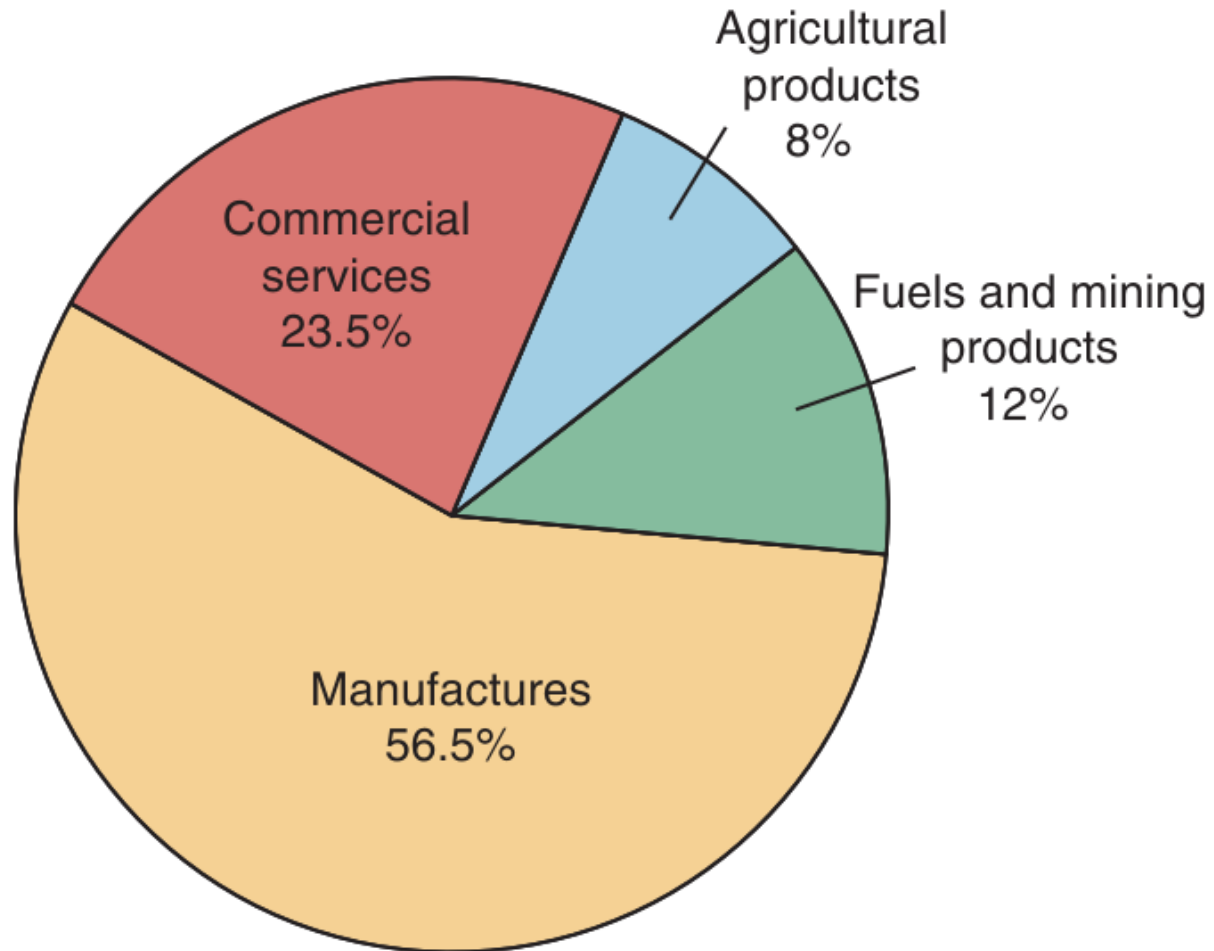
Gross Foreign Assets and Liabilities (% of GDP)

		1983	1993	2011
Australia	Assets	12	34	83
	Liabilities	43	87	140
France	Assets	63	80	256
	Liabilities	46	89	289
Germany	Assets	38	64	230
	Liabilities	31	54	205
Italy	Assets	22	43	106
	Liabilities	26	55	131
Netherlands	Assets	93	148	450
	Liabilities	72	133	421
United Kingdom	Assets	150	202	694
	Liabilities	134	198	711
United States	Assets	31	40	146
	Liabilities	26	46	173

The Changing Composition of Developing-Country Exports



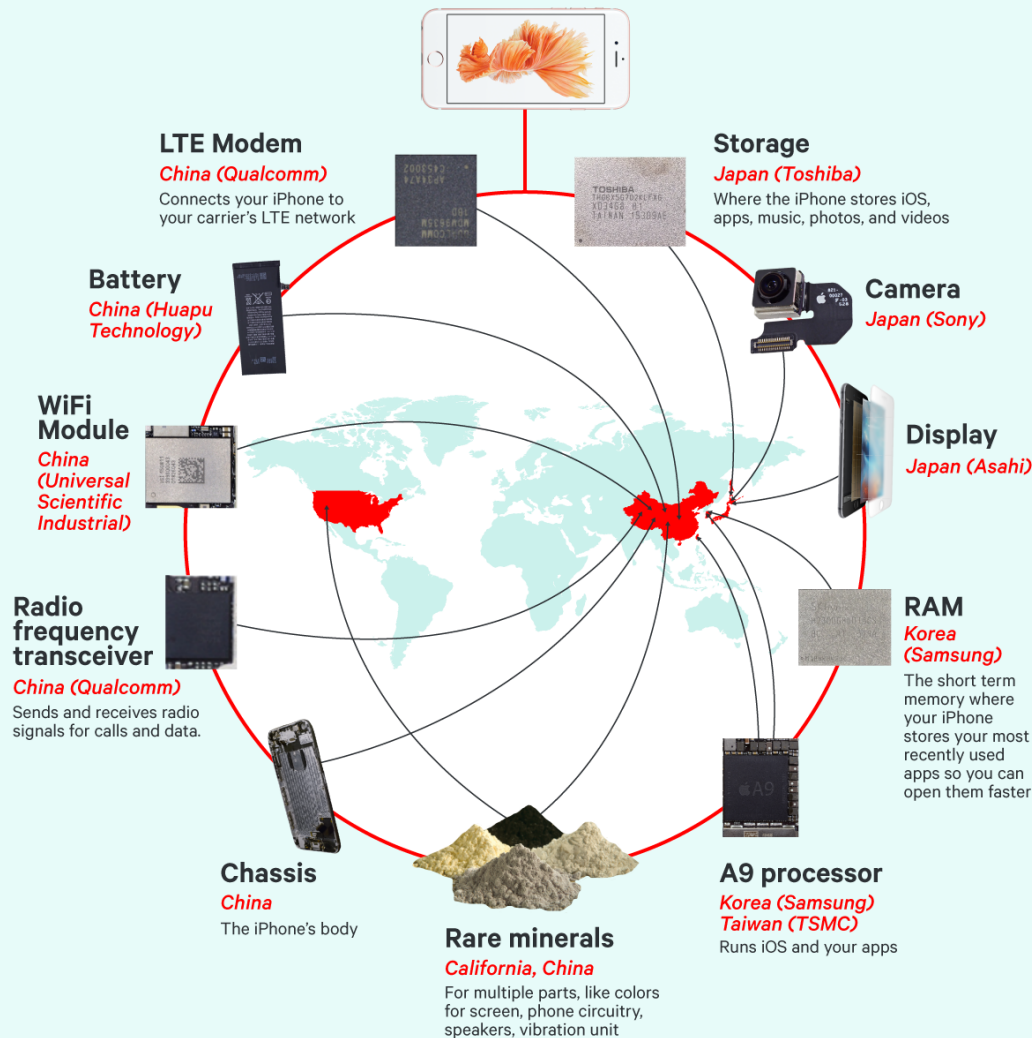
The composition of world trade



Krugmann et al., 2018

Manufactures are produced in global value chains

Where the parts of an iPhone 6s come from



SOURCES: iFixit; CNet

TECH INSIDER

Leading exporters and importers in world merchandise trade in 2019 (in US\$ million)

Country	Value	Global Share
China	\$ 2.643.377	10,6%
United States	\$ 2.498.032	10,1%
Germany	\$ 1.810.933	7,3%
Japan	\$ 904.883	3,6%
United Kingdom	\$ 891.875	3,6%
France	\$ 882.761	3,6%
Netherlands	\$ 750.172	3,0%
Korea	\$ 669.594	2,7%
Hong Kong	\$ 648.982	2,6%
Singapore	\$ 645.612	2,6%
Italy	\$ 632.619	2,5%
Canada	\$ 548.717	2,2%
India	\$ 545.706	2,2%
Ireland	\$ 492.706	2,0%
Mexico	\$ 491.674	2,0%

Country	Value	Global Share
United States	\$ 3.114.456	12,9%
China	\$ 2.479.255	10,3%
Germany	\$ 1.585.975	6,6%
United Kingdom	\$ 924.995	3,8%
France	\$ 910.260	3,8%
Japan	\$ 900.305	3,7%
Netherlands	\$ 652.677	2,7%
Hong Kong	\$ 642.488	2,7%
India	\$ 616.082	2,6%
Korea	\$ 615.759	2,6%
Canada	\$ 577.377	2,4%
Italy	\$ 571.180	2,4%
Singapore	\$ 541.855	2,2%
Mexico	\$ 492.222	2,0%
Spain	\$ 446.796	1,9%

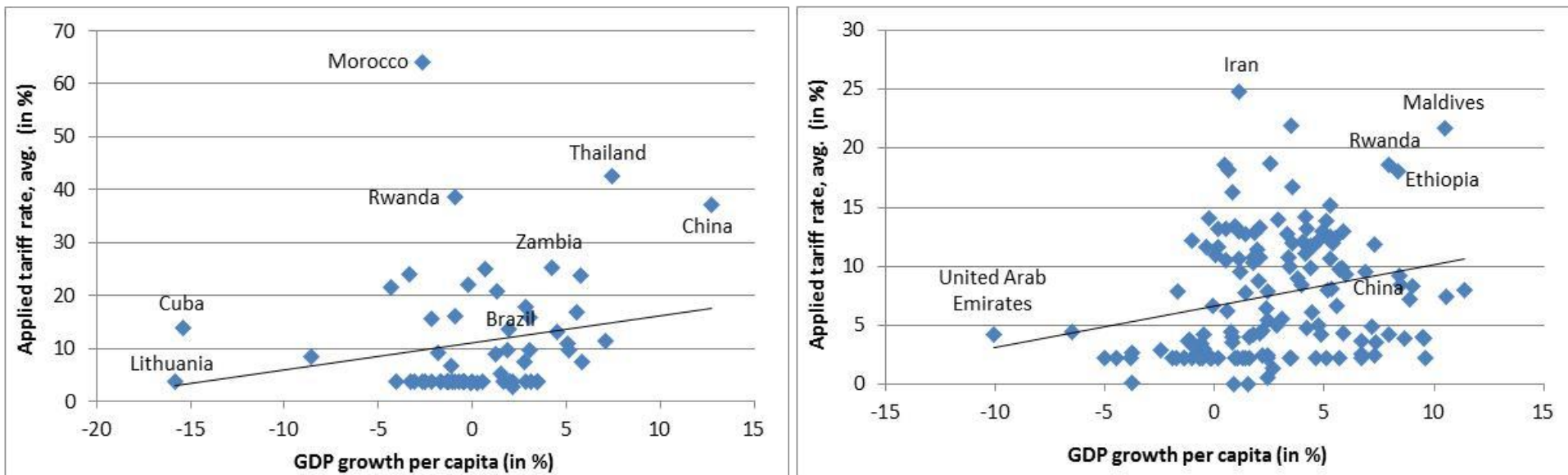
Source: WDI; 2020

However, the main driver/beneficiary of this development are East Asia countries

	Share in world's merchandise exports			Share in world's manufacturing exports		
	1961 -1965	1981 -1985	2006 -2010	1961 -1965	1981 -1985	2006 -2010
Total sample	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Advanced economies	71.6%	71.5%	59.5%	91.0%	84.5%	63.1%
Developing economies	28.4%	28.5%	40.5%	9.0%	15.5%	36.9%
Asia	8.0%	11.6%	26.9%	3.6%	7.5%	28.4%
China	1.5%	1.4%	10.4%		1.1%	11.8%
Hong Kong, China	0.6%	1.4%	2.8%	0.8%	1.9%	3.2%
India	1.1%	0.5%	1.4%	0.9%	0.5%	1.4%
Korea, Republic of	0.1%	1.5%	3.2%	0.0%	1.9%	3.7%
Taiwan	0.2%	1.5%	2.0%	0.3%		2.3%
Latin America	15.8%	13.2%	11.2%	4.6%	6.5%	7.3%
Argentina	0.9%	0.5%	0.5%	0.7%	0.4%	0.4%
Brazil	1.0%	1.4%	1.4%	0.3%	1.4%	1.1%
Chile	0.4%	0.2%	0.5%	0.4%	0.2%	0.4%
Mexico	0.7%	1.5%	2.2%	0.4%	0.5%	2.1%
Peru	0.4%	0.2%	0.2%	0.4%	0.1%	0.2%
Africa	4.6%	3.7%	2.4%	0.7%	1.4%	1.2%
Egypt, Arab Rep.	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%
Morocco	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%
South Africa	1.6%	1.1%	0.6%		0.8%	0.6%
Tanzania	0.1%	0.0%	0.0%		0.0%	0.0%
Tunisia	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

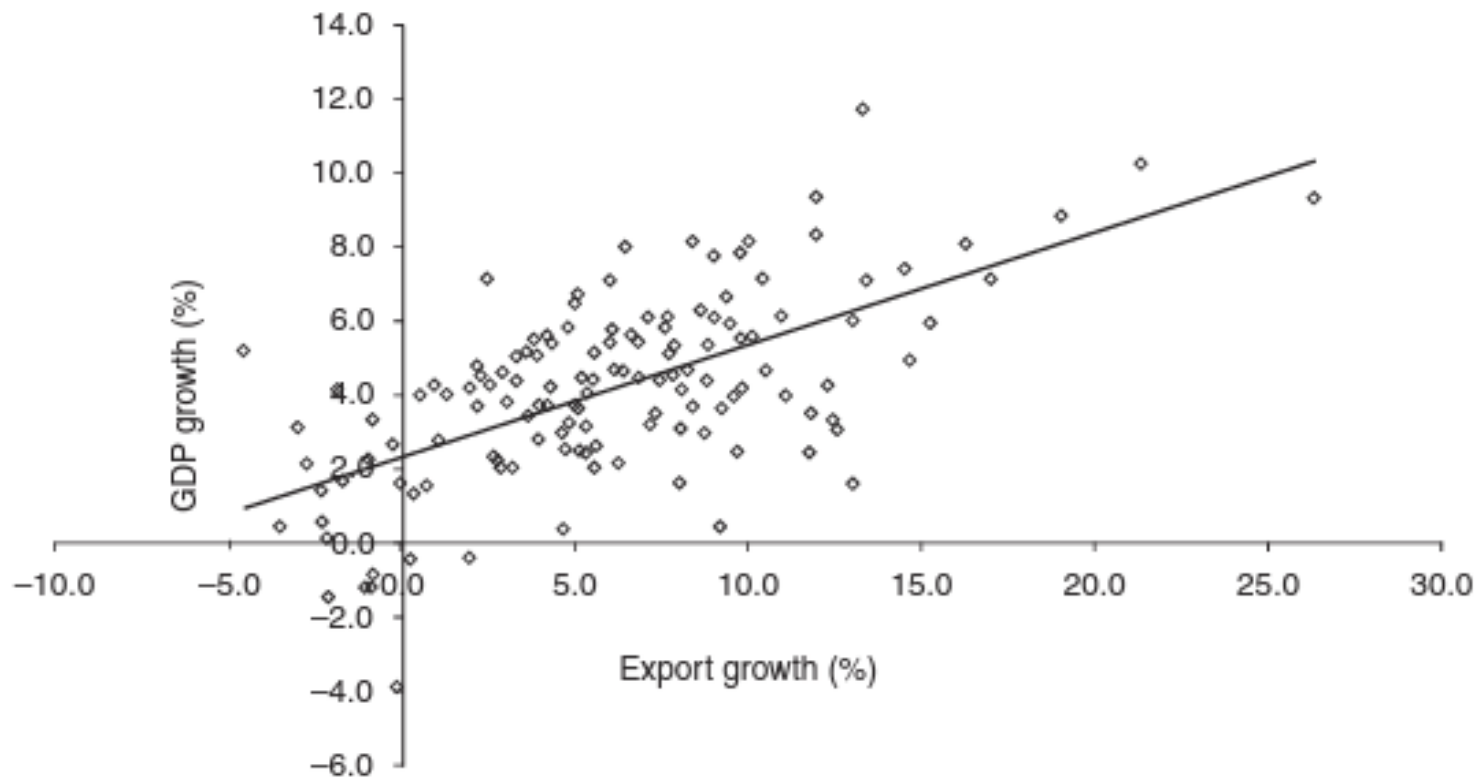
***“we are skeptical that there is a strong negative relationship in the data between trade barriers and economic growth, at least for levels of trade restrictions observed in practice.”
(Rodriguez and Rodrik, 1999, p. 61)***

Tariff barriers vs. economic growth reverse (1993 and 2008)



World Bank, 2012

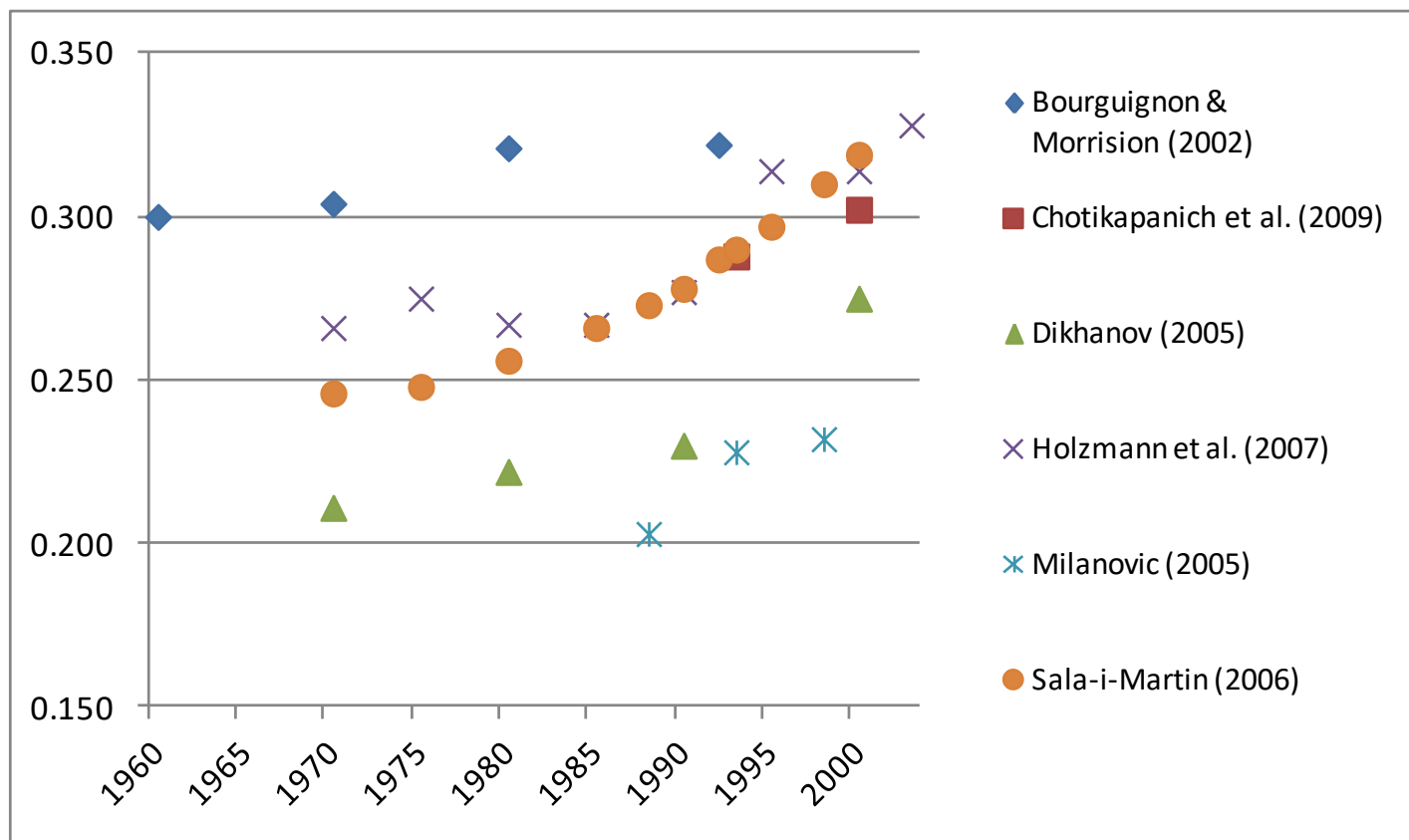
The relation between export growth and GDP growth across 133 countries (1995-2006)



Thirlwall, 2011

Inequality within most countries in contrast has increased in recent years

Global within-country inequality (Theil-L Index)

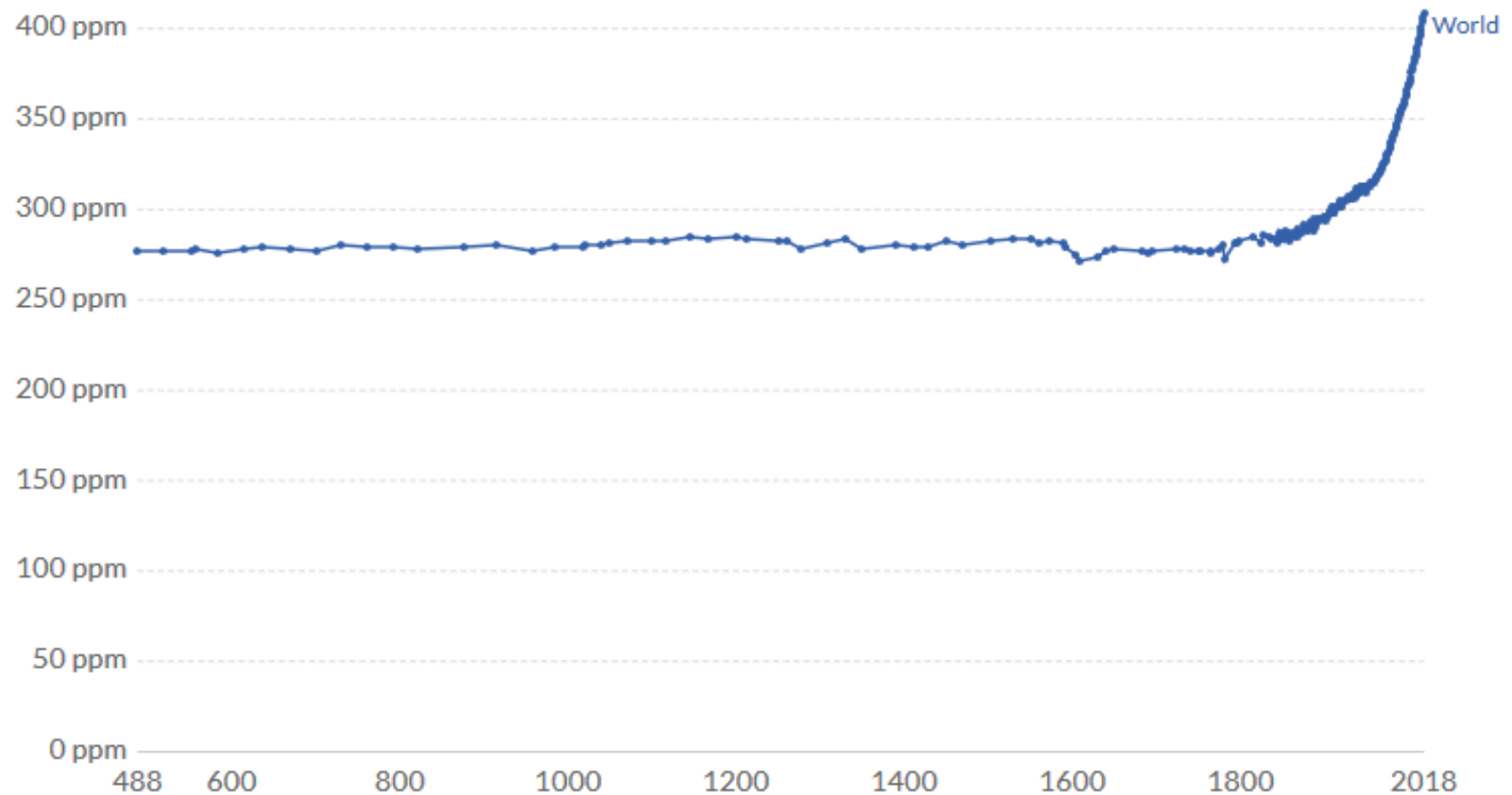


CO₂ emissions increased dramatically from the industrial revolution onwards

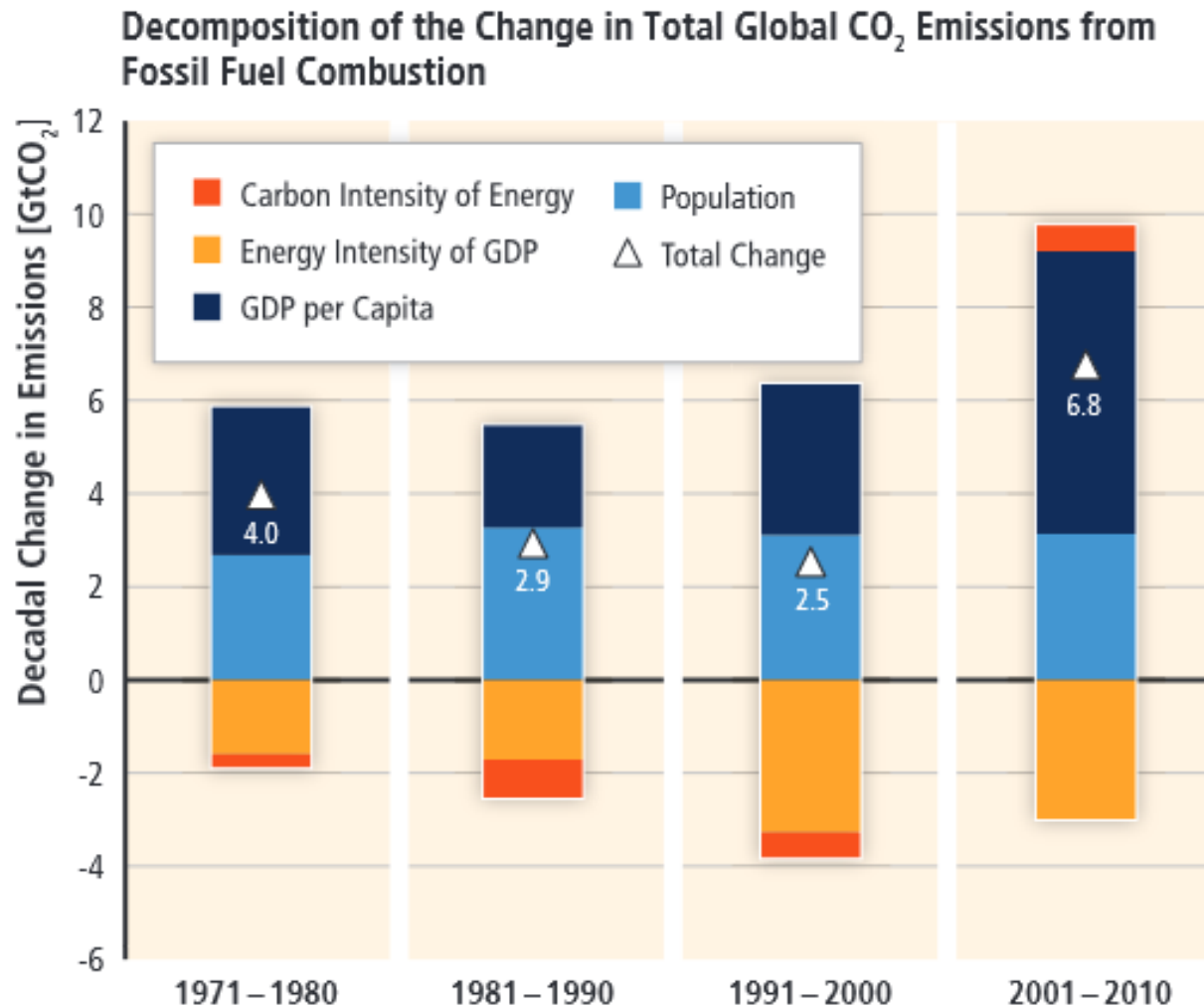
Atmospheric CO₂ concentration

Global average long-term atmospheric concentration of carbon dioxide (CO₂), measured in parts per million (ppm). Long-term trends in CO₂ concentrations can be measured at high-resolution using preserved air samples from ice cores.

Our World
in Data



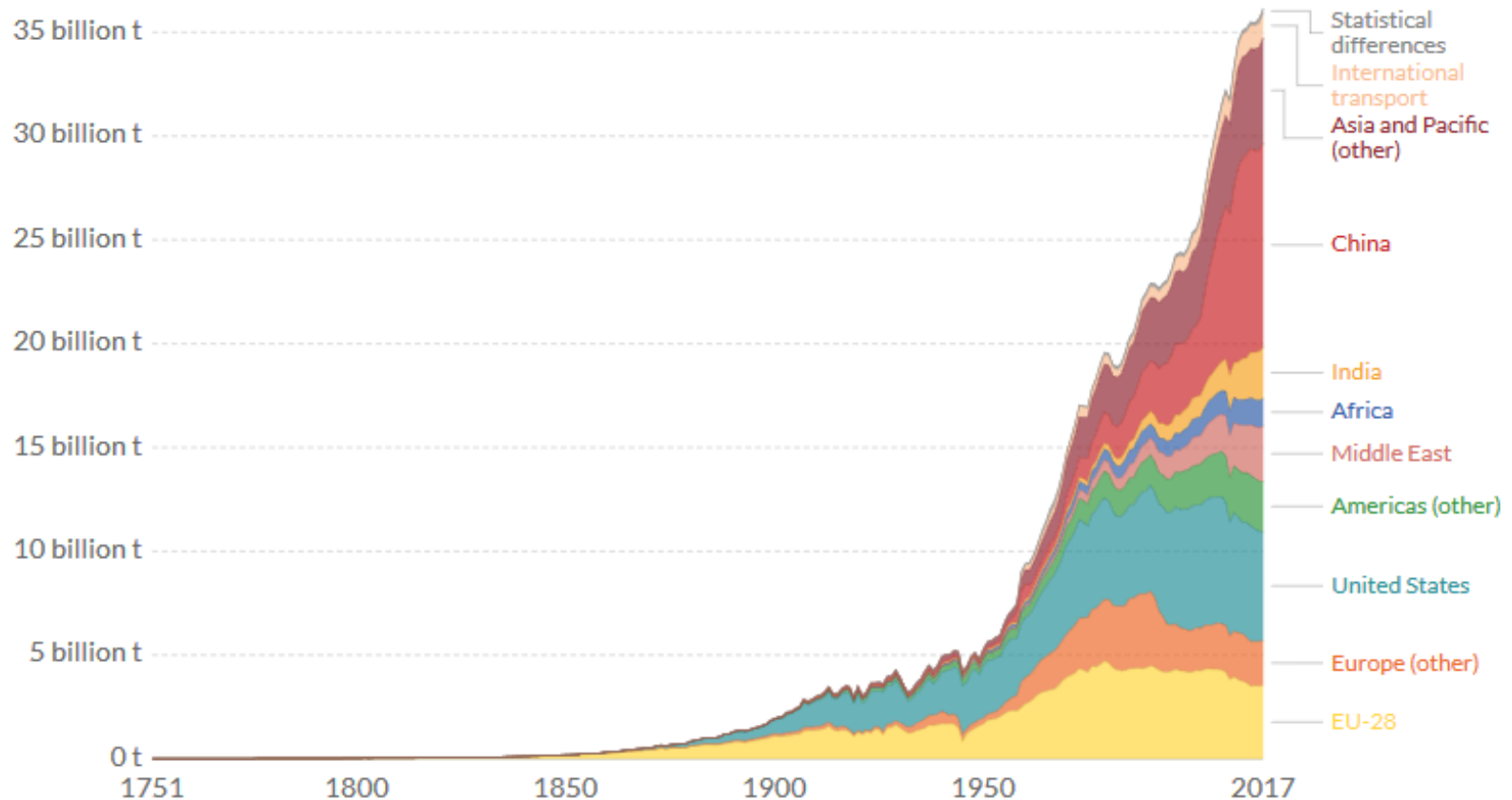
Economic and population growth are the main culprits of CO₂ emisiones



The main exporting/importing countries are the main producers of CO₂

Annual total CO₂ emissions, by world region

Our World
in Data



Source: Carbon Dioxide Information Analysis Center (CDIAC); Global Carbon Project (GCP)

Note: The difference between the global estimate and the sum of national totals is labeled "Statistical differences".

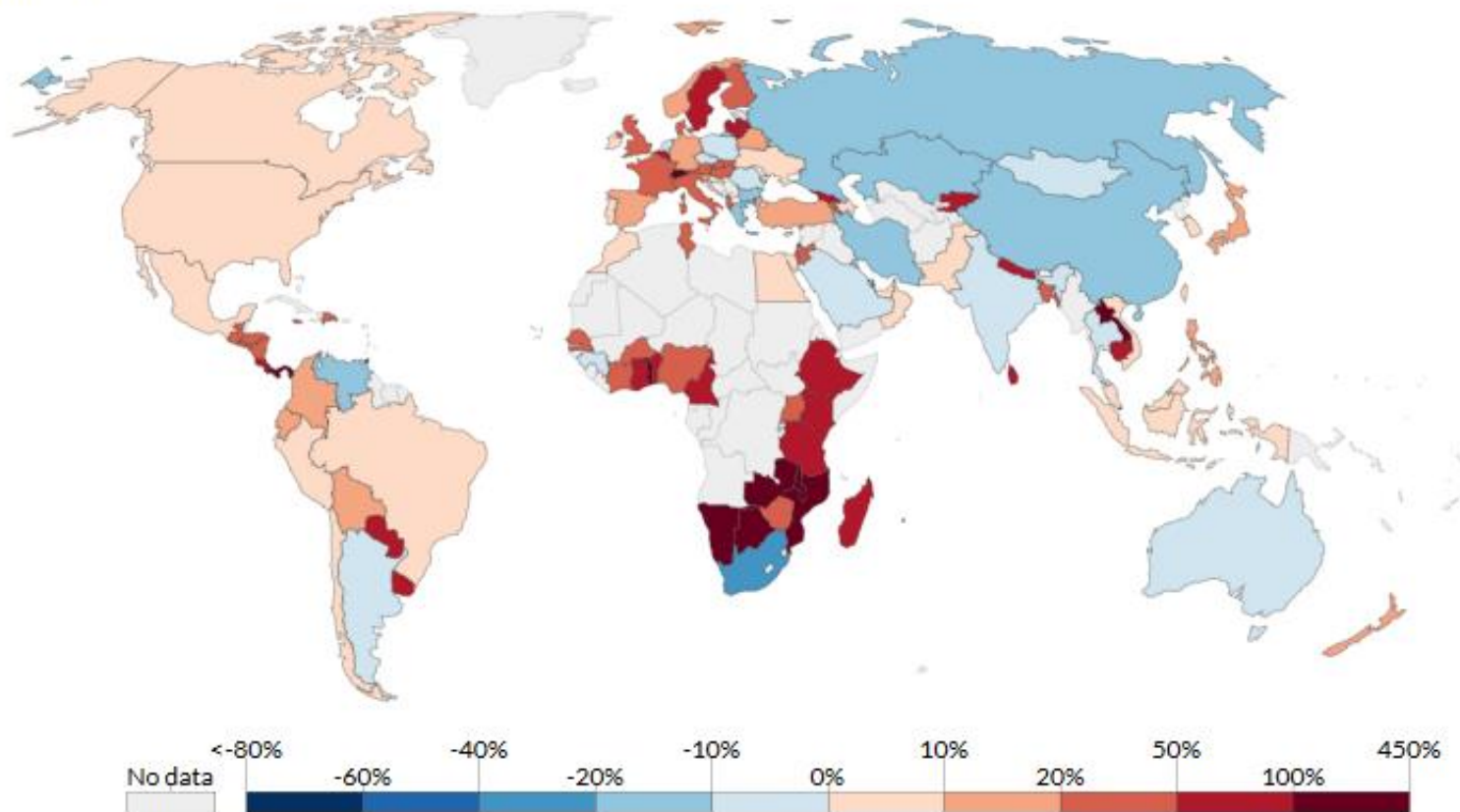
CC BY

Due to trade, some countries are net exporters of CO₂ (China, Russia, India), while others are net importers (US, Europe, Japan and Colombia)

CO₂ emissions embedded in trade, 2016

Share of carbon dioxide (CO₂) emissions embedded in trade, measured as emissions exported or imported as the percentage of domestic production emissions. Positive values (red) represent net importers of CO₂ (i.e. "20%" would mean a country imported emissions equivalent to 20% of its domestic emissions). Negative values (blue) represent net exporters of CO₂.

Our World
in Data



The increasing interconnection of capital and trade flows means, that the study of international economics is becoming more and more important

Agenda

Globalization

Mercantilism

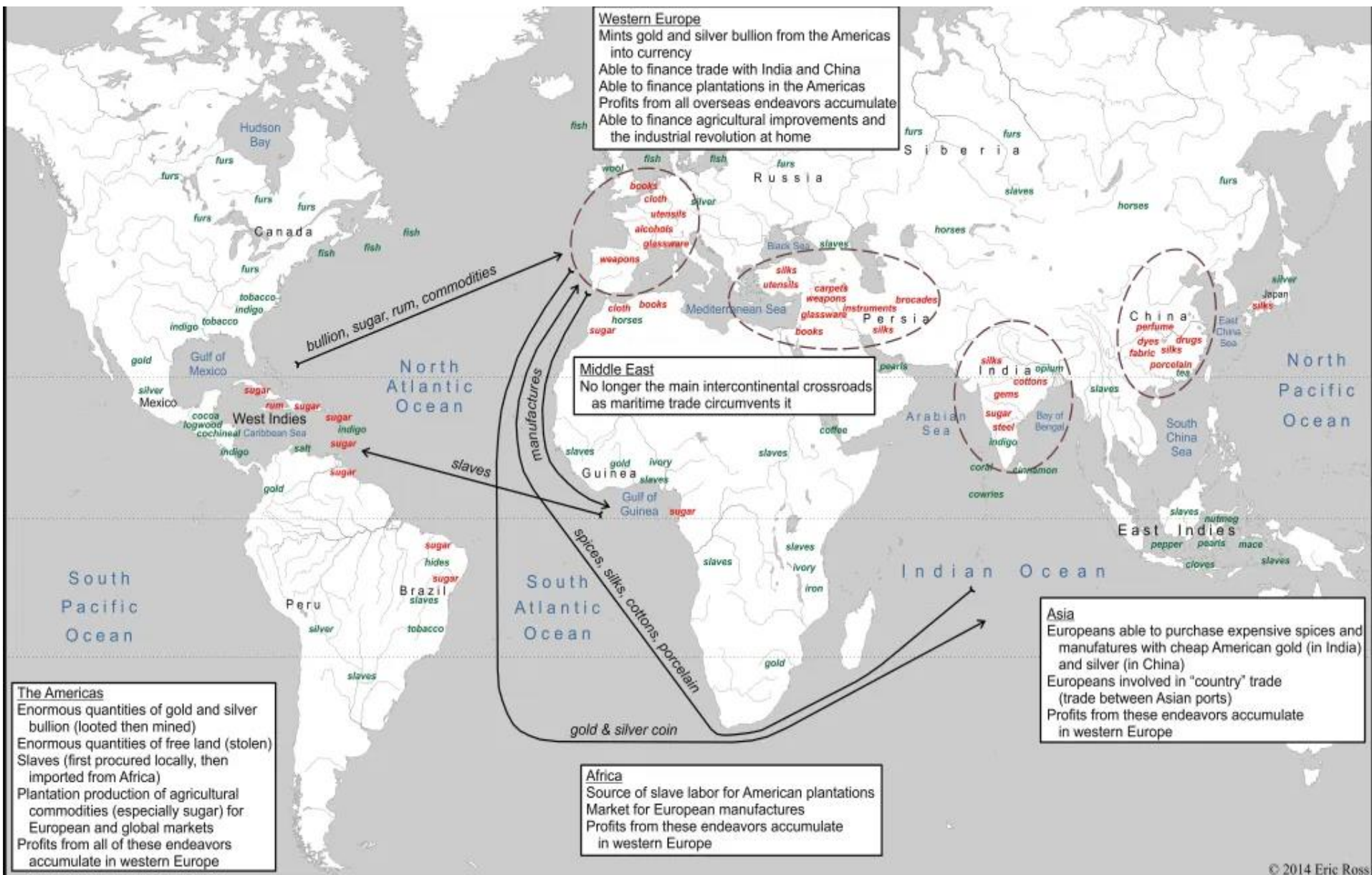
Greatly increasing trade led to the rise of merchants and the demise of feudal powers

- The era of **mercantilism** extended around 300 years (1500 to 1800); the word mercantilism is derived from 'merchant capitalism'
- Starting in the 12th century, with commercial city states like Venice, Florence and the Hanseatic League (Antwerp, Bruges, Amsterdam, London, Hamburg, Lübeck, Bremen, Bergen, Danzig etc.), European merchants became more and more powerful
- The “discovery” of America and the accession of India via ship (Vasco da Gama, 1497) resulted in an tremendous increase of trade with exotic products and to a flood of silver and gold into Europe
- This increase in money supply fostered trade further and changed the power relations between landowners and merchants even more
=> more and more policies were undertaken that served the well-being of merchants
- Main policy goal: accumulate as much gold and silver as possible



Source: Morrison, 2020





The Mercantilist policy aim was to have trade surplus and to foster domestic production and employment ('beggar-thy-neighbour' policy)

- Assumption that $X > M$ leads to increased wealth (possession of gold and silver)
- Policy implications:
 - Protectionist policies: tariffs, non-tariff barriers, tariffs on raw material exports
 - Trade restrictions for colonies (only allowed to export raw material)
 - Investment in transportation infrastructure (ports, ships) and military power
 - Creation of trade monopolies: Dutch East India Company, British East India Company, and French East India Company
- David Hume (1752) argued that Mercantilism is not beneficial: 'price-specie flow mechanism':
 - Inflow of gold will lead to an increase in the price of domestic goods: quantity theory of money \Rightarrow rise in M_s will lead to inflation
 - An export surplus is only possible in the short-run

But, when the economy is producing below their PPF a trade surplus can shift the economy towards their maximum production

The **production possibility frontier (PPF)** of an economy shows the *maximum* amount of a goods that can be produced for a fixed amount of resources.

