Globalization then and now

Globalization is a new word which describes an old process: the integration of the global economy that began in earnest with the launch of the European colonial era five centuries ago. But the process has accelerated over the past quarter century with the explosion of computer technology, the dismantling of trade barriers and the expanding political and economic power of multinational corporations.

Five Centuries Ago, in a world without mobile phones, refrigeration, fax machines, automobiles, airplanes or nuclear weapons, one man had a foolish dream. Or so it seemed at the time. Cristóbal Colón, an ambitious young Genoese sailor and adventurer, was obsessed with Asia—a region about which he knew nothing, apart from unsubstantiated rumors of its colossal wealth. Such was the strength of his obsession (some say his greed) that he was able to convince the King and Queen of Spain to finance a voyage into the unknown across a dark, seemingly limitless expanse of water then known as the Ocean Sea. His goal: to find the Grand Khan of China and the gold which was reportedly there in profusion.

Centuries later Colón would become familiar to millions of schoolchildren as Christopher Columbus, the famous “discoverer” of the Americas. In fact, the “discovery” was more of an accident. The intrepid Columbus never did reach Asia, not even close. Instead, after five weeks at sea, he found himself sailing under a tropical sun into the turquoise waters of the Caribbean, making his landfall somewhere in the Bahamas, which he promptly named San Salvador (the Savior). The place clearly delighted Columbus’ weary crew. They loaded up with fresh water and unusual foodstuffs. And they were befriended by the islands’ indigenous population, the Taino.

“They are the best people in the world and above all the gentlest,” Columbus wrote in his journal. “They very willingly showed my people where the water was, and they themselves carried the full barrels to the boat, and took great delight in pleasing us. They became so much our friends that it was a marvel.”

Twenty years and several voyages later, most of the Taino were dead and the other indigenous peoples of the Caribbean were either enslaved or under attack. Globalization, even then, had moved quickly from an innocent process of cross-cultural exchange to a nasty scramble for wealth and power. As local populations died off from European diseases or were literally worked to death, thousands of European colonizers followed. Their desperate quest was for gold and silver. But the conversion of heathen souls to the Christian faith gave an added fillip to their plunder. Eventually European settlers colonized most of the new lands to the north and south of the Caribbean.

Columbus’ adventure in the Americas was notable for many things, not least his single-minded concentration on extracting as much wealth as possible from the land and the people. But more importantly his voyages opened the door to 450 years of European colonialism. And it was this centuries-long imperial era that laid the groundwork for today’s global economy.

Old globalization

Globalization, though it may be a new term, is an age-old process and one firmly rooted in the history of colonialism. One of Britain’s most famous imperial spokesmen, Cecil Rhodes, put the case for colonialism succinctly in the 1890s. “We must find new lands,” he said, “from which we can easily obtain raw materials and at the same time exploit the cheap slave labor that is available from the natives of the colonies. The colonies [will] also provide a dumping ground for the surplus goods produced in our factories.”

During the colonial era European nations spread
their rule across the globe. The British, French, Dutch, Spanish, Portuguese, Belgians, Germans, and later the Americans, took possession of most of what was later called the Third World – as well as Australia, New Zealand (Aotearoa) and North America. In some places (the Americas, Australia, New Zealand and southern Africa) they did so with the intent of establishing new lands for European settlement. Elsewhere (Africa and Asia) their interest was more in the spirit of Rhodes' vision: markets and plunder. From 1600-1800 incalculable riches were siphoned out of Latin America to become the chief source of finance for Europe’s industrial revolution.

Global trade expanded rapidly during the colonial period as European powers sucked in raw materials from their new dominions: furs, timber and fish from Canada; slaves and gold from Africa; sugar, rum and fruits from the Caribbean; coffee, sugar, meat, gold and silver from Latin America; opium, tea and spices from Asia. Ships crisscrossed the oceans. Heading towards the colonies their holds were filled with settlers and manufactured goods; returning home the stout galleons and streamlined clippers bulged with coffee, copra and cocoa. By the 1860s and the 1870s world trade was booming. It was a ‘golden era’ of international commerce – though the European powers pretty much stacked things in their favor. Wealth from their overseas colonies flooded into France, England, Holland and Spain but some of it also flowed back into the colonies as investment – into railways, roads, ports, dams and cities. Such was the extent of globalization a century ago that capital transfers from North to South were actually greater at the end of the 1890s than at the end of the 1990s. By 1913 exports (one of the hallmarks of increasing economic integration) accounted for a larger share of global production than they did in 1999.

When people talk about globalization today they’re still talking mostly about economics, about an expanding international trade in goods and services based on
the concept of 'comparative advantage'. This theory was first developed in 1817 by the British economist David Ricardo in his Principles of Political Economy, and Taxation. Ricardo wrote that nations should specialize in producing goods in which they have a natural advantage and thereby find their market niche. He believed this would benefit both buyer and seller but only if certain conditions were maintained, such as: 1) that trade between partners must be balanced so that one country doesn’t become indebted and dependent on another; and 2) that investment capital must be anchored locally and not allowed to flow from a high-wage country to a low-wage country. Unfortunately, in today’s high-tech world of instant communications neither of these key conditions exist, with the result that Ricardo’s vision of local self-reliance mixed with balanced exports and imports is nowhere to be seen. Instead export-led trade has come to dominate the economic agenda with the only route to growth based on increasing exports to the rest of the world.

The rationale is that all countries and all peoples eventually benefit from the results of increased trade. And world trade has zoomed ahead in the last decade. It grew at an average 6.6 per cent during the 1990s and is set to grow at around 6 per cent a year over the next ten years. Global trade is actually growing faster than total world output which saw increases of 3.2 per cent during the 1990s and may reach 3 per cent annually over the next decade. This expansion of trade is expected to increase global income by up to $500 billion early in this new millennium.

Nonetheless, today’s globalization is vastly different from the globalization of 50 or 100 years ago. The world has changed in the last century in ways that have completely altered the character of the global economy and its impact on people and the natural world. Even arch-capitalists like currency speculator George Soros have voiced doubts about the negative values that underlie the direction of the modern global economy.

‘Insofar as there is a dominant belief in our society today,’ he writes, ‘it is a belief in the magic of the marketplace. The doctrine of laissez-faire capitalism holds that the common good is best served by the uninhibited pursuit of self-interest... Unsure of what they stand for, people increasingly rely on money as the criterion of value... The cult of success has replaced a belief in principles. Society has lost its anchor.’

Market magic

The ‘magic of the marketplace’ is not a new concept. It’s been around in one form or another since the father of modern economics, Adam Smith, first published his pioneering work The Wealth of Nations nearly 250 years ago. But Smith’s concept of the market was a far cry from the one touted by today’s globalization cheerleaders. Smith was adamant that markets worked most efficiently when there was equality between buyers and sellers and when neither buyer nor seller was large enough to influence the market price. This, he said, would ensure that all parties involved got a fair return and that society as a whole would benefit through the best use of its natural and human resources. Smith also believed that capital was best invested locally so that owners could see what was happening with their investment and could have hands-on management of its use. Author and activist David Korten sums up Smith’s thinking as follows:

‘His vision of an efficient market was one composed of small owner-managed enterprises located in the communities where the owners resided. Such owners would share in the community’s values and have a personal stake in its future. It is a market that has little in common with a globalized economy dominated by massive corporations without local or national allegiance, managed by professionals who are removed from real owners by layers of investment institutions and holding companies.’

As Korten hints, the world we live in today is vastly
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different from the one that Adam Smith inhabited. The first important change has been the communications technology revolution of the last 25 years. Computers, fiber-optics, satellites and the miniaturization of electronics have radically altered the production, sales and distribution of goods and services as well as the patterns of global investment. Coupled with improvements in air freight and cheap ocean transport, companies now tend to move their plants and factories wherever costs are lowest. Improved technology and cheap oil has led to a massive increase in goods being transported by air and sea. According to the Boeing Aircraft company, world air traffic cargo tripled from 1985 to 1997 and is predicted to triple again by 2015. The global shipping business which now consumes more than 140 million tons of fuel oil a year is expected to increase by 85 per cent in the next decade. And costs are falling too. Ocean freight unit costs have fallen by 70 per cent since the 1980s while air freight costs have fallen three to four per cent a year on average over the last two decades.

These cheap transport rates in reality are ‘cheap’ only in a purely financial sense. They reflect ‘internal’ costs – the costs of production, packaging, marketing, labor, debt and profit. But they don’t reflect at all the ‘external’ environmental impact of this accelerated use of fossil fuels. Moving more goods around the planet increases pollution and contributes to carbon dioxide in the atmosphere, a major source of global warming and climate change. These environmental costs are basically ignored by business. This is one of the main reasons environmentalists object to the globalization of trade. Companies make the profits, they complain, but society has to pay the bill.

The other key reason why globalization today is so different has to do with structural changes to the global economy that have occurred since the early 1970s. It was then that the system of rules set up at the end of World War Two to manage global trade collapsed. The fixed currency-exchange regime agreed at Bretton Woods in 1944 gave the world 25 years of more or less steady economic growth.

But around 1980 things began to change with the emergence of fundamentalist free-market governments in Britain and the US and the later disintegration of the state-run command economy in the former Soviet Union. The formula for economic progress adopted by the administrations of Margaret Thatcher in the UK and Ronald Reagan in the US called for a drastic reduction in the regulatory role of the state. Instead, government was to take a back seat to corporate executives and money managers. The overall philosophy was that companies must be free to move their operations anywhere in the world to minimize costs and maximize returns to investors. Free trade, unfettered investment, deregulation, balanced budgets, low inflation and privatization of publicly-owned enterprises were trumpeted as the six-step plan to national prosperity.
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Hand-in-hand with the spread of free trade in goods and services came the deregulation of world financial markets. Banks, insurance companies and investment dealers which had been confined within national borders were suddenly unleashed. Within a few years the big players from Europe, Japan and North America expanded into each other’s markets as well as into the newly-opened and fragile financial services markets in the South. Aided by computer technology and welcoming governments, the big banks and investment houses were keen to invest surplus cash in anything that would turn a quick profit. In this new relaxed atmosphere finance capital became a profoundly destabilizing influence on the global economy.

Instead of long-term investment in the production of real goods and services, speculators make money from money, with little concern for the impact of their investments on local communities or national economies. Governments everywhere now fear the destabilizing impact of this global financial casino. Recent United Nations (UN) studies show a direct correlation between the frequency of financial crises and the increase in international capital flows during the 1990s.

The collapse of the East Asian currencies which began in July 1997 is the most catastrophic recent example of the damage caused by nervous short-term investors. Until then the ‘Tiger Economies’ of Thailand, Taiwan, Singapore, Malaysia and South Korea had been the success stories of globalization. Advocates of free market growth pointed to these countries as proof that classic capitalism would bring wealth and prosperity to millions in the developing world – though they conveniently ignored the fact that in all these countries the State took a strong and active role in shaping the economy.

Foreign investment was tightly controlled by national governments until the early 1990s, severely in the case of South Korea and Taiwan, less so in Thailand and Malaysia. Then as a result of continued pressure from the International Monetary Fund (IMF) and others, the ‘tigers’ began to open up their capital accounts and private sector businesses began to borrow heavily.

Spectacular growth rates floated on a sea of foreign investment as offshore investors poured dollars into the region, eager to harvest double-digit returns. In 1996 capital was flowing into East Asia at almost $100 billion a year. But mostly the cash went into risky real estate ventures or onto the local stock market where it

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**Pinball capital**

Short-term speculative capital whizzes around the world leaving ravaged economies and human devastation in its wake. East Asia (Indonesia, South Korea, Thailand, Malaysia, the Philippines) suffered a destructive net reversal of private capital flows from 1996 to 1997 of $12 billion. |

| Percentage change in GDP before and after the Asian financial crisis |
|--------------------------|-------|-------|-------|-------|
|                         | Thailand | Indonesia | Malaysia | S. Korea |
| Average 1990-99          | 7.6     | 6.1     | 5.2     | 9.4     |
| Average 1990-96          | 8.3     | 7.7     | 8.7     | 7.3     |
| Average 1997             | -7      | -16     | -8      | -5      |
inflated share prices far beyond the value of their underlying assets.

In Thailand, where the Asian 'miracle' first began to sour, over-investment in real estate left the market glutted with $20 billion worth of new unsold properties. Then the house of cards collapsed. Foreign investors began to realize that the Thai financial institutions to which they had lent billions could not meet their loan repayments. Spooked by the specter of falling returns and a stagnant real estate market, investors at first slowly, and then in a panic-stricken rush, called in their loans and cashed in their investments.

More than $105 billion left the entire region in the next 12 months, equivalent to 11 per cent of the domestic output of the most seriously affected countries – Indonesia, the Philippines, South Korea, Thailand and Malaysia. Having abandoned any kind of capital controls, Asian governments were powerless to stop the massive hemorrhage of funds. Ironically the IMF’s 1997 Annual Report, written just before the crisis, had singled out Thailand’s 'remarkable economic performance' and 'consistent record of sound macroeconomic policies'.

The IMF was to be proven wrong – disastrously so. The human costs of the East Asian economic crisis were immediate and devastating. As bankruptcies soared, firms shut their doors and millions of workers were laid off. More than 400 Malaysian companies declared bankruptcy between July 1997 and March 1998 while in Indonesia – the poorest country affected by the crisis – 20 per cent of the population or nearly 40 million people were pushed into poverty. And the impact of the economic slowdown had the devastating effect of reducing both family income and government expenditures on social and health services for years afterwards. In Thailand, more than 100,000 children were yanked from school when parents could no longer cough up tuition fees. The crash also had a knock-on effect outside Asia. Shock-waves rippled through Latin America, nearly tipping Brazil into recession while the Russian economy suffered worse damage. Growth rates slipped into reverse and the Russian ruble became nearly worthless as a medium of international exchange.

The East Asian economic crisis was a serious blow to the ‘promise’ of economic globalization. It was the first time that the ‘global managers’ and finance kingpins showed that the system wasn’t all it was made out to be. The global economy was more fragile, and thus more explosive, than anybody had imagined. As the region slowly recovered, more citizens around the world began to scratch their heads and wonder about the pros and cons of globalization. The mass public protests in Seattle (1999) and Prague (2000) were still to come. But the East Asian crisis planted real seeds of doubt about the merits of corporate globalization.