The Politics *of* Globalization

BY KEVIN O'ROURKE

Lessons from history.

The world has been experiencing a golden economic age in recent years. This may seem less obvious today than a year ago to the citizens of rich countries, worried about rising oil prices and the consequences of their financial institutions' reckless behavior. But those citizens constitute only a minority of the world's population, and the real action is elsewhere. The rapid convergence towards the world's technological frontier which China has been experiencing since the 1980s, which spread to India in the 1990s, and which is improving the lives of countless millions of people elsewhere in the developing world, surely represents the greatest improvement in worldwide economic welfare ever. It is a phenomenon intimately linked with the worldwide spread of technology, and the existence of a relatively open international trading system: in other words, with that much over-analyzed and over-hyped phenomenon, globalization.

To many observers of the world economy, globalization is a largely technological phenomenon, the product of new transportation and communication technologies, such as containers or the Internet. Once learned, new technologies are typically not forgotten, which is why globalization can seem an irresistible force, destined to bind us ever more tightly together for the foreseeable future. History, however, suggests that globalization is as much a political as a technological phenomenon, which can thus be easily reversed, and has been so in the past.

Economists are well used to considering one way in which globalization can be undermined politically. The standard theory of international trade tells us that while trade may raise incomes generally, it produces both winners and losers. If the losers are suffi-

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ciently politically powerful, they may convince governments to impose protection. More importantly, history tells us that this is not just a theoretical curiosum, since this is exactly what happened in late nineteenth-century Europe.

Prior to that time, intercontinental trade was extremely expensive, and so it was only economical to transport very expensive commodities, with a high value to weight ratio, across the oceans of the world. More than a century after Vasco da Gama, no less than 80 percent of Portuguese imports from Asia consisted of pepper and other spices. As late as the middle of the eighteenth century, the majority of English and Dutch imports from Asia and the Americas consisted of spices, tea, coffee, sugar, tobacco, and other commodities which either could not be produced in Europe at all, or could only be produced there with considerable difficulty. And the major import from Latin America during the early modern period was of course silver.

These commodities could bear the cost of transoceanic transport because of their high price in Europe, and thus ultimately because of their scarcity there. In most cases there were no domestic producers who were displaced by these "non-competing" imports. From the 1840s onwards, however, the gradual introduction of and continual improvement in steamship technology meant that ocean freight rates plummeted. Just as important (since overland transport has traditionally been more expensive than maritime transport) railways penetrated the interiors of such vast economies as the United States, Russia, and India, permitting the rapid and efficient transportation of agricultural commodities from peasants to ports.

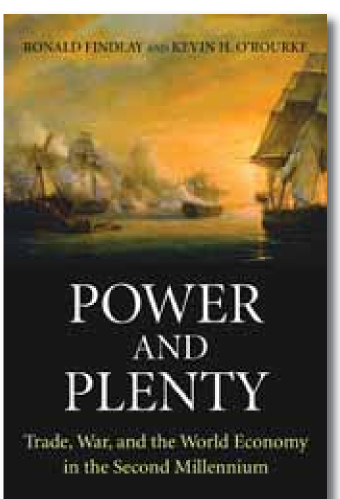
For the first time in history, it was now economical to transport bulky goods such as wheat, which was produced worldwide, across oceans and continents, linking together regions of the world with very different endowments of land, labor, and capital. Almost immediately (that is to say by the late 1870s), faced with an invasion of cheap grain from Russia and the New World, governments in France, Germany, and other Western European countries caved in to the protectionist demands of their agrarian constituencies, raising agricultural tariffs significantly. These tariffs were sufficiently high that they seriously impeded or even reversed the integration of international grain markets.

During the Mercantilist era, the links between commerce and violence were particularly explicit and clear.

History thus tells us that international economic integration can be politically undermined by domestic anti-globalization backlashes. However, history also tells us that politics matters for globalization in a far more fundamental way. The new steam technologies of the Industrial Revolution would never have had the effect that they did if they had not operated within the context of a stable geopolitical system within which the Royal Navy guaranteed the freedom of the seas for all; within which wars between the major European powers were relatively rare; and within which those same European powers used their military superiority to impose more or less open trade on most of Africa and Asia.

With the outbreak of World War I, that geopolitical system was destroyed, and nineteenth-century globalization with it, despite the fact that technological progress continued unabated during the interwar period. And while the rich countries of Western Europe and North America in the post-1945 period saw a gradual reconstruction of open trading conditions, deglobalization characterized much of the rest of the world until the 1980s thanks to the spread of communism and decolonization, which themselves had their roots in the century's two world wars, and the intervening economic debacle.

Economists have typically shied away from considering such matters, regarding wars as "exogenous" shocks to the system, or as departures from normality. The long-run importance of war and peace for the international economic system is so evident, however, that it is reflected in the title of a book which Ronald Findlay and I have recently pub-



Kevin H. O'Rourke is co-author, with Ronald Findlay, of Power and Plenty: Trade, War, and the World Economy in the Second Millennium. *(Princeton University Press, 2007).*

lished, *Power and Plenty: Trade, War, and the World Economy in the Second Millennium*. The "Power and Plenty" of the book's title refers of course to the mutual dependence of trade and warfare during the Mercantilist era, when the links between commerce and violence were particularly explicit and clear.

The great lesson of the late nineteenth century, which resonates strongly today, is that income distribution matters not just for its own sake, but also because of its importance for the political sustainability of liberal international trade regimes.

But great expansions of world trade were linked to conquest even earlier. The *pax Britannica* and *pax Americana* which provided the geopolitical stability underlying the globalizations of the nineteenth and late twentieth centuries have their counterpart in the *pax Mongolica* of the thirteenth and fourteenth centuries, which produced an impressive integration of the Eurasian economy from the Pacific to the Urals. The Muslim conquests, which unified a vast region stretching from India to the Atlantic, provide an earlier example, while the Iberian conquests of the sixteenth century provide an even more spectacular later one.

In the light of history, it would be foolish to assume that present day trends will automatically persist into the future. What sorts of challenges might arise to threaten twenty-first century globalization? One striking feature of today's international economy is that, as in the nineteenth century, regions with very different factor endowments are being drawn into closer contact with each other, as what used to be known as the Third World opens up to the rich countries of the North. Will the modern-day equivalents of the farmers of nineteenth-century Europe, namely unskilled workers in the OECD, eventually press for and obtain a rolling back of trade liberalization?

The 2005 French referendum on the so-called European Constitution, when unskilled workers voted against what they saw as a pro-market, pro-globalization accord, may serve as a straw in the wind in this regard. Precisely the same cleavage between middle-class and working-class voters appeared in the recent Irish referendum on the Lisbon Treaty, with blue-collar workers yet again being overwhelmingly opposed to further European integration. Even more tellingly, opinion polls taken in the week following the vote found that no less than 58 percent of those opposed to the treaty thought that it would have caused more unemployment, compared with just 14 percent of those who had voted in favor of it.

The great lesson of the late nineteenth century, which resonates strongly today, is that income distribution matters not just for its own sake, which of course it does, but also because of its importance for the political sustainability of liberal international trade regimes. If the leaders of democratic societies wish to retain the undoubted benefits of open international markets, they will need to take greater notice of the interests of those who are being left behind.

The late nineteenth century offers another, more positive lesson for today's policymakers: they are not powerless when confronted with anti-globalization political pressures. Rather, by adopting appropriate domestic economic policies, they can defuse such pressures and maintain a political consensus in favor of free trade. The late nineteenth and early twentieth centuries saw the widespread adoption across European countries of a range of regulations and insurance schemes designed to protect ordinary workers, especially in those countries more open to international trade. For example, a range of labor market regulations was introduced across Europe, prohibiting night work for women and children, prohibiting child labor below certain ages, and introducing factory inspections. The period also saw the widespread introduction of old age, sickness, and unemployment insurance schemes. In countries such as Belgium, governments incorporating both labor and business interests reached agreements whereby business would support the introduction of such a "Labour compact," in return for labor supporting the maintenance of free trade. The lesson for today is that if workers feel that their interests are being

Norman Angell'*s 1910 bestseller,* The Great Illusion, *tackled the idea that wars could be economically advantageous. He argued that the integration of the economies of European countries had grown to such a degree that war between them would be entirely futile, making militarism obsolete. Four years later, World War I began.*

furthered by governments implementing appropriate domestic economic policies, then they are not necessarily hostile to international trade.

Even more fundamentally, however, the continuation of a broadly liberal international trading environment will require that the geopolitical system adapt to the rise of China, India, and other "Third World" giants. In a historical context, this represents of course the restoration of the *status quo ante*, the end of a "Great Asymmetry" in international economic and political affairs caused by the Industrial Revolution, which was itself in large part a product of the interactions between early modern Europe and the rest of the world. But that is not to say that such an adjustment will be easy. The international system has historically done a pretty poor job of accommodating newcomers to the Great Power club. German unification and industrialization during the late nineteenth century led to tensions with Britain and France over colonial and armament policy, while Japan's rise to regional prominence during the interwar period, and its search for secure sources of raw materials, ended in war against the United States and its allies.

Both precedents are worrying, in that similar questions are posed today, both in terms of the rights of emerging nations to rival the established powers' military capabilities (notably with regard to nuclear weapons), and in terms of the strategic importance to countries like China of ready access to oil supplies and other natural resources. History suggests that, Cobden and Montesquieu notwithstanding, interdependence and trade do not necessarily guarantee peace. The world economy of the late nineteenth century was extremely interdependent, and as Norman Angell famously pointed out, on the eve of World War I, this implied that international financial interests constituted a formidable "peace lobby." Unfortunately, as we know, that lobby was unable to prevent the outbreak of a devastating war which set back the integration of the world economy for most of the twentieth century. Interdependence implies vulnerability, and vulnerability can lead to fear, with unpredictable consequences.

Will the modern-day equivalents of the farmers of nineteenth-century Europe, namely unskilled workers in the OECD, eventually press for and obtain a rolling back of trade liberalization?

When the British population exploded during the late eighteenth and nineteenth centuries, Britain found itself having to pay for net imports of food and raw materials with net exports of manufactured goods. It thus had a vital strategic interest in the maintenance of an open, multilateral international trading system, and the Royal Navy provided it with the means of ensuring this. But ultimately, as historian Avner Offer has argued, the fact that by the early twentieth century both Britain and an increasingly powerful Germany were reliant on overseas imports of primary products, meant that military planners in the two rivals started focusing on their own and their adversary's vulnerability to blockades, with destabilizing consequences.

At the other end of the Eurasian land mass, the Japanese population grew from 44 million in 1900 to 65 million in 1931, again in tandem with rapid industrialization. As in the British case, this implied a reliance on imported primary products, and hence on exports to pay for these, but unlike in the British case, there was no twentieth-century *pax Britannica* to guarantee an open trading regime for all. When the Japanese found themselves excluded from American and British Empire markets during the Great Depression, the stage was set for the Japanese army to gradually take control of the country, since imperialism seemed like one way to secure adequate supplies of primary products in a world in which the international division of labor was breaking down.

The implications for today seem obvious: as we head into an era of increasing raw materials scarcity, the importance of maintaining an open and multilateral world trading system is greater than ever before. This conclusion can only be reinforced by the re-emergence of age-old concerns about bottlenecks impeding the supply of commodities across the land routes of Eurasia, concerns which the voyages of Vasco da Gama neutralized five hundred years ago, but which are coming to the fore again in debates about the pipelines linking Russian and Central Asian oil and gas deposits with European markets.

All the problems—protectionist pressures in rich countries, growing raw materials scarcity, the decline of American hegemony—as well as other problems such as environmental degradation and climate change, have their origins in part in the rise of Asia, as it regains its rightful place in the world order.

Unfortunately, the chances of maintaining such an open and multilateral trading system are not helped by the relative economic and political decline of the United States, which seems set to become one of the defining features of the twenty-first century. Historically, periods of sustained expansion in world trade have tended to coincide with the infrastructure of law and order necessary to keep trade routes open being provided by a dominant hegemon or imperial power, as in the cases of the *pax Mongolica* or *pax Britannica*. After 1945 this essential role was played by the United States, at least in so far as the non-Communist world was concerned. More broadly, the Cold War imposed a discipline of sorts not only on the leaders of the two main blocs, but also on their respective clients. This discipline no longer exists in a world with one superpower and its allies, surrounded by a potentially anarchic "competitive fringe" that is not prepared to acknowledge its authority. The dependence of the United States on overseas oil and capital, as well as its failure in Iraq, together with the continued inability of Europeans to speak with one voice, does not help matters either.

One important lesson of the late nineteenth and early twentieth centuries is that multipolarity is a dangerous and unstable state of affairs. According to historian Paul Schroeder, if the nineteenth-century geopolitical system worked as well as it did for as long as it did, this was not because it ensured a balance of power between European states, as was traditionally thought. Rather, the system was based on Russian hegemony in the east, and British hegemony on the high seas. With the rise of Germany, the system became genuinely multipolar, with the consequences that we know. To wish for a multipolar international order seems the height of folly. But if we are headed towards such an order in any event, we need to be prepared for it.

All the problems I have just mentioned—protectionist pressures in rich countries, growing raw materials scarcity, the decline of American hegemony—as well as other problems such as environmental degradation and climate change, have their origins in part in the rise of Asia, as it regains its rightful place in the world order. The correct response to these problems is similar as well—in all cases, it will involve a strengthening commitment to the economic and political multilateral institutions which more than anything else distinguish our own period from that of one hundred years ago.

These institutions will have to become more representative of the world as a whole, rather than reflecting, as at present, the unusually asymmetric distribution of power in 1945. It is no longer tenable that Europe hold three out of the five permanent seats at the UN Security Council, that the head of the World Bank continues to be American by tradition, or that that of the International Monetary Fund continues to be European. Clearly, as the world becomes more symmetric, its political institutions will have to follow suit. Managing this process will be one of the trickiest issues facing the international community in the years ahead, but it is essential if the world is to maintain a relatively open, multilateral political and trading system. ◆