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World Trade and Globalization: The Past 200 Years

Today, we begin our analysis of the international economic and financial system by examining the history of world trade. In particular, we will compare how patterns of trade are described and explained in "Trade Globalization Since 1795," by Chase-Dunn, Kawano and Brewers, and in the "World Trade Report 2008: Trade in a Globalizing World."

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The United Nations' [Trade and Development Report 2011](#) opens with a declaration that "economic integration and interdependence in the world today have reached an unprecedented level." If so, then the United Nations adds weight to our belief that the international system is indeed experiencing historically unique structural changes in both the political and economic realms. Yet, there are those who counter that global economic integration and interdependence is hardly a contemporary phenomenon. Instead, worldwide economic integration – understood as the globalization of commodities, capital and labor markets – can be traced back to the 19th century, and maybe beyond then.

To explore this point further, we begin our week-long analysis of the shape and structure of the international economic and financial system by examining the historical development of global trade over the past 200 years. We compare how patterns of world trade are explained by Christopher Chase-Dunn, Yukio Kawano and Benjamin D Brewers in their "[Trade Globalization Since 1795](#)," and the World Trade Organization's (WTO) [World Trade Report 2008: Trade in a Globalizing World](#).

Describing Globalization: A Long-Term Trend, Cycles, or . . . ?

From the outset, Chase-Dunn et al readily admit that social scientists disagree about the historical development of the global economy. Some agree with the popular culture view that economic globalization began in the 1960s, when previously independent national economies started to integrate. Yet others argue that globalization is in fact a long-term trend that started centuries ago. Adding a third dimension to the debate are voices claiming that globalization is a cyclical process with periods of higher and lower levels of economic integration.

The authors of the *World Trade Report 2008* seemingly borrow from each of these schools of thought, thereby muddying the waters further. While they contend that globalization is a long-term trend, the authors are nevertheless quick to acknowledge that the economic integration following in its wake

has not been without its rhythms. Accordingly, there have been at least two episodes of globalization – the first began around the mid-19th century and ended in 1914, while the second wave began after World War II and continues to this day.

Data presented by Chase-Dunn et al largely supports the idea that economic globalization is both a long-term trend and a cyclical process. While their historical analysis points to the steady but unspectacular historical development of economic globalization, their statistical analysis also points to three cycles of globalization rather than two. The first cycle peaked in the late 1870s and then plummeted in the early 20th century. The second peaked shortly after World War I, but was punctuated with 'lows' caused by the Great Depression and World War II. Finally a third cycle started after World War II, but it too has experienced slumps while economic globalization unfolds.

Average openness trade globalization, 1830 to 1992 (Chase-Dunn et al, 2000, p 86)

This data is all well and good, a critic might note, but does the presence of long-term economic globalization with its up-and-down cycles prevent the latest "episode" from being historically unique? Well, according to the *World Trade Report* there are at least two differences between the latest wave of globalization and previous waves. First, the composition of world trade has recently shifted from agricultural products and non-fuel minerals to manufactured goods and fuels. Second, there has been an unprecedented increase in foreign direct investment since the 1970s. Ah, but has such investment actually translated into an unprecedented integration of capital markets? Because we lack usable historical data on this point, there are those who insist on treating this absence as proof – proof that the financialization of the global economy over the past several decades does represent a period of unprecedented globalization, both in its character and scope.

Explaining the Evolution on Globalization: The *World Trade Report* View

If Chase-Dunn et al and the *World Trade Report* have different 'takes' on the cyclical nature of globalization and just how unique these cycles are, they also offer different explanations of how globalization has evolved. *The World Trade Report*, for example, states that global economic integration is driven by three main forces – 1) technological innovations, 2) political change, and 3) economic policy choices.

In the first case, technological innovations include: inventions that helped accelerate transportation; the advancement of information and communication technology; changes in production methods; and the switch from economies based on coal to oil and gas. In the second case, the report points to the post-Cold War rise of emerging economies in Asia, Latin America and Africa as contributory to the world we now see developing. Finally, the report states that "deregulation and the reduction or elimination of restrictions on international trade and financial transactions" resulted in economic policies that have driven the latest wave of globalization. Economic deregulation, for example, has increased competition beyond national boundaries; bilateral, regional and multilateral trade agreements have smoothed the transnational exchange of goods; and financial liberalization has allowed for the easier conversion of currencies and for direct investment abroad.

Explaining the Evolution on Globalization: The Chase-Dunn et al View

In contrast to the above explanations, Chase-Dunn et al offer a more theoretical explanation of how economic globalization has evolved. In keeping with the *World Trade Report*, they acknowledge that

globalization has been partially driven by a decline in transport and communication costs. However, they also believe that hegemonic political stability has contributed to the expansion of economic globalization.

Hypothesized causes of trade globalization (Chase-Dunn et al, 2000, p 80)

In support of their hegemony-based argument, which seemingly correlates with the cyclical ups and downs of globalization, Chase-Dunn et al offer up four truths which they believe help 'mediate' between hegemonic stability and trade globalization:

1. Hegemony reduces big-scale conflicts such as world wars, which in turn favors globalization;
2. Hegemons are expected to push for a system of free trade within their sphere of influence;
3. Ideological convergence around a hegemon facilitates economic exchange across borders;
4. A growth in "investment globalization" suggests that the hegemon, based on its economic strengths, leads a movement towards foreign investment, which in turn facilitates trade.

In testing these hypotheses, Chase-Dunn et al further conclude that the rise of the British and the American "empires" help explain the first and third waves of globalization (in the 19th century and after WWII). They do not, however, manage to account for the rise of the second wave in the early 20th century or the *continuation* of globalization in the third wave, despite the United States' obvious hegemonic decline. (Still robust free trade policies may help explain the sustainability of the third wave.)

Trade: Only One Aspect of Globalization

International trade, the "real" part of international economics in contrast to its financial part, has certainly played a big (if not the biggest) role in the long-term development of globalization, and in the unprecedented nature of its current cycle. Yet, the manufacturing and exchange of products is only one part of the economic picture. To complete it and to answer some of the unresolved questions raised by this article, we will examine the history of world finance tomorrow.

Editor's note:

For more content on the past, present and future of the international economic and financial system, please see our [dossier](#) on the topic.

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