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ANALYSIS

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After Doha: II. Is Globalisation History?

Executive summary

For some observers, the announcement in late July of the indefinite suspension of the Doha Round of multilateral trade negotiations signalled the beginning of the end for globalisation. The fear was that history would repeat itself; just as an earlier era of globalisation came to a bad end, so too could the current episode.

The experience of globalisation, nineteenth century style, suggests such fears are overdone. Globalisation then was a fairly resilient phenomenon, surviving a trade policy backlash and only undone by the potent combination of a world war followed by the economic meltdown of the Great Depression. Current strains and tensions in the world economy, while not negligible, are much more muted. Globalisation isn't set to become history just yet.

Still, the first age of globalisation did have major implications for wealth and income distribution, and these triggered a political and policy backlash. A functioning multilateral trading system is the best mechanism we have to head off a similar response today; the experience of both the late nineteenth century and especially the interwar period is a powerful reminder of the perils of unchecked protectionism. Better, therefore, to repair the mechanism than to test the resilience of our current era of globalisation.

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After Doha

The announcement on 24 July that the Doha Round of multilateral trade negotiations was to be suspended indefinitely, due to irreconcilable differences over liberalising trade in agriculture, may well turn out to be a watershed for the multilateral trading system.[1] For some observers, however, Doha's apparent failure signals something even bigger - the beginning of the end for globalisation.[2]

In fact, many observers were warning of mounting protectionist pressures in the world economy even before trade negotiators threw in the towel in late July. They pointed to last year's increases in US and European barriers to Chinese textiles imports and fretted over the nationalistic backlash triggered by the 2005 bid by Chinese oil company CNOOC for America's Unocal. The furore earlier this year surrounding the Dubai Ports World takeover of P&O was widely seized upon as further evidence of a growing disenchantment with open borders, and the series of bills pending in the US Congress targeting China's allegedly unfair exchange rate policies are also frequently cited (although at the time of writing US Senators Charles Schumer and Lindsey Graham had just withdrawn their bill threatening a 27.5% tariff on Chinese imports).[3] So it's hardly surprising that those warnings have intensified now that the Doha Round has been dumped in the freezer: at the start of August, for example, new US Treasury Secretary Hank Paulson used the occasion of his first major speech to warn that the world was facing a 'disturbing wave of protectionism.'[4] Later the same month, Britain's Chancellor of the Exchequer, Gordon Brown, was similarly worrying about a 'surge of protectionism'.[5]

Of course, crises in multilateral trade negotiations are nothing new, and sometimes it seems as if people have been lining up to write obituaries for globalisation almost as soon as the term entered general usage.[6] Indeed, despite the deserved trade policy gloom occasioned by Doha's travails, in many ways the international economy today looks much less exposed to a protectionist backlash than it did in say the 1970s or 1980s. So why the current angst?

Back to the future?

At least some of the public displays of concern are basically preventative: by worrying aloud about the dangers of resurgent protectionism, policymakers and others are hoping to forestall any such event.

But another important part of the explanation is a fear that history could repeat itself. Economists and historians remember that an earlier era of globalisation came to a bad end, and worry that the current episode could turn out to be similarly vulnerable. Niall Ferguson, for example, has drawn parallels between the two globalisation episodes to warn that protectionism could undermine the global economy and to highlight the vulnerability of globalisation to major political shocks.[7]

In some ways, the parallels between the two eras of globalisation *are* striking. By the eve of the first world war, the level of international economic integration was certainly significant enough to merit comparison with the present, and then, as now, it seemed to many perfectly reasonable to assume that this state of affairs would persist.[8] This viewpoint is captured in a much cited passage by the economist John Maynard Keynes:

> 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 might 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 even 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 passport or other formality, could despatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the 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.*

From Chapter 1 in Keynes (1920), emphasis added.

Of course, these complacent expectations were dashed and the first age of globalisation was ended by the outbreak of a global war.

The central point of many of these historical comparisons – that the seemingly inevitable march of economic integration can be derailed by a big enough shock – is a valid one. But does the *much* smaller shock of Doha's demise, along with the current worries about a return to protectionism, signal that our current era of international economic integration is in trouble? Are free trade and globalisation about to become history?

This paper takes a look at the first era of international economic integration and its aftermath, and thinks about what lessons might be drawn for the future of the international trading system and for globalisation more generally.

Choosing the right history lesson

Before 1800, there is relatively little to be found in the international trade policy environment that looks directly applicable today. The sixteenth and seventeenth centuries in particular were the golden age of old-style mercantilism.[9] Then, trade policy was largely about ensuring an excess of exports over imports in order to secure a surplus of the precious metals that were deemed to be crucial to maintaining national wealth and power; most trade was confined to high value, low bulk items; trade relations were designed to exploit colonial markets for the benefit of the metropolitan power, with colonial produce typically transhipped via home ports before re-export; there were strict controls on the use of foreign shipping; most long-distance trade was in the hands of state-sanctioned monopolies; and commercial policy involved beggar-thy-neighbour strategies, including the application of military force, to undermine rival powers.[10]

Granted, by the eighteenth century there were growing signs both of an interest in free trade and of a moderation in mercantilist policies. The Anglo-French Eden Treaty of 1786 relaxed some of the tariffs on bilateral trade between two of the leading powers of the time, and marked an early victory for proponents of lower barriers to trade. The writings of the French Physiocrats and the publication of Adam Smith's *Wealth of Nations* were also preparing the intellectual ground for a policy of free trade. But any trend towards more liberal trade policies was undermined by the French Revolutionary and Napoleonic Wars and the consequent economic blockades and severe disruption to trade flows. By 1815, European trade policy still remained 'an ocean of protectionism with a few liberal islands'.[11]

In marked contrast, the nineteenth century after Waterloo witnessed a period of steadily increasing international economic integration, culminating in the first age of globalisation: 1869, the year that saw the completion of the Suez Canal and the Union Pacific Railroad, is often proposed as the birth date of a truly global economy.[12] While for most of the three preceding centuries, global trade volumes only grew at an annual rate of about 1%, this growth rate accelerated to between 3% and 4% (Figure 1) for most of the nineteenth century. There are interesting echoes of this historical experience in the current period of globalisation.

The sequel to the nineteenth century globalisation experience is also relevant today. After all, the current multilateral system is in many ways a direct product of the interwar period that followed the collapse of globalisation, nineteenth century-style. In particular, it was the economic and political dislocation of the 1930s that encouraged policymakers such as US Secretary of State Cordell Hull to make the restoration of a functioning, integrated international economy a priority for the post World War II reconstruction effort. As Douglas Irwin puts it, '[b]y the mid-1940s, protectionism in the field of economic policy was likened to appeasement in the realm of diplomacy, a mistake that helped make the decade of the 1930s a political and economic disaster.'[13] The multilateral trading system was explicitly created to save the world economy from a repeat performance.

Figure 1

Source: Maddison (2001)

The adverse experience with trade blocs during the 1930s is also an important source of the current concerns that many economists have about the prospect of a world of proliferating preferential trade agreements (PTAs). Richard Baldwin, for example, has argued persuasively that the difference between those economists who see PTAs as stumbling blocks towards free trade and those that see them as building blocks can in part be seen as a function of which historical period they focus on. The pessimists look to the 1930s and the emergence of regionalism and fascism in Europe as a warning of the dangers of preferential trade. In contrast, the optimists look to the post World War II experience and note that in this period the leading multilateralists were also the leading regionalists; the countries that drove the GATT liberalisation rounds were also pushing regional integration agreements such as the 1958 Treaty of Rome and the 1956 Canada-US Auto Pact.[14]

Trade, technology and the first global economy

Many accounts of our current era of globalisation tend to give technological change a central role in their narrative. Thomas Friedman, for example, identifying the 'ten forces that flattened the world' highlights the contribution of PCs, the internet, and wireless technology, among others.[15]

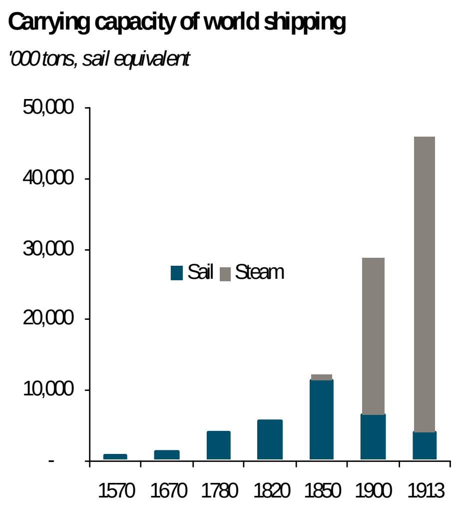
Technology played an equally important role in the first age of globalisation, with the emergence of an integrated international economy in large part the product of a series of major technological innovations that fostered a transportation revolution. It was the revolution in maritime transportation, for example, that forged the nineteenth century Atlantic economy, as the introduction of steamships transformed international seaborne trade. As of 1820, steamships accounted for less than 1% of the total carrying capacity of world shipping, but by 1913 their share had risen to more than 90%. For the period between 1570 and 1820 the average annual compound rate of growth of world shipping capacity was less than 1%. Between 1820 and 1930 that growth rate jumped to almost 4%pa, producing a dramatic expansion in capacity (Figure 2).[16]

Along with greater capacity, innovation also brought lower costs and more rapid transit times. Between 1830 and 1910 there was a sharp fall in the real cost of ocean shipping (Figure 3), and while in 1816 crossing the Atlantic took more than one month, by 1896 the crossing time was down to less than a week.[17]

Moreover, these improvements were not just confined to the Atlantic economy, as freight rates also fell sharply on routes between Europe and the Black Sea ports, as well as on European-Asian trade routes.[18]

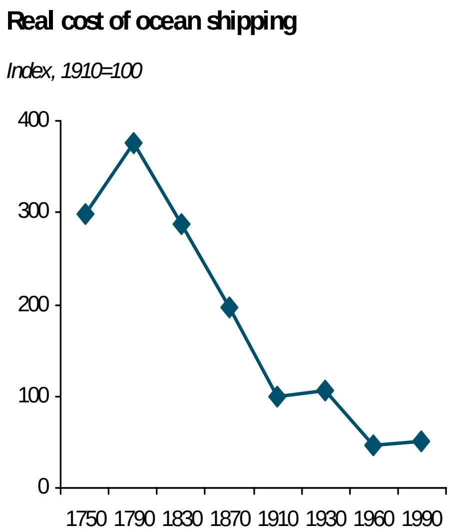
Technology also revolutionised land transportation: the first use of railway transportation was in the North of England in 1826, followed by the opening of the Liverpool-Manchester line in 1830.[19] The subsequent growth in world railway mileage was explosive (Figure 4). Early followers of Britain into the railway age included France, Belgium and Germany, but arguably the most dramatic impact was felt in the United States. There, the railroad helped create a national market, with

Figure 2



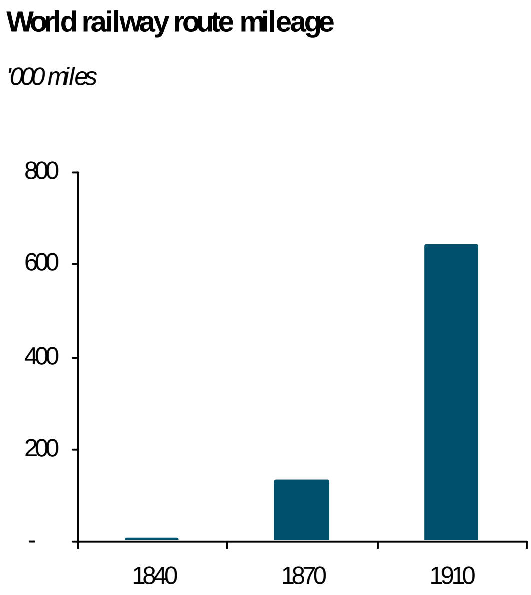
Source: Table 2.25a in Maddison (2001)

Figure 3



Source: Table 7.1 in Crafts and Venables (2003) transport costs between the American Midwest and the East coast declining even more sharply than transatlantic shipping costs.[20]

Figure 4



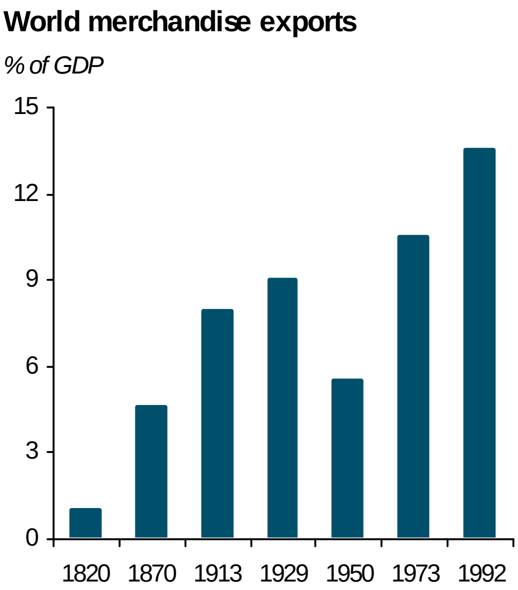
Source: Table 1 in Kenwood and Lougheed (1992)

The combined effect of these innovations was a major fall in transportation costs between the two sides of the Atlantic. In 1830, it cost more than US$30 to transport a ton of cargo 300 miles overland from Pennsylvania to New York, and then another US$10 to ship it across the Atlantic. By 1900, the introduction of the railroad had cut the cost of transporting the same ton of cargo overland to US$5, while the cost of shipping it over the ocean had fallen to US$3: total transport costs had fallen from US$40 to US$8.[21]

One important consequence was that the mass shipment of basic commodities became commercially feasible. So, instead of trade being concentrated on high value, low bulk items such as spices and silk, items mainly of concern to a narrow elite, it began to involve products that were significant for the living standards of the majority of the population. A key indicator of international economic integration is convergence in the prices of the same goods across different markets: gaps in price will reflect trade barriers such as tariffs and transportation costs, and as these barriers decline, prices should converge and gaps narrow. Before 1800, it is difficult to find evidence of global price convergence for the kinds of commodities that mattered to the lives of most people. In contrast, the transport revolution described above meant that in the nineteenth century price convergence was spectacular.[22] For example, while Liverpool wheat prices exceeded Chicago prices by about 58% in 1870, the gap was only 16% by 1913; London-Cincinnati price differentials for bacon fell from 93% to 18% over the same period; and the Philadelphia-London iron bar price gap fell from 75% to 21%.[23]

Between the end of the Napoleonic Wars and the start of the first world war the total volume of European exports probably multiplied by nearly *forty* times, compared to the previous century when it had at the most doubled or trebled.[24] Trade also grew significantly faster than output during this period, and as a result one frequently cited globalisation indicator – the ratio of world exports to world GDP – shows a big increase between 1820 and the eve of World War One (Figure 5).

Figure 5



Source: Table 2.4 in Maddison (1995)

More than technology

While falling transportation costs were a major part of the story behind trade growth in this period, they were not the full story. Several other factors were also at work, including the trade-promoting effects of better communications technology (the telegraph, which has been described as the Victorian internet), the relative currency stability provided by the gold standard, and the geopolitical stability provided by the *Pax Britannica*.[25] Econometric work confirms that a large proportion of the increase in trade volumes after 1870 can be explained by the decline in transport costs. But there is also a significant common currency effect related to the gold standard: on some calculations, the gold standard and the decline in (maritime) transport costs accounted for roughly equal shares of the nineteenth century trade boom.[26]

From the birth of free trade . . .

If falling transport costs and the gold standard both played important roles in fostering the emergence of a nineteenth century version of globalisation, how did trade policy contribute? After all, the nineteenth century didn't just see the birth of the first truly global economy; it also witnessed the emergence of free trade as a target of government policy.[27]

For most of the first half of the nineteenth century, free trade was largely a British preoccupation. The policy debate in Britain gathered momentum during the 1840s, culminating in 1846 with the abolition of the Corn Laws, a measure which took effect from 1849, the same year that saw the repeal of the mercantilist Navigation Laws. Over the next quarter century, most remaining duties and trade restrictions were abolished, turning Britain into the world's first advertisement for free trade.[28] Initially, however, there were few takers, despite some modest echoes of British policy in the United States, Portugal, Demark, Holland and Switzerland.[29] Indeed, even as Britain was moving towards free trade, it was allowing the Dominions greater freedom in trade policy, which was used to introduce protectionist tariffs: in Victoria (1851), Canada (1858-9) and the South African Colonies (1866/7).[30]

Table 1. Average tariff rates on manufactures, selected economies (%)

	1820	1875	1913	1925	1931	1950
Austria	P	15-20	18	16	24	18
France	P	12-15	20	21	30	18
Germany	8-12	4-6	13	20	21	26
Italy	-	8-10	18	22	46	25
Russia	P	15-20	84	P	P	P
UK	45-55	0	0	5	-	23
US	35-45	40-50	44	37	48	14
Japan	P	5	30	-	-	-

Source: Table 3.3 in Bairoch (1993). P indicates the presence of significant non-tariff barriers.

Outside Britain, free trade in Europe (which, together with its colonies, accounted for roughly three-quarters of world trade in the nineteenth century) largely had to wait until 1860 and the Cobden-Chevalier Treaty. This Anglo-French commercial treaty was the first in a series of bilateral agreements that effectively converted much of Europe into a free trade area. France abolished its prohibitions on British products and replaced them with import duties initially capped at 30% and then at 25%. In return, Britain allowed free entry for a large number of French goods and slashed import duties on French wine by more than 80%. Two features of the agreement were particularly important. First, while Britain liberalised on a universal basis, France followed a preferential approach, applying the negotiated reductions in protection only to bilateral trade with Britain. Second, the 1860 agreement included a Most Favoured Nation (MFN) clause, stipulating that both signatories to the treaty agreed to grant to each other any trade concessions they might grant in the future to any other nation.[31]

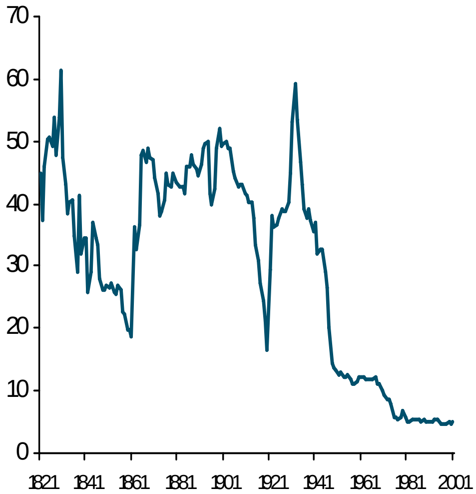
Because France had allowed access to its markets only on a preferential basis, other countries were prompted to negotiate their own agreements with Paris. A series of bilateral deals followed, with Belgium (1861), the German Zollverein (1862), Italy (1863), Switzerland (1864), Sweden, Norway, Spain and Netherlands (all 1865) and Austria (1866) all signing treaties with France. Since each of these also included an MFN clause, the result was widespread European tariff 'disarmament' after 1860 (Table 1). As the countries now linked by low tariffs also started to cooperate with other trade-supporting measures, such as agreements to facilitate international communications and transport, the result was an unprecedentedly liberal era for European trade.[32]

This liberal interlude was to last for less than two decades, however. Moreover, the most important rising non-European trade power of this era, the United States, was increasing protection at this time (Figure 6).

Figure 6

US tariff rate

% dutiable imports



Sources: Historical Statistics of the United States, US International Trade Commission website

So, while the shift to a more liberal trade policy did contribute something towards nineteenth century globalisation, its biggest impact was limited to a fairly short sub-period, and even then it excluded what would be one of the most dynamic trading powers of the time.

Two final points are worth emphasising. First, this liberalisation process occurred entirely through voluntary, bilateral agreements. There was no coordinated multilateral action involved.[33] Second, the motivations for the original Anglo-French treaty were at least as much political and diplomatic as they were economic: France's Napoleon III was keen to secure British neutrality while he worked to free Italy of Austrian rule; French domestic interests were largely opposed to the deal. Many of the treaties that followed were similarly motivated by non-economic factors, with both Napoleon III and Germany's Bismarck in particular using bilateral trade treaties to support foreign policy objectives.[34]

. . . to protectionism and tariff wars

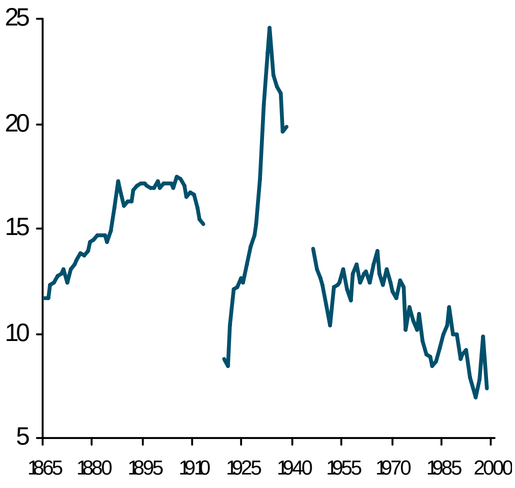
While the first era of globalisation lasted until the onset of the first world war, the first free trade era turned out to be shorter lived. Germany was the first major European power to reverse policy direction and shift to a more protectionist stance; Germany's July 1879 tariff is usually seen as bringing the curtain down on the free trade period instigated by the 1860 Cobden-Chevalier treaty.[35] More German tariff increases followed in 1885 and again in 1886, and with Germany now an increasingly important economic power, the demonstration effects were probably important. Certainly, these moves were followed by tariff increases in most of the major continental European powers, including Russia, Austria-Hungary, France, Spain and Italy. Outside Europe, the victory of the North in the United States' civil war and the subsequent Republican dominance of Congress ensured that US tariffs remained high, while Canada imposed higher tariffs after 1878 and Australia introduced the first federal tariff in 1902 in a compromise between free-trading New South Wales and protectionist-minded Victoria.[36]

Not only was protectionism on the rise, but so were trade disputes, as countries imposed retaliatory tariff increases in response to climbing trade barriers in their trading partners. Germany, for example, fought tariff wars with Russia (1893-94) and Spain (1984-96), France with Italy (1888-1892) and Switzerland (1893-5) and Russia and the United States fought their own tariff war between 1901 and 1905. Tariff policy was also increasingly wielded as an instrument of foreign policy: the Franco-Italian tariff war followed Italy's decision to ally with Germany and Austria-Hungary instead of France. During the five years of tariff conflict that followed, Franco-Italian trade fell to less than half its pre-conflict levels. The Franco-Swiss dispute saw bilateral trade levels reduced by about one-third.[37]

Figure 7

World average tariff

%, unweighted average, 35 countries



Source: Clemens and Williamson (2004)

In the three decades before war brought this first globalisation episode to an end, protectionism was *increasing* in most of the developed world (Britain being a notable exception): Michael Clemens and Jeffrey Williamson calculate that the unweighted average tariff rose from about 12% in 1865 to about 17% in 1910 (Figure 7).[38] True, this is not a dramatic increase, and effective rates of tariff protection remained relatively stable until 1913.[39] Still, the main point is that for much of the first era of globalisation, trade policy in many countries was working *against* the trade-creating effects of lower transportation costs and the gold standard: on one estimate, if free trade had prevailed in 1913, world trade could have been as much as one-third higher than its actual level.[40]

The first globalisation backlash . . .

Why did much of Europe swing back to protectionism? A big part of the explanation seems to be that policy changed as a direct response to the economic shocks created by globalisation. The technological innovations described above had opened up agricultural production in North America and Russia, with the New World effectively increasing the land available per European capita by about six times. The result of this dramatic increase in the supply of agricultural land was the 'grain invasion' – a flood of wheat into European markets – which triggered both a dramatic decline in food prices and, as a direct consequence, a sharp fall in land rents and landowner wealth, along with a fall in the demand for agricultural labour and hence in wages.[41]

Trade wasn't the only force acting to change patterns of income distribution in the nineteenth century global economy. Migration, particularly the mass waves of migration between 1879 and 1913, probably had an even more powerful impact, encouraging real wage convergence on both sides of the Atlantic. Just as economic theory would predict, the transfer of labour from some of the poorer, land-scarce, labour-abundant European economies to rich, land-abundant, labour-scarce New World economies like Australia, Canada and the United States, saw inequality decline in the former and rise in the latter.[42]

Nineteenth century globalisation therefore turned out to have major implications for wealth and income distribution in the participating economies. Not surprisingly, this in turn had political consequences. In many European economies with large agricultural sectors, including France and Germany, the response was to try and offset the impact of lower transport costs by imposing tariffs.[43] In labour-scarce countries like the United States, the backlash took the form of a shift to a more restrictive immigration policy.[44]

The shift to protectionism in Europe was also associated with the application of 'modern' theories of protectionism, such as the need to provide time to allow the development of so-called 'infant' industries. It also coincided with a revival of nationalism linked to the emergence of the new nation states of Germany and Italy.[45] This mixture created the possibility of a protectionist alliance between agricultural and industrial interests: Germany's 1879 tariff has been described as the product of a marriage between iron and rye.[46]

Finally, the deep economic depression of 1873-9 also helped fuel increasing protectionist pressures.

. . . and the end of globalisation

Despite some signs of a protectionist backlash, the period up until 1914 continued to be marked by a highly integrated world economy: protectionism may have tempered globalisation, but it certainly didn't derail it. Indeed, on some measures, international economic integration only peaked in the 1920s (Figure 5). It took the onset of World War I to bring the nineteenth century era of international economic integration to a crashing halt in the form of a 'dramatic and discontinuous' break. War brought tariffs, quantitative restrictions, controls on shipping and outright prohibitions on imports, as well as exchange controls and the destruction of the gold standard.[47]

The years following World War I saw attempts to coordinate reductions in these trade barriers that had been thrown up during the conflict. In practice, however, most of these controls were only gradually phased out, largely on a unilateral basis, and many of the quantitative controls were replaced by tariffs. Even Britain failed to fully return to its pre-war liberal trade policy.[48] Still, by the 1920s there were several international attempts to bring the world economy back to a more liberal trading environment, although a series of international conferences – the Supreme Economic Council (1920), Geneva Conference (1922) and World Economic Conference (1927) – all proved ineffectual. And by the second half of the decade trade growth had recovered, and was again running ahead of output. So the war had not completely removed globalisation tendencies from the world economy at this point.[49]

Interestingly, one of the positive features of nineteenth century globalisation – the MFN clause – turned out to be an *impediment* to liberalising trade policy in the interwar period. This was because MFN obligations effectively ruled out attempts to advance tariff reduction on a bilateral or regional basis because of a free rider problem: the United States refused to reduce its own high tariffs while at the same time staking a MFN-based claim to benefit from any tariff reduction negotiated between European economies. Since these Europeans were reluctant to award tariff reductions to a country that was planning to continue to impose high levels of tariffs on them, the effect was to block any continental-based liberalisation drive.[50]

Meanwhile, and despite all the good intentions of the international conferences, trade barriers were rising again, culminating in the ultimate symbol of interwar protectionism, the 1930 US Smoot-Hawley tariff. Once again, the underlying problem can be traced to agriculture: Smoot-Hawley had its origins in the wartime expansion of agricultural supply (in response to interrupted European production) and the subsequent glut that followed after the war was over. In 1928, Herbert Hoover, campaigning for the US presidency, promised to provide relief to farmers suffering from falling agricultural prices. When the January 1929 session of Congress began to prepare the draft bill, the scope of protection on offer was then widened to include other sectors. Even before the bill was passed into law in June 1930, the rest of the world was responding with protectionist measures of its own: France, Germany and Italy all hiked tariffs in 1929.[51]

Was protectionism good for growth?

Most recent economic writing on trade policy has emphasised the strong, positive relationship between openness and economic growth.[52] Yet the two economic powerhouses of the late nineteenth century – the United States and Germany – both adopted protectionist trade policies. According to Paul Bairoch, for the two decades or so before World War I, protectionism was associated with industrialisation and economic development, while liberal trade polices tended to be associated with relative economic weakness.[53]

Bairoch's stylised facts have been confirmed by Kevin O'Rourke, who finds a positive correlation between tariffs and economic growth for ten countries over 1875-1914, as well as by Michael Clemens and Jeffrey Williamson, who also report a positive correlation between tariffs and growth before 1914. Clemens and Williamson also find some evidence that in the 1930s protectionist policies – while bad for the world economy overall – may have helped ease domestic economic circumstances. Athanasias Vamvakdis finds some evidence of a positive correlation between tariffs and growth for 1920-1940.[54]

What explains the positive correlation between protection and growth? One response is that correlation is not the same as causation. Douglas Irwin argues that two of the fastest growing and high tariff economies in the pre-1914 period – Argentina and Canada – grew quickly not because they instituted protectionist trade policies, but because improved access to world markets generated export-led growth. Similarly, Irwin emphasises that although the United States may have emerged as a world economic power at a time when it was sheltering behind high import tariffs, US growth was driven largely by increases in labour force and capital accumulation, and it is difficult to identify any clear link between tariff policy and these two developments.[55] Forrest Capie suggests that in practice average tariffs in most of the major economies before 1914 were anyway not high enough to have had any significant impact on economic performance.[56]

An alternative explanation for the positive correlation is that the benefits of openness may be heavily dependent on the state of the world economy. In a world marked by low levels of protection and open markets, openness will be correlated with growth. But in a world where markets are closed and protection is high, the best policy for an individual economy may no longer be the same. Clemens and Williamson argue that if the benefits of openness are conditional on the state of the world, then multiple equilibria are possible. In particular, they point out that a low-level equilibrium of mutually high tariffs could be triggered by a shock that persuaded leading economies to switch to anti-globalisation policies, as feedback effects would see the rest of the world follow.[57]

The disintegration of world trade

Smoot-Hawley, along with the international response, triggered a sharp increase in the overall level of tariffs (Figures 6 and 7). The onset of financial turmoil after 1931, with severe foreign exchange shortages and mounting balance of payments pressures meant that 1930s protectionism was soon extended to include quantitative controls, import bans, exchange controls and clearing arrangements.

The result was an implosion of world trade: between 1929 and 1932 the current US dollar value of world trade fell by 50%. Even at constant prices the volume of trade in 1932 was down about 30% on the 1929 level, and as late as 1938 trade volumes were still only about 90% of 1929 levels.[58] By 1933 the world economy was 'dead in the water'.[59]

Not only were trade volumes shrinking in the 1930s, they were also becoming increasingly fragmented. Between 1933 and the outbreak of the Second World War, the world economy disintegrated into a series of disparate trading systems. The Oslo convention of 1930 formed the building block for a trading group linking together the Benelux economies and Scandinavia, for example, while Britain joined the trend to regionalism in 1932, when the Imperial Economic Conference brought the signing of the Ottawa Agreements, establishing a system of imperial trade preferences. Germany created a network of bilateral clearing and payment arrangements based in part around the Schact Agreements (Austria, Hungary, Poland and Yugoslavia), using direct controls to divert trade away from economies that required payment in convertible currencies and towards economies in Central and South Eastern Europe (as well as in Latin America) that were instead willing to accept German exports as payment. By the spring of 1938, 25 countries were involved in these arrangements, accounting for up to 50% of Germany's foreign trade.[60] Russia and Italy pursued similarly autarkic-style strategies, while Japan carved out its own trading bloc in the form of the Greater East Asian Co-Prosperity sphere.

Did these trading blocs hammer yet another nail in the coffin for world trade? Almost certainly: as Richard Pomfret has pointed out, PTAs in the 1930s took an especially pernicious form, where the approach was not so much to *reduce* barriers for preferred trade, but rather to *increase* barriers for non-preferred trade. The result was a nasty combination of trade diversion and trade destruction.[61] Still, some of the changes in trade patterns attributed to the formation of these trade blocs probably reflected existing trends: for example, the Ottawa Agreements seem to have reinforced an existing tendency towards trade within the British Empire and Dominions, which may have partly been down to earlier trade preferences, but which was also due to the steady accretion of commercial and financial ties between the nations involved.[62]

Another factor influencing trade flows in the 1930s was the nature of international currency arrangements. Much as the international trading order splintered into disparate trade blocs, so the gold standard disintegrated into various currency blocs, including a residual gold bloc, the sterling area, a Reichsmark bloc, and a set of currencies linked to the US dollar. The impact on trade of membership in these arrangements differed significantly: sterling area members tended to trade disproportionately both with one another, and with the rest of the world; members of the gold bloc tended to trade less.[63] In large part, this reflected the different trade policies adopted by the various groupings. Thus the economies that stuck with the gold standard tended to suffer from overvaluation and balance of payments pressures, and were therefore more inclined to turn to import controls to stem reserve losses and defend the gold parity. In contrast, the sterling-bloc economies led by Britain left gold in 1931 and the resultant depreciation relieved deflationary pressures and tempered demand for severe import restrictions.[64]

Protectionism and the payments frictions caused by the end of the gold standard and the subsequent proliferation of exchange controls both seem to have had an important role to play in undermining world trade in the 1930s. A *third* drag on trade flows in the interwar period as a whole was an apparent reversal in the decline in transportation costs that had been experienced during the nineteenth and early twentieth centuries. Three factors seem to have been at work at work here. First, while positive productivity shocks linked to technological innovation had lowered costs in the transport sector relative to the rest of the economy in the nineteenth century, this trend reversed after 1914 when it was the turn of other sectors to enjoy productivity gains. Second, monopolistic behaviour by shipping cartels, aided by spreading protectionism in the shipping industry also seems to have pushed up transport costs. Finally, it is possible that rising labour militancy may have driven up wage costs.[65] So, in contrast to the late nineteenth century experience, trade policy, exchange rate regimes and transportation costs were *all* working to disrupt or diminish trade flows. In this light, the collapse of international trade was not a surprising result.

Conclusion: history's lessons

Despite the bleak nature of the 1930s experience, however, the most important lesson to be drawn from this historical review is a fairly optimistic one: globalisation is a pretty resilient phenomenon.[66] It took the combination of a world war, followed by the economic meltdown of the Great Depression, to fully derail the nineteenth century version. Before then, international economic integration had managed to survive a protectionist backlash largely intact, as higher tariffs alone were able to only partially offset other forces driving economic integration.

Judged in this light, recent fears about the death of globalisation are overdone. Certainly, there are signs of strain and tension in the world economy, and these include some significant protectionist impulses. But, for now at least, these look to be far short of the scale of shock needed to overturn globalisation. The nineteenth century experience suggests, for example, that an increase in tariff barriers alone would be insufficient to derail the current process of cross-border integration. Globalisation isn't about to become history quite yet.

The first age of globalisation also managed to exist despite the absence of an institutional framework for international trade along the lines of the GATT or its successor, the WTO. Moreover, the main policy mechanism that delivered free trade for most of Europe between 1860 and 1879 was a series of bilateral trade agreements, or PTAs, albeit a highly specific form of PTA which included an MFN clause. And these were PTAs which were often negotiated as much for political as economic ends. Does this mean we can afford to be optimistic about the future for world trade after Doha's demise, or at least to be sanguine about the present worldwide rush to preferential trade?

Here, the record suggests no more than guarded optimism. After all, in the end, the nineteenth century's informal approach to trade policy proved unable to stem the post-1879 return to protectionism. True, this globalisation backlash was not severe enough to undermine the more general trend to economic integration, including continued healthy trade growth. Nevertheless, it did result in several tariff wars that were poisonous enough to significantly dent bilateral trade flows between the countries concerned. The faltering, half-hearted efforts at multilateral cooperation in the interwar period proved to be an even more inadequate defence against the much more determined retreat from open trade that followed. It was this policy failure that largely prompted the creation of the multilateral system in the first place.

The record on PTAs is mixed, too. Yes, the nineteenth century experience suggests that not all bilateral initiatives need be harmful, and that they can make a potentially important contribution to trade liberalisation.[67] But the experience of the 1930s is a powerful reminder of the potential for harm embodied in a world fragmented into competing trade blocs. This suggests that while the current rush to PTAs may not be disastrous for world trade, policymakers would be wrong to view the prospect with complacency: there are significant risks involved.

The historical experience also suggests some reasons for caution about current circumstances. The first age of globalisation turned out to have major implications for wealth and income distribution in the participating economies, which in turn were manifested in political pressures and a globalisation backlash. Jeffrey Williamson has argued that in this way nineteenth century globalisation helped sow the seeds of its own destruction.[68]

After Doha: II. Is Globalisation History?

Economists continue to debate whether the current era of globalisation is in fact having any significant impact on inequality (within and between countries), and whether that impact is positive or negative. In popular debate, however, globalisation is clearly seen by many as justification for more protectionist policies, albeit protectionism sometimes disguised as 'fair' trade. More generally, we know that globalisation creates losers as well as winners, and the losers are, quite understandably, a constituency for protectionist policies. The good news is that today's economies, at least in the developed world, offer far more in terms of social insurance (such as unemployment benefit) to workers harmed by globalisation than did their nineteenth and early twentieth century predecessors. Since modern policymakers are also far better equipped to deal with economic downturns than were their counterparts during the Great Depressions of the 1870s and 1930s, there are reasons to believe that any contemporary protectionist backlash might be more muted than the historical examples outlined above.[69]

The first era of globalisation also highlights the potentially disruptive impact on economic openness played by major supply shocks to the world economy: it was the grain invasion, and the shock to agricultural prices that resulted, that were key drivers behind Europe's return to protectionism in the nineteenth century. The 1970s oil shocks and the subsequent increase in international protectionist sentiment are a more recent example of the same phenomenon, and the current, continuing China supply shock can be seen as the latest in a series.

The aftermath of the grain invasion also highlights another lesson of history: the agricultural sector has been a repeated obstacle to liberalising trade, from the British struggle over the repeal of the Corn Laws to the grain invasion and the origins of Smoot-Hawley through to the current problems with the Doha Round.[70]

These reasons for caution provide some grounds for tempering the optimism of the main conclusion. Yes, the problems with Doha do not signal the end of globalisation. Still, given that a functioning multilateral trading system is a valuable mechanism for managing some of the strains and adjustment pressures that globalisation itself creates, returning that system to good order remains a pressing task for international policy. The experience of both the late nineteenth century and the interwar period reminds us that in the absence of an effective international commitment mechanism for open markets, protectionism does have the potential to gather a self-sustaining momentum that is difficult to reverse. Better, therefore, to repair the commitment mechanism than to test the resilience of our current era of globalisation. The search for the best way to do this is the subject of a companion piece to this paper, *After Doha: I. The search for Plan B*.

NOTES

[1] See Mark P Thirlwell, After Doha: I. The search for Plan B. Lowy Institute Analysis. Sydney, Lowy Institute for International Policy, September 2006.

[2] See for example Martin Jacques, The death of Doha signals the demise of globalization. The Guardian, 13 July 2006.

[3] For one take on this issue see Mark P Thirlwell, Angst without frontiers. *Australian Financial Review*, 10 April 2006. For a more detailed discussion of the changing global trade environment and its implications for trade policy see Mark P Thirlwell, *The new terms of trade*. Lowy Institute Paper 07. Sydney, Lowy Institute for International Policy, 2005.

[4] Ed Luce, Paulson warns protectionism threatens prosperity. *The Financial Times*, 1 August 2006.

[5] Gordon Brown, Tough choices that safeguard stability. *The Financial Times*, 29 August 2006.

[6] Theodore Levitt is sometimes credited with coining the phrase in a 1983 article in the Harvard Business Review, entitled 'Globalization of markets', although the term had been used by economists since the early 1980s, and has been around (in a different context) since the 1940s.

[7] Niall Ferguson, Globalization's second death? *LA Times*, 10 April 2006. See also Niall Ferguson, Sinking globalization. *Foreign Affairs* 84 (2) 2005. Martin Wolf covers similar territory, but is more optimistic in Martin Wolf, Will globalization survive? *World Economics* 6 (4) 2005. See also Eric Chaney and Vicenzo Guzzo, *Not 1914, but maybe 1930*. Euroland Economics, Morgan Stanley Research Global, 3 March 2006. Harold James, *The end of globalization: lessons from the great depression.* Cambridge Mass, Harvard University Press, 2001.

[8] Jeffrey D Sachs and Andrew Warner, Economic reform and the process of global integration. *Brookings Papers on Economic Activity* 1 1995. Jeffrey A Frankel, Globalization of the economy, in *Governance in a globalizing world*. ed. Joseph Nye and John Donahue. Washington DC, Brookings Press, 2000. For similarities and differences between the two globalisation eras, see: Michael D Bordo, Barry Eichengreen and Douglas A Irwin, *Is globalization today really different than globalization a hundred years ago?* NBER Working Paper no. 7195. Cambridge, MA, National Bureau of Economic Research, 1999. One striking difference between the two periods is that the earlier globalisation episode was also an era of mass migration. Richard E Baldwin and Philippe Martin, *Two waves of globalization: superficial similarities, fundamental differences*. NBER Working Paper no. 6904. Cambridge MA, National Bureau of Economic Research, 1999.

[9] Paul Bairoch, *Economics and world history: myths and paradoxes.* Chicago, University of Chicago Press, 1993. p 16. That said, for an interesting comparison of mercantilism with modern strategic trade theory, and an application to the seventeenth century Anglo-Dutch struggle for commercial supremacy, see Douglas A Irwin, Strategic trade policy and mercantilist trade rivalries. *American Economic Review* 82 (2) 1992.

[10] Baldwin and Martin, *Two waves of globalization: superficial similarities, fundamental differences*. Angus Maddison, *Monitoring the world economy, 1820-1992.* Paris, Development Centre of the Organisation for Economic Co-operation and Development, 1995, Angus Maddison, *The world economy: a millennial perspective.* Paris, Development Centre of the Organisation for Economic Co-operation and Development, 2001. For a more nuanced view of the evolution of mercantilist thought than the brief outline sketched here, see chapter 2 in Douglas A Irwin, *Against the tide. An intellectual history of free trade.* Princeton, Princeton University Press, 1996.

[11] Bairoch, *Economics and world history: myths and paradoxes*. p 16.

[12] For example, Paul R Krugman, Growing world trade: causes and consequences. *Brookings Papers on Economic Activity* 1 1995.

[13] Douglas A Irwin, *Free trade under fire*. Princeton, Princeton University Press, 2002. p 159.

[14] Richard E Baldwin, *Stepping stones or building blocs? Regional and multilateral integration* (paper presented at the G-20 workshop on "Regional economic integration in a global framework", Beijing, 22-23 September 2004).

[15] Chapter two in Thomas L Friedman, *The world is flat. A brief history of the twenty-first century*. New York, Farrar, Strauss and Giroux, 2005.

[16] Maddison, *The world economy: a millennial perspective*.

[17] Jeffry A Frieden, *Global capitalism: its fall and rise in the twentieth century*. New York, W.W.Norton, 2006.

[18] Kevin H O'Rourke and Jeffrey G Williamson, When did globalisation begin? *European Review of Economic History* 6 2002.

[19] Alan M Taylor, *Globalization, trade and development: some lessons from history*. NBER Working Paper no. 9326. Cambridge, MA, National Bureau of Economic Research, 2002. Douglass North, Ocean freight rates and economic development 1750-1913. *The Journal of Economic History* 18 (4) 1958.

[20] Ronald Findlay and Kevin H O'Rourke, Commodity market integration, 1500-2000, in *Globalization in historical perspective*. ed. Michael D Bordo, Alan M Taylor, and Jeffrey G Williamson. Chicago, University of Chicago Press, 2003. p 36.

[21] Frieden, *Global capitalism: its fall and rise in the twentieth century*.

[22] O'Rourke and Williamson, When did globalisation begin? Kevin H O'Rourke and Jeffrey G Williamson, *Globalization and history: the evolution of a nineteenth-century Atlantic economy*. Cambridge MA, MIT Press, 1999.

[23] Findlay and O'Rourke, Commodity market integration, 1500-2000. pp 40-41

[24] Paul Bairoch, European trade policy, 1815-1914, in *The Cambridge Economic History of Europe, vol. 8*. ed. P Mathias and S Pollard. Cambridge, Cambridge University Press, 1989.

[25] The comparison with the internet is from Tom Standage, *The Victorian internet: the remarkable story of the telegraph and the nineteenth century's online pioneers*. London, Phoenix Press, 1999.

[26] Antoni Estevadeordal, Brian Frantz and Alan M Taylor, The rise and fall of world trade, 1870-1939. *Quarterly Journal of Economics* 118 (2) 2003. They also emphasis the important role played by output growth: to borrow from Irving Kravis, trade was the handmaiden of nineteenth century growth. Irving B Kravis, Trade as a handmaiden of growth: similarities between the nineteenth and twentieth centuries. *The Economic Journal* 80 (320) 1970.

[27] The standard reference for nineteenth century trade policy is Bairoch, European trade policy, 1815-1914. The following draws heavily on this source.

[28] A. G. Kenwood and A. L. Lougheed, *The growth of the international economy 1820-1990*, Third ed. London, Routledge, 1992. The Corn Laws were an agricultural protection policy that fixed a minimum price of wheat that had to be met before imports were allowed. The Navigation Acts reserved most of Britain's foreign trade for British shipping.

[29] Bairoch, European trade policy, 1815-1914.

[30] Richard Pomfret, *The economics of regional trading agreements*. Oxford, Clarendon Press, 1997.

[31] Article V of the complementary convention. Douglas A Irwin, Multilateral and bilateral trade liberalization in the world trading system: an historical perspective, in *New dimensions in regional integration*. ed. Jaime de Melo and Arvind Panagariya. New York, Cambridge University Press, 1993. p 96.

[32] Bairoch, European trade policy, 1815-1914.

[33] Irwin, Multilateral and bilateral trade liberalization in the world trading system: an historical perspective.

[34] Charles P Kindleberger, The rise of free trade in Western Europe, 1820-1875. *The Journal of Economic History* 35 (1) 1975.

[35] Bairoch, European trade policy, 1815-1914.

[36] Findlay and O'Rourke, Commodity market integration, 1500-2000.

[37] Bairoch, European trade policy, 1815-1914, Pomfret, *The economics of regional trading agreements*.

[38] Their sample includes 35 countries. Michael A Clemens and Jeffrey G Williamson, Why did the tariff-growth correlation change after 1950? *Journal of Economic Growth* 9 (1) 2004. In much of the developing world (such as India), colonial powers tended to enforce open markets.

[39] Forrest Capie, Tariff protection and economic performance in the nineteenth century, in *Policy and performance in international trade*. ed. J Black and L A Winters. New York, St Martin's Press, 1983.

[40] Estevadeordal, Frantz and Taylor, The rise and fall of world trade, 1870-1939. p 391.

[41] Kevin H O'Rourke, The European grain invasion, 1870-1913. *The Journal of Economic History* 57 (4) 1997.

[42] Jeffrey G Williamson, Globalization, labor markets and policy backlash in the past. *The Journal of Economic Perspectives* 12 (4) 1998.

[43] The differing political responses - Britain and Denmark sticking with free trade, Germany and France choosing to abandon it – might be explained by the differing size of the agricultural workforce. Thus in Britain the fall in food prices more than offset any fall in wages caused by lower demand for agricultural labour, given its small share of the workforce. In contrast, on the continent where the agricultural share was much larger, the induced fall in labour demand was more likely to have had a larger negative effect on wages. O'Rourke, The European grain invasion, 1870-1913.

[44] Jeffrey G Williamson, Globalization and inequality, past and present. *The World Bank Research Observer* 12 (2) 1997. Also chapter six in O'Rourke and Williamson, *Globalization and history: the evolution of a nineteenth-century Atlantic economy*.

[45] Kenwood and Lougheed, *The growth of the international economy 1820-1990*.

[46] Charles P Kindleberger, Group behaviour and international trade. *The Journal of Political Economy* 59 (1) 1951. Alexander Gerschenkron, *Bread and democracy in Germany*. Berkeley, University of California Press, 1943.

[47] Shale Horowitz, Reversing globalization: trade policy consequences of World War I. *European Journal of International Relations* 10 (1) 2004.

[48] Irwin, Multilateral and bilateral trade liberalization in the world trading system: an historical perspective.

[49] Paul Bairoch and Richard Kozul-Wright, *Globalization myths: some historical reflections on integration, industrialization and growth in the world economy*. UNCTAD Discussion Papers No. 113. Geneva, United Nations Commission on Trade and Development, March 1996.

[50] Findlay and O'Rourke, Commodity market integration, 1500-2000. Pomfret, *The economics of regional trading agreements*. Both the United States and Britain and the British Dominions also objected to any derogations from strict MFN practice that would allow the negotiation of preferential regional agreements.

[51] Charles P Kindleberger, Commercial policy between the wars, in *The Cambridge Economic History of Europe, vol. 8*. ed. P Mathias and S Pollard. Cambridge, Cambridge University Press, 1989. Arguably Smoot-Hawley was especially pernicious because it signalled that the world's largest economy was prepared to take actions that would undermine international stability.

[52] Examples include: Sachs and Warner, Economic reform and the process of global integration. Jeffrey A Frankel and David Romer, Does trade cause growth? *American Economic Review* 89 (3) 1999. David Dollar and Aart Kray, Trade, growth and poverty. *The Economic Journal* 114 (493) 2004. For a sceptical view of this literature see Francisco Rodriguez and Dani Rodrik, Trade policy and economic growth: a skeptic's guide to the evidence, in *Macroeconomics Annual 2000*. ed. Ben Bernanke and Kenneth Rogoff. Cambridge MA, MIT Press for NBER, 2001.

[53] Bairoch, *Economics and world history: myths and paradoxes*. p 54.

[54] Kevin H O'Rourke, Tariffs and growth in the late 19th century. *The Economic Journal* 110 (463) 2000. Clemens and Williamson, Why did the tariff-growth correlation change after 1950? Athanasias Vamvakidis, How robust is the growth-openness connection? Historical evidence. *Journal of Economic Growth* 7 (1) 2002.

[55] Douglas A Irwin, Interpreting the tariff-growth correlation in the late nineteenth century. *American Economic Review* 92 (2) 2002. Douglas A Irwin, Tariffs and growth in late nineteenth century America. *World Economy* 24 2001.

[56] Capie, Tariff protection and economic performance in the nineteenth century.

[57] Clemens and Williamson, Why did the tariff-growth correlation change after 1950?

[58] Barry Eichengreen and Douglas A Irwin, Trade blocs, currency blocs and the reorientation of world trade in the 1930s. *Journal of International Economics* 38 1995.

[59] Frieden, *Global capitalism: its fall and rise in the twentieth century*.

[60] Larry Neal, The economics and finance of bilateral clearing agreements: Germany, 1934-8. *Economic History Review* 33 1979.

[61] Pomfret, *The economics of regional trading agreements*.

[62] Eichengreen and Irwin, Trade blocs, currency blocs and the reorientation of world trade in the 1930s.

[63] Ibid.

[64] Irwin, Multilateral and bilateral trade liberalization in the world trading system: an historical perspective.

[65] Estevadeordal, Frantz and Taylor, The rise and fall of world trade, 1870-1939.

[66] Optimistic that is, unless you are in the anti-globalisation camp.

[67] Irwin, Multilateral and bilateral trade liberalization in the world trading system: an historical perspective.

[68] Williamson, Globalization and inequality, past and present. Williamson, Globalization, labor markets and policy backlash in the past.

[69] On globalisation and inequality useful references include Bob Sutcliffe, World inequality and globalization. *Oxford Review of Economic Policy* 20 (1) 2004. David Dollar, Globalization, poverty and inequality since 1980. *The World Bank Research Observer* 20 (2) 2005. See also Xavier Sala-i-Martin, *The disturbing 'rise' of global income inequality*. NBER Working Paper No 8904. Cambridge MA, National Bureau of Economic Research, April 2002. On the greater resilience of today's global economy see Bordo, Eichengreen and Irwin, *Is globalization today really different than globalization a hundred years ago?*

[70] Irwin, Multilateral and bilateral trade liberalization in the world trading system: an historical perspective.

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