From free trade to globalization

Uncovering the mist of 21st century

José Alberto Pérez Toro

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José Alberto Pérez Toro

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UNIVERSIDAD DE BOGOTÁ JORGE TADEO LOZANO
FACULTAD DE CIENCIAS SOCIALES
DEPARTAMENTO DE CIENCIAS POLÍTICAS Y RELACIONES INTERNACIONALES

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PREFACE

Much has been written about globalization as an economic and political concept. The academic debate looks forward for explanations about the historical roots and development of this emerging phenomenon where the Nation-State's evolved into a system where nations are ruled by the dynamics of global interdependence. Globalization in the new era is characterized as a process where geographical, political and cultural borders tend to dissolve. The Westphalia notion of sovereignty capitulates against the principle of political subordination as integration of local power ensuring national legitimacy.

An important analytical debate around this topic, where the meaning of nations borders changes, brings into the fore another definition of democracy. With the *National Interest,* Francis Fukuyama's famous 1989 article, "The End of History?," saw an avalanche of academic contributions rising new fundamental questions about the formation of a world made of an integrated market and of political institutions that subordinate national governments to market wills. The expansion and openness of markets is the result of a reduction of barriers, such as tariffs, and the shortened of physical distances among diverse producing places in the world, thus helping to increase broad commercial transactions. Thanks to the Internet and technological improvements, freight costs were reduced and traveler's time was shortened, bringing cultures closer. Therefore, historical development is interpreted as the source of economic convergence, a concept that is tested with many nations' empirical macroeconomic evidences.[1]

For Colombians and for many other emerging economists in the world, this historical event raises interest both to learned communities and non-scholar observers, as they foresee that social scenarios experience nonreversible changes because initial conditions associated with historical phases may introduce promising self-sustaining development scenarios. The new historical conditions that developed for trade and exchange allow markets to diversify and become more open. Here is where different interests converge and where people of different political tendencies come to terms in the open political discussion to govern world institutions. In this open environment, globalizing forces help to

1 See Francis Fukuyama. 1989. "The End of History?" The National Interest. Nº 16. Summer, pp. 3-18.

transform cultures, politics, and social structures, and improve national and local development.

Specialized literatures rose exponentially after "The End of History?" As a result of this, intellectual movement spread new analytical tools to observe differences and similarities between 19th and 21st century development of the Nation-State around free trade practices. Political concepts that settled since the nineteen century political discourse now are being reproduced in the present century where in many continents the notion of the Nation-State is derived, but also evolving from, the Westphalia principles of sovereignty: legal equality between states, self-determination, and respect to the principle of non-intervention of states domestic affairs. During the 1980's and early 1990's, the debate on globalization became stringent about Westphalia sovereignty. It is difficult to appreciate a definitive conclusion about the results of this discussion; particularly after humanitarian violations of people's rights interfere in nations' internal affairs it suggests the appearance of a humanitarian crisis. This historical circumstance invites us to advance on a revision of the main occurring events at the beginning of the new millennium.

The world we knew in the 19th century's was characterized by the active presence of some hegemonic countries that determined trade currents, investment structures, and regulated exchange activities. However, countries like Colombia are facing globalizing conditions that effects on its development structures. In the postindustrial era, countries, regions and specific productive sectors like banking, financial services, technology research, and climate change are needed to be solved in this 21st century. New global governance disposals or institutional rules tend to promote a new style of world development that might be too costly or hard to follow for developing countries. To face new developments, the global governance concept associates the creation of institutional and organizational means to allow for larger flows of capital and investment. Emerging problems, derived from technological advances, determine the future of the globalization process as suggested by Ian Goldin in his work *Divided Nations,*[2] where he considers that

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2 Other authors in this emerging field of global governance are:

a. STEAGER, Manfred B. 2009. *Globalization. A Very Short Introduction*. Oxford. Oxford University Press.
b. WEISS, Thomas G. 2013. *Global Governance. Why? What? Whither?* Cambridge. Cambridge University Press.
c. GOLDIN, Ian. 2014. *Divided Nations. Why Global Governance Is Failing, And What We Can Do About It*.Oxford. Oxford University Press.
d. PIKETTY, Thomas. 2014. *Capital in the Twenty-First Century*. London. The Belknap Press of Harvard University Press.
e. STIGLITZ, Joséph E. 2013. *The Price of Inequality*. London. Penguin Books.
f. GOLDIN, Ian. 2014. *Is the Planet Full?* Oxford. Oxford University Press.
g. GOLDIN, Ian. 2014. *The Butterfly Defect. How Globalization Creates Systemic Risk, and What to do About It*. Princeton. Princeton University Press.
h. GOLDIN Ian and Kenneth REINERT. 2012. *Globalization for Development*. Oxford. Oxford University Press.

the challenges faced in the emerging century are associated with "climate change, cybersecurity, pandemics, migration and finance" to complement other structural determinants of this borderless world (2014, p. 3).

These topics, brought to you by reputed researchers, increase the number of views and comprehends a wide and deep literature that fill universities" racket libraries. So a *tour d'horizon* as we propose in this essay-book, intends to survey the basic definitions of the globalization concepts that compose the conventional bibliographical literature written on these matters and produced mainly during the 1990's. This literature is characterized by explanatory proposals and shows past and emerging trends on what characterize 19th and 21st century´s events as well as the current effects seen particularly in the field of social and economic development.

For Colombia it would be interesting to first look at earlier developments of some globalization experiences that occurred in industrialized countries and in some of their prominent colonial territories, as the world market expanded and some cultural and exchange practice occurred. Institutions similar to those we saw in the 19th century will allow emerging countries to follow some path dependent consequences of similar consideration in the present century to those of industrialized countries one century early. Analysts and practitioners on these topics suggest that emerging countries are now facing favorable conditions comparable in nature to those presented in the first globalization process of the 19th century.

Historical change is a matter of deep study among analysts, and with the help of comparative studies it is possible to foresee at least partially how 19th century globalization experiences in Europe developed and how these may be replicated in developing countries that are open to the development possibilities brought by trade increase, investment in productive activities and scientific research. These technological advances can be seen in transportation, electronics, and biotechnology. The global governance type of world system order that characterizes emerging countries tends to open greatly opportunities for "higher growth rates and rapid development and increasing central role played by modern actors in the global capitalist system."[3]

Nineteen century Colonial territories opened to trade and investment, forming a world division of labor that framed a specialized market. Two centuries later the denominated emerging countries, like Colombia, tended to evolve from exporters of raw materials into transformers and exporters of manufactures. Modernizing markets as distant as China and India, and various Southern Asia´s countries, or

i. MILLER, Richard. 2013. *Globalizing Justice. The Ethics of Poverty and Power*. Oxford. Oxford University Press.

3 See: Andrew Hurrell and Sandeep Sengupta. 2012. "Emerging powers, North-South relations and global climate politics." *International Affairs*. Vol. 88. Nº 3, pp. 463-484. Especially, p. 465.

even Latin American countries, benefited of incentives created by globalizing markets were opening the economy to trade and having easier access to financial means. These acted as strong triggers of the dynamics of globalization.

A firm associating around free trade activities produce recognizable synergies and are melting this nation's geopolitically built blocks which lead to create an enlarged market. Innovative business and investment opportunities now open to the global market are in particular benefiting about the expansion and integration of developing countries to this mold. The modernized and interactive city-regions, where economies of agglomeration characterizes the newer economies, lead to newer degrees of specialized regions, acting as the engine of modern services activities whose development allow for increasing scale returns. Other problems of incalculable proportions are recurrent financial crisis that knock down structured financial architecture, affecting world accumulation dynamics.

Integrated nations to trade agreements lead poor and richer to participate of the world globalizing system. Here is where future developments and opportunities will lead the world to a path of sustained growth and modernization as suggested by Steger when he claims that the globalizing world is bounded by the following unresolved questions:[4]

1. How does globalization occur?
2. What are the drivers of these phenomena?
3. Is globalization a uniform or uneven process?
4. Is it a continuation of modernity?
5. Are the occurrences of various globalization processes a radical break from the past?
6. Or do they differ from previous inspired social developments?
7. Does globalization create a new form of inequality and hierarchy in the world system? (2009, p.9).

In simpler terms, we consider that for a country like Colombia the economic and political milieu is open to trade in the form of new technologically produced advanced goods, or open to offer world markets diverse services, or bring access to numerous financial free risk assets.

Emerging institutional improvements, like new forms of technology break troughs to transfer technology, help the country to become more competitive, especially after recognizing the wider economic and political integration experiments negotiating in the political framework of the FTA's rules like the Colombian signed Agreement with the United States. Here low tariffs and new trade rules improves competiveness in countries that strive in world markets.

4 See Steger, Manfred B. 2009. *Globalization. A Very Short Introduction*. Oxford. Oxford University Press.

Other economic historical aspects like the effect of financial risks are elements that mitigate debt burdens when cost of money is reduced to surpass situations originated by economic events like the 2008' Global Financial Crisis, subject matter that we academically develop in a corresponding chapter. This emerging scenario delved questioning the credibility of the globalizing experiment as it affected reliability in the financial institutions to sustain growth and put the world on the brink of default and unemployment hindering steady economic growth.

The expanding world economy also depends on local regions developments as a source of growth and social improvement. The agglomeration of local industries within strategic country regions, determine the possibility of adding value through supply chains facilities, where economic alternatives are considered as a reliable source of sustainable growth. Albert Hirschman's "backward and forward" linkages concepts, or exit and voice economic and geopolitical ideas, were developed here to improve and justify industrialization policies. While today´s policies associated with technologically innovative proposals, theories shared and suggested by Romer' and Krugman, show' the virtuous effect attributed to innovation practices and scale economies that support agglomeration economies. Here is where investment in supplying chain firms, or making technological research, or formulate with the help of universities the activity of innovation as a route to derive economy's increasing returns, leads "emerging city-regions" development to play a determinant role to support globalization proposals.

The historical perspective approach to understand the transformation capacity of society is considered in this exploratory attempt as a useful and appropriate methodological approach to help us understand how countries exposure to the stimulus of globalization and markets integration determine sustained growth. Comparative historical development is a useful tool to explain and understand how different globalization stages around the world, especially in the 19^{th} and 21^{st} century', show where these developments occurred.

This inquiry also attempts to foresee emerging challenges and transformation opportunities to lead the world market into a non-reversible system characterized by permanent changes, which will guide the world into a system where Nation-States surrender to world institution proposals. In this emerging trade environment, FTA's development and other trade and investment agreements with friendly countries will determine change in the flow of trade in goods and services and other transactions as seen when China and other Asian countries increased their presence overseas. The expansion of nations-cities and regions, and the production of specialized goods in those geographical areas, will determine new conditions to promote technical change and help the opening of new opportunities so emerging nations may compete worldwide in the globalized 21^{st} century market.

Recurrent financial crisis jeopardize world exchange and investment markets, a peril that becomes visible after the global financial crisis that put the world in alert. The aftermath of 2008 global financial and the severe drop of oil and iron core prices in 2015, suggests again that the recurrent world economic crisis raises the question that the solution to global problems is very much dependent on the Resources, Markets and Profits tripod's accessibility.

INTRODUCTION

One topic of interest for the social sciences and similar fields, such as business administration, economics and political science is globalization. Many researchers suggest that this is a new topic. Our research; however, looked into the assumptions of political and economic history concerning the particularities of this event and attempted to establish the existence of common events taking place in the 19^{th} century that gave rise to the formation of a world trade system. This exercise aimed at seeking explanations that would help us better understand the emerging phenomenon of globalization. It was found that Great Britain, as a nation extended across the globe, experienced an enormous and unprecedented maritime and territorial expansion. We consider that this was a significant and most certainly very complex globalizing experiment. It was curious to observe that during this stage of seemingly limitless expansion, the foundations of the universal concept of the Nation-State were transformed. Many territories, colonies or dominions evolved, allowing them to become incorporated into the great historical process in which the modern state arose and trade increased. Many states adapted to fit systematically into a global set of nations, which by joining together around a common purpose, made up the world trade system.

It would be very ambitious indeed to try to describe this event with great precision, so we deliberately chose two notions or concepts in an attempt to find explanations for the meaning and causes of globalization in order to limit the scope of this research. First, we explored some of the historical determinants that helped toward the formation of the Nation-State, thinking that the definition of geographical boundaries, as a concept, helped set a limit on this episode, which we may say began with the wars of independence in the Americas and later the process of decolonization in other continents. Second, constitutions and the new legal order that distinguished the division of the three classical powers, inspired in the advancement of the liberal revolution, limited to the governing class the direction of the new-born states of the imperial period of world expansion that we may say lasted approximately two centuries.

By looking at things from this descriptive perspective confirmed that this research project was still too ambitious. For this reason, we focused the research on an even more restricted scenario, which seemed to provide some of the initial conditions that would allow the geographic or territorial expansion of many nations to advance based on more or less liberal principles. These, in turn, allowed them to direct the path of investment and trade. We observed here that due to the awakening of new historical forces, new actors were incorporated into the episode of political freedom for various reasons. In general, it was interesting that many of the territories integrated into the British Empire, and many other independent nations joined into the trade business, which coincided with the interests of that nation, as well as of other powers. Rich nations, such as France and Germany in Europe, and the United States in America, made up a large zone of political, cultural and economic influence. The United States tried to form its own territorial zone by joining the Mediterranean zone with the two oceans. Rich nations and others that were less fortunate in Latin America gradually became dovetailed into the global system or circuit by political and economic will before we could see a total world global system.

I.

Thanks to this starting point, we were able to find during this research that many analysts from various walks of life and knowledge had different perspectives, opinions and methods of analysis for their own type of interpretation of globalization. Our attention was called to the fact that authors, such as Bentham saw the need to seek supposedly friendly agreements among the so-called civilized nations, in order to find a path toward peaceful co-existence. The balance of power helped to preserve peace. It was Saint-Simon who inspired the peace plans that were proclaimed in Europe by an entire generation (Hinsley, p. 103). Classical economists, such as Smith, Ricardo and Mill had a unique perception of history when they suggested that certain events could be attributed to the evolution of economic matters and that these events obeyed immutable laws. Through a chain of causes, they sought to explain the universal rules that explain, for example, economic growth or the exchange of goods between countries, which according to them happened within a climate of political harmony. They saw increased productivity as one of the causes of growth, a political economy concept that has since inspired the actors of the social sciences. Therefore, international specialization of production increased the level of economic efficiency in those countries. Perhaps these events helped strengthen the flowering states by allowing their government to participate increasingly in the new benefits of globalization, abandoning for a time those illegitimate earnings begotten through war actions or zero-sum game. Government administrations specialized in improving living standards, such as in the case of practical education, and this branch of power gradually supported public investment initiatives, such as transportation, which allowed states to efficiently become part of world trade. Today, exogenous conditions do not deserve all the attention of globalization analysts.

Many accounts were interesting due to the light they shed on economic growth, which arose as the result of trade, investment, and reduction of transportation costs. Nevertheless, this conventional view left some of the social questions out of the analysis. This is the case of the persistence of poverty, a social flaw that is very deeply rooted in some sectors of the economy and the society. It was a *casus belli* and a cause of political instability that gave rise to the legitimization of the governments of political bosses. The formation of a new global order was based on an attractive initial condition such as allowing the advancement of united wealthy countries toward the objective of incorporating new territories into their grand business. The effect was to allow the coexistence of great gains for some, while at the same time it made even more acute the extreme social cost attributed to boundless ambition.

The so called world-system in which a number of forces participated in a state of tension or compression, and which at a certain point in time began to imprint strong movements —or better yet, transformations— whose direction we know foresee is where these changes took shape. So we now find that there were moments in which the clock marked situations of a type of equilibrium in the world system, but which in synthesis it was difficult to see why or how a strongly integrated global system, respectful of common goals, would be formed.

Given the fact that this is a very complex reality, we concentrated our efforts particularly on the exploration of some determinants that would justify the exercise of power on a world scale, or the development of economic processes associated with the exchange, which is like a perpetual movement, common to the parties involved and which is said to generate welfare and, in some cases, development. We selected therefore some of the components of these two fields of power that seemed to have some degree of correlation among them and for this reason could offer some explanations for the dynamics of long-lasting historical change.

Some of the important currents of analysis that sought out different explanations for the emergence of globalization attracted our interest as we observed that it was a matter of seeing the world not as a set of more or less isolated events, but rather of daring to see it as a system made up of heterogeneous blocs where some components seemed to be connected or at least inter-related and in perpetual movement. In reality this was a very complex way of conceiving the new political and economic world, the projection of which seemed to us had reached a global dimension. However, and in spite of the conceptual attractiveness of the paradigm of the systems, it seems that there are no exact rules for behavior in the global world that will allow us to make some type of judgmental prediction.

The work of Braudel and Wallerstein seemed very interesting since it added to our understanding of the fact that there are changes in trends in history that can only be observed or perceived from a holistic setup or from a long term perspective, and that only in hindsight can their evolution be understood. Research work in the social sciences attempts to provide explanations of long term changes, and many of the analysts try to identify the changes in the initial conditions of the process in order to venture to make rigorous predictions. This methodology stimulates us to analyze some conditions that are usually present in power relations and which affect the changes in political processes, as well as international relations. Our concern in this phase of the research was to identify institutional arrangements that were favorable to the consolidation of the Nation-State, expansion of trade and investment, functions that were in some cases considered to be sources of long term growth. Due to the complexity of the world under study, we reduced the analysis further more to two economic types of considerations that determined exogenous growth of the many markets. One of these first considerations was related to the diffusion of technological knowledge in various stages of the production that facilitated the accumulation of capital and therefore sustained the rhythm of growth. It was of interest within this early framework of globalization to gain more detailed knowledge of the role of foreign investment in the advancement of this expansionary cycle. It was also important to know under what initial conditions and how investment became associated with peripheral markets development. Secondly, it was necessary to explore how the presence of foreign investment generated permanent changes in the evolution of the world system within the process of globalization. Within this academic current of thought, some institutional schools were studied, such as the proposals put forth by North, wherein the contribution of technological change and of foreign investment are interpreted as evolutionary institutions in this early transformation.

II.

The second part of the research was very evocative as some historical findings and accumulated knowledge of the political factors, such as that relating to investment, facilitated the understanding of globalization discourse used at the beginnings of the 21st century. We found many common points of view similar with those typical of the 19th century, which lent special interest to the analysis given that it enabled the configuration of evolutionary scenarios.

It was curious to see that the statements put forth by analysts, such as Waters, Fukuyama or Rodrik, who suggested that, due to a set of specific reasons, globalization tends to form “a single world market.” This statement merits further explanation. It has been seen that this is an irreversible process determined by some unquestionable initial conditions in the existing model, such as the growing degree of capital accumulation reached in the world, which seeks large fields of productive investment. The large powers, including the new actor for the 21st century, which is the United States, and to a lesser degree the European Union and Japan, generate immense quantities of economic surplus. This surplus must be distributed throughout the world, so that the institutional and economic conditions that will allow growth to be spread around the world in the form of investment will arise.

In order to reduce the problem to a manageable scale, we decided to explore the link between a few variables that would allow us to at least try to imagine how the globalization process in the 21st century could evolve. First, we tried to identify some of the institutional changes associated with globalization that presumably generate permanent changes. Second, we tentatively explored how this globalization process in this century could contribute to a debilitation of the Nation-State power structure. One change that could affect the Nation-State structure derives from the rules of globalization itself, given that its theorems and new tendencies condition the behavior of the system now governed by multilateral organizations or even civil society.[1] Thirdly, we needed to explore how globalization introduced changes in the growth conditions in localities within each nation.[2]

One great global change leading to the end of the Nation-State could derive from the political action exerted by international organizations, such as the World Trade Organization and the emerging political-economic blocs. Among the latter, our interest was drawn to the case of the Free Trade Area of the Americas—FTAA, and later on when we referred to the signed FTA with the United States.

On a preliminary basis, we explored the assumptions associated with decisions, such as the Summit of the Americas which is a political mandate promoting the exercise and permanence of democracy in the hemisphere. This new institutional framework proclaims democratic links with the benefits of free trade in the region, basing this action on the respect of a new political atmosphere, framed within the exercise of democracy and the market decision making process. Based on these initial conditions of a political nature, we pondered the change that could arise by defining the state to be subordinated to rules that are universal and obligatory. This new order of ideas refers to the adoption of clear rules on democracy. In the business sphere, the new order refers to advancing toward the adoption of criteria that will allow for secure access to markets, respect for investment and support

1 Waters, Malcolm. 1995. *Globalization.* Routledge. London. Foreman-Peck, James. 1995. *Historia Económica Mundial*. Prentice Hall. Madrid. España. Segunda Edición. Fontana, Josép.1999. *Historia: Análisis del Pasado y Proyecto Social*. Editorial Crítica. Barcelona. Germain, Randall. 1997. *The International Organization.* Cambridge University Press. Cambridge. Held, David. 1995.*Democracy and the Global Order*. Stanford University Press. Stanford. California. Holton, Robert J. 1998. Globalization and the Nation-State. MacMillan Press. London.

2 Eric Hobsbawn, 2000. *Entrevista sobre el siglo XXI*. Crítica Barcelona, p. 39, brings an interesting view where a crisis in the notion of the nation-state rises where a nation may be made of several nation-states determined by ethnical minorities living within a country even not making part of the whole nation. The Kosovo case may be one of those where globalization has not come to the end of the nation-state.

for international capital movements. The foregoing means opening up immense opportunities for interaction among markets and even conditioning localities role in the wider and complex world market.

The rigor of these simple initial conditions made us think about a second issue that has to do with the possible effects that could bring a fragmentation of power. It is believed that there are new conditions that determine the economic order among nations, and that they can be identified with the appearance of a set of causes called mainstream factors, such as those endogenous to the growth process. It is believed that the power and nature of these tends to permanently modify the behavior of the world system. The British analyst, Susan Strange, or the political scientist, Robert Gilpin have found that power relations have their root in the changes in economic relations of the post-Cold War era of globalization that tend to determine a new correlation of forces where the different world actors may test their strength or even weakness as happened with the 2008 world financial crisis.[3]

In this global atmosphere, surely somewhat different from the one observed in the 19th century, we can see enormous flows of trade and investment that have marked an international division of labor, whereby specialization and delimitation of functions determine the degree of insertion by markets into the great global system. Technological change is considered the third variable that comes from the advancement of knowledge and of innovation considered as a determinant of sustained growth. Lastly, and as a fourth point, we believed it fruitful to limit our analytical survey to certain empirical analyses with imperfect and incomplete information; principally, to establish under which initial conditions it is convenient to advance with the insertion of countries such as Colombia into a new world economic and commercial order.

Some evidence suggests that there are certain limitations in the process of trading with the great powers given the structure of specialization. Likewise, it is intriguing to investigate the causes for which the poorest and most backward areas of the country have not grown at the rate they supposedly should have according to empirical evidence. This has happened both in several regions of the world as within Colombia for the reasons proposed by the new schools of economic geography and agglomeration economies stated by Marshall and reformulated by Krugman, where the degree that the economic functions of the regions or localities change could help technological innovation and the impetus for the development of city-regions to contribute to the recovery of sustained growth rates.

3 See the works of Strange and Gilpin referred in the bibliography.

III.

Historians, international relations analysts and sociologists have attempted to theorize around the idea of globalization, and what its future will be. Some theoreticians attempt integrating the view of the world around a single mechanism, where parts are interrelated, making out of it a single whole, as possible. Bennedetto Croce, in his work *In Praise of Individual against Universal History and Fake Universals in General,"* proclaimed that all universal history, in so far as it is really history, or in those parts which exhibit historical verve, is always a particular history. He suggests that particular history, when and where it is really history, is always universal. So what globalization attempts is making of this world system a particular history.[4] This author points out the dangers of embracing all the facts that have been related as occurring on all the continents of the earth, as if they were a "mere chronicler's compilation." His philosophical reflections on the meaning of history allow, therefore, four possible answers that may be divided into four types: first, the general history that is the one that compiles information from various affairs; second, the pragmatic one that accompanies the narrative with moral and political reflections; and third, the critical one which examines the truth and credibility of tradition. And finally, there are the special histories of art, religion or science. Following, as a result, any or some of these approaches, one may reach for example, as suggested by Hegel's final ends, the gradual comprehension of liberty, or the end of history as proclaimed by Fukuyama.

Jan Batista Vico,[5] the Italian thinker and a pioneer philosopher of history, framed many of the told histories into a theory of historic cycles or ages, teaching us that these histories converge into some ideal moments where epochs of perpetual progress occur and may empirically be observed. Vico's ideas explained by Isaiah Berlin in his "*Four Essays on Liberty*," suggest that after he embraces the application of the scientific method, one may easily conclude explanations to natural events, as well as finding relations of human beings, suggesting alternative concepts of nation society and even cultures. This deterministic approach to human history, as if it were a natural science by extension of this approach to human beings, is a view that has provoked a strong reaction against itself. Berlin complements this simplified approach (1969, p. 43) implying that from the succession of natural sciences events we can hardly jump into predictions. This is because of the dubious pretension of projecting historical knowledge to fill gaps in the past to predict the future. The author Josép Fontanta (1999, pp. 228-230) in an extensive and well-documented work puts forward different historical approaches, such as

4 Croce, Bennedetto. 1966. *Philosophy, Poetry, History*. London. Oxford University Press. P. 509 and p. 516.

5 See the work of Jan Batista Vico. 1964. *Principios de un ciencia Nueva sobre la Naturaleza Común de las Naciones*. Aguilar. Madrid. Refer to the Chronological Table that describes the three stages of the world. The age of gods, heroes and man. Berlin, Isaiah.1969.*Four Essays on Liberty*. Clarendom Press. Oxford. Pp. 42-43.

these shown above, where he describes the effort made by many analysts to look for a final explicatory notion of history and its projections. He reminds us about the geographical scenario where some stages of world practices are developed, arguing that some theoreticians reach some explanatory framework, where in the case of center-periphery countries, the most we can see are some economic relationships related to the decline of the terms of trade as suggested some years ago by Raoul Prebisch.[6]

A strong effort put forward by analysts attempts to explore the complex idea of what connections to world-systems do exist, even within existing empires and world economies. The more elaborate ideas put forward by Wallerstein are developed on some premises of the class struggle structure and in the buffer space where stabilizing competing forces interact. To add some dynamism to his system framework, he elaborates on the Kondratieff waves to explain trade price and volume movements within the world market. In the "*The Modern World System*" (1974, p. 15) Wallerstein developed the idea of constituting a kind of social system that the world has not known before, defining a world-system basically as the world where the linkages between the parts are economic. The authors Chase-Dunn and Grimes (1995, p. 389) consider that the world system is an interactive complex where international relations and world markets relate to each other; where the structures such as individuals, firms, towns, regions —both national or international— interact in different patterns and ways.[7]

IV.

At the end of the World War II the world economy was fragmented and divided into a number of countries and groups that included the sterling area, the franc zone, and economies tied to the dollar. These represented the embryo of a system. High tariff quotas and trade barriers to commerce were enforced after the Depression. Capital and currency movements were stringent and exchange rates did not respond to market forces. Multiple exchange rates distorted the price of international tradable goods. After the Bretton Woods Agreement, this fragmentation of the globe into different economies has tended to be reversed and several economies gradually became financially integrated.

After several negotiation rounds, tariffs were lowered and the notion of international trade revived. The rate of growth of international trade in many countries became the dynamic force of the economy, experiencing rates of growth

6 See the work of Josép Fontana. 1999. *Historia: Análisis del Pasado y Proyecto Social*. Editorial Crítica. Barcelona.

7 The academic discussion in this emerging field is promissing. See for example, White, Brian. 1997. *Issues in World Politics*. London.Macmillan Journals Articles Chase-Dunn, Christopher and Peter Grimes. 1995. "World-Systems Analysisis." *Annual Review of Sociology*. Vol. 21, pp. 387-417. Emmerij, Louis. 1992. "Globalization, Regionalization and World Trade." *The Columbia Journal of World Business*. Summer. Pp. 7-13.

substantially higher than world production. Developing countries received an increasing volume of capital flows with Latin America and Asia being important recipients. Private direct investment as well became an important source of capital and technological change in several developing economies. The multinational corporation spread its market rules around the world and investment banks increased the number of projects financed and promoted all over the world. The process of intense globalization advanced after the eighties, leading to the rapid growth of offshore financial markets stemming from an increasing amount of unregulated money sources. The expansion of capital market activities increased the business of merging and acquiring firms leading to substantial restructuring processes, at least until the 2008 subprime financial crisis.[8]

Reinicke pointed out that a great change in the global market has been the ongoing development of a globally integrated market for capital. Several explanations attempt to link the real export sector of goods and the emerging integrated market for capitals, all forming part of a not new but extended world global market. The linkages between these two markets have been increasing and becoming very complex. As the 21st century advances, the world financial market will intermingle with national economies and entrepreneurial capital making the activity of the financial and exchange markets very dependent (1998, p. 13). As the new actor of the multinational enterprises expands, its international presence in the global market will increase. Substantial numbers of mergers and acquisitions will transform into a new economic world order where surviving local firms will become subsidiaries.

The microeconomic view of globalization relates to the development of the firm —or multinational firms'— cluster becoming a source of world economic expansion. The firm's development relates to external conditions regarding market expansion, and as growth is associated with incorporation and creation of knowledge, clusters may help to diffuse innovation and growth —and thus integrated— economically linked localities make for the future of city-region development. The macroeconomic view of globalization, which relates with interdependence, has brought sovereign nations closer, requiring closer cooperation in economic management. Globalization will perhaps under especial conditions close the

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8 Hittelman, James. H. 1994. "The Globalisation Challenge: Surviving at the Margins." *Third World Quarterly*. Vol. 15, Nº 3, pp. 427-443. Krugman, Paul and Anthony J. Venables. "Globalization and the Inequality of Nations." *Quarterly Journal of Economics*. November 1995. Vol.CX. Issue 4. Pp. 857-880. *The Economist*. "A Survey of the World Economy." September 20, 1997. Wallerstein, Immanuel. 1999. Globalization or the Age of Transition? A Long Term View of the Trajectory of the World-System." Fernand Braudel Center. Wallerstein, Immanuel. 1997. "The Time of Space and the Space of Time: The Future of Social Science." *Political Geography*, XVII, 1. Wallerstein, Immanuel. 1997. "Space Time as the Basis of Knowledge." *World Congress of Convergence*. Cartagena, Colombia, May 31. Wallerstein, Immanuel. 1997. The Rise of East Asia, or The World-System in the Twenty-First Century. *Symposium on Perspective of the World-system in the Beginining of the Twenty First Century.*

gap between Wallerstein's world-system view and the organized structure that represents the integration of economic blocs, and —as we claimed— of localities.

V.

The twenty first century's global economy will be largely dominated by the diffusion of technology. Technology evolution has driven the deregulation and liberalization of economic activity, particularly in the case of financial services and in other areas such as telecommunications. Innovation in the financial sector creates opportunities for business, like e-commerce and e-business. Sums of money moving in a matter of seconds around the world will change the structure of making business and the fashion of making business. Widespread use of technical knowledge and managerial know-how probably will act in the 21st century as an accelerator of a new Industrial Revolution with further consequences for world trade and development than the 19th century's mechanization did for a few industrialized countries.

The world has embarked on what we call the era of global civilization. This new global development was based on the formation of the European Economic Community, the rise of Japan as an industrial power, and the confrontation between the rich and the poor. Waters (1995) clarified that in addition to the foregoing there were other aspects that accelerated globalization. The first was the development of transportation and communication networks. The second was the accelerated growth of trade, and the third the immense flow of capital in the form of direct investment. The literature on these new topics of research is abundant and of great interest for the development of later analyses.[9]

It suggests that trade is one of the bases for globalization, given that producer and consumer can be geographically joined, although separated by great physical

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9 Held, David. 1995.*Democracy and the Global Order*. Stanford University Press. Stanford. California. Holton, Robert J. 1998. *Globalization and the Nation-State*. MacMillan Press. London. Hughe,Barry B. 1997. *Continuity and Change in World Politics*. Third Edition. Prentice Hall. New Jersey. Held, David. 1995. *Democracy and the Global Order*. Stanford University Press. Stanford. California. Krugman, Paul. 1999. *The Return of Depression Economics*.Grupo Editorial Norma.Santa Fe de Bogotá. Le Roy-Bennet, A. 1995. *International Organizations*. Prentice Hall. New Jersey.Lester, Richard K. 1998. *The Productive Edge*. W.W. Norton & Company. New York. MacGrew, Anthony and Paul G. Lewis. 1992. *Global Politics*. Polity Press. Oxford. Michie, Jonathan y John Grieve. 1995. *Managing the Global Economy*. Oxford University Press. USA. Musbach, Richard. 1997. *The Global Puzzle*. Second Edition. Hougton Mifflin Co. Boston. North, Douglas C. 1998. *Institutions, Institutional Change and Economic Performance*. Cambridge. Cambridge University Press. Parker. Geoffrey. 1998. *Geopolitcs. Past, Present and Future*. Pinter. London. Reinicke, Wolfgang H. 1998. *Global Public Policy*. The Brooking Institution. Washington. Rodrik, Dani.1997. *Has Globalization Gone too Far?* Institute for International Economics. Washington. Shannon, Thomas R. 1996. *An Introduction to the World-System Perspective*. Westview Press. USA. Urquidi, Victor L.1997. *México y la Globalización*. Fondo de Cultura Económica. México. Emmerij, Louis. 1992. "Globalization, Regionalization and World Trade." *The Columbia Journal of World Business*. Summer. Pp. 7-13. Ferrer, Aldo. 1999. "La Globalización, la Crisis Financiera y América Latina." *Comercio Exterior*. México. Junio. Pp. 527-536. Hale, David. 1997. "Is Asia's High Growth Era Over?" *The National Interest*. Spring. Pp 44-57. Hittelman, James. H. 1994. "The Globalisation Challenge: Surviving at the Margins." *Third World Quarterly*. Vol. 15, Nº 3, pp. 427-443. Krugman, Paul and Anthony J. Venables. "Globalization and the Inequality of Nations." *Quarterly Journal of Economics*. November 1995. Vol.CX. Issue 4. Pp. 857-880.

distances. Other integrating views suggest that globalization represents the integration of an international dimension in the organizational structure and strategic performance of companies. For this reason, some new lines of research asks about the degree of flexibility to be adopted by national firms to confront globalization, understood as the routines of facing rapid change brought by globalization.

Class struggle takes on a new tone under globalization, causing a confrontation between regions like in the cases of México and Chiapas, and Colombia "distention zones." In Seattle and Prague, ecologists have asked to be included in the global negotiation process. In Santiago, at the Summit of the Americas, women and children demanded equal treatment, as did immigrants. Classes no longer have a territory with marked boundaries within which to confront one another, and it is the society at large that becomes the agent of vindication. This does not mean that economic stratification will disappear from the world, but that the decentralized market will be more difficult to control and production will no longer depend so much on factories, plants and their machines, but on human expertise and market arrangements. The success of local corporations and of the individuals managing them will depend then more on their talent and market access deals rather than on the fact that they belong to a particular class.

Attempting to foresee developments on this very complex and interdependent integration of economies within the hemisphere or even the capitalist world, with past historical developments that determined a path development process, we reach the conclusion that we are entering into a process of globalization that has historical roots and is somewhat deterministic, as suggested by authors like Foreman-Peck (1995, p. 63) and others like Kenwood & Lougheedd (1998), Rugman (2000), Scholte (2000), Schwartz (2000) and Shannon (1996).

They proclaim —using different methodological currents— that we live in a world where historical determinants contribute to the rapid expansion of international trade and economic development; something that we can hardly elude. The past occurrences —connected with trade expansion— had their origins in the advancement of the transportation revolution that linked the world into a single market, and in the creation of a modern banking system that links most economies to a single currency (since the gold standard was abandoned), and to the spread of technology in world production. These and some other social and economic advances led the world to the construction of a global market governed by market rules. Events and man-made policies attempt to tame market forces and smooth the integration process of nations into this complex process that is revealed in this institutional picture.

PART I

INITIAL CONDITIONS THAT EXPLAIN THE PATH OF THE MODERN WORLD MARKET SYSTEM

INITIAL CONDITIONS THAT EXPLAIN THE PATH OF THE MODERN WORLD MARKET SYSTEM

This research chapter attempts an exploratory inquiry to identify some of the initial conditions associated with the long-term "path development process" that took place during the expanding world trade system in the 19th century. This historical event allows us to foresee and understand trends that characterize 20th and 21st century expansion of the global market. This historical experience lead to the formation of a world commodities and manufactures market and it shows how this new-world liberal order allowed more regional countries to participate in this inclusive process that characterize the early 21st century advancement of world events.

Under these emerging circumstances, new initial conditions for a growth path will determine how the transforming market relations in many countries will determine the accumulation and the world's economic growth as the new 20th and 21st century globalization process advances. For the particular case of Colombia, this inquires attempts to explore why this particular economy is facing new challenges and opportunities to grow according to liberal rules of exchange. A historical survey is considered an important approach to framing nineteen-century environment for a transforming liberal Nation-State and expanding world economy where initial conditions for development are a matter of serious concern for analysts to understand future globalization changes. This picture will be related with the emerging scenarios where politics and economics seems to open the development opportunities as bloc trading rules are day to day business practices for most countries.

A special issue that merits deeper inquiry is the identification of early political conditions that influenced the appearance of the Nation-State on several continents, especially during the 19th century when trade and investment touched many countries political practices. This inquire research will also attempt to foresee challenges and transforming conditions that will divert current Nation-States activities from those observed during the 19th century golden age of globalization. We try to foresee 21st century new world institutional changes affecting path progress whose divergent trends will affect world political and institutional system.

The United States as a Superpower and leading World International Organizations, like the IMF and WTO as World leading Institutions, perhaps will exercise institutional influence to change in some extent the rules that lead to the development and growth paths according to general economic liberal practices in the evolving century. Although, some emerging powers like China, India, Brazil and South Africa, or BASIC group, believe that transforming their own priorities as independent states will affect the world's political agenda.[1]

1.1. FORMATION OF THE MODERN WORLD-SYSTEM

History reminds us that during the 19th century the World-System economy experienced a long trend process of change where political and economic structures developed promoting as a result of this technological change the path of long term economic growth.[2] In the two sections that follow we study some arguments that explain the expansion of the political and economic system, and in the second, the old and new condition for expansion of this structure. Nation-States and nations developed according to the liberal ideology we know today, but at a world scale they gradually structured a new Nation-State system ruled by interdependence and cooperation. The early *political* advancement of evolving territories linked to a world market economy brought promising conditions for enlarging world competitive market transactions and increasing larger volumes of trade and value. Specialization of production helped to link a disperse variety of geographical territories previously separated by distance, due to a lack of complementary trading practices and reliable exchange principles —this lead into a larger world of money exchange systems.[3] During the 19th century, maritime and railway developments helped to connect markets into a global system. Under this new political and economic environment, trade currents increased which lead to new patterns of world consumption and industrial use made to raw materials. In different time spaces, new investment opportunities and higher rate of growth improved people's welfare according to historical stages of development.

Developing imperial political institutions —mainly in the United Kingdom— helped to articulate and develop new states around the Crown's interests. Some

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1 See the work of F.H. Hinsley. 1967. *Power and the Pursuit of Peace."* Cambridge University Press. Cambridge.
Walters, Malcolm. 1995. *Globalization*. Routledge. London.
Wallerstein, Immanuel. 1974. *The Modern World-System*. Academic Press. New York.
Wallerstein, Immanuel. 1980. *El Moderno Sistema Mundial. II*. Alianza Editorial. México.

2 See the work of Christopher Chase-Dunn and Peter Grimes. 1995. "World-System Analysys." *Annual Review of Social Studies*. Vol. 21. Pp. 387-417.

3 See the work of Geoffrey Parker.1998. *Geopolitcs. Past, Present and Future*. London. Pinter. In Chapter 9, p. 147 brings conclusions about holistic approach to international relations advocating for linking together economic, political and geographical factors, reminding us that maritime powers made global connections.

other countries strengthened its political institutions and its geographical boundaries, structuring a modern Nation-State. Financial exchange facilities, larger trade currents, complementary investment and larger migration flows improved international conditions for an integrated world economy (Parker, 1998, p. 148). Foreign trade institutions linked commercial activities all over the world favoring political institutions to develop and make countries exchange relations a current world routine. Regulations in world trading practices helped to organize other complementary economic activities, enlarging market mechanism operations, and integrating these countries economic activities. The expanding transportation network and financial investment institutions that spread all over the world encouraged and facilitated trading practices. Political institutions became better organized particularly in more advanced and industrialized countries; however, little by little peripheral countries organized according to efficiency principles and made of their economic structures agents more prone to trade and innovative activities.

The theory of *International Relations* has experienced important evolution and changes after the study that much has to be worked to see how the harmony of interests integrates to produce valid explanations of country relations. The Realist School of international relations, according to the work of Carr, insists that for the case of wealth derived from commerce and industry were a means to acquire military power particularly in the 19th century.[4] Elaborating this approach, and examining events closer, it is possible to arrive to conclusions like "in the field of political action one can relate existing forces and tendencies", to make a correct predictive arrangement of events. This development may interpret the impetus towards convergence where the advancement of a higher degree of specialization of a country's production, or educational acumen, helps to integrate markets accumulate power to lead self-interests within a wider political or economic space that explains why the market expanded to reach a world size.

Political and economic consent as a state of common purposes helps to conciliate new expanding world forces. Following the realist political tradition, or perhaps other related avenues with world political economy considerations, helps to clarify some of the explicatory circumstances that raised trading organization structures that surrendered the world of business globally during that century. This merging development has been the consequence of integrating trade to historical economic and political laissez-faire ideas, oriented towards the establishment of political freedom and liberty.

The commercially structured world that expanded during the time-coordinate of the nineteen-century-variable strictly abided contemporary institutional

4 See the work of E.H. Carr.1995. *The Twenty Years Crisis. 1919-1939*. London. Papermac. P. 9.

commitments. Part of this coincidence was the institutional consequence of better distribution of gains of trade and investment opportunities that together helped to enlarge domestic market size within stabilizing emerging political climate.[5] Trading nations gradually were in the capacity to diversify production more efficiently, being afterwards enforced to remain tied to a single or very few staple export commodities. Fortunately, they achieved sustained expansion of some subsidiary or complementary industries when world price-cycle was favorable to growth.

1.1.1. Formation of the World-Political and Economic System

World Politics as a system that governed the world includes every aspect of power as a defined exercise of authority, while international political economy relates aspects of production and distribution of goods and services on a growing interdependent world scale. State action has been oriented toward constructing power systems to defend and protect people's rights and, at the world political level, to contain actions of competing state against a country's self-interest. States' external relations tend to be anarchical, while structural components of power incline toward the determination of new forms of state interaction. World institutional architecture shaped to development of political interest to preserve nations communication channels and structure organizing patterns of investment, exchange of goods and services at world scale, finally this model determined a progressive expansion of world markets.

During the 19th century, the Latin American notion of the Nation-State acquired a new structural framework converging in new institutions that emerged as a consequence of wars of independence or declining colonial status for some others, sometimes facilitating new political relations like launching new Constitutions or creating political parties and, in the economic filed, promoting increasing exchange of products on a national and world scale. Specialization generated value to extractive activities helping to sustain increasing institutional participation of trade in total world production (Foreman-Peck, 1995, Ch. 3).

Industrialized countries and the emerging World Economy was in the 19th century the result of accelerated development process that followed after industrialized nations spread their power and economic influence around the world. This process was accompanied by a particularly intense world market expansion and exchange of productive factors. This emerging phenomenon occurred just following the period of the Industrial Revolution in England and its aftermath, as well as in

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5 North, Douglas C. 1961. *The Economic Growth of The United States, 1790 to 1860*, Englewoods Cliff, N.J. Prentice Hall. Also in Theberge, James. 1968. *Economics of Trade and Development*. New York. John Wiley and Sons, pp. 68-71.

nations like France and Germany, that considered overseas empire as a political and economic gain for exchange and row materials provision.

During this expanding age some economists suggested evident discontinuities and also structural transformations attributed to jumps in productivity and incorporation of peripheral markets with increasing purchasing power, encouraging a widespread phenomenon of expanding and sustained trade volume at cheaper world prices. Commodities, raw materials and consumer goods made up the bulk of this expanding pattern of world consumption. The process of technical innovation spread across the new geographical board composed of the industrializing European countries and North American continent, shaping this innovative nations a dynamic process of exchange of goods and services within their own frontiers, particularly because the richer countries absorbed technological innovation at a fast pace, putting this improvement into large scale production for their own benefit.

The improvements and gains in efficiency attributed to specialization led primary goods and manufacturing output production to add substantial value to final goods, making exchange activity a profitable venture. Asymmetries perhaps were associated with market distortions and were of likely occurrence in the late 20^{th} century and early twenty-first century. The discontinuities in growth introduced by the structural change stimulated sustained long-term economic growth in some virtuous circles,[6] accelerating through growth the urbanization process and in some cases improving social conditions for change, benefiting workers' welfare after the diffusion of higher market wages took place. Some barriers to growth have to be removed first before growth could be sustained,[7] many identified as the initial factor condition that allowed for powerful exogenous forces to sustain and expand production for world market consumption. The removal of this barriers helped strengthening economic links with countries where productive activity became more specialized acting as a component to satisfy changing world demand patterns.

Adam Smith proclaimed the set of institutional requirements for an upward spiral of *economic* growth, and for the continuous accumulation of capital increase

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6 See the works of R.M. Hartwell. 1971.*The Industrial Revolution and Economic Growth* Methuen & Co. London. Jones. E.L. 1997. *Crecimiento Recurrente. El Cambio Económico en la Historia Mundial*. Alianza Editorial. Madrid. Mokyr, Joel. Ed. 1999.*The British Industrial Revolution. An Economic Perspective*. Westview. Colorado. USA. Mokyr, Joel. Ed. 1985. *The Economics of the Industrial Revolution*. Rowman & Littlefield Publishers, Inc. USA. Mokyr, Joel. Ed. 1990. *The Lever of Riches*. Oxford University Press. New York. USA.

7 See for deeper details the work of Gunnar Myrdal. 1968. *The Asian Drama*. London. Penguin. Apendix 3. Some of the barriers that are associated with circular causation are: accomplishing conditions for stages of growth, population expansion, output and incomes improvement, better conditions of production, rising levels of living, newer institutions, transparent and consistent policies, removal of forces of stagnation, adoption of economic plan and political program, coordination of policies.

and improvement in productivity.[8] Fashionable 19th century economic theories partially explained productive factor connections to sustain larger world market scale contribution to output, efficiency to propel costs reduction, and gains in efficiency for market growth. Marking such a structural change for market development required taming opposing political commitments to the pursuit of self-sustaining development.

This emerging transformation gradually required developing world-trading institutions like property ownership, worldwide transportation, and banking practices —also concurrent improvements helped increase what we now define a global commercial exchange and its investment system. The world trading process that developed in this intense and interactive period of growth helped advance or modernize the world economic and political system. Along with this modernization process led by a group of much more organized countries engaged in modern productive activities, developed a complex institutional set of requirements allowing for the advancements and improvement of modern investment and production of world mass consumption goods. World demand for trade goods increased as world purchasing power helped diversify consumption needs. However, this social improvement would not have been possible if previous political and trading arrangements had not taken place to satisfy conditions to accomplish for long and stable exchange processes.

This expanding world system mechanism has been widely analyzed by different theoretical development currents, and has been identified with the development of assumptions that relate theoretical elements to confirm resulting structural changes attributed sometimes to the action of exogenous factors and recently to endogenous growth. This dynamic process has been the result of factor movements and variable combinations that according to different empirical developments make these models better to foresee future changes.

Ragnar Nurkse suggested theoretical balanced growth approaches and at the other end of the analytical spectrum Hirschman followers' suggested the unbalanced growth paradigm to better explain sustained growth, now complemented by more sophisticated and rigorous mathematical models where technological change and its effect on growth is attributed to endogenous factors.[9] Solow-type models started the neo-classical tradition approach suggesting that aggregated factor proportions combined with exogenous variables do well to explain sustained growth.

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8 See the work of D.P. O' Brien. 1975. *The Classical Economist*. Oxford. Clarendon Press. Especially chapter 8. The Classical Theory of Growth and Development, pp. 206-207.

9 See the work of Paul Krugman. 1997. *Desarrollo, Geografía y Teoría Económica*. Barcelona. Antoni Bosch. Pp. 21 and 71.

Contemporary fashionable convergence assumptions of growth are supported by other line of inquiry where authors like Romer, Barro and Sala-i-Martín show, with the help of elaborate theoretical assumptions, that endogenous factors like innovation within the firm explain further growth developments conditions for the economy as a whole, views that are particularly useful for emerging countries making efforts to link their economies to global markets through the introduction of innovative products, perhaps in a different fashion compared with 19th century experience where technology and some factors were exogenously given.[10]

1.1.2. Old and New Conditions for Modern World Trade Expansion

The expanding trading *process* that developed during the 19th century was the natural consequence of the increasing variety of inputs needed for world scale industrial transformation of inputs into final goods. That is why, a theoretical economic view, associated colonization and foreign investment as elements of the British imperial policy, helping to expand its domestic industrial production that developed during productive revolution. During the second half of that century the decline of the interest rate encouraged export of capitals into more profitable ventures abroad as suggested in the Latin American case by Professor Christopher Platt (1971). Colonization described the process whereby British capital and labor moved out of the country and established a form of transplanted British society in the new acquired colonial territory. Descriptions have been made to distinguish expansion based on political and state force.

Dominance from that diffused model, based on cooperation between the parties and concerned organizations, where economists like Torrens and Mill favored this colonization trend, considered that a reformed industrial capitalism system could operate in such a profitable way that allowed mutual —although unequal— benefit for parties involved. Colonization based on classical principles of free trade and free movement of resources ensured or perhaps ensures continued improvements in living standards both at home and in colonies. Marx's pessimism stemmed from colonization as a process where reforms being made would only delay the ultimate collapse of the world capitalist-system, allowing the capitalist class average time to continue expansion through financial capital export, a phase so common during the previous 19th experience and actual globalization endeavor.

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10 See the works of R.M. Solow. 1973. *Growth Theory. An Exposition.* Oxford. Clarendom Press.
Romer, Paul M. 1990. "Endogenous Technological Change." *Journal of Political Economy*. Nº 98. October. S.71-S.102.
Xavier Sala-i-Martin. 1996. "The Clasical Approach to Convergence Analysis." *The Economic Journal.* Nº 106.
Barro, Robert y Xavier Sala- i-Martín. 1992. "Convergence." *Journal of Political Economy*. Vol. 100, Nº 2.
Barro, Robert y Xavier Sala-i- Martín. 1995. *Economic Growth*. New York. McGraw-Hill International Editions.

The work of Hodgart, *The Economics of European Imperialism*, shows that the period comprising the 1820s to the 1870s represents a carry-over from the old colonial system based on restrictive trade policies and political control. This was a period of anti-colonization associated with political and economic liberalism when formal control of colonies moved towards self-government for existing territories and a general policy of free trade.[11] The period from 1870 to 1900 as suggested by some Marxian historians implies that Britain reverted to formal annexations of territories and restrictive trade and investment policies with her colonies, as the idea of self-government did not reduce Britain's economic activities in the former colonies and sustained economic rewards after free trade deals were achieved. American experience indicated that strong tie of sentiment and mutual economic dependence could prolong British influence and gains in his territory and the political argument was complemented with free trade where involving specialization in production made Britain dependent on other countries for some commodities primarily food and some raw materials, or like cotton and tobacco in the United States. The safety of this trade and investment opportunity could be achieved without formal control when common ties existed between Britain and the formal and informal territory where trade barriers were curtailed by Imperial preferences. Free trade and empire were thus regarded as politically consistent and essential for the Crown Interest (Hodgart, 1977, pp. 16-20).

To Karl Marx, the growth of capitalism required accumulation of capital along with increased monopolization and a secular fall in the profit rate. A foreign market helped to realize profits for capital and consumer goods produced in excess of domestic demand, while the export of capital could reduce the domestic surplus of this saving and investment means. Marx believed that the export of capital allowed the profit rate to rise because a lower organic composition of capital existing in the backward areas could be raised because of the low level of subsistence wages earned by the working class. The lack of controls over working hours and the possible employment of women and children depressed salaries. In terms of organic composition of capital, the advanced countries controlled a higher ratio of capital to labor, so the export of capital to a less advanced area would lower its capital-ratio, raising the marginal productivity of capital, and thereby increasing its profit rate.

Ricardo pointed out that foreign trade provided cheaper wage goods leading to lower wage rates and higher profit rates, reversing the natural tendency of falling profit rates, by allowing the importation of food at prices substantially lower than home produced. The neo-Marxian view suggests that profits are squeezed and

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11 Hodgart, Alan. 1997. *The Economics of European Imperialism*. London. Edward Arnold. P. 5. See also Michael Barrat-Brown, 1975. *La Teoría Económica del Imperialismo*. Madrid. Alianza Editorial, and Lawrence James. 1995. *"The Rise and Fall of British Empire."* New York. St. Martins Griffin.

funneled to the center countries by pushing down country wages in the peripheral countries. A falling profit rate could be avoided by allowing the area of fertile land to expand increasing capital inputs.

Conventional modern economics suggests a different view to protect markets and remove commercial obstacles to trade: first, by defining long-term goals and deepening the degree of specialization required by economic agents to integrate into a whole business world; and second, by abiding trading rules and institutions functioning according to free market forces.

North suggests that institutional organizations is the element that help in a new fashion the road to promote a new social contract, that progressively consented too by individual countries, leads the world market to increasing the hoard: "first of world capital and second interests less the markets by protected military action," Thus, larger scale production units may be oriented toward satisfying expanding worldwide markets, appealing to organizations and institutional controls rather than brute force. This institutional system framework made up of intermingled world components that gather coinciding interests to satisfying "firms orientations according to degrees of specialization needed to compete among trading nations engaged in the formation of a larger world market" (North, 1968, pp. 72-73).

A *world economic-system* as a unit in itself hardly existed before the Industrial Revolution, except, perhaps, when some few nations in Europe and North America achieved a significant market development of regional projection during the 16th and 17th century. Wallerstein (1974) introduced a materialistic point of economic view and suggested by this means that temporarily these nations made a single and cohesive commercial unit of a large geographical scope ruled by speculative and exploitive motives. Trade practices allowed some Northern Europe Nation-States to become interdependent forming a "world-system." This new system was made of independent political and economic units that gradually increased in number. Despite being politically independent economically assembled into a community of interests making of it an economic world-system mechanism.

The diffusion of the economic activity strengthened commercial links being reinforced itself among emerging trading partners. Where main imperialistic nations aligned their political and economic interests, with to those associated with colonial dominions, informal and other overseas territories. Thus, they exercised power or military force in these places and around the world. Also interdependence grew among political territories or mandates gradually developing a "world-market system, subject to price mechanism rules. In some cases, trade and investment interests coincided with other non-colonial country approach to business, widening even more their political and trading influence and the extent of the world market.

The *United States,* as a particular country-case, pursued a westward North American continental expansion instead of the overseas empire common in European States. Free trade between states accomplished what Douglas C. North (1964) refrained as a larger and more efficient market-oriented mechanism. Politically and geographically, this process linked the country after a national railway transport and water channels system was developed. Technological improvement economically favored investment and consumption on a world scale. Declining transportation costs helped increase trade volumes exchange. A strong correlation between state railway interconnection and water channels reduced transportation cost circumstance that is considered as one determinant cause that explains growth as suggested by authors like Krugman and Fogell.

Price decline for goods and services dependent on transportation constraints also explain increases in industrial transactions. Inputs and tradable goods easily available on a national basis helped the Union of States to converge into a large and more efficient market. Wide mobilization of financial resources also furthered the steady advance of a continental and worldwide economic process characterized by increasing number of infant investment ventures that favored the appearance of conditions to prolong the path dependence process that culminated in sustaining long-term growth oriented by manufacturing, mining and banking —a notion advanced by authors like David and Leibowitz.[12]

1.2. 20 TH CENTURY TRADE BLOCS AND THE GLOBAL MARKET

After the World War II ended, emerging institutions like the General Agreement on Tariffs and Trade—GATT, the International Monetary Fund—IMF, and the World Bank—WB, attempted to organize trade, prevent or overcome a balance of payments crisis and promote development projects. These emerging organizations sponsored as an institution world investment for development in different infrastructure projects in countries devastated by the war or those affected by slow rate of growth, or worse, by generalized poverty. Some exceptional economic new rules —or clauses of the GATT and now the World Trade Organizations—WTO, as

12 David, Paul.1997. "Path Dependence and the Quest for Historical Economics: One More Chorus of the Ballad of QWERTY." University of Oxford. *Discussion Papers in Economic and Social History*.
Liebowitz, S. J. Stephen E. Margolis. *Network Externalities (Effects)*.
Liebowitz S. J.and Stephen E. Margolis. "Network Externality: An Uncommon Tragedy." *Journal of Economic Perspectives*, Volume 8, Number 2, Spring 1994.
Liebowitz, S. J. and Stephen E. Margolis. "The Fable Of The Keys." *Journal of Law & Economics* .Vol. XXXIII . April 1990.

a trading institution— contemplated the possibility of achieving preferential trade agreements within selected geographical and political regions to increase growth, extend welfare gains and contribute to the creation of a global market.

Despite liberalization and deregulation programs followed by many countries, trade tended to increase substantially, especially after eight multilateral negotiation rounds were completed to frame the world market through progressive reduction of tariff barriers. Most-favored-nation status and the norm of reciprocity allowed trade to increase and extend border economic activity. However, some of the most developed countries encouraged the creation of a new set of rules to "organize" market access procedures and progressively eliminate restrictive policies, launched to protect developed markets from third world country competition, in particular non-tariff barriers or import restraints which, in fact, violated GATT's principles.

Some countries initiated a campaign in favor of organizing common trading areas or blocs with the purpose of deviating trade, and temporarily defend local production from excessive world competition as a measure to defend themselves from excessive competition in world markets, especially from industrialized countries. Contracting parties agreed on institutionalization of GATT-WTO regulations to temporarily allow regional trading bloc members to encourage trade among them, protecting markets via a common external tariff, while the establishment of a worldwide liberalization program that was oriented to promote a steadily convergent market as a long run objective.

Cross-border exchange favored industrial integration while the liberalizing of the economies increased cooperation among multinational firms. Thanks to a negotiated process of removing trade barriers and lowering tariffs, transactions and investment flowed among trading partners. Trade currents progressively increased, reaching extraordinarily high historical world levels, especially among industrialized economies. Progressive liberalization of real economic activity invigorated the adoption of global strategies, particularly by multinational companies, reaching a point where raw material access, as well as inputs came to firms from the cheapest world sources. Final products also flowed to different world trading countries and consumption patterns were allocated according to periphery demand structure. Increasing world financial savings shifted consequently with world market returns and declining systemic risk emerged as rational allocation spread by the advanced optimizing criteria. Currency and credit controls were lifted and exchange rate policy was deregulated leading the world into an uncontrollable and unpredictable globalization process.[13] In this section we deepen on some world global market

13 See the works of Ponton, Bretherton, Charlotte and Geoffrey Ponton. 1996. *Global Politics*. Oxford. U.K. Blakwell's.

expansion framework relating some institutional arrangements to integration, coming to terms with some issues related with political economy practices.

1.2.1. Institutional Arrangements leading to Market Integration

The historical view where international economic relations occur offers some insight to understanding political developments. It is suggested that imperial maritime organization became favorable to local state action to support the creation of institutions favoring to improvements and strengthening of the world trading environment. A system providing a constant flow of economic surplus helped to finance imperial needs, while part of this revenue was diverted to cover defense needs and contribute to the creation and finance of trading facilities and organized institutions all over the empire. Progressively, economic surplus was devoted to these imperial or center countries' needs encouraging individual-trading countries' activities other than traditional production. The latter had been oriented mainly toward improving economic conditions for sustaining market transactions and supporting the state action towards making internal institutional organization more efficient and stronger to sustain growth.[14] Perceptibly this process of institutional change brought political cohesion within countries leading to the formulation of broader Constitutions adapted to integrating trading bloc partners, letting Nation-States organize around social and economic commitments especially after 1945 when colonial order ended.

Gradually in this open market system, exchange activity organized according to bank credit instruments and sound accounting rules, helped to integrate domestic markets and linked the economy to the expanding world trade system. As this process of institutional transformation advanced, states organized for the creation of more reliable and democratic political institutions, supporting and legitimizing constitutions, and favoring political stability. Citizen participation in domestic representative politics and the incorporation to national production of regional activity encouraged modernization and organization of social institutions which favored basic aspects of human life. As a consequence of the above mentioned elements, banking system concerned itself primarily with modern Nation-State business and with political institutions such as war, defense, and peace finance. It also included commercial activities like trade, investment, and spread of market-system-cultural-values.

The evolving 19th century Nation-State was also committed to the adoption of deeper legal foundations favorable to organizing market institutions along world

Reinicke, Wolfgang H. 1998. *Global Public Policy*. The Brooking Institution. Washington.
Walters, Malcolm. 1995. *Globalization*. London. Routledge.

14 See the work of Evans, Peter. 1995. *Embedded Autonomy: States an Industrial Transformation*. Princeton. N.Y. Princeton University Press.

commercial principles, allowing competition and rational decision to take place within the expanding national market. Protected local markets circumscribed to activities oriented to satisfy local needs, gradually adapted to spreading economic integration and optimizing principles aimed at enlarging one century latter the open trading and economic system.[15]

Increasing world trade and investment was concentrated among industrialized countries. However, some saved capital as redistributed among factors sector and regions translated in the increase of investment on a world basis, becoming a political commitment of this productive activity, either in to born and enlarged informal empire, or in the spreading action of capitalist engaged in trading activities. Firms and capitalists searched for overseas productive-risk taking ventures like mining and the exploitation of agricultural commodity production like meat and sugar cane. They found that stability of an enlarging and intermingled world economic system was the consequence of feed-back input demands on these new investment flows. Achieving this stability-aim to world markets helped its progressive expansion where factors put into production like specialized labor and new technological improvements —like railways and electricity— incorporated more dynamism to the global market. Furthermore, the appearances of strategic and specialized markets located around diverse and disperse parts of the globe led to the development of expensive defense networks required to protect markets against forfeiting. On the world scale, for the British Empire the Royal Navy and the extended maritime ships and vessels network helped stabilize market access for dominium's and other tariff preferential markets. Structural changes produced in country endowments after factor combination and level of income led to broad industrial product demand, where requirements for complex technology use and standardized inputs gradually changed market specialization structure. Changes in world demand composition and in consumer tastes required a new and stable structure of production and an organized mechanism to funnel distribution and exchange of goods to satisfy consumer requirements.

Following these market rules principles allowed economic emerging individual countries' to materialize and substantiate preferential world rules to stabilize market access like the imperial trade tariff relief to colonies and friendly countries. The emergent nineteen-century political and economic order was organized following constitutions that fall into complex degrees of institutional coordination favorable to trade and direct foreign investment including long term loans.[16] The notion of the

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15 For a detailed description of the effects on optimization economic principles and market behavior see the work of Buckley, Peter J. 1998. *International Business. Economics and Anthropology, Theory and Method*. London. Macmillan Press Ltd. Contemporary debate on growth accumulates evidence that cultural factors are also key determinants of economic performance, regarding it as a positive actor for promoting growth. Pp. 5 and 8.

16 See a detailed development of the issue of constitutions in the works of Dixit, Avinasht. 1997. *The Making of*

Nation-State thus developing was associated with ruler sovereignty and economic co-operation among subjects; however, this link was not always evident at that time or even nowadays. This initial transformation that followed, only gradually proceeded to advance into a progressive state commitment to modernizing. In this respect, institutions in the core countries were prone to framing organized trading practices that allowed for modernization of trade practices like those that followed the Chambers of Commerce or other private organizations.

Rising state interdependence for trading purposes was a slow process that certainly helped link increasing trading nations around—complex common objectives developed into power conflicts resolved through formal trading arrangements, particularly in the periphery countries, where political and commercial interest matched to help transforming the Nation-State and to expand the competitive world trading system. This system that gradually evolved led to transformations of complex mechanics where members assembled to further facilitate exchange of additional goods and services, while an increase in credit and service requirements necessitated a fulfilling orderly and trustworthy monetary and insurance's transactions.

Exchange became a risky activity where a new and profitable business venture favored party members. Economic activity spread on a world scale implying regular and increasing volumes of capital and combination of factors of production. Therefore, a complex trading organization was progressively organized to match trade requirements. Industrial nations and newly opening markets progressively oriented new activities toward the creation of a world political and economic trustworthy enlarging world market for final products.

A market-dominated role depends on a world-based structure where trade currents move, and also depends on whoever wields power and possesses authority.[17] Trading companies, the banking system, and the transportation network, occasionally relied on the authority of the Imperial Crown to organize and defend trade and investment. Wielded power through military action and quite often by Royal Navy presence expanded territories as well as exploitable markets. Under this political and economic framework, trade could smoothly and continuously operate in defense of a new worldwide developing market.

Economic Policy: A Transaction-Cost Politics Perspective. Cambridge, Massachusetts. The MIT Press. And North, Douglass C. 1998. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. Cambridge. North, Douglass C. "Institutions and Economic Theory." *American Economist*. Spring 1992, pp. 3-6.

17 See the original political view developed by Susan Strange. 1989. *States and Markets. An Introduction to Political Economy.* London. Pinter Publishers Limited.
Also see Jeffrey Sachs. 1998. "International Economics: Unlocking the Mysteries of Globalization." *Foreign Policy*. Number 100, pp. 97-111. The author reckons that international economics is concerned with the trade and financial relations of national economies, and the effects of international trade and finance on the distribution of production, income, and wealth around the world and within nations.

Imperial strategies to encourage more trade and investment evolved according to countries' geographical conditions and wealth perspectives seen from the core. The strategies followed by governments coincided with the perspective of abundance in factor endowments and the greed of merchants' and their ability to integrate investments to business and finally into enlarging trade currents, thus helping to increase a world distribution of tapped wealth. This process also oriented development of the individual country interests, where available political climate for investment and various degrees of economic modernization as new dynamic factors helped to improve efficient exploitation of acquired resources.

This multiplicity of agents that moved markets forward was determined by some kind of initial given conditions in each particular market following a path of observed long run growth. Gradually the interactive and dynamic economic process that commanded Nation-State destiny helped to strengthen market formation and to link this emerging new network of integrated territories to trade and investment. New productive activities and investment in industries such as coffee, sugar, and cattle, progressed around other business like modern transport system that helped to enlarge the market network and reduce transport costs. The growth of this new tradable activity implied a considerable mobilization of savings as well as exchange of investment goods exchanged according market mechanism rules. Some enclave territories or extractive exploitation led to specializing on the export of world demanded commodities, surrendering this activity to the rule of free trade. This, however, was not always seen. As stated by Levin (1964), the Peruvian Guano enclave extractive activities that did not help to enlarge this country market size and raise wellbeing among market consumers.[18]

Development and modernization were not current terms used during earlier expansive phases of world trade capitalism. An appraisal made by Carr, using contemporary vocabulary, suggests that "progress was interpreted as the continuous process in history that would lead the world to a stage leading to a serene and self-confident outlook of the world, where the economic doctrine of laissez faire shaped the world expansion..."[19] Therefore, isolated regions under certain conditions would only gradually transform and become part of a larger and complex assemblage of trading partners where trade agreements helped nations entering into the creation of a new building block open economic systems.

18 See the work of Johnathan Levin. 1964. *Las Economías Extractivas*. Uteha. Madrid. In English "The Export Economies." Cambridge. Harvard University Press. 1960. Also in Theberge, James. *Economics of Trade and Development*. New York. John Wiley and Sons, Inc. 1968, p. 20.

19 See the work of Carr, E.H. *What is Histoty?* London. Penguin, p. 20.

1.2.2 International Political Economy transforms the Expanding World Market

The broad concept of initial conditions to the appearances of successive stages of development has been associated with investment cooperation among nations. This cooperation has also been recommended to facilitate gradual institutional developments that transform political and economic relations. The result of organizing institutions favorable to trade and investment has close relationship with the development of the Nation-State as well as its constituent geographical components and sectors that once specialize productive activities eases linking the economies to the world economic and political system.

In the past 19th century, the irruption of modern extractive activity blusters, thanks to generalized and favorable trading conditions and to the availability of technology, took rule of the foreign markets. Higher relative prices and increasing trade volumes in world marketplaces implied easier insertion of economies into world business process. Faster growth rates within peripheral country economies brought stronger commercial interdependence among competing and emerging to free exchange nations.[20] Where development of political and economic institutions of emerging Nation-States was possible thanks to trade and investment, coming from metropolitan countries, as well as a direct consequence of institutional improvements made after adapted constitutional economic rules.

During the late 19th century, economic specialization among new trading countries helped to expand the world political and economic system where the liberal tradition widely diffused among colonial territories and other emerging nations. One direct consequence of the intensive degree of specialization of production led to focused investments programs, where increasing amounts of foreign investment and technology transference trends —like the extending railway developments— encouraged sustaining the development process. Welfare gains or productivity improvements associated with specialization were conspicuous long-term political economy objectives promoted by ruling nations and prospective investors.

When profit-motive flourished became an initial condition model to induced risk takers to participate in the enlarging world trading-system, the advent of extracting and other productive activities was particularly profitable in the enlarging world economy. Sometimes foreign investors or trading companies achieved successful economic results for world market enlargement purposes or a country's welfare.

20 See the essay review of: Paul Cashin. (June 1995). "Economic Growth and Convergence Across the Seven Colonies of Australasia: 1861-1991." *The Economic Record*. Vol. 71. Pp. 132-144. Debin Ma. (June 1996) "The Modern Silk Road: The Global Raw-Silk Market, 1850-1930." *Journal of Economic History*. Vol. 56, Nº 2. Pp. 330-355. Jeffrey G. Williamson. (June 1996). "Globalization, Convergence, and History." *The Journal of Economic History*. Vol. 56. Nº 2. Pp. 277-306. Some scholars argue that late nineteen century emerging poor countries did have an impressive convergence in living standards growing faster than the rich industrial countries.

These speculative trading and entrepreneurial agents enormously benefited from trade, not with remorse and gradually adhered to the emerging constitutions promulgated to order markets following the classical economy assumptions of maximizing profits and taking some risks.

A deep political transformation process was encouraged and promoted by imperial nations. Great world productive transformation processes occurred thanks to the massive world accumulation of capital, specialization and to movements of capital and of factors of production into different markets. The sustained stages of accumulation of capital within nations funneled selective investments into railways, navigation fleets, and the incorporation into world markets of goods obtained from productive activities —like mining— and the incorporation of productive land frontiers into world trade production.

Finally, the process of capital accumulation accelerated in the enlarging world market thanks to demands derived from Industrial Revolution needs for inputs and raw materials. The surmounting economic success of this historical adventure was the result of a combined process of economic growth and different stages of trade creation. Trade became the common denominator for the development of many overseas territories.

1.2.3. Removal of Historical Constraints to Trade

The progressive incursion by dominant and competing powers into the world market shaped a new structure leading to the development of the international business setting. The liberal tradition prevailing in many countries facilitated a wide incursion by the maritime powers to defend the enlarging international trading system as suggested by Kurth.[21] The removal of trading and investment constraints that hindered the action of the newly evolving Nation-State became a political power-aim in itself —particularly appreciated by Imperial nations for their purposes with respect to insurance trade and investment in the long run. It did not matter much whether consumption patterns led to improving the welfare of the general population or of the privileged few. What really counted, from the political point of view, was the enlargement of trade currents and increasing world market size. This was to ensure a large power share and the dominion and control of an ever-lasting dynamic economic process that sometimes promoted friendly political developments and on occasion's spells of imperial war. Growth was a consequence of trade, a fact proved when economic theory developed better analytical tools. Welfare gains of trade were already known in England during the 19th century. However, not much knowledge existed on the nature of encouraging actions

21 See the work of James Kurth. 1998, "Inside the Cave. The Banality of I.R. Studies." *The National Interest*. Fall. P. 34.

that would lead to the removal of barriers hindering rapid growth in colonial or mandate territories. A consequence of this imperfect political setting, in what we now denominate developing Nation-States, was that governments sporadically accomplished some structured long-run programs of public works to help improve links with foreign trade currents.

Private investment policies devoted to railway building port construction, or an organization of financial institutions, or extending services like public education, or even public utilities occasionally responded to actions followed by badly financed governments. In general, sometimes public utilities ventures overseas responded to private initiative or interests. Mobilization of world economic resources to the periphery was perhaps not interpreted as a political commitment to general people welfare improvement, being rather the consequence of the dynamic and current world business process.

1.3. IDENTIFICATION OF NEW CONDITIONS TO INCREASE WORLD GROWTH

Modern international political economy and the science of economics helped to understand why under new set of developing initial conditions for growth the economy oriented to a world where growth was possible, sustainable, and the economies hopefully competitive on a world basis. This science deepened the inquiry to identify some of the external determinants that helped to expand the foreign sector and obtain from that activity better access to modern technology. The gradual improvement of transportation conditions truly helped to shorten market distances and reduce transaction costs throughout the 19th century world trade expansion and the specialization in production. Certainly this historic process is widely regarded as one of the causes of growth improvement; however, a desired process which did not spread evenly to and into the third world with the intensity required to extend the process of technological improvements and gradual welfare gains that characterized the process in the recently industrialized countries. The initial conditions to fulfill these needs in the periphery countries apparently were inadequate to transfer into lasting changes for technological advancement and increasing welfare regarding establishing manufacturing firms or other modern transformative activities. Yet, today we know more about the conditions that generate leverage on political action and that emerging countries must follow a raise in technological investment intensity, proclaimed by the import substitution thesis first and then by innovation firms' practices. This minimum level; however, is required to create permanent advantages

1.3.1. Economic Theory and the Criteria of Convergence

The emerging complexity associated with world trade and investment development requires the identification of knowledge factors different from those we applied to an understanding of the traditional growth process such as mechanical transforming tools, and for new conditions for sustained growth due to technological improvements. Under the new scenario, factors for growth are defined as endogenous like in high technology and widespread use of ideas. The New Economic Growth Theory is an interesting phenomenon posed by Krugman (1992, 1995), Romer (1990), Barro (1991) and Sala-i-Martin (1990). Some models attempt important approaches to focus on capital accumulation in the sense that there is a constant return to a sufficient broad concept of capital as the means to generate growth. Another approach suggests that technological progress resulting from the search of innovation undertaken by profit maximizing individuals does raise productivity and generate endogenous growth. The monetary version of this model combines elements of two types of endogenous growth models —capital and innovation— with the neutral technological change to generate growth. Authors like Aghion explore the need to combine capital accumulation and innovation to generate economic growth, rather than relying on innovation or technological change alone.[22]

Another fashionable approach to growth is the *convergence* theory, which is quite suggesting —particularly for emerging poor countries in the earlier stages of growth and subject to the stimulus of an open economy. This theory assumes that if emerging economies adopts the economic liberalization process as a long-term strategy, they will soon achieve a very rapid rise in the growth rhythm.[23] That is, they raise the speed of *convergence* during the process of liberalization and adopt policies to promote education and incorporate new techniques of production. They will also have to strengthen investment in infrastructure, promote strategies where free interest rates prevail, stimulate free exchange rates markets, and increase the tax base. Under these conditions poor countries will probably grow faster than developed ones. Empirical evidence indicates that liberalized countries grew between 1970 and 1989 at a rate of 4.9% annually, as opposed to 0.69% for those with closed economies. This new stage of rapid convergence can be explained in terms of the production process creating spillover and spreading technical knowledge to improve firms' or countries' competitiveness. Knowledge acquired and developed in one section of the economy will also raise the efficiency in others, relaxing the obstacles associated with decrease in marginal productivity of capital.

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22 Charles van Marrewijk. 1999. "Capital Accumulation, Learning, and Endogenous Growth." Oxford Economic Papers. Vol. 51. Pp. 453-475. P. 453.

23 See also the result of a ten-year research collaboration on a basic model of growth: Philippe Aghion and Peter Howitt. 1998. *Endogenous Growth Theory*. The MIT Press. Cambridge.

Some other authors complement the above argument as they suggest that with an adequate level of human capital capable of taking advantage of the effect that modern technologies introduce on productivity, will benefit the poorer economy from the phenomenon of convergent growth (Sachs, pp. 35-39).[24] In the long run, countries that persist in the Liberalization process tend to strengthen their tendency toward economic convergence and accelerated growth. Some empirical developments show that opening the economy leads to convergence.[25] Convergence considers that during stages of globalization, capital, labor, and transport-cost decline. An open economy forces migration of factors of production, leading to economic growth that is even faster than in rich countries. A technical detail of this theory specifies kinds of convergence. The so-defined sigma-convergence test relates standard deviation of per-capita income dispersion of economic regions with time. As the economy opens, beta-convergence shows the speed of convergence of poor countries —or country economic regions— contrasted with rich ones. Poorer must grow faster than richer in terms of per-capita real income, a path that seems quite suggestive for 21st century developing countries like Colombia.

1.3.2. Mitigation of Systemic Risk to Capital Investment

The emerging world political and economic scenario for global trade and investment merits deeper considerations on the setting of the initial conditions enabling the creation of newer opportunities for 21st century Colombia. A new world competitiveness environment and the removal of factors that hindered access to technological improvements require access to huge sources of capital. Better communications access tends to attract technologies and venture capital to formulate new initiatives for regional development, as well as to improve investment opportunities to encourage competition in the global market among trading blocs.

The globalization of financial markets is thus the consequence of the capital accumulation dynamics process in industrialized nations. For many years, Great Britain was a great creditor nation, placed in an advantageous position to invest its liquid surpluses principally abroad. World Wars and the 1930s crisis modified this globalizing tendency of financial markets when the gold standard was the

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24 See the Brookings Paper on Economic Activity, 1: 1995 the papers of Jeffrey D. Sachs and Andrew Warner. "The Economic Reform and The Process of Global Integration." Pp. 1-65. And Paul Krugman. "Growing World Trade:Causes and Consequences."

25 See Williamson, Jeffrey G. "Globalization, Convergence, and History." *The Journal of Economic History*. Vol. 56. June 1996. Nº 2. Pp. 277-306.
Navarrete, Juan. *Convergencia: Un Estudio Para los Estados de la República Mexicana*. Centro de Investigación y Docencia Económica. Nº 42. México D.F. 1995.
Sala-i-Martin, Xavier. "The Clasical Approach to Convergence Analisis." *The Economic Journal*. Nº 106.
Barro, Robert y Xavier Sala- i-Martín. 1996. "Convergence." *Journal of Political Economy*. Vol. 100, Nº 2. Barro, Robert y Xavier Sala-i- Martín. 1992. *Economic Growth*. McGraw-Hill International Editions. 1995.

instrument in force to allow currencies to be exchanged. Particularly after 1930, inconvertibility, high debt from payment of the crisis, and growing inflation in many countries, forced the appearance of protectionist barriers and the emergence of substitution industrialization. Financial economic surpluses progressively generated by multinationals, and channeling of financial savings resources toward other capital markets, helped the number of firms and industrial products and services to diversify —affecting the balance between their traditional power factors. New emerging institutions linked to financial activity then appeared such as investment banks, exchange markets, commodity markets, and the derivative products to finance this worldwide process.

In order to keep internationalizing the economy, certain institutional changes had to be made to preserve foreign investment currents, and Colombia's financial reform came as a response to world trade trends. This reorganization was the result of an emerging need attributable to the change in the world model, reflected in constitutional reforms for financial sector functioning, that is, assimilating the changes in the structure and functions of the Central Bank.[26]

26 Junguito Bonnet, Roberto. "La Independencia de la Banca Central en America Latina." *Seminario Latinoamericano Sobre Crecimiento Económico*. Banco Mundial, Bogotá 1994. It suggests that recent literature establishes that a central bank will reach greater formal independence when the group of directors and the General Manager have a long term mandate. In general the interest rates tend to be freer and the exchange rate functions on sliding scales.

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