ARTICLE IN PRESS

YEXEH-01165; No of Pages 18

Available online at www.sciencedirect.com

ScienceDirect

Explorations in Economic History xx (2015) xxx–xxx

www.elsevier.com/locate/eeh

Early globalizations: The integration of Asia in the world economy, 1800–1938

David Chilosi[a,*], Giovanni Federico[b]

[a] Economic History Department, London School of Economics, Houghton Street, London WC2A 2AE, UK
[b] Department of Economics, University of Pisa, Via Ridolfi 10, 56124 Pisa, Italy

Received 14 April 2014

Abstract

This paper contributes to the debate on globalization and the great divergence with a comprehensive analysis of the integration of Asia in the world market from 1800 to the eve of World War II. We examine the patterns of convergence in prices for a wide range of commodities between Europe and the main Asian countries (India, Indonesia, Japan and China) and we compare them with convergence between Europe and the East Coast of the United States, hitherto the yardstick for the 19th century. Most price convergence occurred before 1870, mainly as a consequence of the abolition of the European trading monopolies with Asia, and, to a lesser extent, the repeal of duties on Atlantic trade. After 1870, price differentials continued to decline thanks to falling freights and to better communication after the lay-out of telegraph cables. There was only little disintegration in the inter-war years.

JEL classification: F14; F15; F63; O40; N74; N75
Keywords: Globalization; Market integration; International trade; Economic growth; Asia; Nineteenth century

1. Introduction

Standard economic theory holds that trade and market integration foster economic growth. Indeed, the era of the so-called first globalization, before World War I, coincided with a period of unprecedented economic growth in Europe and in its Western Offshoots (Maddison Project, 2013). Yet, at the same time, the Asian countries (with the partial exception of Japan) fell increasingly behind the advanced European ones (Broadberry, 2013), in spite of rapidly growing exports (Federico and Tena, 2013). Some scholars have tackled the paradox posed by this "great divergence" (Pomeranz, 2000) by pointing out that exports of primary products did benefit the Asian economies, but their effect was too small to foster economy-wide growth (Feuerwerker, 1980, 1983; Booth, 1988; Tomlinson, 1993; van der Eng, 1996; Roy, 2000; Brandt et al., 2013). Others blame the colonial powers for forcing the Asian economies to export primary products, thus damaging their growth potential (Dutt, 1969; Parthasarathi, 2011). For Williamson (2008, 2011, 2012, 2013), too, specialization in primary products damaged the long-term prospects for industrialization in the periphery. In his view, however, this specialization was the unintended consequence of market

* Corresponding author.
E-mail address: d.chilosi@lse.ac.uk (D. Chilosi).

http://dx.doi.org/10.1016/j.eeh.2015.04.001
0014-4983/

integration, which improved the terms of trade before the 1870s. In the same vein, Allen (2011) argues that peripheral countries could have escaped this "curse of primary products" (Sachs and Warner, 2001) only by adopting a coherent industrialization policy, which was conspicuously lacking in all Asian countries but Japan.

Testing these competing views about exports and economic growth entails a huge and very challenging research agenda. This paper contributes to this agenda by exploring price convergence, an essential component of integration, between Europe (United Kingdom, the Netherlands, or France) and the four main Asian countries, China, British India, the Dutch East Indies (henceforth Indonesia) and Japan from the beginning of the 19th century to the eve of World War II. In so doing, we fill in two key gaps in the literature on the integration of Asia in the world economy: we analyze the period 1800–1870 and quantify the impact of the abolition of Western trading monopolies. Previous work has shown that price gaps were high before 1800 (O'Rourke and Williamson, 2002; Rönnbäck, 2009), narrowed after 1870 (O'Rourke and Williamson, 2002; Hynes et al., 2012), and widened during the Great Depression (Hynes et al., 2012). However, no empirical research, to date, has dealt with the period 1800–1870. Yet, these years featured massive processes of integration both within Europe (Federico, 2011, 2012) and in the Atlantic economy (Jacks, 2005; Uebele, 2011; Sharp and Weisdorf, 2013), raising the question of how does Asia compare? The same years also saw the abolition of the monopolies by the Western companies trading with Asia. Their demise must have boosted integration, but we lack measures of the actual size of this effect, relative to those of the decline in duties and advancements in transport and communication technology.

We present our dataset in Section 2 and discuss the patterns of price convergence in Section 3. The key period of integration across routes was the early, rather than the late nineteenth century, while price differentials remained roughly stable in interwar years. Section 4 deals with the main barriers to trade, focusing on the trading companies and on their abolition, while Section 5 estimates the contribution of different causes (institutional change, fall in transport costs, trade liberalization and so on) to price convergence with a panel regression. In spite of the similarities in trends across oceans, the processes of integration had roots in different institutions: while in the Atlantic economy the repeal of duties was a key determinant, much of the price convergence between Asia and Europe was due to the demise of the British East India Company (EIC) and, to a lesser extent, the Dutch trading monopoly (*Nederlandsche Handel-Maatschappij* or NHM). Section 6 concludes.

2. The data-base

The quantitative analysis of integration faces a trade-off between the quality of the data and their representativeness of changes in the overall market. In particular, as Federico (2012) argues, in order to produce reliable results, the price series should meet three conditions:

i) The price ratios should refer to pairs of markets which were actually trading. Otherwise, price differentials can be lower than costs and move (quasi-) randomly within the band of commodity points. If markets trade and are efficient à la Fama (1970), in equilibrium price gaps must be equal to transaction costs, inclusive of monopoly mark-ups.
ii) Each price series should refer to a specific quality rather than to the market average and each pair of series should refer to the same quality. Otherwise, price gaps might reflect quality differentials, and any change in quality in a market might introduce spurious trends.
iii) The commodities should be representative of the actual trade flows. Extending inferences from one product only (e.g. cereals), is tantamount to assume that that movements in transport costs, barriers to trade and market efficiency are similar across all traded goods.

Unfortunately, we cannot examine integration on the import side because the data on prices of manufactures are very scattered and refer to different qualities. The data for primary products are much more abundant and thus we have been able to collect series of prices for the same commodities in 26 pairs of markets (Table 1).[1]

All cities in our sample were major trading centers in their own countries, and trade statistics report bilateral trade of that specific good for about 93% of the observations. Missing data are mostly scattered, which suggests failure to record rather than absence of trade. There is a small chance that absence of trade could be an issue in only about 2% of the cases. Quality is homogeneous across markets (Yes in the relevant column) in the overwhelming majority of pairs, 22 out of 29 pairs. In two of the other cases, one series only can be considered as qualitatively homogeneous (Yes in the Column "within market"), but the quality surely differs between series (No in the Column "across markets"),

[1] For a more detailed discussion of our sources see Chilosi and Federico (2013, Appendix B). We have considered a larger sample, but we have decided to drop some series (e.g. tobacco from Indonesia) which did not meet the minimum quality threshold.

Please cite this article as: Chilosi, D., Federico, G., Early globalizations: The integration of Asia in the world economy, 1800–1938, Explor. Econ. Hist. (2015), http://dx.doi.org/10.1016/j.eeh.2015.04.001