One

Globalization: Yesterday and Today

If you Googled "globalization" on June 12, 2006, you got 101 million hits. That's quite a lot. While this number falls far short of the 384 million hits for the World Cup, it is much larger than the number of hits for widely popular figures such as the Beatles (69.5 million), George Washington (56.6 million), Bill Clinton (37.1 million), Angelina Jolie (31.2 million), and Brad Pitt (25.2 million). There's no question that globalization is widely discussed and debated.

There is also no question that globalization is real and that it profoundly affects us all.

But what is it? There are probably two or three hundred different definitions of globalization to be found among these 101 million cites identified by Google. Some of these definitions are silly or politically biased, such as the one that defines globalization as "the Americanization of the world through mechanisms like the WTO, IMF and McDonald's, all backed up by US military power."[1] Others are too vague to be useful. One good definition is offered by the Carnegie Endowment on its website Globalization101.org: "Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology."[2] But a simpler definition is most fitting: globalization is the advance of human cooperation across national boundaries.

This definition will strike many readers as odd. We think of ourselves as cooperating when we work together, consciously, as a team—as when we play together as an orchestra or as a football team, or when we volunteer time and resources to relief efforts for earthquake victims. "Cooperation" typically is taken to involve each participating person's *intention* to be part of a larger effort.

Some globalization does indeed include instances of people consciously joining forces across national boundaries to achieve specific goals. Think of Bono, Paul McCartney, and other rock stars from around the world staging concerts in different countries to raise funds for desperately poor Africans. But these instances of conscious global cooperation are very few and minor compared to the awesome amount of global cooperation that is unintentional.

This "unintentional cooperation"—the bulk of globalization—starts with simple commercial exchange, where each party pursues chiefly his own gain. The consumer in Kansas buys the Japanese-made car because it's a better deal than the car made in Detroit; the software company in California sells some of its products to a manufacturer in China because the Chinese buyer offers an attractive price; the investor in Holland buys land in Texas because he anticipates that the value of this land will rise.

We might not think of the people in these transactions as cooperating with each other; we see merely production and exchange in which each party looks out for his own interests without much (or even any) concern for others. Indeed, to the extent that we recognize that transactions across national boundaries have widespread effects on others, we think of globalization as a source of rivalry, of competition. We focus on both the good consequences of this competition (such as the lower prices it brings to consumers) and the bad consequences (such as its elimination of particular jobs).

This competition is real as well as important. It is also easy to see. But equally real and important, although less obvious, is the vast pattern of cooperation that globalization spreads across our planet. Consider economist Paul Seabright's description of the production of an ordinary shirt:

> [A]lthough a simple item by the standards of modern technology, [each shirt] represents a triumph of international cooperation. The cotton was grown in India, from seeds developed in the United States; the artificial fiber in the thread comes from Portugal and the material in the dyes from at least six other countries; the collar linings come from Brazil, and the machinery for weaving, cutting, and sewing from Germany; the shirt itself was made up in Malaysia. The project of making a shirt and delivering it to me in Toulouse has been a long time in the planning, since well before the morning two winters ago when an Indian farmer first led a pair of ploughing bullocks across his land on the red plains outside Coimbatore. Engineers in Cologne and chemists in Birmingham were involved in the preparation many years ago. Most remarkably of all, given the obstacles it has had to surmount to be made at all and the large number of people who have been involved along the way, it is a very stylish and attractive shirt. . . . And yet I am quite sure nobody knew that I was going to be buying a shirt of this kind today; I hardly knew it myself even the day before. Every single one of these people who has been laboring to bring my shirt to me has done so without knowing or indeed caring anything about me.[3]

The millions of tasks that must be completed to create a single shirt are not randomly performed, nor are they all part of a master plan—say, one drawn up and implemented by the World Shirt Ministry. Yet these plans and actions of millions of different people, almost none of whom knows the others, are coordinated so well that department stores and other clothing retailers all around us are piled high with shirts of countless designs, colors, and sizes. And almost all of these shirts are available at affordable prices.

This beneficial coordination of the plans and actions of millions of different people from around the world is a system of global cooperation—each person doing a specific task that, when combined with the tasks performed by others, results in the steady output of vast quantities of valuable goods and services.

This system of competition and cooperation is marvelously productive. Look around you now. Every man-made thing you see is something that no one person could possibly make alone. Each of these things—the chair you're sitting in, the paint on the walls surrounding you and the plumbing hidden within those walls, the shoes on your feet, the light bulb in the lamp—everything—is something whose production requires the knowledge and effort of literally millions of people.

No one argues that this vast web of human cooperation is flawless. But its faults and blemishes should not blind us to its successes. To paraphrase the mid-19th-century French economist and statesman, Frederic Bastiat, "New York City gets fed."[4] That great city's eight million citizens get fed daily (and, by the way, fed extraordinarily well by historical standards). Fishermen in Maine, chicken farmers in Georgia, and pig farmers in North Carolina—along with tomato growers in Mexico, wheat farmers in Canada, coffee exporters in Guatemala, citrus growers in Brazil, vintners in France, and cheese makers in Switzerland—work alongside innumerable other farmers, ranchers, fishermen, food processors, packers, truckers, mechanics, airplane pilots, retailers, insurers, and others from all around the globe to bring millions of pounds of food, day in and day out, to New York City.

What's the essence of this achievement? The answer is simple: exchange and specialization. We see in this book that globalization, at bottom, is merely the extension across national boundaries of the very same economic processes that inspire you to trade with the supermarket down the street and the physician across town. Of course, as this web of exchange expands across national boundaries some complexities that don't exist for purely national trade are introduced. Currency exchange rates and government controls on imports and exports as well as on foreign ownership of domestic assets, are examples of distinctly international issues. But before we can properly assess these complexities we must first understand globalization's essence.

This essence—exchange and specialization—encourages each of us to specialize in producing only one kind or variety of good or service. We then trade what we produce for other things that we want and that are produced by specialists in other fields. For example, an economist who specializes in teaching and writing about economics cannot literally eat her lectures or clothe her family with her writings. So she offers her services as an economist—her skills at producing lectures and books—in exchange for food, clothing, housing, medical care, and many other goods and services produced by others.

We see in Chapter 3 just what prompts people to specialize in specific areas of production and then to trade with others. It is essential to understand this phenomenon because it is universal among humans. Even when humans live in very small and isolated groups, specialization and exchange occur. Some people (usually men) specialize in hunting while others (usually women) specialize in caring for children, making clothing, and preparing meals. Such specialization and exchange is rudimentary, often so little advanced that it does not involve money, explicit prices, and most of the other institutions that accompany exchanges in developed economies. But the same fundamental forces that explain the specialization of the prehistoric spear maker and his trade with hunters for food explain the specialization of today's software engineer and his trade with plumbers, gasoline retailers, grocers, and the countless other persons with whom he regularly deals at home and abroad.

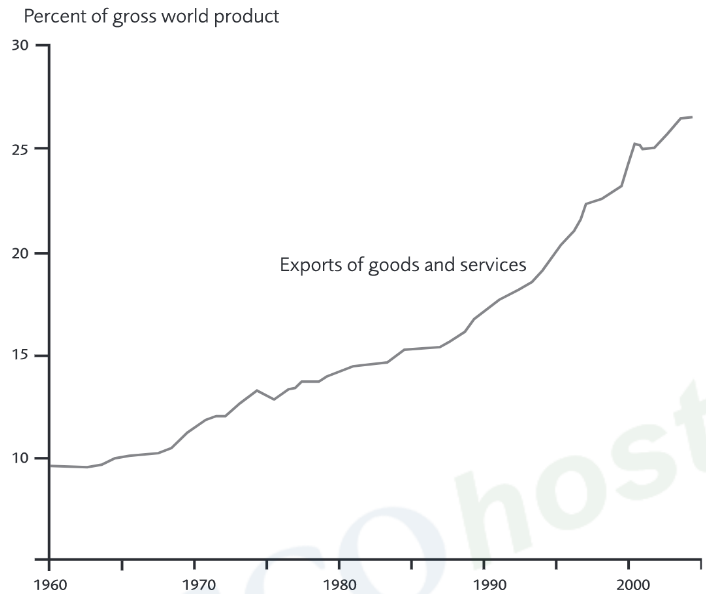
YESTERDAY AND TODAY

No one doubts that today specialization is highly refined and that exchange relationships span the globe. Not only is it true that within most countries citizens trade more or less freely with each other, but, increasingly, people trade more or less freely with each other internationally.

This trend is especially evident in relatively recent times. As Figure 1.1 shows, the percent of gross world product (GWP) traded internationally is about two-and-a-half times larger today than it was in 1960. (Annual GWP is the market value of all final goods and services produced in the world during a year.) This growth since 1960 in the percent of GWP traded internationally means that the proportion of their final output that producers export to consumers abroad, rather than sell to consumers at home, has grown by 150 percent in fewer than 50 years.

Investments are following a similar course, as shown in Figure 1.2. Foreign direct investment—such as occurs when a Canadian company buys a factory in New Jersey—today is more than three-and-a-half times its level in 1980. Portfolio investments in foreign assets—such as when foreigners buy shares of Microsoft or bonds issued by the U.S. Treasury—are nearly 40 times larger.

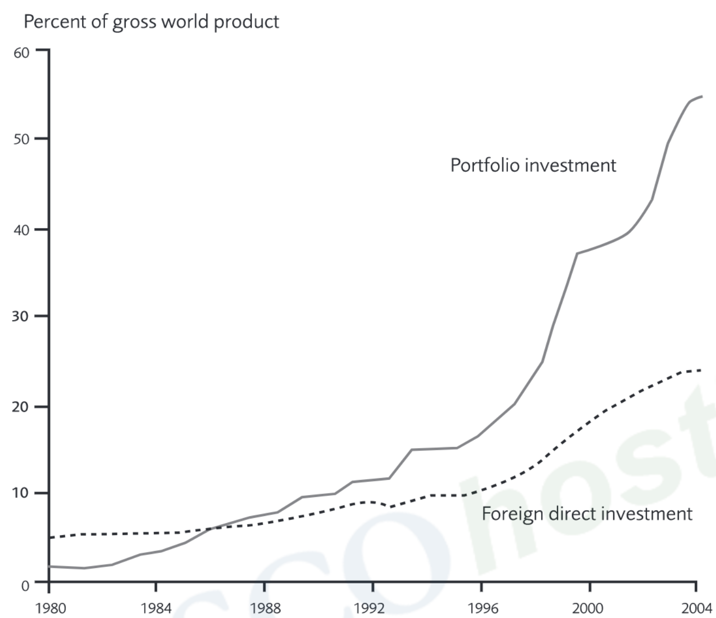
FIGURE 1.1
International Trade as a Percent of Gross World Product



Source: 2005 Annual Report: Racing to the Top, Federal Reserve Bank of Dallas, Exhibit 1.

That the market for capital today truly spans the globe is attested to also by recent findings that the marginal product of capital (MPK)—that is, the value contributed to total output by an additional unit of capital—varies little across countries. If MPK were much higher in, say, Mauritius than it is in South Africa, then investors could make more money by investing in the former country rather than in the latter. And as long as investors are reasonably free to invest wherever they choose, they will then, of course, invest in Mauritius rather than in South Africa. As Mauritius gets more capital, the MPK there falls. (The first factory in Mauritius generally yields output of higher value than does the second factory.) Investors will keep pouring funds into Mauritius and avoiding South Africa until the MPK in Mauritius falls down to the same level as the MPK in South Africa. So if the marginal product of capital is the same around the world, that fact would be compelling evidence that the capital market truly is a global one and that it is efficient. In their recent paper, "The Marginal Product of Capital," Francesco Caselli and James Feyrer find that today the marginal productivity of capital indeed is pretty much the same all around the globe.[5] This finding is further evidence that today's economy is genuinely and highly globalized.

FIGURE 1.2
Investing across Borders



Source: 2005 Annual Report: Racing to the Top, Federal Reserve Bank of Dallas, Exhibit 1.

Likewise, people are today much more globalized than in the past. International tourist arrivals, measured as the number of people arriving as tourists in foreign countries as a percent of destination countries' population, has grown steadily since the end of World War II. Today it is twenty-four times higher than in 1950. And even when we are at home our real-time connectedness with the rest of the globe is greater than ever. Of course, television and radio have long brought the sights and sounds of the world into our living rooms, but even in just the past 15 years the number of minutes of international telephone calls made by people around the world has gone from less than 40 billion in 1991 to about 135 billion in 2004—more than a three-fold increase. The Internet further boosts this global interconnectedness, bringing into our homes—or into even the palms of our hands!—instantaneous and often free access to newspapers, magazines, books, blogs, and other venues of ideas from all corners of the earth. We are, indeed, a world connected.

There is no single explanation for this post–World War II increasing globalization, but no doubt one important reason is the dramatic fall in tariff rates since the end of World War II. In 1945 the world's average tariff rate was about 40 percent. Today, in the world's industrial countries, it is close to 5 percent. (Many developing countries keep their average tariff rates higher than this figure.) Because tariffs are a tax on the purchase of goods and services bought from abroad, they raise consumers' costs of buying foreign products. The result is that fewer products are bought from foreign suppliers than would be bought without tariffs. Put differently, tariffs keep the volume of imports and exports artificially low. So as tariff rates fall, the costs of buying goods and services from abroad fall, resulting in more global trade.

Other reasons for this recent increase in globalization include the collapse of most communist regimes in the late 1980s and early 1990s, as well as significant advances in transportation and communications technology. As markets are freed, entrepreneurs in formerly closed economies are better able to offer their products to buyers in other countries. Also, consumers in these formerly closed economies are better able to buy goods and services from abroad. Similarly, globalization intensifies as the abilities of suppliers in one part of the globe to satisfy consumer demands in another part are enhanced by advances in technology.

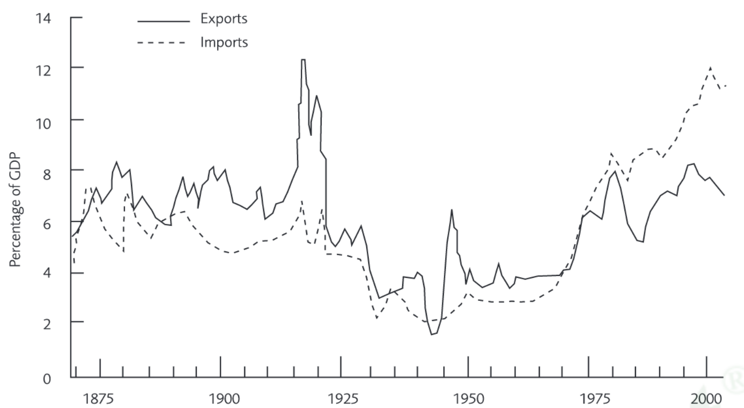
This economic freedom and technological advance are not only among the causes of increasing globalization, they are also among its *consequences*. The June 1989 Tiananmen Square pro-democracy protest and the demonstrations that demolished the Iron Curtain in eastern Europe in the fall of 1989 were fueled by the growing knowledge that ordinary people in these repressive countries gained of the standard of living and the political freedoms enjoyed by citizens of democratic capitalist countries. This knowledge, in turn, was conveyed by better and lower-cost telephony and fax machines that increasingly connected the citizens even of repressive countries with citizens of the free world. And, of course, as more and more people from around the world are free to compete and to cooperate in global markets, more creativity and effort are poured into the information technology and transportation industries, quickening their growth and improving their outputs.

GLOBALIZATION IN THE UNITED STATES

What's true for the world in this case is true for the United States. Since the end of World War II, U.S. foreign trade as a percent of U.S. gross domestic product (GDP) has increased. Figure 1.3 tells the story.

The value each of exports and of imports of merchandise—things you can touch, mainly products produced on farms, in mines, and in factories—was about four percent of U.S. GDP in 1950. After rising very slowly over the next 25 years, the value of U.S. merchandise exports and imports began rising more rapidly. Today, the value of U.S. merchandise exports are about eight percent of GDP, while that of merchandise imports is about eleven percent.

FIGURE 1.3
U.S. Merchandise Exports and Imports as a Percentage of GDP, 1869–2003



Source: Douglas A. Irwin, *Free Trade under Fire*, 2nd ed. (Princeton: Princeton University Press, 2005), 8.

Until very recently, services were a different matter. Unlike most merchandise, services were regarded as "nontradeable." This classification made sense. Traditionally, it was too costly to exchange services over long distances—and it remains so for many services. For example, it makes much more sense for an electronics manufacturer in China to sell a radio to someone in New York than it does for a barber in China to sell a haircut to that same New Yorker. But this traditional difference between services and goods is beginning to break down as inexpensive telephony, fax machines, e-mail, and the Internet increasingly permit services such as accounting, architecture, and even some medical diagnoses to be supplied economically by persons thousands of miles away. The recent controversy over so-called "outsourcing" (which is more properly called "off-shoring") sprang from the expanding ability of service providers to compete for customers located hundreds or even thousands of miles away.

This recent surge in the importance of services in international commerce seems to be only quite modest if the value of services traded internationally is reckoned as a percentage of U.S. GDP. But a more revealing comparison—one that points to services' growing share of international trade—is to see how much of U.S. service output is exported. In 1960, only 1.7 percent of the value of U.S.-produced services was sold to foreigners. By 1997, this figure had risen to 5.1 percent.[6] Because services today make up close to 90 percent of the U.S. economy, it is no surprise that U.S. exports of services is growing.

ARE WE NOW MERELY RETURNING TO THE LEVEL OF GLOBALIZATION OF A CENTURY AGO?

Is this recent globalization unique? This question has sparked a lively debate, with some scholars saying that the world of 100 years ago—just before World War I—was just as globalized as is the world today. For example, Kevin O'Rourke argues that

> the most impressive episode of international economic integration which the world has seen to date was not the second half of the 20th century, but the years between 1870 and the Great War. The nineteenth century, and in particular the late nineteenth century, was the period that saw the largest decline ever in intercontinental barriers to trade and factor mobility.[7]

Similarly, Jeffrey Sachs and Andrew Warner insist that "the reemergence of a global, capitalist market economy since 1950, and especially since the mid-1980s, in an important sense reestablishes the global market economy that had existed one hundred years earlier."[8]

No one doubts that globalization in the late 19th and early 20th centuries was at the time unprecedented. Its growth was spurred not only by the Duke of Wellington's defeat of Napoleon at Waterloo in 1815, which left commercial and industrial Britain as the world's lone superpower, but also by the ideas that took firm root in the western world (and especially in Great Britain) starting in the mid-18th century. These ideas celebrated commerce and industry and condemned government efforts to confine markets to national boundaries. The most significant embodiment of these ideas was the Scotsman Adam Smith's 1776 book, *An Inquiry Into the Nature and Causes of the Wealth of Nations*.[9] (In a subsequent chapter we look more closely at Smith's contributions, as well as at those of other scholars who championed free trade.)

So as Britain ascended to her starring role on the global stage in the early 1800s, the trend of ideas among people in the west, and especially among the British, was toward liberalism. Liberalism (whose meaning has since changed in the English-speaking world) then was centered on confidence in open commerce unrestrained by political borders—in short, free trade. Perhaps no better monument to the power of liberal ideas is the British Parliament's 1846 repeal of the so-called Corn Laws. These statutes imposed high tariffs on British imports of grain, raising the cost of bread throughout the British Isles. These higher prices hit poor people especially hard because the price of bread was a larger fraction of their incomes than of the incomes of wealthier people. Mobilized by the Anti-Corn Law League—which is what we today call a grassroots campaign—free-trade ideas won the day in Britain when these tariffs were eliminated. Leading the way both by word and example, Britain played a major role in sparking and fueling 19th-century trade liberalization and the resulting globalization.

This increased globalization in the 19th and early 20th centuries began paying huge dividends by the 1870s. Between 1870 and 1913, world income per head (per capital world income) grew at an annual average compound rate of 1.3 percent—nearly two and a half times its rate of growth of 0.53 percent during the previous 50 years.[10]

Nor does anyone doubt that with World War I the world embarked upon a long period of economic isolationism. Tariffs and other trade restrictions were raised in almost every country, including the United States (which in 1930 enacted the most restrictive tariff measure in its history, the Smoot-Hawley tariff). Global trade withered as national economies turned inward. By almost every measure, the world from 1914 until the end of World War II had become far less open and less globalized than it was at the dawn of the 20th century. (Evidence recently reported by Niall Ferguson is that among the first of the global markets to start turning inward, to become more national and less global, was the market for bonds. The bond market became less and less global starting in the 1880s.[11]) Of course, during this worldwide retreat from globalization the world suffered the deepest and longest economic depression in history. World War II then raged from 1939 through the summer of 1945. At this war's end, world leaders largely turned away from the severe economic nationalism of the previous 30 years and again moved toward international economic integration—what we today call globalization. This move was understandable: between 1913 and 1950, the average annual growth rate of world per capita income fell dramatically (from 1.3 percent to 0.91 percent).

Martin Wolf summarizes this history:

> With the nineteenth century, the entire rhythm of the world economy changed. . . . It grew rapidly in the late nineteenth and early 20th centuries. But anti-liberal pressures, two wars and huge policy mistakes by the United States in the 1920s and 1930s brought about a catastrophic implosion between 1914 and 1945. Subsequently, a liberal world economy was restored.[12]

This restoration of a liberal world economy, however, was far from instantaneous. Its expansion out of its shrunken state in midcentury was at first slow, but acceleration of this process began about 1980, finally reaching, in the early years of the 21st century, a speed and breadth that was last seen a century earlier. And it continues.

But are we now really no more globalized than we were at the dawn of the 20th century? Almost surely the answer is no; today we are *more* globalized.

While trade's share of U.S. GDP is now about the same as it was a century ago, digging beneath this surface fact reveals that today's globalization is unprecedented.

Economists distinguish the "tradeables" (or merchandise) sector from the "non-tradeables" (or service) sector. The first is made up of tangible things such as cars, ball-bearings, wheat, and iron ore. The second includes services such as software engineering, medical examinations, and education. Although this distinction is losing its meaningfulness, it remains useful for understanding one important argument for why international trade today is more vital to national economies than it was in the past.

This argument is advanced by economists Michael Bordo, Barry Eichengreen, and Douglas Irwin, who point out that while trade's share of GDP is not much higher today than it was a century ago, trade's share of the *tradeables* sector now is twice what it was back then (40 percent today compared to 20 percent 100 years ago).[13] That is, of that part of the U.S. economy traditionally regarded as relevant for international trade—the tradeables sector—twice as large a proportion of it is traded across international borders today than was traded a century ago. Robert Feenstra reports that a similar trend is occurring in most industrialized countries.[14]

The reason that this doubling of the proportion of the tradeables sector that is actually traded has not caused trade's share of U.S. GDP to rise significantly is that a much larger share of today's GDP is accounted for by non-tradeables. As Bordo, Eichengreen, and Irwin recognize, "[i]n a sense, this means that trade is potentially less important than a century ago because non-traded goods loom larger in national production and consumer demand."[15] But these authors quickly and correctly point out what we mentioned a few pages ago, namely, that recent advances in communications and transportation technologies are making services that traditionally were too costly to trade "increasingly tradeable and subject to international competition."[16]

Bordo, Eichengreen, and Irwin also find that there was much less foreign direct investment a century ago than there is today. Direct investments by Americans in foreign countries and by foreigners in the United States are today about three times higher, as a proportion of U.S. GDP, than they were in the early 20th century.

Today's portfolio investments, in contrast, are not a larger share of GDP than they were a century ago—but, importantly, the *range* of industries in which portfolio investments are made is today much larger. After examining the data, Bordo, Eichengreen, and Irwin report that

> What is clear is that foreign borrowing meant almost exclusively borrowing by railroads and borrowing by governments. Consider the composition of pre-1914 portfolio

investment by Great Britain, the leading creditor country of the period. Early estimates suggest that fully 40 per cent of British overseas investments in quoted securities were in railways, 30 per cent were in the issue of governments (national, state and municipal), 10 per cent were in resource-extracting industries (mainly mining), and 5 per cent were in public utilities. Note that portfolio investment in commercial, industrial and financial activities is absent from this list.[17]

Such investments are today more widely distributed among different sectors of the economy. Even though governments, mining, and public utilities continue, as in the past, to attract such funds, today significant amounts of foreign portfolio investments flow also to firms supplying financial services, commercial services, and manufactured goods. This fact reveals two unique features of our early 21st-century global economy. First, as investors today spread their investment funds across more sectors of foreign economies, investors integrate themselves more fully into these foreign economies. It's one thing for, say, the Japanese to buy only government bonds issued by the French government; it's quite another for the Japanese to buy French government bonds along with shares of French industrial firms, French insurance companies, and French wineries. These wider investments give foreigners a greater stake in the countries to which they entrust their funds. One likely result is that the interest and concern that foreign investors have for countries in which they are diversely invested deepens—it certainly broadens—compared to the interest and concern they would have if their investments were concentrated in only one or two sectors.

A related point is that these diversified investors are less likely to pull all of their funds from a foreign country just because one sector of that economy encounters trouble. Being diversified means not having all of your eggs (investment funds) in one basket (economic sector). If Japanese investors own financial interests in many different sectors of the French economy, then a downturn in one of these sectors will likely be offset by an upturn in another sector—or at least by stability in other sectors. Foreign investors, therefore, will less likely flee completely out of France than they would if they were invested only in the sector whose fortunes are souring. In turn, there's less likelihood that a downturn in one sector of France's economy will cause a massive unloading of France's currency (now the Euro) and a resulting sudden and steep fall in that currency's value.

The second unique feature of today's global economy revealed by its greater diversity of foreign investments is the fact that communications technology and other "knowledge enhancing" institutions today are superior to their counterparts of a century ago. One reason people now invest more widely in foreign economies is that information about foreign economies is fuller, more timely, more reliable, and more easily understood than in the past. Because more companies are owned by shareholders, with shares traded publicly on open, active, and organized stock markets and because credit-rating standards are now better and more uniform investors in one country have more accessible information about investment opportunities in other countries than they enjoyed in the past.

WHAT'S NEXT?

So what's next? Is continued globalization inevitable? Is it desirable? If globalization continues, what political and institutional arrangements will likely smooth its way?

These are big questions that are addressed throughout this book in different ways. But one answer we can deliver up front is that globalization is not inevitable. Just as it ended abruptly in the 1910s despite a century-long run of success, it can end today or tomorrow for reasons wholly unpredicted and having nothing to do with globalization's merits or faults. As happened nearly a century ago, wrongheaded ideas about globalization, or the political ascendancy of interest groups whose members stand to profit by restricting people's abilities to trade internationally, might emerge and upend the globalization now underway.

Achieving a deeper understanding of globalization, we must trust, will inspire better policy decisions. And the hope, in turn, is that these better decisions will increasingly enable each of us to benefit as buyers, as sellers, and as citizens in a world market that promotes human well-being.

NOTES

1. See Troy Skeels, "The Globalization Wars," *Eat the State* 7, no. 15 (March 26, 2003). Available at http://eatthestate.org/07-15/GlobalizationWars.htm. (Accessed August 20, 2007.)

2. See Carnegie Endowment for International Peace, "What Is Globalization?" Available at http://www.globalization101.org/What_is_Globalization.html. (Accessed August 20, 2007.)

3. Paul Seabright, *The Company of Strangers* (Princeton, NJ: Princeton University Press, 2004), 13.

4. The Frenchman Frederic Bastiat (1801–1850) explained and championed free trade with clarity, humor, and unmatched gusto. See the collection of his essays *Economic Sophisms* (Irvington-on-Hudson, NY: Foundation for Economic Education, 1964).

5. Francesco Caselli and James Feyrer, "The Marginal Product of Capital," *Quarterly Journal of Economics*, 122 (May 2007), 535–568.

6. Michael D. Bordo, Barry Eichengreen, and Douglas Irwin, "Is Globalization Today Really Different than Globalization a Hundred Years Ago?" *Brookings Trade Policy Forum*, Susan Collins and Robert Lawrence, eds. (Washington, DC: Brookings Institution, 1999), 1–50, 10–11.

7. Martin Wolf, *Why Globalization Works* (New Haven, CT: Yale University Press, 2004), 109.

8. Bordo et al., "Is Globalization Today Really Different," 2.

9. Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Oxford: Oxford University Press, 1976 [1776]).

10. Wolf, *Why Globalization Works,* 107. And this increase in the growth rate of per-capita world income was worldwide, occurring in all regions of the globe, even though in some regions the increase in this growth rate was greater than in other regions.

11. Niall Ferguson, "Political Risk and the International Bond Market between the 1848 Revolution and the Outbreak of the First World War," *Economic History Review*, 59 (February 2006), 70–112.

12. Wolf, *Why Globalization Works,* 107.

13. Bordo et al., "Is Globalization Today Really Different," 5.

14. Robert C. Feenstra, "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives* (Fall 1998), 31–50.

15. Bordo et al., "Is Globalization Today Really Different," 5.

16. Ibid.

17. Ibid., 29–30.

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Two

Globalization and Material Prosperity: What's at Stake?

In 1842 the Treaty of Nanking made Hong Kong Island a colony of Great Britain. Back then, this tiny island, home to just a few thousand fishermen and charcoal burners, was called a "barren rock." Today Hong Kong (which later in the 19th century expanded a bit to include also a few parcels of land surrounding Hong Kong Island, such as Kowloon Peninsula) is one of the world's most densely populated places. Although Hong Kong covers only 422 square miles of land, nearly seven million people live and work there, meaning that its population density is an astounding 16,580 persons per square mile.

Compare Hong Kong's population density to that of the United States (0.85 persons per square mile)—or to that of Argentina (38 persons per square mile)—or to that of Laos (71 persons per square mile)—or to that of Ukraine (200 persons per square mile)—or to that of Nigeria (375 persons per square mile) or to that of Belgium (888 persons per square mile) or to that of Africa's most densely populated country, Rwanda (850 persons per square mile)—or to that of nearly any other country you care to name. By any comparison, Hong Kong's population density is off-the-charts high.

In addition, Hong Kong has precious little arable land. According to the CIA's *The World Factbook*, a mere 5 percent, or 21 square miles, of this tiny country's land is arable. This area would be completely filled up by just three average-sized farms from Arizona. And Hong Kong has only one natural mineral of any consequence: feldspar.

Despite these apparent handicaps, Hong Kong is one of the wealthiest places on the globe. Its people enjoy a standard of living similar to that of most western Europeans. Hong Kong's per-capita annual income of $32,900 compares well, for example, to that of Belgium ($31,400), Switzerland ($32,300), France ($29,900), Sweden ($29,800), Germany ($30,400), Great