

European imperialism and Great war

Europe in International Economy
2017

United States

- Starting as a **colonial** type **economy** -> expanding **primary exports** at a fast rate -> **1870** major **industrial power** (inward oriented);
- **1870** – still essentially **agrarian state**, but shrinking employment and output - > **manufacturing**;
- **Leading industry: Cotton textile** (value added 16k USD in 1805 -> 930k in 1820 -> 48,4mil in 1860), coal, iron mining;
 - Using **GB technology** first – **innovations**, different form of **factory organization**;
- US technology leading in wood-working machinery, high-pressure steam engines,
 - **American system of manufacture** – the **mass production** of **composite articles** using **interchangeable** parts;
- By 1870 US 23% of world industrial output (despite civil war);
- Rich in **land** and other NR as well as in **capital** – but **short of labor**:
 - Tend to **go for innovations** - saving labor, **capital** (physical, human) intensive economy;
- **Europe (FT window)** main market for US **primary product exports**, creating **ELG** in critical period.



A VIEW of the **BOMBARDMENT** of Fort M^cHenry, near Baltimore, by the British fleet taken from the Observatory, under the Command of Admirals Cochrane & Cockburn on the morning of the 13th Sep^r 1814 which lasted 24 hours, & thrown from 1500 to 1600 shells in the Night attempted to land by forcing a passage up the ferry branch but were repulsed with great loss.

- (References)*
- A. Fort M^cHenry
 - B. Linnæus
 - C. Admirals fleet
 - D. British ship "Oriskany"
 - E. Ferry and fort.

Table 2–24. Structure of Employment in the Netherlands, the United Kingdom and the United States, 1700–1998
(per cent of total employment)

		<i>Netherlands</i>	<i>United Kingdom</i>	<i>United States</i>
1700	Agriculture	40	56	n.a.
	Industry	33	22	n.a.
	Services	27	22	n.a.
1820	Agriculture	43 ^a	37	70
	Industry	26 ^a	33	15
	Services	31 ^a	30	15
1890	Agriculture	36 ^b	16	38
	Industry	32 ^b	43	24
	Services	32 ^b	41	38
1998	Agriculture	3	2	3
	Industry	22	26	23
	Services	75	72	74

a) 1807; b) 1889

Source: Maddison (1991a), p. 32 for 1700; Maddison (1995a), p. 253 for the United Kingdom and the United States 1820–90; Netherlands 1807 and 1889 from Smits, Horlings and van Zanden (2000), p. 19; 1998 from OECD, *Labour Force Statistics 1978–1998*. Agriculture includes forestry and fishing; industry includes mining, manufacturing, electricity, gas, water and construction; services is a residual including all other activity, private and governmental (including military).

European Imperialism

- Western countries (UK, FRA, NED, USA) forced its way into **untouchable territories** (**China** 1842+1860, **Japan** 1854+1868);
- **Informal empire** – strong influence (LATAM, Egypt, Ottoman e., Persia);
- **Territorial imperium** (India, Burma, Java, Africa);
- **Deindustrialization** (China, India, Ottoman e.);

Table 2–22a. Levels of GDP Per Capita in European Colonial Powers and Former Colonies, 1500–1998
(1990 international dollars)

	1500	1700	1820	1913	1950	1998
Britain ^a	762	1 405	2 121	5 150	6 907	18 714
France	727	986	1 230	3 485	5 270	19 558
Italy	1 100	1 100	1 117	2 564	3 502	17 759
Netherlands	754	2 110	1 821	4 049	5 996	20 224
Portugal	632	854	963	1 244	2 069	12 929
Spain	698	900	1 063	2 255	2 397	14 227
China	600	600	600	552	439	3 117
India	550	550	533	673	619	1 746
Indonesia	565	580	612	904	840	3 070
Brazil	400	460	646	811	1 672	5 459
Mexico	425	568	759	1 732	2 365	6 655
United States	400	527	1257	5 301	9 561	27 331
Ireland ^b	526	715	880	2 736	3 446	18 183

India

- **GB India most populous** part of empire, second trade partner (US);
- **EIC** (monopoly in India till 1813; China till 1833; India to GB gov. 1858);
 - Primary concern always to make **money for shareholders**, not to govern a colony – taxing and trading – chief servants extremely wealthy;
 - **Bengal** (1757 Plassey) – **tax collection** rights, **enormous burden** on peasants;
- Drain of the annual sums sent to GB by EIC **impoverished** the country, reduced its savings and investment, government was required to **borrow** to meet its obligations- enlarged external debt;
 - Indian **taxpayers** had to meet the **cost** of the **GB army** and of its various wars;
- **GB brought internal peace, unified** the country **administratively**, established the **rule of law**;
- Destruction of **ancient handicrafts**, particularly the production of **cotton textiles** by **import** of **GB** machine-made goods;
 - GB **cotton sold** to India rose from 800k in 1814 to 1bil yards in 1870 ;
 - Weavers able to survive by turning to silk good, producing **luxury good**;
 - 1837 cotton imports only 6% of Indian consumption, 10% 1850; **transport** from the **ports** still primitive, **village craftsmen** kept local customers – **dual economy** persisted for long time;
- **Indian exports** – primary commodities, 1820-30s **indigo** and **opium** (indigo declined 1830, opium leading with 33% of exports); other rice, sugar, seeds, **tea**, later jute;

Table 2–30. Comparative Macroeconomic Performance of India and Britain, 1600–1947

	<i>1600</i>	<i>1700</i>	<i>1757</i>	<i>1857</i>	<i>1947</i>
Per capita GDP (1990 int. dollars)					
India	550	550	540	520	618
United Kingdom	974	1 250	1 424	2 717	6 361
Population (000)					
India	135 000	165 000	185 000	227 000	414 000
United Kingdom	6 170	8 565	13 180	28 187	49 519
GDP (million 1990 int. dollars)					
India	74 250	90 750	99 900	118 040	255 852
United Kingdom	6 007	10 709	18 768	76 584	314 969

China

- Never turned into colony, **hostile to foreign imports** (Kanton-tributary system);
- Traditional flow of **silver into China** to pay for **tea, porcelains, silks** turned into **reverse flow** of specie out of china from **1820s**;
- **Opium** smuggled in → China attempted **block** the trade, war **1830-42**;
- **GB enforced opening** of **ports**, extraterritorial rights for merchants and cession of **Hong-Kong**;
 - **France** and **US** similar privileges – much extended after **second opium war** – treaty of Tientsin **1860**;
 - Tea increasingly dominant in China's export;

Japan

- **Shut** itself for centuries (1633) – **forced to open** its territories in the **late 1850s** – treaty of **1866**:
 - **Not to rise tariffs above 5%** while giving foreigners **extraterritorial rights**;
- Meiji restoration 1868;
 - **Liberal reforms** (general opinion; men of ability; all classes equal; property rights; 1890 constitutional monarchy); modernization (industry, transportations);
 - Economy was **transformed** with **remarkable speed** from 1870s;



PAINTED & ENGRAVED BY R. JENNINGS.

LONDON: PUBLISHED BY MESSRS. FINE, 41, PICCADILLY, CORNER OF ADAM STREET, WAT FORTER.

Ship built by Messrs. Barclay & Crichton, Glasgow.

Length between Decks 100 ft.

Breadth 20 ft.

Depth 10 ft.

Displacement 1,000 tons.

Speed 10 knots.

Weight of Water 475 tons.

The Hon. Co. S. P. Co. Steam Ship **NEMESIS**, *Lieut. W. H. Hall, R.N. Commander,*
 WITH BOATS OF SULPHUR, GALLIOPÉ, LARNE, AND STARLING,
DESTROYING THE CHINESE WAR JUNKS, IN ANSON'S BAY, JAN 7TH 1841.

Engines made by G. Ferracute & Co. Liverpool.

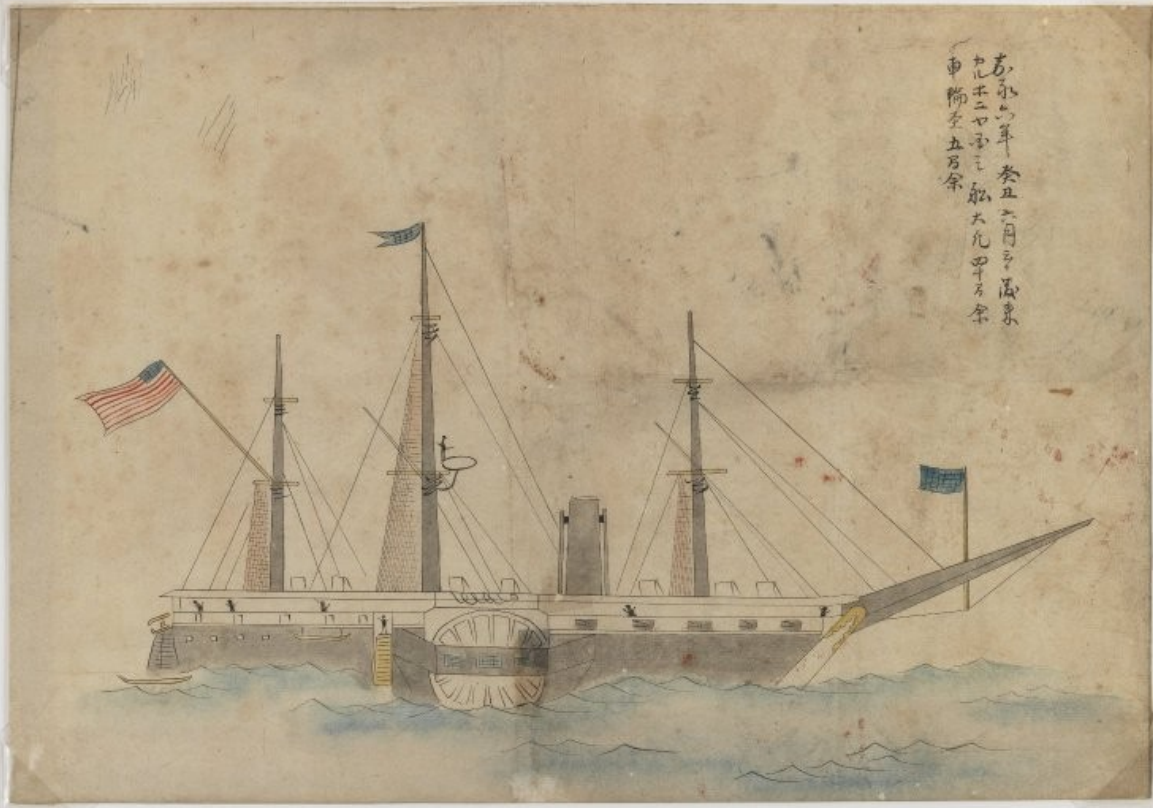
Pressure of Cylinder 44 lbs.

Length of Stroke 4 ft.

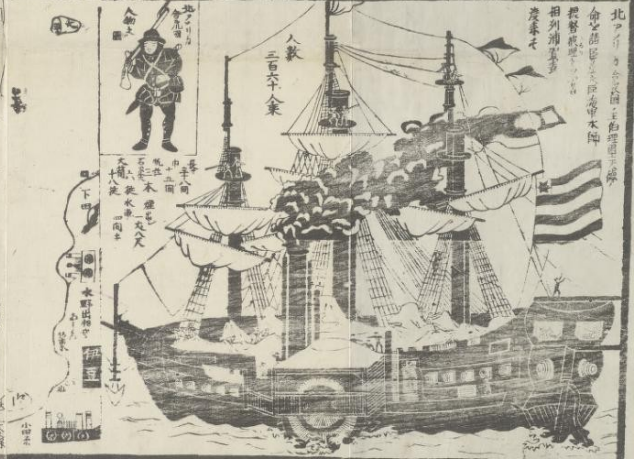
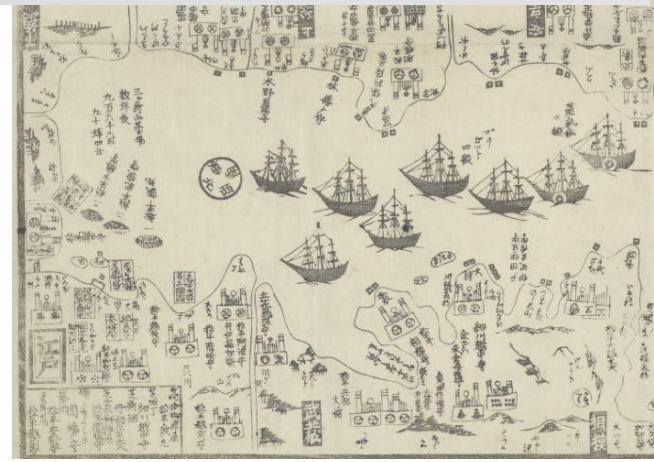
Power 120 Horses.

To The Chairman and Directors of The Honourable East India Company, this Print is very respectfully dedicated

By their most obedient humble Servant *E. Duncan?*



濱	武	下	所	三	崎	三	只	相	力	助	御	同	津	大	賀	浦	力	助	御	宮
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高	香	三	河	香	一	同	香	一	只	山	殿	御	井	大	賀	浦	力	助	御	宮
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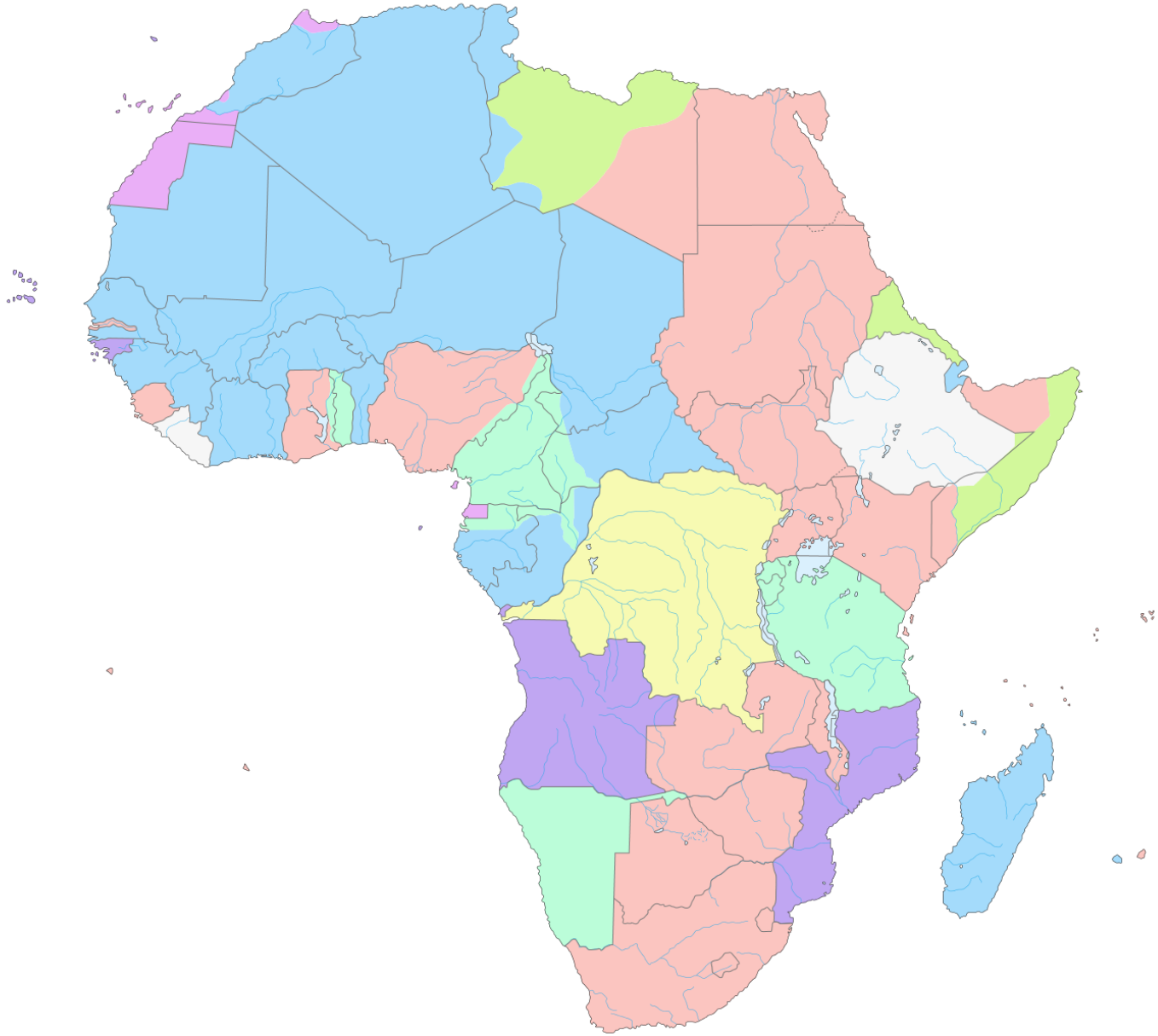


Egypt

- **Mohammed Ali** (since 1805, left 1848) - attempted to turn Egypt into a **modern economy**;
 - Extensive **irrigation** and canal works – forced labor;
 - Range of **industrial plants** was set up with European experts; founded schools and colleges – sending **students** to Europe;
- Ali forced peasants to sell their **crops** at a **fixed low price** – reselling abroad to finance his **industrial ventures**;
- Continued by Ali's successors – built roads, railways, steam shipping; Egypt contributed to Suez;
- Most successful was growing of **long stapled cotton** - production increased 8x 1820-1860 (but textile industry failed);
- Despite partial success, **no break through** into modernity;
 - Incomes remained low, the modern sectors remained enclaves;
- **Causes**: **lack of skill**, ability among managers and workers, unveiling coerced labor, **corruption**, costly **imported machinery**, delayed spare parts, lack of **coal**;
- 1860s and 1870s **serious debt** (UK) – forced to accept **external fiscal control**.

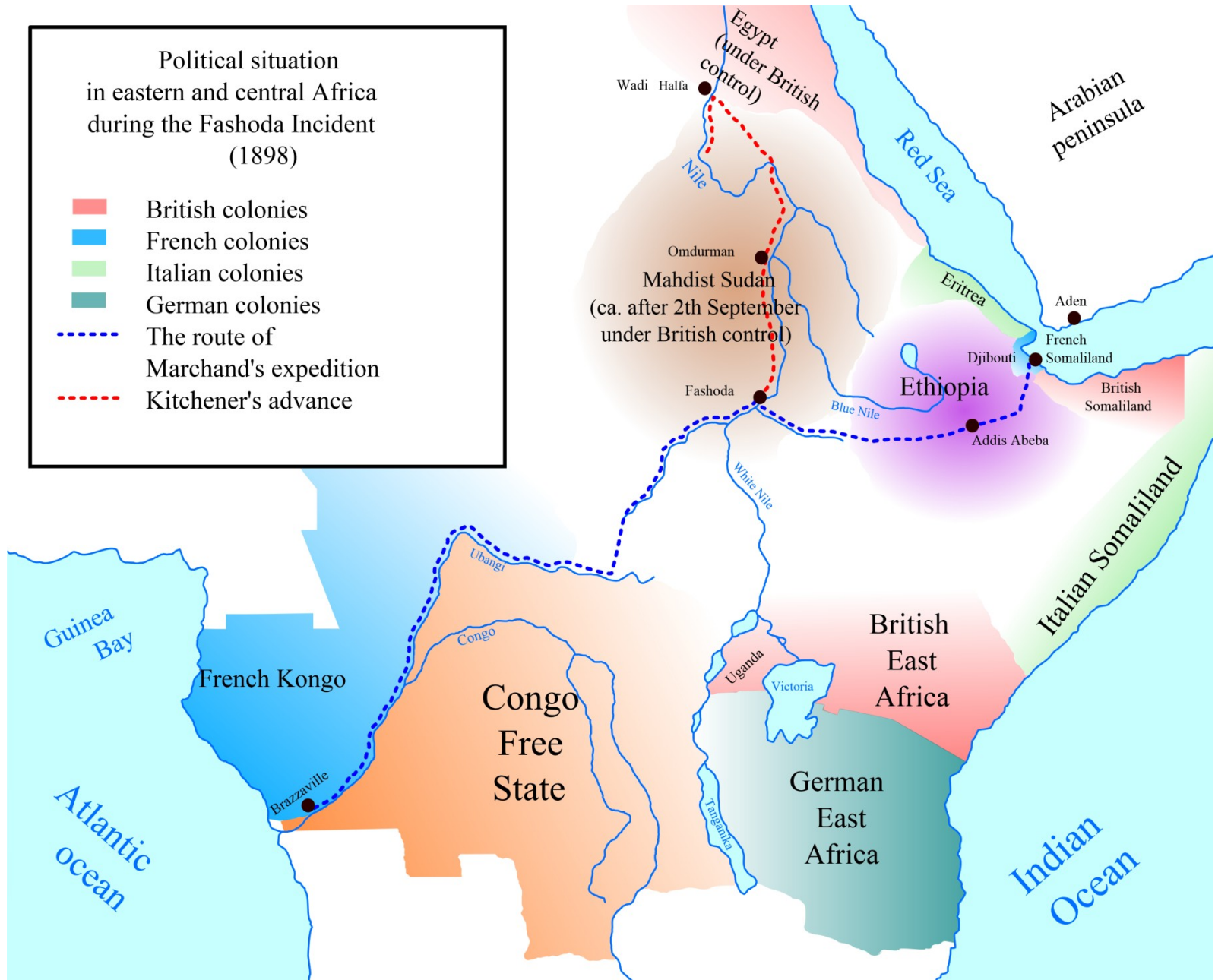
Ottoman Empire

- Classic example of economy starting out from a **level comparable** with that of **Europe** in **1800**:
 - Not only failed to keep up, but experienced **decline** and **deindustrialization**;
- Some **traditional craft** industries **survived** – silk robes, pearl goods, damascene arms, morocco leather, but others – **cotton textile** – destroyed by European industry;
- Political and economic weaknesses – **commercial treaty** with **GB 1838** opened **country** to foreign imports, **limited duties** and **privileged** foreign **merchants** – exempt from provincial tariffs;
 - 1856 monopoly for coastal traffic granted to foreigners;
 - Incompetent and corrupt administration;
- Contact with Europe encouraged the production of **primary goods** – cotton, tobacco for export;
- From **1854** government forced to take up **foreign loans** – 1860 it privileged the foreign run Ottoman bank;
 - By **1869** empire owed 76mil. pounds abroad – received only about half – very little used on productive enterprises;
 - **Growing foreign control** over Turkish administration;
- Similar story **Persia**: **forced open** by **treaty with GB 1841** – exports stagnated between 1830-1860.



Political situation
in eastern and central Africa
during the Fashoda Incident
(1898)

- British colonies
- French colonies
- Italian colonies
- German colonies
- The route of
Marchand's expedition
- Kitchener's advance



First World War

- In a generation, Europe **threw away** a legacy that had taken centuries to accumulate (*Aldcroft*);
- **Output and export** levels well **down** on those of **1913**, even by mid1920s, **markets lost** for ever;
- European **share of international trade** down from **59 to 48%** (1913-1920); **US** more **manufactured** output than Europe combined;
- Later in period: increasing importance of **totalitarian powers** – **USSR** and **GER** (USSR, GER, ITA, JAP increased share in industrial production from 22% to 38% 1929-1938);
- **US failed** to assert its **leadership**;
- Problem: **longer borders** in Europe as a consequence of establishment of **new countries** (A-H, RUS empires) → **nationalism** and **protectionism**;

0 500 KM



Military alliances in 1914

-  Central Powers
-  Triple Entente
-  Slavic allies of Russia
-  minority groups in Austria-Hungary

Relative manufacturing shares (% of world output)

	1913	1929	1938
USA	35,8	43,3	28,7
USSR	5,5	5,0	17,6
GER	15,7	11,1	13,2
UK	14,0	9,4	9,2
FRA	6,4	6,6	4,5
ITA	2,7	3,3	2,9
BEL	2,1	1,9	1,3
JAP	1,2	2,5	3,8

Impact of WWI on European position in IE

- **US** (CAN, AUS, ARG) **production** and sales **grew** during war:
 - **commodity** and **food** prices were high; **markets** were **secured** (no competition from Europe);
- **Farmers** expanded production, invested into **new technologies** → borrowing; after war **restoration** of E **production**... **crisis**;
- **Non-European countries** (LATAM, Asia):
 - **WWI: lost** source of **imports** of **manufactured** goods from Europe → **industrialized** (or imported from US);
- **European** producers faced **new competitors** (US and home firms) after war... at the same time was **export revenues** badly **needed**;

World War trade flows

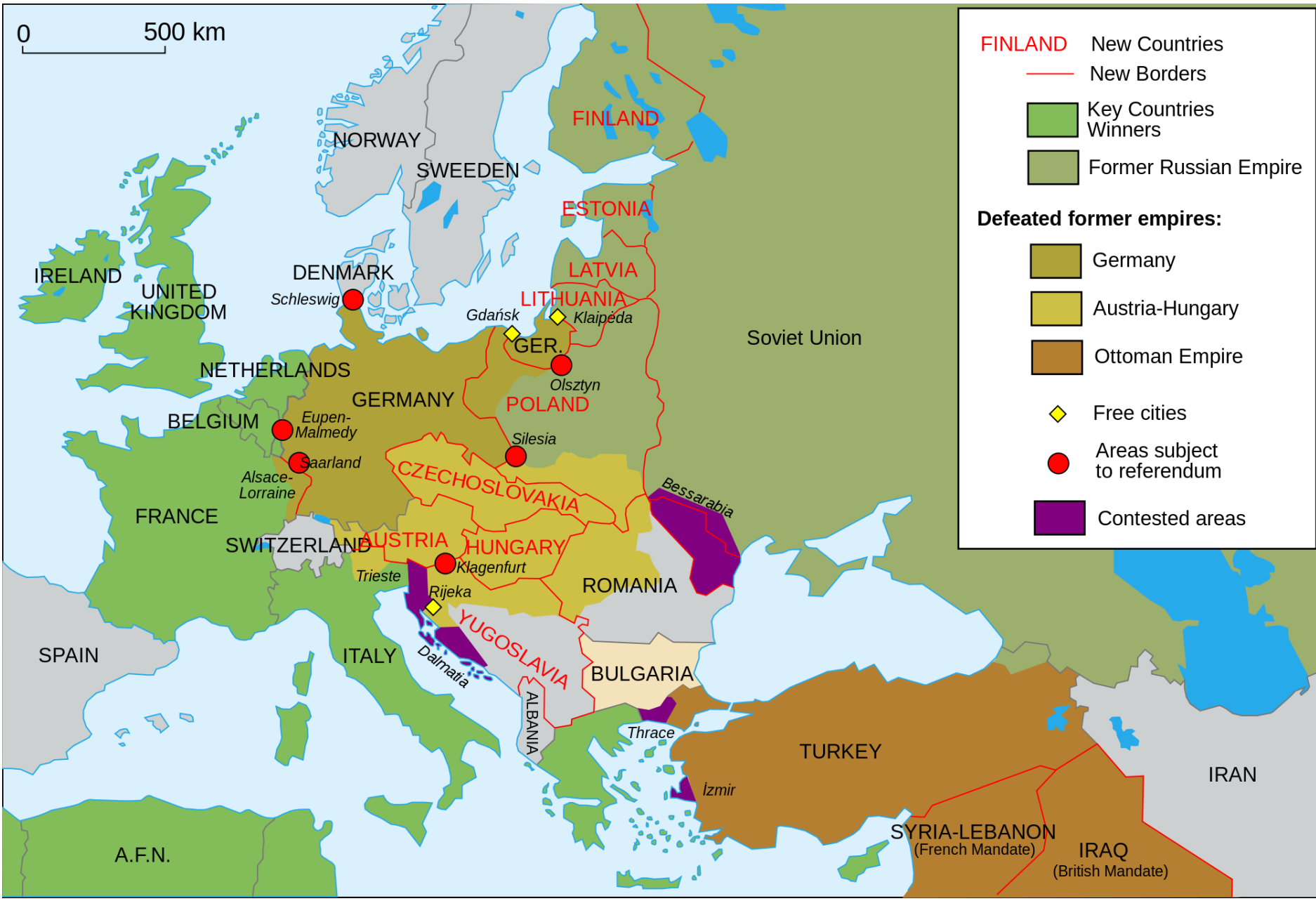
	Austria-Hungary (bill.)		France (mill.)		Germany (bill.)		Russia (mill.)		UK (mill.)	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
1913	3,51	2,99	8,421	6,880	10,751	10,097	1,374	1,520	659,1	525,2
1914	2,98	2,24	6,402	4,869	8,500	7,400	1,098	956	601,1	430,7
1915	3,85	1,43	11,036	3,937	7,100	3,100	1,139	402	752,8	384,9
1916	6,09	1,63	20,640	6,214	8,400	3,800	2,451	577	850,9	506,3
1917	5,08	1,81	27,554	6,013	7,100	3,500	2,317	464	994,5	527,1
1918	3,79	1,64	22,306	4,723	7,100	4,700			1,285,3	501,4
1919			35,799	11,880					1,461,5	798,6

	Argentina		Australia		Canada		South Africa		US	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
1913	1,128	1,180	72,5	76,8	619	455	40	28	1,854	2,538
1914	733	916			456	461	34	18	1,924	2,420
1915	694	1,323	58,2	57,9	508	779	30	15	1,703	2,820
1916	832	1,302	70,0	64,1	846	1,179	38	24	2,424	5,554
1917	864	1,250	69,1	86,3	964	1,586	34	29	3,005	6,318
1918	1,138	1,822	55,3	75,1	920	1,269	47	51	3,993	8,159
1919	1,490	2,343	86,3	107,0	941	1,290	47	51	3,993	8,159

	India		Japan		China		Indochina		Indonesia	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
1913	2,022	2,574	795	716	888	628	306	645	464	671
1914	1,550	1,907	671	671	887	555	266	332	412	674
1915	1,487	2,082	636	793	708	653	224	345	390	770
1916	1,710	2,570	879	1,234	805	751	335	391	419	895
1917	1,774	2,572	1,201	1,752	856	721	374	430	385	778
1918	2,018	2,690	1,902	2,159	865	757	363	455	556	676
1919	2,371	3,503	2,501	2,379	1,008	983	751	1,051	740	2,146

The Politics of Peace

- **New geographical configuration** – attempt to **ring-fence Germany** + **W. Wilson**: support for **national self-determination**;
- Collapse of empires: **Austro-Hungarian**, Russian, Ottoman;
 - **Third** of the inhabitants of Eastern Europe **stateless**;
 - **Few regarded the settlement as final**;
 - **States in East weak** in every sense;
- **Peace settlement** – for **Germany cause** for resentment and **revenge**;
- War **guilt clause** – Article 231 of the Treaty of Versailles;
- Disastrous outcome of Paris **peace Conference (Versailles treaty)** for **Germany**:
 - **Loss** of 13% land, 10% citizens, 75% ore, 25% coal reserves;
 - colonies were occupied, foreign investments confiscated -> how to import **raw materials** (to produce to pay reparations) without **hard currency**?
 - Drastic **reparations** (33 bil. USD=200% GDP);
 - Occupation of the **Ruhr** 1923-25 by France;
 - Rampant **inflation** 1:4,2 in 1914 – 1:4,2 quintillion in 1923;
 - **1923 real GDP on 50%** of 1913...**US** starts to **lend** to GER
 - (Dawes plan 1924, Young plan 1929 -> 1988);
- **Locarno** 1925 GER refused to guarantee her eastern borders;



0 500 km

FINLAND New Countries

— New Borders

■ Key Countries
Winners

■ Former Russian Empire

Defeated former empires:

■ Germany

■ Austria-Hungary

■ Ottoman Empire

◆ Free cities

● Areas subject to referendum

■ Contested areas

NORWAY

SWEEDEN

FINLAND

ESTONIA

LATVIA

LITHUANIA

GER. Gdańsk Klaipėda

Soviet Union

DENMARK Schleswig

GERMANY Olsztyn

POLAND Silesia

NETHERLANDS

GERMANY

BEELGIUM Eupen-Malmedy

FRANCE Alsace-Lorraine Saarland

SWITZERLAND

AUSTRIA TRIESTE

HUNGARY KLAGENFURT

ROMANIA Bessarabia

YUGOSLAVIA RIJEKA

ALBANIA Dalmatia

BULGARIA Thrace

TURKEY Izmir

IRAN

SYRIA-LEBANON (French Mandate)

IRAQ (British Mandate)

IRELAND

UNITED KINGDOM

FRANCE

SPAIN

ITALY

A.F.N.

Reparations problem

- During war **US lend** to GB, FRA, BEL and others app **12bil. USD** – insisted on **repayment** (part of **US isolationism**/free riding);
- GB and especially FRA planned to raise money through **reparations** extracted from GER (33bil. USD) – unrealistic (FRA occupying the Ruhr area 1923-25) – paid at most 25%;
- **Peace settlement** failed to make adequate **provision** for the economic **reconstruction** of Europe;

CEE (DCs) Debt Problems

- CEE relied on **world markets** for the **sale** of their **primary products** + **depended** on **imported capital** for development;
 - Late **1920s: western markets** were **less open** and the **terms of trade** were turning **against primary** producers (1925-1929 prices of agri.prod. 30% down, stockpiles rose by 75%);

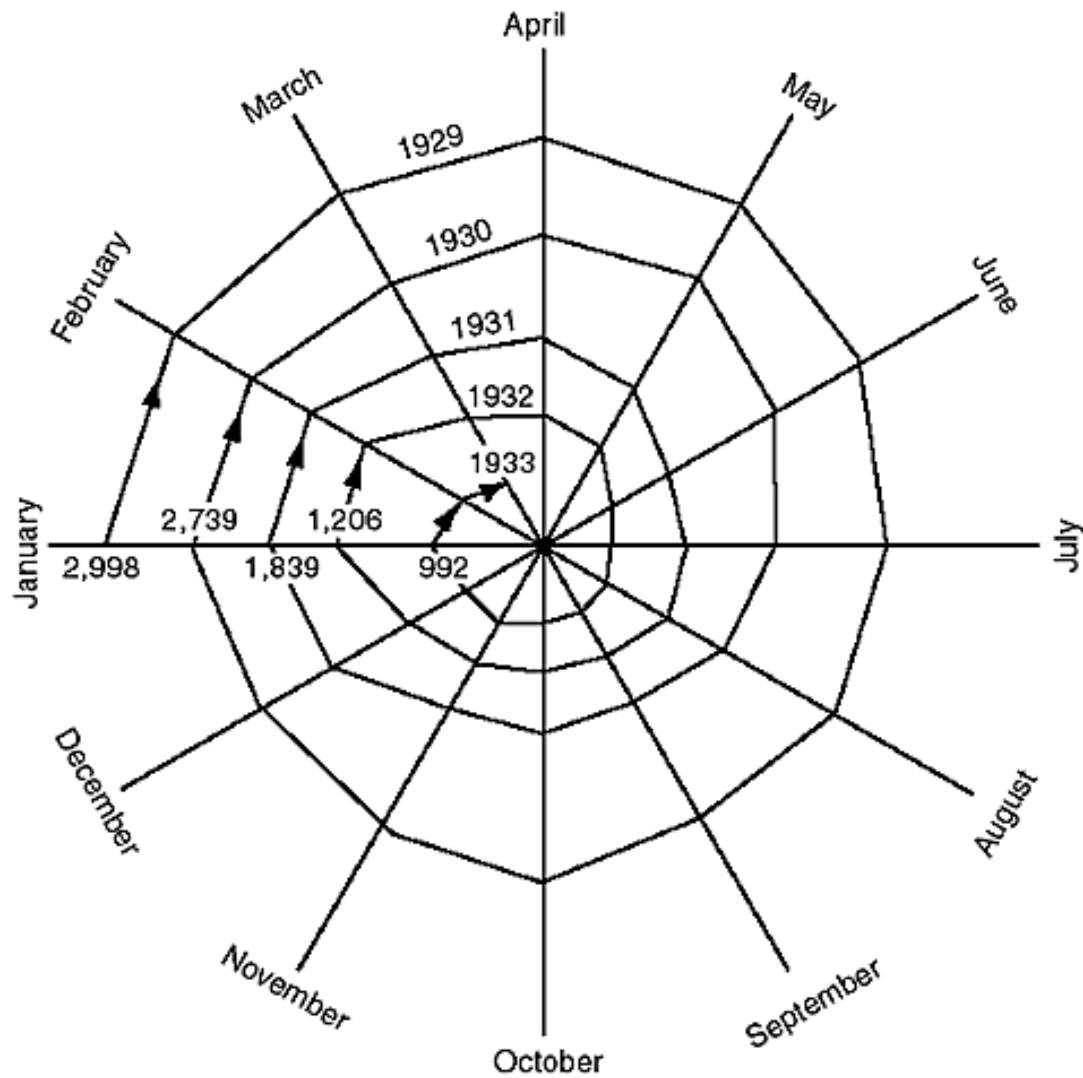
Indebtedness

- CEE relied heavily on **capital imports** to balance external accounts;
 - HUN, POL, BUL, YUG – half of inflows to **cover trade deficit**, most of rest to cover foreign **debt**;
 - By **1929 inflows** **barely sufficient** to cover **interest** payments and dividends;
 - **Germany: heavy debtor** – complicated by **reparation** payments;
- War debts + reparations + weakening commodity prices + trade deficits + **...suction** of **funds back to NY** as a result of the **US stock market boom** → **USD shortage**;
 - **US cutback** of **lending 1928** (**tightening** of monetary **policy** to **control** the stock market boom), capital **inflows** to East **Europe stopped**, to **GER halved**;
 - **Germany – inflationary experience** – Reichsbank following a **tight monetary policy** – when the depression set **system fell apart**;

Great depression

- **World slowing down** - only **US stock exchange** grew (black Thursday and Tuesday 24-29 October 1929);
- US contributed to the **spread of panic** – (1922 Fordney-McCumber tariff) **1930 Smoot-Hawley tariff** (attempt to protect US farmers);
 - when the **Creditanstalt** of Austria fell in **1931**, the global deficiencies of economic nationalism became apparent:
 - U.S. **imports decreased** by **66%** from US\$4.4 billion (1929) to US\$1.5 billion (1933), and **exports** decreased **61%** from US\$5.4 billion to US\$2.1 billion;
 - U.S. **imports from Europe** decreased from a 1929 high of **\$1,334 million** to just **\$390 million** during 1932, while U.S. **exports** to Europe decreased from **\$2,341 million** in 1929 to **\$784 million** in 1932;
- Overall, **world trade** decreased by some **66%** between 1929 and 1934 (33% in real terms);

THE KINDLEBERGER SPIRAL



Charles Kindleberger, "The World in Depression."

Disintegration of world trade

- **Indebted** countries **didn't have** sufficient **access to markets** and therefore to USD earnings;
 - **raised tariffs**: to **earn USD** + to **limit imports** to **stop spending USD**;
 - had to **export** (to earn USD) -> currency **devaluation**;
 - All countries: excessive **NTBs** are introduced (import licenses, TBTs, sanitary regulations, capital controls, monopolies for foreign trade);
 - in turn **DCs don't have market access** for their export commodities and without export earnings **cannot buy** AICs' exports (colonial goods exporters were hard hit);
- **Deflation** – economic crisis – role of **labor unions**;
- Fundamental **limitation of immigration** into **US**;

Results

- **1932**: world **industrial output** decreased to **64%** of **1929**;
- **1938 trade** between AICs was still **lower** than in **1913**;
- isolationism, mercantilism, unilateralism...
- **unemployment** peaks **1932**: **GB 17,2%**, **GER 15,3%**;
- **US 1929-1933**: **-30% GDP**, **-90% investment**, **-50% industrial output**, **unemployment 25,2%**;

Norman Davies (1996):

“The effects of the Depression were psychological and political as well as purely economic. Everyone from banker to bellboy was perplexed. The **Great War** had brought death and destruction; but it had also brought a purpose to life and full employment. **Peace** appeared to bring neither. There were men who said life amidst the danger and comradeship of the trenches was preferable to life on the dole.”

Table 4.3 Great power trade blocs (as % of the core country trade)

	Imports from bloc		Exports to bloc	
	1929	1938	1929	1938
UK: Empire	30	42	44	50
UK: Other sterling bloc	12	13	7	12
France: Empire	12	27	19	27
Italy: Colonies and Ethiopia	0.5	2	2	23
Japan: Korea, Formosa, Kwantung, Manchuria	20	41	24	55
Germany: Balkans	4.5	12	5	13
Germany: Latin America	12	16	8	11.5

Source: Derived from Hillman (1952, 486).

