



Historical Roots of Globalization

- Moderator: **Geoffrey G. Jones**, *Isidor Straus Professor of Business History*
- Panelists: **Rawi E. Abdelal**, *Professor of Business Administration*
William C. Kirby, *Spangler Family Professor of Business Administration, HBS;*
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Overview

Globalization has a homogenizing effect on diverse national cultures. Its pressures cause societies to become more alike, converging in business approaches, political and economic systems, and even aesthetic attitudes. The results of convergence can be hard for people and countries to support though, and over time can mount into an anti-globalization backlash. Globalization today faces a legitimacy crisis that has been unfolding for the past decade, a product largely of financial system convergence.

Context

The panelists shared insights, informed by history, of the convergence that globalization promotes. Each focused on convergence from a different reference point: institutional convergence (in financial systems), policy convergence (in China), and the convergence of consumer preferences (with the beauty industry as an example).

Key Takeaways

- **Globalization creates convergence that threatens what is distinctive about national societies.**

The embrace of globalization over recent decades has led to the expectation that cultural differences in business practice—how firms work, how rules are interpreted and enforced—would wash away over time. Cultures and nations' distinctive brands of capitalism would become homogenized as the world became one big global market.

That is an expectation with some truth to it, but societies seldom want to pay the price of convergence for the market benefits of globalization.

- **Living with institutional convergence pressures casts doubt on the legitimacy of globalization.**

The era of globalization that collapsed early in the 20th century was destroyed, not just by World Wars I and II but by the determination that free-flowing global markets serve the purposes of business, not societies. After World War II, capital market systems were intentionally designed not to be global but to be nationally bound; to preserve what was distinctive about each country's capitalism and to prevent financial crises (such as the crisis of the 1930s) from spreading across borders.

Subsequent decades saw many nations gradually embrace free trade in goods and services as people began to feel that global commerce was safe as long as financial systems remained separate. Over the past 15 years, the barriers to free-flowing capital began to fall as the lessons of the past were forgotten.

National social purposes vary widely, compelling different versions of capitalism and different societal structures (unions, anti-trust laws, welfare systems, etc.). But globalization exerts considerable pressures to converge, pressures that can be antithetical to national social purposes. Ideological convergence encourages nations to adopt the "right" ways to organize societies, embracing free markets and limiting government economic intervention.

A particularly profound and controversial form of convergence is that of financial systems, which can occur when countries open themselves to cross-border capital flows. Challenges associated with converging financial systems may include the following:

- When foreigners can own firms, they make decisions that serve their priorities versus those of the firm's home country.
- When countries commit to fix currencies' exchange rates to one another, monetary authorities have more difficulty acting to address domestic needs. For example, cutting interest rates to stimulate a domestic economy causes investment capital to flee that country in search of higher rates, making currency promises harder to keep.
- National banking systems profoundly affect the types of companies an economy grows. In Italy, small banks all with different accounting practices have traditionally lent to small companies whose viability depended on this kind of banking relationship. Italy did not easily succumb to the cross-border movement of capital that came with Europe's unification. Italians mistrusted financial convergence as it threatened a long-entrenched way of life.

"Financial globalization pressures countries to make their national institutions more and more like each other. . . . [causing convergence] with kinds of capitalism not suited to a society's preference for balancing risks and rewards."

— Rawi E. Abdelal

These convergence pressures have created a legitimacy crisis for globalization that has unfolded over the past decade. This crisis is more profound and broad than the current financial system crisis, though the financial crisis may exacerbate it.

As a result, the United States is now experiencing a renaissance of the idea that unregulated markets create dangers of both crisis containment and institutional convergence. The conventional wisdom pendulum is likely



to swing back to the view that markets should not be unregulated at all times in all circumstances.

"We're seeing a different moment in globalization as the pendulum swings back to where it was in the 1950s and 1960s; we hope it won't swing all the way back to where it was in the 1930s."

— Rawi E. Abdelal

- **China is no island: Its history is one of internationalization; its political policy came from convergence.**

Despite the perception of many in the West that China existed in isolation prior to opening up in 1979, China has a long history of internationalization, shaped by interaction and intersection with other cultures via trade and invasion.

"China's history—past and present—has been built on a bedrock of internationalization."

— William C. Kirby

When the People's Republic of China was established in 1911, it was recognized that ancient Chinese traditions were not designed for success in the 20th century. In response China borrowed its university model from Germany, its industry model and military ethic from America and Great Britain, and its political model from the Soviet Union.

The Sino/Soviet alliance during the 1950s aligned China's political structures and policies with the Soviet Union's in ways that still define the nature of China. Without China's convergence with the Soviet Union (or arguably emulation of it), there would be no Chinese Communist Party or People's Republic of China.

When China isolated itself from the West in the 1960s and early 1970s, it was by its own design. Even as China has become more open economically, Chinese leaders remain staunchly opposed to Western democracy. The Communist Party has no intention of loosening its political control. The state will not be embracing democracy or the American version of capitalism even as China has allowed its socialist economic model to take on shades of capitalism.

"The state has stepped back and now allows people to get rich. . . . That doesn't mean the state has bowed out. . . . They mean it when they say China has a socialist market economy; this means continued political control."

— William C. Kirby

Professor Kirby has a message for Americans doing business in China: "Don't believe that the State, the government, and the Party don't matter, critically."

- **The history of the beauty industry shows how consumer attitudes can converge across the globe.**

Historically, beauty and medicine were the same. People drank perfumes to make them feel better, and used herbs to cure and make themselves more attractive.

That changed during the 19th century when chemistry and marketing transformed a craft linked to medicine; entrepreneurs altered both people's images of human beauty and the acceptability of making oneself more attractive. For example, soap wasn't broadly used in the West until the mid-19th century when marketers started to equate its use with hygiene. Use then grew in the late 19th century as marketers linked soap with beauty. When soap became linked to aspirations, consumption soared.

Throughout most of history, images of beauty have varied dramatically by culture. In early 19th-century Japan, blackened teeth, shaved eyebrows, narrowed eyes, and white faces were deemed beautiful. During the 20th century, globalizing beauty companies and the media spurred convergence of female beauty standards around the world—Western standards. This could be seen through the use of Western models in Asian countries.

In recent decades a new trend has emerged: Western perceptions of beauty have expanded beyond traditional borders, and over the past ten years, the industry's globalization has promoted increasing diversity of beauty standards. Global brands are "spreading out" and taking local identities. Global cosmetics companies are now using local models in each market. Standards of beauty are diverging again.

"Global brands are spreading out and taking on local identities. . . . The new globalization is widening, not diminishing choice. This reflects consumers' desires to be both global and local—and above all, individual."

— Geoffrey G. Jones

This growing divergence—versus convergence—might imply pressure against globalization. Alternatively, large global companies may have simply hit on a way to globalize without the convergence that threatens legitimacy.

Other Important Points

- **Russian tailors.** Even though Shanghai was regarded as having the finest tailors in the world, the desire of Chinese leaders to emulate Soviet leaders led the Politburo of China to have all of their clothes made in Moscow.
- **The (not so) Great Wall.** Professor Kirby pointed out that the Great Wall never kept anyone out of China who truly wanted to enter.
- **Addictive commodities.** The two most significant global commodities of the late 18th and early 19th centuries were tea and opium. They were enormous businesses with global consequences. Of these commodities, the British were addicted to tea (and the taxes on it, which comprised 20-30% of the revenues for the British Treasury) and the Chinese were addicted to opium.



Speaker Biographies

Geoffrey G. Jones (Moderator)

Isidor Straus Professor of Business History, Director of Research

Geoffrey Jones is the Isidor Straus Professor of Business History and director of Research at HBS. He holds BA, MA, and Ph.D. degrees from Cambridge University and an honorary doctorate in economics and business administration from Copenhagen Business School. He taught at the London School of Economics and at Cambridge and Reading Universities in England. He was the Thomas Henry Carroll Ford Foundation Visiting Professor at HBS between 2000 and 2002 and has also held visiting professorships at Gakushuin University, Tokyo, and Erasmus University, Rotterdam.

Jones researches the history of global business. He has written extensively on the evolution of international entrepreneurship and multinational corporations, specializing in consumer products and services such as banking and trading.

His books include *British Multinational Banking 1830–1990* (1993), *The Evolution of International Business* (1996), *Merchants to Multinationals* (2000), and (edited with Franco Amatori) *Business History around the World* (2003). He has also published *Multinationals and Global Capitalism: From the Nineteenth to Twenty-First Century* (2005) and *Renewing Unilever: Transformation and Tradition* (2005). Jones is coeditor of the *Oxford Handbook of Business History* (2008). He is now researching the globalization of the beauty industry.

Rawi E. Abdelal

Professor of Business Administration

Rawi Abdelal is a professor at HBS in the Business, Government, and International Economy unit. His main area of expertise is the international political economy, and he is a faculty associate of Harvard's Davis Center for Russian and Eurasian Studies and Weatherhead Center for International Affairs.

Abdelal's first book, *National Purpose in the World Economy*, won the 2002 Shulman Prize as the outstanding book on the international relations of Eastern Europe and the former Soviet Union. His second book, *Capital Rules*, explains the evolution of the international financial system's social norms and legal rules. Abdelal is now at work on *The Price of Power*, a book that explores the relationships among political leadership, state-building, foreign investment, and geopolitics in the Russian energy sector.

In 1999 Abdelal earned a Ph.D. in government from Cornell University, where he had received an MA in 1997. At Cornell Abdelal's dissertation won the Kahin Prize in International Relations and the Esman Prize. He was a President's Scholar at the Georgia Institute of Technology, where he received a BS with highest honors in economics in 1993. His

recent honors include HBS's Robert F. Greenhill Award and the Student Association's Faculty Award for outstanding teaching in the required curriculum.

William C. Kirby

Spangler Family Professor of Business Administration, HBS; T.M. Chang Professor of China Studies, Harvard University

William Kirby is the Spangler Family Professor of Business Administration at HBS and the T.M. Chang Professor of China Studies at Harvard University. He is a Harvard University Distinguished Service Professor. He serves as director of the Fairbank Center for Chinese Studies and chairman of the Harvard China Fund.

A historian of modern China, Kirby examines China's business, economic, and political development in an international context. He has written on the evolution of modern Chinese business (state-owned and private); Chinese corporate law and company structure; the history of freedom in China; China's environmental challenges; relations across the Taiwan Strait; and China's relations with Europe and America. His current projects include case studies of contemporary Chinese businesses and a comparative study of higher education in China and the United States. He is an honorary visiting professor at Peking University, Nanjing University, Chongqing University, and Fudan University.

Kirby has also held appointments as visiting professor at the University of Heidelberg and the Free University of Berlin. Before coming to Harvard in 1992, he was professor of history, director of Asian studies, and dean of University College at Washington University in St. Louis. At Harvard, he has served as chair of the History Department, director of the Asia Center, and, most recently, dean of the Faculty of Arts and Sciences. As dean of Harvard's largest school from 2002 to 2006, he initiated major reforms in undergraduate education in Harvard College; enhanced Harvard's international studies at home and abroad; substantially increased financial aid in the College and the Graduate School of Arts and Sciences; supported the growth of the Division (now School) of Engineering and Applied Sciences; and oversaw the construction of major new buildings in the life sciences, engineering, and the arts. During his tenure the faculty expanded at its most rapid rate since the 1960s.

Kirby holds degrees from Dartmouth College and Harvard University, and an honorary doctorate from the Free University of Berlin. He is a fellow of the American Academy of Arts and Sciences.