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Capitalising on Change in a Globalising World:
A View from Hamburg

Globalisation has always been a process of far-reaching and often unexpected change. Today, more than ever before, the world is characterised by increasingly fast and deep transformations, boundless interconnectedness and pervasive interdependencies. The consequences are unprecedented levels of complexity, growing uncertainty and widespread lack of confidence in the future. The only real constant seems to be continual change. Most importantly, however, as in the past, the incessantly moving and further globalising world does not only provide for new risks and threats, but also promises a wide range of new opportunities and chances.

For those who wish to become or remain winners in this relentlessly transforming world there is hardly any other option than to accept the challenges of change, to try to co-shape the development and, whenever this is not possible, to flexibly and innovatively adapt to the new circumstances. From a policy perspective this means enhancing the resilience of economy and society in the face of the unpredictable and establishing a general economic and social climate that supports a positive attitude towards transformative innovation. This applies to countries and regions as well as to cities.

To provide concreteness to the general policy analysis based on the history of globalization at large, I have chosen my hometown, the Free and Hanseatic City of Hamburg, for illustration purposes. Hamburg, I found out, is alongside London the only city in the world which benefited from globalisation since more than a thousand years, - being still today internationally important. And there is no secret why Hamburg has flourished in the long-run. Throughout history the city succeeded in establishing economic and socio-political frameworks which made market processes compatible with overriding political goals without durably impeding functioning of markets and entrepreneurial activities.

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Globalisation is not a phenomenon of modern times. Applying the term to the relevant world economy at any time results in the possible distinction

of at least six different phases of globalisation over the past two to three thousand years:

- *First*, an early period which – in an Eurocentric view – covers the whole time span from the golden age of Athens, under the leadership of Pericles, to the end of the Roman Empire.
- *Second*, the period of the heyday of Venice in the Mediterranean region as well as of the Hanseatic League in North and North-Western Europe in the late Middle Ages.
- *Third*, the early colonial age starting with the voyages of discovery of Portuguese and Spanish and ending with the maritime dominance of the Dutch.
- *Fourth*, globalisation on a world-wide scale with intense intra-European rivalries and the incessant geopolitical, economic and military rise of England since the middle of the 18th century.
- *Fifth*, the first half of the 20th century with the globalisation of war and between the two World Wars an illusory boom in the 1920s as well as the Great Depression in the early 1930s.
- And *sixth and finally*, the period at the end of which we may possibly find ourselves now, namely globalisation as an American led offensive towards economic growth and prosperity, at least for those regions of the world which became for whatever reasons an integral part of it.

Each of these six phases of the globalisation process is characterised by a considerable widening and deepening of international exchanges, greater economic interdependency and a growing breadth, intensity and complexity regarding the political economic and social implications. In addition, all six phases have been marked by distinct shifts in the economic and financial centres of the world economy.

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In the ancient world it was Athens and then Rome which held the dominant position in the world economy of their time. About 700 years later the heyday of the North Italian city-republics began. Once Venice had asserted itself against Genoa in 1380, the lagoon city was the economic centre of the Mediterranean area and became by far the richest city in the then relevant world.

In contrast to the hegemonistic model of the South, the developments around the Baltic and the North Sea evolved towards a multipolar

configuration of which the core group included about sixty cities, with Lübeck, Hamburg and Bruges among the most important..

The successful exploration activities of the Portuguese and the Spaniards in the 15th and 16th century not only resulted in expanding the reach of European influence and trade to the Americas and Asia, but also in shifting the geographic gravity of international economic relations from the Mediterranean and the Baltic Seas to the Atlantic. Although Seville and, until the unification of Spain and Portugal, Lisbon became the leaders of the globalisation process in military and missionary terms, the centre of the world economy now moved to Antwerp. And this Flemish port remained the economic and financial hotspot of the world economy until after some sixty years it was replaced in this role by Genoa.

The return of the world economic centre to the Mediterranean region was, however, only of a very short duration. From the middle of the 17th century the new hub of the world economy - both in economic and financial terms - was Amsterdam. If the 17th century could be called the Dutch century, the 19th century was England's. Its maritime superiority, its industrial and technological leadership and its huge possessions overseas made Great Britain the first superpower of the modern times, with London the new centre of the world economy.

But by the First World War and even more so during the Second that centre shifted again, with New York trumping London at the helm. The United States would dominate global finance but also the industrial sector. As a consequence, this formerly highly protectionist country now felt strong enough to push for a new world economic order, based on free multilateral trade and an international monetary system anchored in the US dollar

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Participation in the globalisation process and the distribution of related benefits and costs have always been uneven. Looking through history, it appears that dynamic and innovative cities, particularly trading ports and financial centres, always benefited more than the countryside. As regards cities, but also with respect to countries and regions, it is always the same patterns which distinguish the winners and the losers.

The winners are normally characterised by

- a stable governmental and administrative structures,
- a reliable legal and regulatory framework,
- high economic and social dynamics,

- a well educated and disciplined work force,
- a more or less stable currency,
- and in the case of a hegemonic country by political and military power.

In addition to these general patterns, there is always a set of specific economic and social policies which enhance economic growth and wealth creation. This includes liberal settlement and immigration policies, support of universities and research institutes, and last but not least a creative intellectual and rich cultural environment.

As regards the losers, apart from war and tribal disputes, the most common reasons for decline or lagging behind include one or several of these:

- a corrupt government;
- a society that perceives change as a threat rather than an opportunity;
- economic and societal rigidities which hamper adapting to political, economic or technological change;
- domestic policies which do not take sufficiently account of international economic interdependencies;
- a pursuit of policies which have been successful in the past, but are no longer adequate;
- inadequate physical and social infrastructure as well as low educational and health standards;
- and last but not least, a major financial crisis or serious social unrest.

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Athens never recovered from the Peloponnesian Wars. Rome fell – apart from problems at the frontiers - because of inadequate governance, widespread corruption and social unrest.

Venice, even before it suffered from war, declined economically due to over-regulation of both the spice trade and textile production and by ignoring international economic interdependencies.

Lübeck and Antwerp lost out because they did not adapt to changing economic and technological circumstances. Genoa and Amsterdam illustrate the disastrous impact of a sequence of several severe financial crises.

London is one of the very few cities in the world that has benefited from globalisation over the centuries. But it was weakened after two World Wars and the loss of geopolitical and military weight together with the end of the British Empire, in which society had become increasingly rigid and conservative.

Now, as regards New York, the question is whether after the most recent economic and financial crisis, - the third after 1857 and 1930 with world-wide impact which originated there, - the on-going shift in world economic power structures will end its dominance, at least in the longer-term.

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Even if the rise and fall of economic and financial centres in the globalised world is a recurrent pattern of development, there are no compelling reasons for regions or cities not to benefit from globalisation in the very long-run. Although London is no longer, as in the 19th century, the single dominant economic and financial centre of the world economy, it still ranks together with places like New York, Paris and Tokyo as one of the leading global cities.

Another good example of the very few still internationally important cities in the world which have taken advantage of the globalisation process for around one thousand years and is still doing so, is Hamburg, - already a flourishing Hanseatic city when Amsterdam and Rotterdam were just founded and New York, Tokyo, Hong Kong or Singapore did not even exist.

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From its beginnings, at least since the end of the first millennium and even more so after the rise of Lübeck, Hamburg has served as a trading hub at the crossroads between the North Sea and the Baltic Sea region. Around 1320 it became the centre of European beer production, and its exports went to Russia, Holland, England and even Portugal.

In the next phase, mainly due to the English Merchant Adventurers, Hamburg dominated European textile trade and became a gateway to Central and Eastern Europe. In the 17th century it emerged as the hotspot

of the European sugar industry, and by the late 19th century the city had become the leading trade and financial centre on the European continent and the third biggest sea port in the world after London and New York. .

Today, Hamburg is in terms of both population and GDP the most important non-capital city in the European Union and the wider European Economic Area. And although shipbuilding and the oil industry, two of the growth sectors of the city's economy during the 20th century are no longer there, it is still the number one industrial city and trading centre in Northern Europe, including Germany.

In terms of economic activity, it is the world's third most important location for the production and maintenance of civil aircraft. Alongside Rotterdam it operates one of the two leading European container ports. It is the home of Europe's biggest copper smelter and a leader in new energy technologies. And despite all this industrial activity, the city remains a pleasant place to live, winning high scores in lifestyle rankings. In 2011 it was even awarded the title of "European Green Capital".

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Hamburg offers five lessons which are all relevant for any city or region striving for prosperity in today's world:

- *First*, it shows that even a secondary place with no geopolitical and military power can be a major and long-term beneficiary of the globalisation process.
- *Second*, it demonstrates that remaining on the winning side of globalisation implies permanent change in economic and social structures.
- *Third*, it illustrates that lasting success in the globalised world requires a set of policies which - apart from providing a general economic and social climate that is conducive to creative investment and risk-taking - embrace international openness and competition.
- *Fourth*, it exemplifies that government has an important role to play not only in setting the rules of the game, but also in providing appropriate infrastructure and other common goods.
- And *finally*, there is the clear message that policy makers should seek to make market processes compatible with overriding political goals such as income distribution or the environment without durably impeding the functioning of markets and entrepreneurial activity.

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In principle, there is nothing new in this statement. Successful regions and cities have always – although more or less consciously - operated along these lines. What may be new in the foreseeable future, at least compared to the most recent globalisation phase, is once again a major transformation of the geopolitical and broader economic environment.

Despite the two oil shocks, the graduation of a number of newly industrialised countries, several financial crises, the fall of the Soviet-Union, some regional wars and the rise of international terrorism, the sixty-years period between 1945 and 2005 which encompasses the latest and still prevalent sixth phase of the globalisation process, have been by and large a period of a broad and continuous progression. There have been quite a few unexpected discontinuities in the evolution, but no really fundamental trend-breaks.

This may not necessarily represent the most likely development pattern in the future. There are, in fact, several indications that the first half of the 21st century may see the world economy taking ce again a new and completely different trajectory. One such sign is the combination between the increasing unravelling of the post-WWII world economic order under the leadership of the United States and the rise of China together with some other major emerging countries such as India, Brazil and Russia. The other is the shift from a resource wasting and fossil fuel intensive economy towards a green economy.

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The first development may lead to a new world economic order which could not only be characterised by a multipolar power structure, but also by a systemic incompatibility of the economies and societies of some of the major players. Under the assumption that China and probably also the other big newcomers will not - as Europe and Japan have done after 1945 - easily accept the supremacy of the United States, the transition process towards a new stable world economic order is full of uncertainties.

One outcome could be a jointly managed framework at global scale. A second could be a fragmented world economy. A third scenario could be an erratic and volatile evolution where the new rules are established by political power play based primarily on national interest with little responsibility of the main actors for the world economy as a whole.

The now widely accepted move towards a green economy, too, will change the economic and social conditions fundamentally, both at domestic and international level. Quite a few observers consider this new

transformation as acceleration in an already prevailing trend comparable to the advent of the information society. Others presume that it may involve a paradigm shift comparable to the Industrial Revolution of the 19th century.

At any rate, it is obvious that this evolution could well imply a very deep and fundamental change of our economies and societies, the implications which would go much further than just modifying the sources of energy. They could definitively alter the habitual and long-established ways how we produce, dwell, move and consume.

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We live in powerful and unsettling times. Fundamental change is around the corner, but the concrete manifestations are unpredictable. As a consequence, trend extrapolation although already problematic in the past, will be a completely unreliable guide for charting a future course of action. Adopting familiar game plans, reinforcing standard procedures and implementing strategies that were so successful in the good old days of the second half of the 20th century no longer guarantee viable solutions.

What is needed today is the ability to absorb the repercussions of the unexpected and the unforeseeable. That means being able to adjust innovatively and flexibly to rapidly changing political, economic, social and technological circumstances. And, in the political arena, it means extending the boundaries of what interest groups and the public believe is socially acceptable and thus politically feasible. This is a key lesson from the 2,000 year long history of globalisation and the story of one city, Hamburg, which for 1,000 years has steered a hugely successful course through the exciting if sometimes turbulent waters of globalisation.