

# LIMITS TO GLOBALIZATION

North-South divergence

RETHINKING  
*Globalizations*

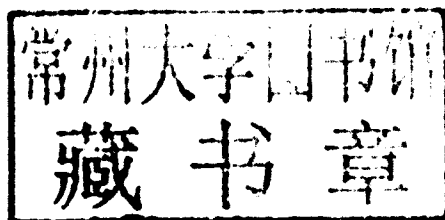
William R. Thompson and Rafael Reuveny



# Limits to Globalization

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William R. Thompson  
and Rafael Reuveny



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# Limits to Globalization

In the post-Cold War era, economic globalization has loomed, at least for some, as the world system's next crisis carrier, creating winners and losers and trampling on the distinctiveness of local cultures. Yet the liberal assumption is that if the market does its job, the poor will catch up to the rich via trade-driven growth and that the economies of developed and less developed countries will gradually converge.

Investigating the processes of economic globalization, this book explores whether it is truly a "global" process. It examines how globalization is experienced around the world, comparing its intensity and impact in both the global North and South. Using a world systems approach and developing a theoretical analysis that builds on the leadership long-cycle approach to global political economy, this book seeks to dispel some of the myths widely propagated regarding economic development. Through a focus on the issues of technological diffusion, debt, conflict, and democratization, the authors demonstrate how and why the asymmetries that have characterized the global North and South in the past and present are growing more acute.

This important book will be of interest to students and scholars of international political economy, globalization, international trade, and development.

**William R. Thompson** is Rogers Professor of Political Science at Indiana University, USA.

**Rafael Reuveny** is Professor at the School of Public and Environmental Affairs (SPEA), Indiana University, USA.

Thompson and Reuveny draw vital connections among six of the most important topics that emerged in the study of global politics over the last half century. Driven by technology, and limited by inequality, this work reveals important structural relationships that will help focus our analysis for decades to come.

Robert A. Denemark *University of Delaware, USA*

Thompson and Reuveny's book brilliantly succeeds in linking the long-run processes of technological diffusion, economic globalization, debt crises, conflict, and democratization, in understanding the dynamics of global inequality and North-South divergence since the late nineteenth century. Both scholars and global policy makers have much to learn from this insightful analysis on the limits to globalization.

Christian Suter *University of Neuchâtel, Switzerland*

A very timely, informed, skeptical overview of a divided world, even if there are marginal changes in the identities of North and South emerging in the present century. Using a variety of empirical methodologies, the authors suggest that further global divergence should be anticipated, with profound implications for human development and security in the second decade of the new millennium and beyond.

Timothy M. Shaw *University of the West Indies, Trinidad & Tobago*

Thompson and Reuveny develop a comprehensive and cogent theoretical argument, supported by rigorous empirical analysis, on the underlying macro-systemic dynamics of global inequality. Their compelling findings call into question the benefits of globalization and the likelihood of universal economic convergence. One of the few truly interdisciplinary works available today on the topics of global development and inequality, with far-reaching implications for democratization and political unrest. A "must read" for scholars of development and policy-makers alike.

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North-South divergence

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# Contents

<i>List of figures</i>	ix
<i>List of tables</i>	xi
<i>Acknowledgments</i>	xiii
1 Unreal and unflat worlds	1
2 Interpreting economic growth and development	17
3 Exploring the North–South gap longitudinally	35
4 Geo-economic limits on technological diffusion	56
5 Limits on globalization processes	79
6 Southern debt crises	95
7 Growth and conflict	108
8 Southern democracy in the long run	129
9 Uneven growth processes and prospects	147
<i>Appendix</i>	156
<i>Notes</i>	170
<i>References</i>	180
<i>Index</i>	193

# Figures

1.1	The real world order model	2
1.2	The North–South gap and some implications	3
2.1	Development and its “deep” determinants according to Rodrik and Subramanian	19
2.2	A technological diffusion model	22
2.3	Investment in the third world	24
3.1	North and South populations	47
3.2	North and South real GDP per capita	48
3.3	The North–South gap with data on 170 states	50
3.4	Southern, Northern, and Brazilian GDP per capita	52
3.5	Southern, Northern, and Indian GDP per capita	52
3.6	Southern, Northern, and Chinese GDP per capita	53
4.1	Decade-averaged North and South economic growth and systemic leadership	69
4.2	Decade-averaged North and South economic growth and leading sector share	70
4.3	Decade-averaged North and South economic growth and leading sector growth	71
4.4	Decade-averaged North and South economic growth and leader’s growth	72
5.1	Decade-averaged trade openness	88
5.2	Decade-averaged systemic leadership and world economic growth	89
5.3	Updating the openness gap	93
6.1	Averaged systematic leadership, world economic growth, and Northern conflict	101
6.2	Five-year-averaged Southern debt problems	102
7.1	Decade-averaged leading sector growth and normalized total conflict	112
7.2	Decade-averaged leading sector growth and normalized Northern conflict	112
7.3	Decade-averaged leading sector growth and normalized North–South conflict	113

x *Figures*

7.4	Decade-averaged leading sector growth and normalized Southern conflict	113
7.5	Decade-averaged leading sector growth and normalized Southern civil war	114
7.6	Disagreements between world-system and lateral pressure arguments	118
7.7	World economic growth and conflict per year	125
7.8	Average world economic growth and conflict per decade	125
8.1	Decade-averaged Southern democracy	141
8.2	Leadership, Southern development, world growth, and Southern conflict	141
9.1	One possible North–South gap future	149

# Tables

1.1	Friedman's flat world thesis	5
1.2	Internet users (per 1000 people)	6
1.3	Subjective ranking of technology hubs	7
1.4	Thirty leading exporters of high-tech products (billions of dollars, 1998–99)	9
1.5	Ingredients for the technological achievement index	10
1.6	Technological achievement index rankings	11
1.7	Leaders and leading sectors	12
2.1	Principal recipients of British foreign investment, 1850s–1914	21
2.2	Less developing area exports (million dollars)	21
2.3	Degree of economic interdependence (per capita exports in constant dollars, 1880=100)	23
2.4	Kriekhaus correlation of European settlers and development	25
2.5	Why geographical location matters	27
2.6	Climate, geography, and wealth concentration	27
2.7	Settlers in 1900 and wealth stratification, 1960 and 2000	30
2.8	Distribution of capital invested abroad by major sources	32
2.9	Impact of war on economic growth, 1960–2000 (average annual growth rates)	33
3.1	Freeman and Perez: Identification of industrial and industrializing states	41
3.2	Northern identifications with alternative thresholds	42
3.3	North–South identifications, 1870–2003	43
3.4	Movement within the South, 1870–2003	45
3.5	Movement within the North, 1870–2003	46
4.1	Proportion of world manufacturing production	58
4.2	The importance of manufacturing to economic development	59
4.3	Estimated shares of new technology in manufacturing output	60
4.4	Theory and reality in technology development	64

xii *Tables*

4.5	Regional shares of developing countries' manufactured exports	66
4.6	Southern firms in the Fortune Global 500 largest corporations	67
4.7	Estimation results: Northern versus Southern economic growth models	73
4.8	Testing the Amsden thesis	76
4.9	Changes in GDP/C and manufacturing as % of GDP	77
5.1	European transoceanic migration, 1846–1932	81
5.2	Estimated migrant stock (thousands)	82
5.3	Migrant stock per 100 population	83
5.4	Selected demographic indicators	84
5.5	2100 Projected population (billions) and factor multipliers	85
5.6	Estimation results for the North	90
5.7	Estimation results for the South	92
6.1	Aggarwal's debt epoch characteristics	96
6.2	Debt estimation results for 1870–1989	103
6.3	Debt estimation results for 1870–1945, 1946–89, and 1960–89	104
6.4	Debt estimation results for 1870–1989, with Southern conflict, North–South conflict, and 1956 and 1986 dummy variables	105
7.1	Cross-correlations, 1870–1992	115
7.2	The expectations of three schools	124
7.3	Empirical effects of variables in the conflict model	126
8.1	Huntington's three-wave scheme	131
8.2	Economic development and third wave democratization	133
8.3	Fraser's alternative schema for waves of democratization	134
8.4	Fraser's evidence for democratization gains in economic upswings	135
8.5	Democratization cross-correlation analysis	142
8.6	Democratization estimation results for 1870–1992	142
8.7	Democratization estimation results for 1870–1913, 1914–92, 1946–92	144
9.1	Comparative economic growth rates	148
A1	Joint significance tests	167
A2	Block exogeneity tests	168

# 1 Unreal and unflat worlds

A popular book in the 1990s, Singer and Wildavsky's (1993) *The Real World Order*, divided the post-Cold War world into two zones – one of peace and the other of turmoil. The peaceful one was composed of wealthy and democratic states located in Western Europe, North America, Japan, and the South Pacific, and comprised about 15 percent of the world's population. The other zone encompassed the rest of the world's population, living in lesser developed states, often authoritarian, and occasionally embroiled in internal and external conflicts. The emergence of such a segmented world, accompanied by the anomaly of a single surviving superpower, was expected to give rise to a new form of international politics. Even so, the authors of this perspective believed that such a world had to be transitional. While the peaceful zone would continue to remain wealthy and democratic, states in the zone of turmoil would gradually develop, democratize, and join the peaceful zone. Every 20 years or so, the size of the peaceful zone was expected to expand. Just how long it would take to eliminate the zone of turmoil was not predicted, but eliminated it would be and without wealth transfers from the rich to the poor. The poor states would emulate the rich and bring their economies up to modern speed, progressively removing any barriers to the natural propensity toward development and democratization, as portrayed in Figure 1.1.

The book's popularity can be explained in part by its capturing a liberal view of the future just as the Soviet Union was disintegrating and the old Cold War prisms were being shattered. The view was highly optimistic, to say the least. The gradual contraction of the zone of turmoil assumes movement toward economic convergence. Guatemala might not become as wealthy as Switzerland, but its economy is expected to become more like the Swiss economy. But, do we have any evidence that movement toward convergence has taken place already? Or, does the evidence point toward widening divergence characterized by a very clear stratification? Assuming that there is a division of the world into rich and poor states, is the world likely to remain characterized by a rich minority and a poor majority? Or, is there some likelihood of a significant number of escapes from Singer and Wildavsky's zone of turmoil? These questions are central to liberalism, its

## 2 Unreal and unflat worlds

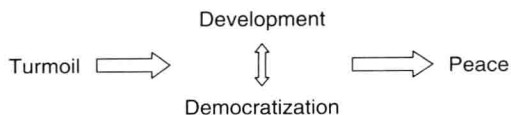


Figure 1.1 The real world order model.

neoclassical economics offspring, a number of international relations theories, and, quite frankly, the future of the planet.

As a matter of fact, there is not a great deal of evidence for economic convergence (except among the more affluent states). There is very clearly a bimodal division between rich and poor states, despite widespread views to the contrary. States have escaped the “turmoil zone,” but, so far, they have not been all that numerous. Nor is it clear that many states are likely to escape in the relatively near future. We think we can explain the root of this problem fairly parsimoniously even though we do not think that there is a single cause. Long-term economic growth is fueled by the intermittent introduction of radically new technology which eventually diffuses, but most unevenly. The constraints on diffusion are multiple but can be simplified by noting that the ability to absorb new technology is variable and itself dependent on a package encompassing such things as technology transmission channels that connect local economies to the outside world, human skills, governmental receptivity, and entrepreneurial and financial facilitators. Many states score poorly on the presence of these factors. Technological diffusion, therefore, is and has been limited for some time.

This state of affairs is not likely to change overnight or any time soon. We do not insist that all lesser developed states remain underdeveloped forever because of the restricted nature of technological diffusion. A handful of states have improved their ability to absorb novel technology, and there is no reason to assume that this process will not continue. Yet, it will continue to be a fairly slow process, and there may prove to be sizeable parts of the world that go untouched by improved technological absorptive capacities. One dimension of the problem is that some parts of the world would have to do a great deal to overcome the barriers restricting the importation of new ways of doing things. Removing these barriers relatively quickly also probably could not be done without considerable societal and political turbulence. Hence, some part of the problem is a lack of eagerness to embrace the costs of major and extensive reforms on the part of both elites and masses.

Yet another dimension of the problem is that numerous analysts seem reluctant to embrace fully the implications of technology-driven economic growth and diffusion. Some economists still hold out hope for universal economic convergence, while others have moved toward some form of conditional convergence. Policy makers still talk about universal

democratization and continue to promote liberal economic strategies, as if all economies and political systems have already converged to a single template – or might do so fairly soon. Globalization has its partisans and foes, yet the highly selective or segmented nature of globalization processes does not seem to be fully recognized. Debt crises come and go. Yet, observers seem reluctant to acknowledge that these recurring problems are built into the structure of North–South interactions. They are not random policy problems due to occasional shocks. They are likely to persist as Southern reverberations of Northern economic turndowns. While Singer and Wildavsky (1993) talked about two worlds of peace and turmoil, the reality of global conflict patterns is that the North has become more pacific while the South has become more conflictual. Part of this transformation is an increase in North–South conflict, ranging from invasions of Iraq to Cold War facilitation of Southern internal wars to jihadi attacks on US and European targets, that also go less than fully recognized for what they are – that is, as manifestations of North–South conflict.<sup>1</sup>

As authors, we cannot improve Southern technological absorptive capacities with a snap of our fingers or expand technological diffusion through wishful thinking. We cannot wave a magic wand and expect economic realities to change overnight. We can address, however, the conceptualization and empirical analysis of North–South policy problems – problems that, we think, are not always accurately interpreted. In this book, we focus on some of the relationships among the six processes identified in Figure 1.2. We develop a continuous measure of North–South inequality stretching from 1870 to 2005 that facilitates asking and answering whether the extent of inequality is increasing, decreasing, or staying about the same. We elaborate how technological diffusion and North–South inequality are linked. We also seek to show how globalization contributes to inequality and how

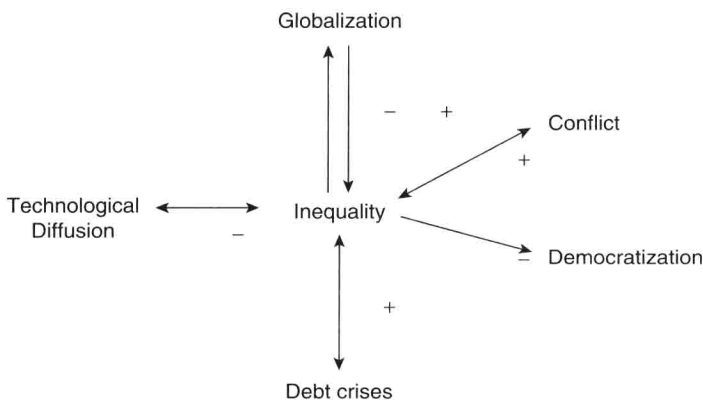


Figure 1.2 The North–South gap and some implications.



the future of globalization is constrained by the extent of inequality. We are able to reinforce the contention that debt crises, whatever else they may be, are cyclical manifestations of downturns in world economic growth.

Given our commitment to systemic modeling in these particular analyses, there are limitations to what we can do with conflict and democratization interrelationships but we can at least underline some of the ways in which they are related to macro-inequalities and shaped by external influences. Throughout all of our chapters, we choose to stress systemic explanations. This bias is not due to a belief on our part that non-systemic perspectives have no value. Rather, we choose to explore and develop systemic analyses in part because they remain underexplored and underdeveloped in the field. We think this is undesirable because systemic approaches have much to tell us about processes such as global structural inequalities, globalization, and development. Ultimately, though, we fully accept the counter-charge that systemic explanations must be limited if they are not linked to sub-systemic behavior.

In short, we do not deny that economic development is linked in some ways to democratization or that substantial changes in economic development and democratization levels can lead to reductions in the levels of societal conflict, à la the Real World Order model. But, models such as this do not fully appreciate what is required to achieve substantial economic development or the barriers to achieving substantial economic development. What we question, accordingly, is how much economic development can be anticipated in the next few decades. If we are right, a major North–South gap is here to stay for a considerable period of time. We do not need to accept the gap as inevitable as much as we need to come to terms with its existence, the reasons for its existence, the steps that might be most fruitful in narrowing the gap, and the implications of a structural divide that cannot help but strongly influence the nature of twenty-first century international relations.<sup>2</sup> If nothing else, it implies that processes of globalization, democratization, and the escape from zones of turmoil will move much more slowly than was anticipated a decade and a half ago.

In the remainder of this chapter, we sketch our basic argument as a foundation for the exploration of links among inequality, technological diffusion, globalization, debt crises, conflict, and democratization in the following chapters. We begin the overview with an evaluation of the metaphor of a world economy that is becoming more “flat,” and some of its problems, as information technology transforms working places around the globe.

### **Flat versus unflat worlds**

A popular thesis about globalization, invoked by the journalist Thomas Friedman (2007), focuses on the three eras summarized in Table 1.1. In the first era, roughly spanning from Columbus (1492) to the Industrial Revolution (latter eighteenth century for the British system leader), states