

# Industrial Convergence, Globalization, and the Persistence of the North-South Divide\*

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This article demonstrates empirically that widespread convergence in the degree of industrialization between former First and Third World countries over the past four decades has *not* been associated with convergence in the levels of income enjoyed on average by the residents of these two groups of countries. Our findings contradict the widely made claim that the significance of the North-South divide is diminishing. This contention is based on a false identification of “industrialization” with “development” and “industrialized” with “wealthy.” Elaborating from elements of Joseph Schumpeter’s theory of innovation, Raymond Vernon’s product cycle model, and Pierre Bourdieu’s concept of *illusio*, the article offers an explanation for the persistence of the North-South income divide, despite rapid Third World industrialization and despite dramatic changes in the world political-ideological context for development (that is, the shift around 1980 from the “development” project to the “globalization” project or “Washington Consensus”). While emphasizing the long-term stability of the Northern-dominated hierarchy of wealth, the article concludes by pointing to several contemporary processes that may destabilize not only the “globalization project,” but also the global hierarchy of wealth that has characterized historical capitalism.

**I**t is now more than fifteen years since Nigel Harris announced the disappearance of the Third World as economic reality and ideological representation. In a 1986 book entitled *The End of the Third World: Newly Industrializing Countries and the Decline of an Ideology*, Harris argued that the emergence of

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“a global manufacturing system” was making the very notion of a Third World hopelessly obsolete.

The conception of an interdependent, interacting, global manufacturing system cuts across the old view of a world consisting of nation-states as well as one of groups of countries, more or less developed and centrally planned—the First, the Third and the Second Worlds. Those notions bore some relationship to an older economy, one marked by the exchange of raw materials for manufacturing goods. But the new world that has superseded it is far more complex and does not lend itself to the simple identification of First and Third, haves and have-nots, rich and poor, industrialized and non-industrialized.... The process of dispersal of manufacturing capacity brings enormous hope to areas where poverty has hitherto appeared immovable.... [T]he realization of one world offers the promise of a rationally ordered system, determined by its inhabitants in the interests of need, not profit or war (Harris 1986: 200-2).

Harris’s contention that the North-South divide is becoming obsolete (although not necessarily his prediction of a “rationally ordered system”) has gained credence among some of the best-informed observers of globalization. (See, for example, Hoogvelt 1997: xii, 145; Held et al. 1999: 8, 177, 186-7; Robinson and Harris 2000; Burbach and Robinson 1999; Hardt and Negri 2000.) According to this view, the spatial restructuring of the last twenty to thirty years has eliminated the structural divide between First and Third Worlds. “Worldwide convergence, through the global restructuring of capitalism, means that the geographic breakdown of the world into north-south, core-periphery or First and Third worlds, while still significant, is diminishing in importance” (Burbach and Robinson 1999: 27-8). Polarizing tendencies are still at work but *within* rather than *between* countries. “Core-periphery”—in Ankie Hoogvelt’s words—“is becoming a social relationship, and no longer a geographical one” (1997: 145).

We agree that the collapse of the Second World in the early 1990s makes the concepts of First World and Third World anachronistic. Moreover, even before the Second World collapsed, the Third World was largely exhausted as a political-ideological force in world politics. We also agree that convergence in industrialization levels makes the association of First and Third Worlds with “industrialized” and “non-industrialized” misleading at best. Nevertheless, as this article will demonstrate, industrial convergence has *not* been accompanied by a convergence in the levels of income and wealth enjoyed on average by the residents of the former First and Third Worlds. In other words, the divide between the rich nations of the former First World and poor nations of the former Third World—the North-South divide—remains a fundamental dimension of contemporary global dynamics.

The first section of the article lays out the premises and conceptual framework that undergird our analysis. The empirical analysis in the second section shows that there has indeed been widespread convergence in the degree of industrialization between former First and Third World countries; however, this industrial convergence has *not* been accompanied by a convergence in incomes between the two groups of countries. The third section offers an ex-

planation for this puzzling combination of convergence in degree of industrialization on the one side, and lack of convergence in income levels on the other. Finally, the fourth and concluding section speculates on how sustainable this pattern of global inequality is likely to be in the light of its past dynamic and emerging sources of potential instability.

### I. World Income Inequality, Development, and “Globalization”

Harris’s contention notwithstanding, there is a broad consensus in the empirical literature that inequality *between* countries is a far more important component of total world income inequality than inequality *within* countries. The exact percentage of total world income inequality found in recent studies to be accounted for by inter-country rather than intra-country inequality in the 1990s varies from a high of 86 percent (Korzeniewicz and Moran 1997: 1017) to a low of 68 percent (Goesling 2001: 752). These and other estimates (based on the decomposition of the Theil index) all find that inter-country income inequality accounted for *at least* two-thirds of total world income inequality in the 1990s (see also Milanovic 1999: 34; Firebaugh 1999: 1597-8; Firebaugh 2001).<sup>1</sup>

There is also a broad consensus in the empirical literature that today’s enormous between-country income inequality is the outcome of the “great divergence” in national incomes that began in the late eighteenth century,<sup>2</sup> and that this gap continued to widen through the mid-twentieth century at least. Disagreements concern the trend in recent decades. Using FX-based data, Roberto P. Korzeniewicz and Timothy Moran (1997) find that the between-country component of the Theil index increased from 79 percent in 1965 to 86 percent in 1992. Using PPP-based data and focusing on the period from 1988 to 1993, Branko Milanovic (1999: 34, 51) finds that the same component remained roughly constant—that is, 75 percent in 1988 and 74 percent in 1993. Also using PPP-based data but extending the analysis another couple of years, Brian Goesling (2001: 752) finds a rather sharp decline in the percentage from 74 percent in 1992 to 68 percent in 1995. Nevertheless, as Goesling himself acknowledges, if China is excluded from the analysis the declining trend in between-nation inequality “flattens out” (2001: 756)—an important point to which we shall return in the final section.<sup>3</sup>

The above debates on world income inequality do not directly address the issue of the persistence or non-persistence of the North-South divide—the focus of this paper. For in theory, the North-South divide could decline in significance even if extreme inter-country income inequality persists. This would be the case if inter-country inequality were accompanied by a significant switching of positions within the world income distribution between former Third World countries and former First World countries. Even the most unequal of income distributions can be associated with an equal distribution of *wealth* if yesterday’s recipients of high incomes are today’s recipients of low incomes and vice-versa. However, if an unequal income distribution is characterized by little long-term upward/downward mobility, it can be taken to reflect an underlying *hierarchy of wealth*. For *wealth* is nothing but “long-term income” (Harrod 1958).<sup>4</sup>

It is such a stable hierarchy of wealth that Giovanni Arrighi and Jessica Drangel (1986) found for the 1938-1983 period. Based on the world distribution of GNP per capita, they identified three distinct clusters of countries (high, middle-, and low-income countries). Moreover, they found that long-term upward/downward mobility of countries from one cluster to another was exceedingly rare. Korzeniewicz and Moran's (1997: Table 5) more recent data on the position of countries within income quintiles for the period between 1965 and 1990, likewise confirm that cases of upward/downward mobility by countries across quintiles were few in number and insignificant in terms of their share of total world population. These findings, in turn, are consistent with the literature that suggests that OECD countries constitute a "convergence club," that is a group of countries that experience income convergence in relation to one another but not in relation to the broader constellation of countries (Abramovitz 1986; Baumol, Blackman and Wolff 1989; Peacock, Hoover, and Killian 1988; Jones 1997). The above findings point to the continuing importance of political geography in determining the world hierarchy of income and wealth.

As previously mentioned, there is a general consensus in the relevant literatures that this global hierarchy of wealth is largely a legacy of the industrial and territorial expansion of Western nations in the nineteenth and early twentieth centuries.<sup>5</sup> This consensus is consistent with the earlier expectation that decolonization and Third World industrialization would substantially reduce the North-South income divide. Once decolonization had occurred, theories of national development were nearly unanimous across the ideological spectrum in maintaining that industrialization of one kind or another was essential if Third World countries were to attain the standards of wealth enjoyed by First World countries. Catching up with the standards of wealth of First World countries was the generally accepted *objective* of Third World developmental efforts. But the narrowing of the industrialization gap between Third and First World countries was just as generally considered to be the most essential and effective *means* in the pursuit of that objective.

This expectation that industrialization and income convergence would go hand-in-hand was reinforced by the expectation that in the course of their own development the wealthy countries of the First World would experience a gradual de-industrialization—what Daniel Bell (1973) called the "coming of post-industrial society."<sup>6</sup> Since the productivity of service activities was generally believed to be lower than manufacturing activities (see especially Clark 1957 and Baumol 1967), the rate of growth of per capita income was expected to decrease in rich, de-industrializing countries and to increase in poor, industrializing countries. Eventually, all societies would become post-industrial, but in the meantime industrialization was generally thought to be the surest way for Third World countries to catch up with First World standards of wealth.

Indeed, such has been the power of this consensus that academic no less than popular discourse has come to treat "industrialization" and "development" as synonymous. This semantic conflation of the ends of development (catching up with First World standards of wealth) with its allegedly most effective means (industrialization) underlies Harris's claim that the geographical dispersal of manufacturing capacity means that we can no longer identify zones

of more or less permanent prosperity (the North or former First World) and zones of more or less permanent poverty (the South or former Third World). But in conflating *industrial* with *wealthy*, *non-industrial* with *poor*, and *industrialization* with *development*, Harris is far from alone. A similar conflation underlies Alice Amsden's claim that "The Rest"—a group of countries outside the North Atlantic accounting for over half of world population—has "risen." At the basis of the claim lies the identification of development with "attracting capital, human and physical, out of rent seeking, commerce, and 'agriculture' (broadly defined), and into manufacturing, the heart of modern economic growth" (2001: 1-2). In spite of accumulating evidence to the contrary, industrialization and development thus continue to be used as synonyms as if industrialization were an end in itself, rather than a means—and as it turns out, an increasingly ineffectual means—in the pursuit of national wealth.<sup>7</sup>

A first reason for focusing on industrialization is thus to verify empirically the validity of the widely held hypothesis (turned into assumption) that industrialization is the most effective means of catching up with Northern standards of wealth. A second reason is that industrialization has costs as well as benefits. Some of these costs—such as the pollution of air and water, the erosion of the countryside, and the destruction of natural beauty—though hard to quantify by means of synthetic indicators, are at least visible. Other costs—such as those captured by Marx's concept of "alienation," Weber's "iron cage," and Durkheim's "*anomie*"—are not just hard to quantify; they are also largely invisible. As Dean Tipps (1973: 208) has noted, the ambivalence towards modern industrial society that characterized the writings of Marx, Weber, and Durkheim is conspicuous *by its absence* in early modernization and development thinking. Although ecological and environmental concerns have of late become quite prominent in development discourse, the costs of industrialization continue to be underrated in comparison with its real or imagined benefits.

Recent research on between-country income inequality abstracts completely from the costs and intensity of the developmental efforts undertaken by Third World countries in their attempts to catch up with First World standards of wealth and welfare. In reality, a constant income gap has an altogether different meaning, depending on whether it is associated with a rising or a declining industrialization gap. Our focus on the relationship between the North-South income and industrialization divides is thus aimed also at assessing the success or failure of Third World developmental efforts, not in isolation from, but in relation to the intensity and cost of those efforts.

Finally, we shall pay particular attention to the major change that occurred around 1980 in the world context in which Third World development efforts unfolded. Phillip McMichael (2000) has described the change as a switch of the policy of the hegemonic power from promotion of the "development project" launched in the late 1940s and early 1950s to promotion of the "globalization project" under the neoliberal Washington Consensus of the 1980s and 1990s. As a result of the switch, the U.S. government—directly or through the Bretton Woods institutions—withdraw support from the "statist" and "inward-looking" strategies that most theories of national development had advocated in

the 1950s and 1960s and began instead to promote capital-friendly and outward-looking strategies.<sup>8</sup> This change in the policies and ideologies of national development promoted by the hegemonic power corresponds to what Christopher Chase-Dunn (1999) has labeled “ideological globalization.” An equally important aspect of the transformation in the global political economy that occurred around 1980 was the intensification of competitive pressures on Third (and Second) World countries that accompanied but was only in part due to the emergence of the globalization project as ideology and policy. This intensification in competitive pressures is an important aspect of what Chase-Dunn (1999) has labeled “structural globalization.”<sup>9</sup>

How did this combination of “ideological” and “structural” globalization affect the developmental efforts of Third World states? Did it make it easier or more difficult for them to narrow the income gap that separated them from First World countries? In order to answer these questions it is necessary to compare the outcomes of Third World developmental efforts in the periods before and after 1980. Thus, in the next section, we compare trends in industrial and income convergence or divergence for two distinct periods of approximately equal length: the two decades before 1980 and the two decades after 1980.

## II. Industrial Convergence and the Persistence of the North-South Divide

As previously noted, several studies have shown that the North (or former First World) constitutes a “convergence club” at the high end of the world-income distribution. We shall take this finding as one of our premises and assume further that joining this club (that is, catching up with the income that on average accrues to its members) has been the primary objective of the developmental efforts of the countries of the South (or former Third World). Starting from these premises, we shall investigate the outcomes of these developmental efforts, measuring the performance of a particular country by means of the ratio

$$y_i = y_i / y_N$$

where  $y_i$  is the GNPPC (Gross National Product per capita) of country  $i$  in a given year and  $y_N$  is the (weighted) average GNPPC of First World countries as a whole in the same year. If  $y_i$  increases over time, the income gap between country  $i$  and First World countries is narrowing, and if it decreases, the gap is widening. Whenever we calculate the indicator for groups of countries (such as the First or the Third World), we weight countries by their population size.<sup>10</sup>

We use GNPPC instead of GDPPC (Gross Domestic Product per capita) because our focus is on differences in national income and wealth. GNP is the sum of all the wages/salaries, interest payments, rents, profits, and combinations thereof (mixed incomes) that accrue to the residents of a given political jurisdiction (normally a sovereign state). Hence, GNPPC is simply the average income of a jurisdiction’s residents. GDP is the same as GNP, except that it

excludes the incomes that the jurisdiction's residents derive from transfers from abroad (such as the repatriation of corporate profits or migrant workers' remittances) and includes incomes transferred abroad. Unlike GNP, therefore, GDP measures the incomes that have been generated ("produced") within a country, rather than the incomes that accrue to a country's residents.<sup>11</sup>

While Third World countries' success or failure in narrowing the income gap that separates them from First World countries will be measured by the ratio  $y_i$ , their success or failure in narrowing the industrialization gap will be measured by the ratio

$$m_i = m_i / m_N$$

where  $m_i$  is the proportion of country  $i$ 's GDP accounted for by manufacturing in a given year and  $m_N$  is the same proportion for the First World as a whole in the same year. If  $m_i$  increases over time, the industrialization gap between country  $i$  and First World countries is narrowing, and if it decreases, the gap is widening. Whenever we calculate this indicator for groups of countries (e.g., the First or Third World as a whole), we weight countries by the size of their GDP.<sup>12</sup>

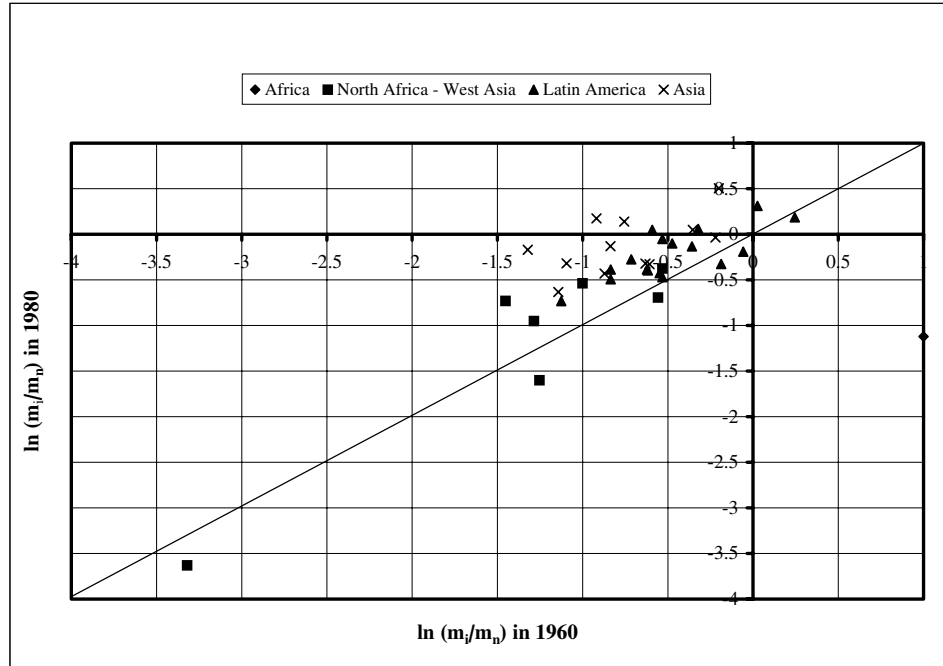
Owing to their common form, the industrialization indicator ( $m_i$ ) can be readily compared with the income indicator ( $y_i$ ). Through such a comparison, we can gauge discrepancies between Third World performance in narrowing the industrialization gap on the one side, and in narrowing the income gap on the other. In order to assess the impact on Third World developmental efforts of the radical change in the global political-economic environment that occurred around 1980, we shall begin by comparing changes in the two indicators for the period 1960-1980, and then turn to the same comparison for the period 1980-1998/9.

Figure 1 shows the scatter diagram of the natural log of  $m_i/m_N$  for 1980 ( $y$ -axis) and 1960 ( $x$ -axis). The diagonal is the line of equality (no change between 1960 and 1980 in the value of  $m_i/m_N$ ). Points above the diagonal denote a narrowing, and points below the diagonal a widening, of the industrialization gap.

The most striking feature of the diagram is the widespread tendency towards a narrowing of the industrialization gap. As we shall see, this tendency is a result both of First World de-industrialization and of Third World industrialization. Nevertheless, it is still quite remarkable that only a handful of Third World countries (the countries indicated by points on or below the diagonal) did not manage to narrow the industrialization gap. At the same time, several Third World countries (the countries indicated by points on or above the  $x$ -axis) succeeded either in completely closing the industrialization gap or in overtaking the First World in industrialization. Moreover, since the slope coefficient of the regression equation

$$\ln m_{80} = 0.06 + 0.639 \ln m_{60} \text{ (adjusted R-squared = 0.5) (n=60)}$$

**Figure 1\***  
**Changes in Manufacturing Gap: 1960-1980**



\*See Table 1 for data sources and countries included.

is less than one, there was a tendency towards convergence in the degree of industrialization not just between Third World and First World countries but among the Third World countries themselves. The less industrialized among Third World countries, in other words, were the ones that industrialized faster.<sup>13</sup>

In sharp contrast to this generalized tendency towards convergence in the degree of industrialization, there was no overall convergence in income levels. This lack of overall convergence is evinced by the scatter diagram of the natural log of  $y_i/y_N$  for 1980 (y-axis) and 1960 (x-axis) shown in Figure 2. The vast majority of points on the diagram fall below the diagonal line, indicating an increase in the gap separating the per capita GNP levels of those countries from the average level for the First World. Moreover, since the slope coefficient of the regression equation

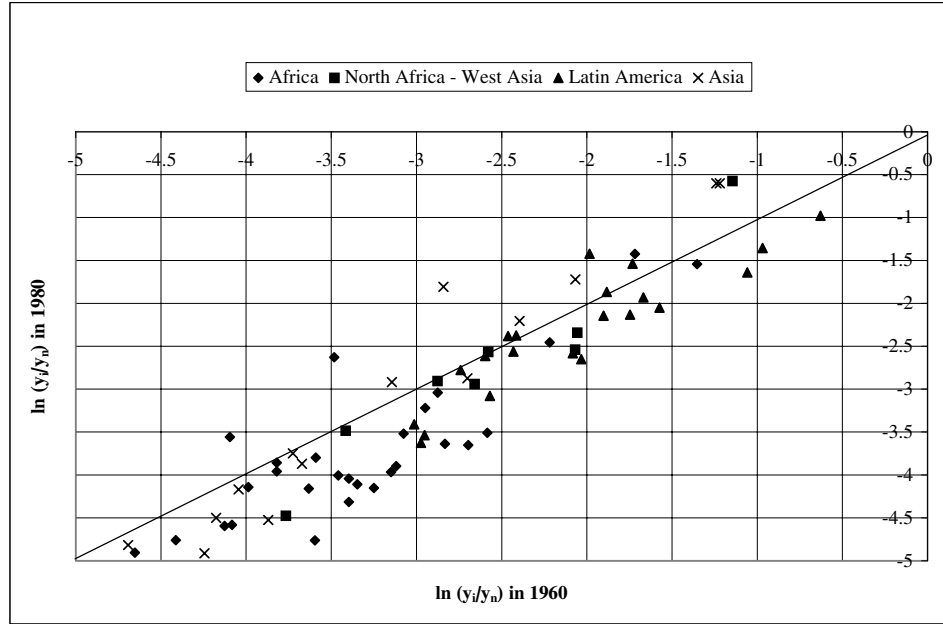
$$\ln y_{80} = 0.053 + 1.10 \ln y_{60} \text{ (adjusted R-squared} = 0.9) \text{ (n=71)}$$

is greater than one, there was no convergence in income levels within the Third World either.

In short, in spite of widespread convergence in industrialization (the generally prescribed means of Third World developmental efforts) there was no narrowing of the income gap between First and Third World (the generally accepted



Figure 2\*  
Changes in Income Gap: 1960-1980



\*See Table 1 for data sources and countries included.

objective of those efforts). At the aggregate level, between 1960 and 1980 the proportion of GDP in manufacturing for the First World as a whole ( $m_N$ ) decreased from 28.9 percent to 24.5 percent, while the same proportion for the Third World as a whole ( $m_S$ ) increased from 21.6 percent to 24.3 percent. The ratio  $m_S/m_N$  increased by 32 percent from .75 in 1960 to .99 in 1980 (see Table 1). By 1980, therefore, the Third World had by this indicator virtually closed the gap in the degree of industrialization that separated it from the First World. And yet, its GNPPC as a proportion of the GNPPC of the First World ( $y_S/y_N$ ), far from increasing, declined slightly from 4.5 percent in 1960 to 4.3 percent in 1980 (see Table 2).

As the proportions of GDP in manufacturing for the First and Third World reported above show, industrial convergence in this period was due more to First World de-industrialization than to Third World industrialization. Nevertheless, the paradox of industrial convergence without income convergence is not the spurious result of heterogeneous national experiences—that is, of countries that experienced a narrowing of both the industrialization and income gaps and countries that did not. Rather it is the result of the absence of any positive correlation between industrial and income performance. This is evinced by the regression equation

$$\ln y_{80-60} = -.17 - 0.19 \ln m_{80-60} \text{ (adjusted R-squared=0.0) (n=58)}$$

**Table 1**  
**Region's % of GDP in Manufacturing as % of First World GDP**

Region	1960	1970	1980	1990	1998
Sub-Saharan Africa .....	53.0	63.0	71.1	88.1	77.6
Latin America .....	97.1	94.8	115.3	113.1	105.0
West Asia and North Africa .....	37.7	43.0	41.1	70.4	71.1
South Asia .....	47.9	51.2	71.2	81.6	79.1
East Asia (w/o China and Japan) .....	48.5	67.9	95.4	115.3	130.0
China .....	81.8	106.6	165.8	149.5	190.1
<b>Third World*</b> .....	<b>74.6</b>	<b>78.3</b>	<b>99.4</b>	<b>108.1</b>	<b>118.0</b>
North America .....	95.9	87.5	88.0	84.4	92.8
Western Europe .....	101.5	101.3	97.0	96.8	97.3
Southern Europe .....	90.6	91.8	111.3	99.7	95.7
Australia and New Zealand .....	87.1	86.0	80.3	68.3	67.0
Japan .....	119.5	127.4	119.5	127.6	119.1
<b>First World**</b> .....	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Calculations based on World Bank (1984, 2001)

\*Countries included in Third World:

**Sub-Saharan Africa:** Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Congo Dem. Rep., Congo Rep., Cote d'Ivoire, Gabon, Ghana, Kenya, Lesotho, Malawi, Mali, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, South Africa, Togo, Zambia, Zimbabwe

**Latin America:** Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay

**West Asia and North Africa:** Algeria, Egypt Arab Rep., Morocco, Oman, Saudi Arabia, Tunisia, Turkey

**South Asia:** Bangladesh, India, Pakistan, Sri Lanka

**East Asia:** Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Thailand  
**China**

\*\*Countries included in First World:

**North America:** Canada, United States

**Western Europe:** Austria, Belgium, Denmark, Finland, France, Luxembourg, Netherlands, Norway, Sweden, United Kingdom [No Netherlands in 1970]

**Southern Europe:** Greece, Italy, Portugal, Spain

**Australia and New Zealand** [No New Zealand in 1960 and 1970]

**Japan**

where  $y_{80-60}$ ,  $m_{80-60}$ , are ratios of the respective values for 1980 over the values for 1960. As the adjusted R-squared shows, none of the variability in Third World country income performance was predicted by variability in their industrialization performance. In sum, in the twenty years preceding 1980 Third World countries did succeed in narrowing the industrialization gap that separated them from First World countries. But while they bore the visible and invisible costs involved in a greater degree of industrialization, they did not reap the expected benefits in terms of a narrowing of the income gap. As we shall see in the next section of the article, the failure of developmental efforts

**Table 2**  
**GNP Per Capita for Region as % of First World's GNP Per Capita**

Region	1960	1970	1980	1990	1999
Sub-Saharan Africa .....	5.2	4.4	3.6	2.5	2.2
Latin America .....	19.7	16.4	17.6	12.3	12.3
West Asia and North Africa .....	8.7	7.8	8.7	7.4	7.0
South Asia .....	1.6	1.4	1.2	1.3	1.5
East Asia (w/o China and Japan) .....	5.7	5.7	7.5	10.4	12.5
China .....	0.9	0.7	0.8	1.3	2.6
<b>Third World*</b> .....	<b>4.5</b>	<b>3.9</b>	<b>4.3</b>	<b>4.0</b>	<b>4.6</b>
North America .....	123.5	104.8	100.4	98.0	100.7
Western Europe .....	110.9	104.4	104.4	100.2	98.4
Southern Europe .....	51.9	58.2	60.0	58.7	60.1
Australia and New Zealand .....	94.6	83.3	74.5	66.2	73.4
Japan .....	78.6	126.1	134.1	149.4	144.8
<b>First World**</b> .....	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Calculations based on World Bank (1984, 2001)

\*Countries included in Third World:

**Sub-Saharan Africa:** Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Rep. of Congo, Congo Dem. Rep., Cote d'Ivoire, Gabon, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Togo, Uganda, Zambia, Zimbabwe

**Latin America:** Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela

**West Asia and North Africa:** Algeria, Arab Rep of Egypt, Morocco, Saudi Arabia, Sudan, Syrian Arab Rep., Tunisia, Turkey

**South Asia:** Bangladesh, India, Nepal, Pakistan, Sri Lanka

**East Asia:** Hong Kong, Indonesia, South Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand

**China**

\*\*Countries included in First World:

**North America:** Canada, United States

**Western Europe:** Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom

**Southern Europe:** Greece, Ireland, Israel, Italy, Portugal, Spain

**Australia and New Zealand**

**Japan**

to deliver on their promises contributed to the deep crisis that shook development theory in the 1970s. For now, however, let us see whether the change in the global political and economic environment of the early 1980s made any difference in terms of the efficacy of Third World developmental efforts.

Unfortunately for Third World countries, or at least most of them, the new environment turned out to be at least as unfavorable to the success of their development efforts. Figures 3 and 4 show the same scatter diagrams as Figures 1 and 2 but for the period from 1980 to the latest year for which comparable data are available (1999 for incomes, 1998 for manufacturing).<sup>14</sup> The most striking feature of these diagrams is how similar they are to those for the

earlier period. Figure 3 shows as general a tendency toward a narrowing of the industrialization gap between First and Third World countries as does Figure 1. Moreover, as for the earlier period, the slope coefficient of the regression equation

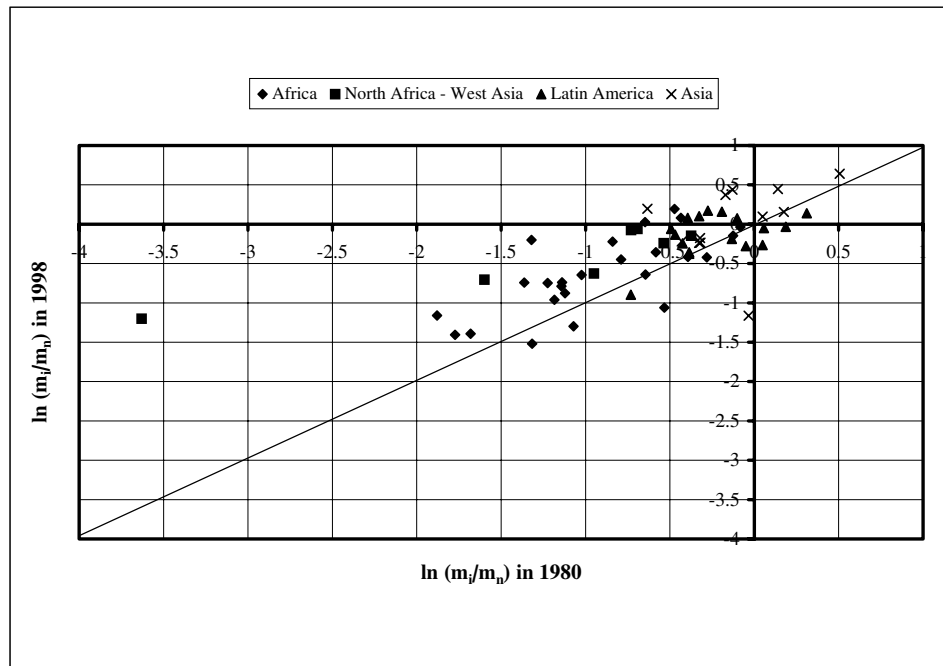
$$\ln m_{98} = -.012 + 0.545 \ln m_{80} \text{ (adjusted R-squared} = 0.5) \text{ (n=61)}$$

is less than one. The tendency towards convergence in the degree of industrialization among the Third World countries themselves thus continued after 1980.

Equally striking is the continuing failure of this general convergence in the degree of industrialization to translate into convergence in income levels either between the First and the Third World or within the Third World. Again, the majority of the countries in Figure 4 (as in Figure 2) are below the diagonal, indicating growing income divergence on the whole between the First and Third World. At the same time, since the slope coefficient of the regression equation

$$\ln y_{99} = -0.06 + 1.05 \ln y_{80} \text{ (adjusted R-squared} = 0.9) \text{ (n=71)}$$

**Figure 3\***  
**Changes in Manufacturing Gap: 1980-1998**



\*See Table 1 for data sources and countries included.

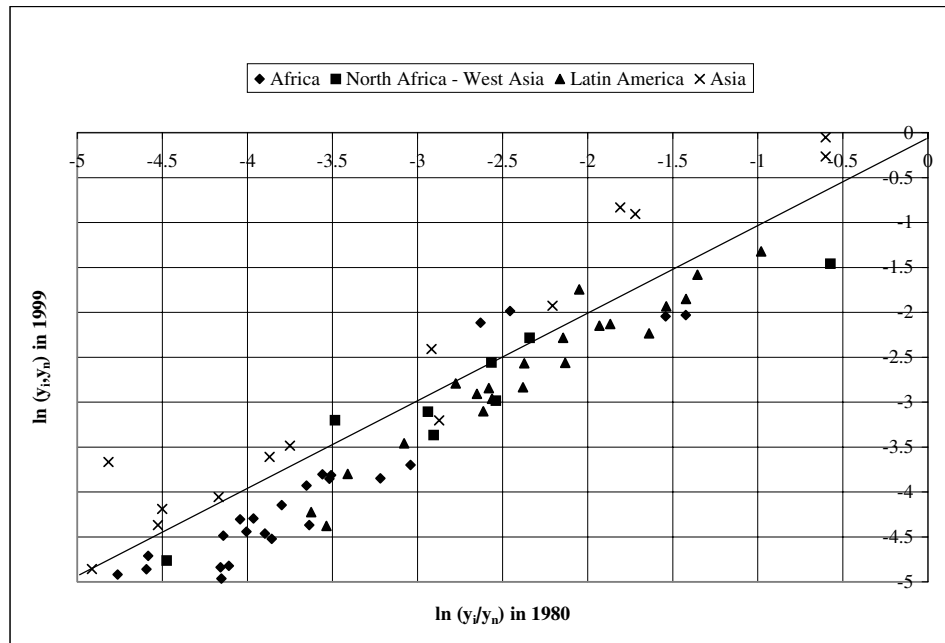
is still greater than one, the lack of income convergence between First and Third World countries continued to be matched by a lack of convergence among Third World countries.

At the aggregate level between 1980 and 1998 the proportion of GDP in manufacturing for the Third World as a whole decreased slightly from 24.3 percent to 23.3 percent, while the same proportion for the First World as a whole declined further from 24.5 percent to 19.8 percent (see Table 1). This involved a 19 percent increase in the  $m_S/m_N$  ratio from .99 in 1980 to 1.18 in 1998. Thus, by this indicator the Third World had not just caught up with but had *overtaken* the First World in degree of industrialization. In spite of this convergence, there was virtually no narrowing of the income gap, the GNPPC of the Third World as a proportion of the GNPPC of the First World increasing only marginally from 4.3 percent in 1980 to 4.6 percent in 1998.

As the proportions of GDP in manufacturing in the First and Third World reported above show, industrial convergence in this period was due exclusively to First World de-industrialization. Nevertheless, as in 1960-1980, the discrepancy between strong industrial convergence and virtually no income convergence between the First and the Third World as a whole in the post-1980 period is the result of a general lack of correlation between industrial and income performance. This can be seen from the regression equation

$$\ln y_{98-80} = -0.20 + .06 \ln m_{98-80} \text{ (adjusted R-squared} = 0.0) \text{ (n=59)}$$

**Figure 4\***  
**Changes in Income Gap: 1980-1999**



\*See Table 1 for data sources and countries included.

Once again, as the coefficient and adjusted R-squared show, none of the variability in Third World countries' income performance was predicted by variability in their industrialization performance. Thus, the distinction between an industrialized and a non-industrialized world continued to be superseded, but this supersession left virtually unchanged the great divide that separated the wealth of the *de*-industrializing North from the poverty of the industrializing South.

There was nonetheless an important difference between the pre-1980 and the post-1980 periods. As Table 2 shows, already before 1980 there was considerable regional unevenness in the economic performance of the Third World. But after 1980 the unevenness increased considerably, with sub-Saharan Africa and Latin America experiencing a major deterioration and East Asia a major improvement. As we shall argue in the next section, this bifurcation within the Third World constitutes an important dimension of the reproduction of the North-South income divide under the conditions of structural and ideological globalization of the 1980s and 1990s.

### III. Global Capitalism and the Reproduction of the North-South Divide

The persistent failure of the generally prescribed means of national development (industrialization) to accomplish its putative objective (catching up with First World standards of wealth) is a puzzle that needs to be explained—especially since this failure recurred in two periods characterized by radically different world contexts for development. In seeking such an explanation, we shall take Joseph Schumpeter's theory of "creative destruction" as our starting point. According to this theory, major profit-oriented innovations are the fundamental impulse that generates and sustains competitive pressures in a capitalist economy. These innovations are defined broadly to include the introduction of new methods of production, new commodities, new sources of supply, new trade routes and markets, and new forms of organization. While innovations of this kind occurred also in non-capitalist social systems, under capitalism their occurrence "incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one" (Schumpeter 1954: 83).

This process of creative destruction has two main effects. On the one hand, Schumpeter argued that it is "not only the most important immediate source of gain, but also indirectly produces, through the process it sets going, most of those situations from which windfall gains and losses arise and in which speculative operations acquire significant scope" (Schumpeter 1964: 80). On the other hand, it transforms competition into a cutthroat competition that inflicts widespread losses by making preexisting productive combinations obsolete. As a consequence,

[spectacular] prizes much greater than would have been necessary to call forth the particular effort are thrown to a small minority of winners, thus propelling much more efficaciously than a more equal and more "just" distribution would, the activity of that large majority of businessmen who receive in return very modest compensation or noth-

ing or less than nothing, and yet do their utmost because they have the big prizes before their eyes and overrate their chances of doing equally well (Schumpeter 1954: 73-74).

Schumpeter observed that revolutions in the economic structure occur in discrete rushes separated from each other by spans of comparative quiet. He accordingly divided the incessant working of the process of creative destruction into two phases: the phase of revolution proper and the phase of absorption of the results of the revolution.

While these things are being initiated we have brisk expenditure and predominating “prosperity”... and while [they] are being completed and their results pour forth we have the elimination of antiquated elements of the industrial structure and predominating “depression” (1954: 68).

In this representation, profit-oriented innovations (and their impact on competitive pressures) cluster *in time*, generating swings in the economy as a whole from long phases of predominating “prosperity” to long phases of predominating “depression.” Yet it is plausible to hypothesize that they also cluster *in space*. That is to say, we can substitute “where” for “while” in the above quotation and read it as a description of a spatial polarization of zones of predominating “prosperity” and zones of predominating “depression” (Arrighi and Drangel 1986: 20).

To some extent a substitution of this kind was already implicit in two highly influential models of economic development inspired by Schumpeter’s theory of innovations: Akamatsu’s “flying geese” model (1961), and Raymond Vernon’s “product-cycle” model (1966, 1971: chapter 3). Both models portray the diffusion of industrial innovations as a spatially structured process originating in the more “developed” (that is, wealthier) countries and gradually involving poorer, less “developed” countries. And both models—more so Akamatsu’s than Vernon’s—emphasize the increasing homogenization of the countries involved as they all become “industrialized.” Nevertheless, the two models themselves provide good reasons for supposing that the spatial structuring of innovations they describe will tend to reproduce the income differential that separate the “geese” that lead the process from those that follow, even if the latter industrialize.

For one thing, as both authors emphasize, the innovation process tends to begin in the wealthier countries. But neither Akamatsu nor Vernon seem to realize the implications of this tendency. For it is the residents of the countries where the innovation process starts who have the best chances to win (Schumpeter’s) “spectacular prizes,” that is, profits that are “much greater than would have been necessary to call forth the particular effort.” The process tends to begin in the wealthier countries because high incomes create a favorable environment for product innovations; high costs create a favorable environment for innovations in techniques; and cheap and abundant credit creates a favorable environment for financing these and all other kinds of innovations. Moreover, as innovators in wealthy countries reap abnormally high rewards

relative to effort, over time the environment for innovations in these countries improves further, thereby generating a self-reinforcing “virtuous circle” of high incomes and innovations.

The obverse side of this virtuous circle is a second tendency—the tendency, that is, for the poorer countries at the receiving end of the process to reap few, if any, of the benefits of the innovations. As emphasized especially in Vernon’s “product cycle” model, the spatial diffusion of innovations goes hand in hand with their routinization—that is, with their ceasing to be innovations in the wider global context. As a result, by the time the “new” products and techniques are adopted by the poorer countries they tend to be subject to intense competition and no longer bring the high returns they did in the wealthier countries. In this respect, the poorer countries resemble Schumpeter’s “large majority of businessmen,” whose efforts are propelled by the “spectacular prizes” won by the “small minority of winners,” but who end up with “very modest compensation or nothing or less than nothing” (Schumpeter 1954: 73-74).

Equally if not more important is a third tendency that Akamatsu and Vernon disregard. It concerns the destructive aspects of innovations—what Schumpeter refers to as “the elimination of antiquated elements of the industrial structure” (1954: 68), but more generally includes all the economic and social dislocations that directly or indirectly ensue from major innovations. Poor countries are not necessarily more exposed than wealthy countries to the destructiveness of major innovations. Nevertheless, the greater mass and variety of resources that wealthy countries command nationally and globally endow their residents with a far greater capacity to adjust socially and economically to the disruptive strains and to move promptly from the activities that innovations make less rewarding to those they make more rewarding. As a result, even when they do not initiate the innovations, wealthy countries tend to be in an incomparably better position than poor and middle-income countries to reap their benefits and shift their costs and disruptions onto others.<sup>15</sup>

In short, opportunities for economic advance, as they present themselves successively to one country after another, do not constitute equivalent opportunities for all countries. As countries accounting for a growing proportion of world population attempt to catch up with First World standards of wealth *through industrialization*, competitive pressures in the procurement of industrial inputs and disposal of industrial outputs in world markets intensify. In the process, Third World countries, like Schumpeter’s “majority of businessmen,” tended to overrate their chances of winning the “spectacular prizes” that industrialization had brought to First World countries, and correspondingly tended to underrate their chances of becoming the losers in *the intense competitive struggle engendered by their very success in industrializing*. To be sure, some Third World countries did succeed in climbing up the value-added hierarchy through industrialization—South Korea and Taiwan being the most conspicuous examples. Nevertheless, the virtual absence of any positive correlation between income and industrialization performance (see Section II above) suggests that, for most countries, industrialization turned out to be an ineffectual means of economic advancement.



In light of these considerations, the kind of wealth that First World countries had attained through industrialization appears to have been an instance of what Roy Harrod (1958) called “oligarchic wealth” in contrast to “democratic wealth.” Democratic wealth is the kind of command over resources that, in principle, all can attain in direct relation to the intensity and efficiency of their efforts. Oligarchic wealth, in contrast, bears no relation to the intensity and efficiency of its recipients’ efforts, and is never available to all because generalized attempts to attain it raise costs and reduce benefits for all actors involved. As Fred Hirsch put it, there is “an ‘adding up’ problem. Opportunities for economic advance, as they present themselves serially to one [actor] after another, do not constitute equivalent opportunities for economic advance for all. What each... can achieve, all cannot” (1976: 4-5).

As we shall emphasize below, this “adding up” problem (or “fallacy of composition”) affected not just those who struggled to attain oligarchic wealth (Third World countries) but also those who struggled to retain it (First World countries). Moreover, the adverse effects of the “adding up” problem on both First and Third World countries (and their responses to it) provoked a deep crisis in the 1970s, which in turn precipitated the major transformation in the world context for national development in the 1980s and 1990s.

Thus, the intense competition that ensued from generalized industrialization efforts did not just prevent Third World countries from attaining their objective; it also tended to undermine the industrial foundations of the oligarchic wealth of First World countries. This tendency was especially in evidence in the 1970s, when the worldwide intensification of competitive pressures on industrial producers appeared to be affecting First World countries more negatively than Third World countries. Indeed, throughout the 1970s many Third (and Second) World countries benefited from the higher prices for natural resources (oil in particular) and from the abundant supply of credit and investments at highly favorable terms, generated by the intensification of competition among First World countries.<sup>16</sup> Although the actual improvement of the economic position of the Third World relative to the First in the 1970s was modest (see Table 2), the relative industrial advance of the Third World was substantial (see Table 1). This industrial advance, concurrent with severe local social dislocations in de-industrializing First World sites, engendered a widespread “fear of falling” in First World countries, particularly in the United States.

For Third World countries, the results of industrialization also fell far short of the expectations raised by the promises of the “development project.” Third World disillusionment with the pace of change was especially sharp in the 1970s given that the world balance of political power was generally perceived as having shifted in their favor.<sup>17</sup> As a result, a small but growing number of Third World countries threatened to quit or actually quit playing the development game through one kind or another of radical “de-linking” and “deviant” behavior, while the vast majority joined forces in seeking a renegotiation of the rules of the game, demanding redistributive measures under a New International Economic Order (NIEO) (cf. Krasner 1985).

Initially, First World countries seemed to yield to Third World pressures (see especially Brandt Commission 1980), even pledging 1 percent of their

GNP in aid to Third World countries. While these pledges were being made, however, a sudden turnaround occurred. Under U.S. leadership, the ideas that had thus far guided the policies and actions of First World countries (Keynesianism, broadly understood) were abandoned in favor of previously discredited neo-utilitarian, state-minimalist doctrines. As we shall argue below, this sudden change in the "rules of the game" would play a key role in reconstituting the rattled foundations of the North-South wealth divide.

The sudden change was primarily a response to the broader crisis of U.S. hegemony. For most of the 1970s the United States sought to recover competitiveness in industrial production through an expansionary monetary policy that depreciated the dollar and provided U.S. banks and corporations with all the liquidity they needed to expand abroad through direct and other forms of foreign investment. Although initially this strategy seemed to pay off, by 1979 it became clear that the strategy had the unintended consequence of deepening the ongoing crisis of U.S. hegemony. Inflationary pressures increased, both domestically and worldwide. Coming as it did in the wake of U.S. withdrawal from Vietnam, the increase sent U.S. financial and military power on a downward spiral that reached its nadir at the end of the 1970s with the Iranian Revolution, a new hike in oil prices, the Soviet invasion of Afghanistan, and a new serious crisis of confidence in the U.S. dollar (Arrighi 1994: 308-323; cf. Parboni 1981: chapters 3-4; Brenner 2002).

It was in this context that in the closing year of the Carter Administration, and with greater determination under Reagan, there occurred a drastic change in U.S. policies, including a severe contraction in money supply, higher interest rates, lower taxes for the wealthy, and virtually unrestricted freedom of action for capitalist enterprise. Through this battery of policies the U.S. government started to compete aggressively for capital worldwide to finance a growing trade and current account deficit in the U.S. balance of payments, thereby provoking a sharp increase in real interest rates worldwide and a major reversal in the direction of global capital flows. From being the main source of world liquidity and of foreign direct investment in the 1950s and 1960s, in the 1980s and 1990s the United States became the world's main debtor nation and by far the largest recipient of foreign capital.

The extent of the reversal can be gauged from the change in the current account of the U.S. balance of payments.<sup>18</sup> In the five-year period from 1965 to 1969 the account still had a surplus of \$12 billion, which constituted almost half (46 percent) of the total surplus of G7 countries. In 1970-74, the surplus contracted to \$4.1 billion and to 21 percent of the total surplus of G7 countries. In 1975-79, the surplus turned into a deficit of \$7.4 billion. After that the deficit escalated to previously unimaginable levels: \$146.5 billion in 1980-84; \$660.6 billion in 1985-89; falling back to \$324.4 billion in 1990-94 before swelling to \$912.4 billion in 1995-99. As a result of these escalating U.S. deficits, the \$46.8 billion outflow of capital from G7 countries of the 1970s (as measured by their consolidated current account surpluses for the period 1970-79) turned into an *inflow* of \$347.4 billion in 1980-1989, and of \$318.3 billion in 1990-1999.<sup>19</sup>

This extraordinary reversal reflected the capacity of the United States to accumulate capital, not just by playing in conformity with the existing rules of

the capitalist game, but by changing the rules themselves. As Pierre Bourdieu has argued with reference to the reproduction of distinct positions in national distributions of “cultural capital” (see, for example, Bourdieu 1984), when challenged by a race to the top by the occupants of lower positions, the groups that occupy a dominant position can step up their investments so as to reproduce the relative scarcities on which their dominant position is based. For example, when social groups that previously made little use of the school system enter the race for academic qualifications, the groups whose status was due to educational credentials “step up their investments so as to maintain the relative scarcity of their qualifications and, consequently, their position in the class structure” (Bourdieu and Passeron 1979: 77-8). This strategy, however, tends to generate an inflation of credentials that undermines the participants’ belief in the game and in its stakes—what Bourdieu calls *illusio* (from *ludus*, the game)—thereby reducing the effectiveness of the game in reproducing distinct positions in the cultural field. The dominant groups must therefore also engage in symbolic struggles aimed at redefining the stakes and the rules of the game. They must, that is, play not just

to increase their capital...in conformity with the tacit rules of the game and the prerequisites of the reproduction of the game and its stakes; but...also...to transform, partially or completely, the immanent rules of the game. They can, for instance, work to change...the exchange rate between various species of capital, through strategies aimed at discrediting the form of capital upon which the force of their opponents rests...and to valorize the species of capital they preferentially possess (Bourdieu and Wacquant 1992: 98-9).

In terms of Bourdieu’s categories, the initial U.S. response to the intensification of competitive pressures in world markets and the concomitant crisis of U.S. hegemony can be characterized as a stepping up of investments *within* the disintegrating Keynesian framework of state action and capital accumulation. As noted, however, this strategy had the unintended result of deepening further the crisis of U.S. hegemony and of intensifying symbolic struggles between the First and Third World over the rules of the developmental game. The U.S. response that materialized around 1980, in contrast, cut short these struggles by establishing a new development game that valorized the species of capital that First World countries in general, and the United States in particular, preferentially possessed.

This species of capital is finance capital. Already in the 1970s, U.S. capital had begun to withdraw from the trade and production of commodities to engage in financial intermediation and speculation. But U.S. specialization in global financial intermediation and speculation gained momentum only when the U.S. government adopted fiscal and monetary policies that openly encouraged it.<sup>20</sup> In a sense, specialization in high finance is nothing but the continuation of the logic of the product cycle by other means. The logic of the product cycle for the leading capitalist organizations of a given epoch is to ceaselessly shift resources through one kind or another of “innovation” from market niches that are becoming overcrowded (and therefore less profitable) to market niches

that are less crowded (and therefore more profitable). When escalating competition reduces drastically the actual and potential availability of relatively empty and highly profitable niches in the commodity markets, the epoch's leading capitalist organizations have one last refuge where to retreat and from where to shift competitive pressures onto others. This last refuge is the world's money market—the market that, in Schumpeter's words, “is always, as it were, the headquarters of the capitalist system, from which orders go out to its individual divisions” (1961: 126).

Occupation of the headquarters of the capitalist system, however, regenerates the capacity to accumulate capital only to the extent that the system itself is restructured so as to feed the headquarters with an ever-expanding supply and demand for capital. The massive redirection of capital flows to the United States that resulted from the change in U.S. policies of 1979-1982 was in itself a powerful stimulant of such a restructuring. By reflatting effective demand in the United States and deflating it in the Third World, it created powerful incentives for capital to flow into the United States, and turned the “flood” of capital that Third World countries had experienced in the 1970s into the sudden “drought” of the 1980s. First signaled by the Mexican default of 1982, this drought was probably the single most important factor in the overall deterioration of the economic performance of the Third World in the 1980s (see Table 2).

At the same time, however, the redirection of capital flows enabled the United States to run large deficits in its balance of trade, thereby expanding the demand for imports of those goods that U.S. businesses no longer found profitable to produce. Since competitive pressures had become particularly intense in manufacturing industries, these imported goods tended to be industrial rather than agricultural products. This tendency was the primary source of the bifurcation in the fortunes of Third World regions of the 1980s and 1990s. On the one hand, there were regions (most notably East Asia) that for historical reasons had a strong advantage in competing for a share of the expanding North American demand for cheap industrial products. These regions tended to benefit from the redirection of capital flows, because the improvement in their balance of payments lessened their need to compete with the United States in world financial markets. On the other hand, there were regions (most notably sub-Saharan Africa and Latin America) that for historical reasons were particularly disadvantaged in competing for a share of the North American demand. These regions tended to run into balance of payment difficulties that put them into the hopeless position of having to compete directly with the United States in world financial markets.<sup>21</sup>

This global restructuring was consolidated by the establishment of the new *illusio* propagated by the Washington Consensus—what John Toye (1993) has aptly called the “counter-revolution” in development thinking. Taking advantage of the ongoing crisis of the old development project, the agencies of the new Washington Consensus invited Third World countries to abandon the statist and inward-looking strategies advocated by development theory and play by the rules of an altogether different game—that is, to open up their national economies to the cold winds of intensifying world-market competition and to compete intensely with one another and First World countries in creating within

their jurisdictions the greatest possible freedom of movement and action for capitalist enterprise. From the standpoint of the hegemonic power, these strategies had the advantage of widening and deepening the reach of the U.S.-centered global money market, thereby increasing the effectiveness of financialization in reviving U.S. wealth and power (cf. Arrighi 1991; Toye 1993: ch. 8; McMichael 2000; Bracking 1999: 208; Bienefeld 2000). Whether and how they would also improve the chances of success of Third World developmental efforts was never made clear. Their theoretical and historical justifications were shaky at best (Toye 1993: ch. 3-4; Tickner 1990). Be that as it may, disenchantment with the old strategies, intensifying competitive pressures, or sheer lack of credible alternatives made Third World countries inclined to believe in the “magic of the market” and to play by the new rules of the game. The question to which we must turn by way of conclusion is how stable the new *illusio* can be expected to be, and whether we can detect in present trends any sign of a future subversion of the Northern-dominated global hierarchy of wealth.

#### IV. Limits and Contradictions of the Neoliberal Counter-Revolution

Our argument has been that the reproduction of the North-South income divide since 1960 has been based on two main mechanisms—one structural and one ideological. The structural mechanism consists of the tendency of profit-oriented innovations in the organization of economic life to polarize space into zones of more or less permanent “prosperity” and zones of more or less permanent “depression.” Around 1960, the concentration of First World countries in zones of more or less permanent prosperity and of Third World countries in zones of more or less permanent depression was largely a legacy of Western territorial and industrial expansion since about 1800. After 1960, however, the very success of Third World countries in internalizing within their domains the industrial activities with which First World wealth had been associated activated a competition that sharply reduced the returns that previously had accrued to such activities. Around 1980, a radical change in U.S. policies provoked a major restructuring of the industrial apparatuses that had grown up under the previous regime. Under the new global regime, only those industrial apparatuses that could become profitable by world standards remained in operation or expanded further, while those that could not were downsized or eliminated altogether. From this point of view, the main difference between the pre-1980 and the post-1980 periods is that before 1980 relationships among the industrial apparatuses of Third World countries were predominantly non-competitive, producing broadly similar developmental outcomes, while after 1980 they became predominantly competitive, producing sharply divergent developmental outcomes *among* Third World regions.

Structural mechanism did not operate in an ideological void. Rather, they were shaped by beliefs and theories about the pursuit of national wealth in a global economy that channeled Third World developmental efforts in particular directions. These beliefs and theories were fundamentally contradictory because they reflected the hegemonic power’s attempt to do two incompatible

things—to accommodate Third World countries' aspirations to catch up with the standards of wealth of First World countries, and to preserve standards of oligarchic wealth for itself and for its closest allies. From this point of view, the main difference between the pre-1980 and the post-1980 periods is that, while in the earlier period the need to accommodate Third World aspirations was predominant, in the later period the need to preserve oligarchic wealth gained the upper hand.

What has emerged at the turn of the century is not an effective and widely accepted new *illusio*, nor Amsden's "rise of the Rest," and certainly not the "rationally ordered system, determined by its inhabitants in the interest of need not profit or war" (Harris 1986: 202) envisaged by Harris. Rather, it is a global system characterized by a highly unstable mix of large and persistent inequalities buttressed by appeals to moral sentiments, such as universal human rights, that fly in the face of the underlying economic reality. Elsewhere we have discussed in detail the latent instability of the contemporary world capitalist system (Arrighi 1994; Arrighi and Silver et al. 1999; Arrighi and Silver 1999; Silver 2003). In bringing this article to a close, we shall briefly discuss those dynamics that are most likely to destabilize the "globalization project" as well as those which have at least the potential to subvert the Northern-dominated hierarchy of wealth.

A first major source of instability is the nature of the restoration of U.S. power and Western wealth. The ease with which the United States succeeded in mobilizing resources in global financial markets to defeat the USSR in the 1980s, and then to sustain a long domestic economic expansion and a spectacular boom in the New York Stock Exchange in the 1990s, led to the belief that "America's Back!" Even assuming that U.S. global power was resuscitated as much as this belief implies, it would be a very different *kind* of power than the one deployed at the height of U.S. hegemony. That power rested on the capacity of the United States to solve the problems that had plagued the world in the terminal crisis of European colonial imperialism. Integral to this solution was the capacity of the United States to use its unprecedented and unparalleled financial resources to launch a global economic expansion that reproduced the existing hierarchy of wealth but nonetheless transformed interstate competition into a positive sum game. The new power that the United States came to enjoy in the 1980s and 1990s, in contrast, rested on the capacity of the United States to outcompete most other states in global financial markets. In exercising this capacity, the United States was no longer pump-priming the global economy as it did in the 1950s and 1960s. On the contrary, it has been sucking in liquidity from the rest of the world. U.S. power has thus been reflat, and the global hierarchy of wealth consolidated, through the transformation of interstate competition into a negative-sum game (Arrighi and Silver et al. 1999: 272-4; Arrighi and Silver 1999).

The sustainability of this negative-sum game for much longer is doubtful. The overall contraction in effective global demand brought about by the tightening of monetary policies advocated by the neoliberal counterrevolution has succeeded in bringing under control the inflationary tendencies of the 1970s. But it continually threatens to tilt the balance in the opposite direction of a

global overproduction crisis, as almost happened in 1997-8, and as might be happening again now in the wake of the bursting of the “new economy” speculative bubble. Moreover, the entire process has been associated with widespread tendencies towards social and political disintegration in the former Second and Third Worlds.

This brings us to a *second* major source of systemic instability. The U.S. government and the Bretton Woods institutions have been encountering increasing difficulties in persuading former Third and Second World governments that opening up their domestic economies to the unfettered sway of foreign commodities and capital actually serves their national interests. In the 1980s and 1990s, partly out of choice and partly out of necessity, Third World governments complied with the development strategies advocated by the neoliberal Washington Consensus. But these same governments appear to be running out of patience, as the promised benefits for those who play by the rules of the new game have failed to materialize. The two regions that performed worst after 1980 according to Table 2 (sub-Saharan Africa and Latin America) were the regions subjected earliest and most extensively to the prescriptions of the neoliberal Washington Consensus. They were also the two regions affected most negatively by the intensification of competitive pressures on Third World countries. Whether subjection to the neoliberal prescriptions was primarily a consequence or also a major cause of poor economic performance is hard to tell. Yet, even a distinguished World Bank economist, William Easterly, has noted that greater adherence by “developing countries” to the policies advocated by the Washington Consensus has been associated with a sharp deterioration of their economic performance, the median rate of growth of their per capita income falling from 2.5 percent in 1960-79 to zero percent in 1980-98 (2001: 135-45).

The failure of the Washington Consensus to deliver on its promises is an important element of the context in which Third World delegates to the 1999 WTO meeting in Seattle successfully torpedoed U.S. attempts to launch a new round of trade liberalizing negotiations (cf. Silver and Arrighi 2000). We can detect in Seattle and in subsequent UNCTAD meetings in Bangkok and elsewhere, the potential reemergence under entirely new historical circumstances of the demands for a NIEO that Third World countries advanced without success in the 1970s. These new demands for a NIEO might have little impact on the actual future trajectory of events were it not for a *third* source of instability. This is the reemergence of East Asia as the most dynamic region of the global economy, as it was before the rise in the nineteenth century of a Western-dominated global hierarchy of wealth. In the last two decades of the twentieth century East Asia experienced a region-wide industrial expansion that for speed and extent has few parallels in history. Moreover, unlike the industrial expansions that occurred in other Third World regions, East Asian industrialization has been associated not just with the major improvement in relative GNPPC shown in Table 2 but also with a rapid accumulation of financial surpluses. Thus, the obverse side of the transformation of the United States into the world’s leading debtor nation has been the emergence in the 1990s of Japan and the overseas Chinese (operating out of Taiwan, Hong Kong, Singapore,

and the main commercial centers of Southeast Asia) as the world's leading creditor nations (Fingleton 2001; Arrighi, Hui, Hung, and Selden 2003).

True, the inability of the Japanese economy to recover from the crash of 1990-92, followed by the region-wide financial crisis of 1997-98, has led many to question the real extent of East Asian financial and economic power. Nevertheless, the economic and financial crises in East Asia in the 1990s do not in themselves support the conclusion that the "rise of East Asia" is a mirage. In past transitions, it was the newly emerging centers of world-scale processes of capital accumulation that experienced the deepest financial crises, as their financial prowess outstripped their institutional capacity to regulate the massive amounts of mobile capital flowing in and out of their jurisdictions. This was true of London and England in the late eighteenth century and even more true of New York and the United States in the 1930s. We would not use the Wall Street crash of 1929-31 and the subsequent U.S. Great Depression to argue that the epicenter of global processes of capital accumulation had *not* been shifting from the United Kingdom to the United States in the first half of the twentieth century. Nor should we draw any analogous conclusion from the East Asian financial crises of the 1990s (Arrighi and Silver et al. 1999, especially chapter 1 and conclusion).

Be that as it may, the most important tendency for understanding the present and future of the global hierarchy of wealth may be the continuing economic expansion of China. Given the demographic size and historical centrality of China in the region, this continuing expansion is far more significant for the subversion of the global hierarchy of wealth than all the previous East Asian economic "miracles" put together. For all these miracles (the Japanese included) were instances of upward mobility within a fundamentally stable global hierarchy of wealth. The hierarchy could and did accommodate the upward mobility of a handful of East Asian states (two of them city-states), accounting for about one-twentieth of world population. However, accommodating the upward mobility of a state that by itself accounts for about one-fifth of world population is an altogether different affair. Statistically, the very pyramidal structure of the hierarchy would be subverted. Indeed, as pointed out in Section I, to the extent that recent research on world income inequality has detected a statistical trend towards declining inter-country inequality in the 1990s, this is due *entirely* to the rapid economic growth of a single country, China. Moreover, any significant upward mobility of China within the world hierarchy of wealth would also imply not just a statistical subversion of the pyramidal structure, but a political and cultural one as well.

To be sure, in spite of its great advances, China is still a low-income country—its GNPPC in 1999 being a mere 2.6 percent of that of the First World (see Table 2). Nor is there any guarantee that China's economic expansion will not itself be punctuated by crises. Indeed, the chances are that it will be because, as just noted, crises are integral aspects of emerging economic centers. Moreover, the "spontaneous" tendencies for the global hierarchy of wealth to reproduce itself emphasized throughout this article will continue asserting themselves. In particular, China's rapid growth raises in acute form the problem of the absolute and relative scarcity of natural resources—a problem that the post-



war world of *oligarchic* wealth accommodated through the *exclusion* of the majority of world population from the mass consumption standards of the West. A new model of development that is less wasteful than the U.S.-sponsored mass consumption model will be needed in a world of *democratic* wealth.

Closely related to this is the further question of whether and how the Chinese government will use China's wealth and related power (assuming that they will both continue to rise) to influence the rules of the global development game. Will it put China's weight behind a NIEO that is simultaneously more equitable, less wasteful, and more sustainable than the U.S.-centered economic order? Or will it continue, as it has done so far, to mimic the unsustainable and resource-intensive U.S. model of development? Indeed, China's recent rapid economic growth has also been associated with the growth of enormous inequalities *within* China (Riskin, Zhao, and Li 2001)—a trend that further increases the likelihood that China's expansion will be punctuated by major social-political crises as well as economic crises. The resolution of these problems requires a minimum of political intelligence and good will (admittedly scarce goods these days), not to mention a compelling new *hegemonic vision for the world*. Even though at the moment little is visible of either, the rise of East Asia seems to us the most hopeful sign that the extreme global inequalities created under European colonial imperialism and consolidated under U.S. hegemony will eventually give way to a more just and equal world.

## Notes

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1. The differences among the estimates cited above are almost entirely due to whether income data are converted into US \$ at actual exchange rates without adjustment for differences in costs of living (FX-based data) or adjusted for "purchasing power parity" (PPP-based income data) (Firebaugh 1999: 1601 and Table 3). Korzeniewicz and Moran measure income in different countries at actual exchange rates, while Milanovic and Goesling use Purchasing Power Parities. Korzeniewicz and Moran's findings are based on data for 1992, Milanovic's for 1993, and Goesling's for 1995. Goesling's findings for 1992 (74%) are the same as Milanovic's for 1993.
2. For reviews of the evidence, see O'Rourke (2001) and Firebaugh (2001). Since this was a period of simultaneous Western industrial *and* territorial expansion, there is little agreement in the relevant literatures on whether present inequality is primarily the legacy of Western industrialism or Western colonial imperialism.
3. Milanovic derived the world income distribution of individuals for 1988 and 1993 from household survey data from ninety-one countries, adjusted for differences in purchasing power parity between the countries. This study was made possible by the massive expansion in the data base on incomes that ensued from a major increase in the number of household surveys carried

out in Africa, and from the opening up of hitherto unavailable sources in China and the former Soviet Union. Replicating this study for earlier periods may be difficult or altogether impossible. Goesling attempts to take the analysis back to 1980 but because of data gaps he relies on a basket of countries that changes from year to year in a non-random (biased) fashion, making less than convincing his conclusion that the percentage of total inequality attributable to the between-nation component of the Theil Index has been declining since at least 1980 (leaving aside the China issue mentioned in the text above).

4. Cf. Oliver and Shapiro (1995) and Conley (1999) for an analogous distinction between income and wealth with reference to the long-term rigidity of a racial stratification of wealth *within* the United States.
5. We shall not question this consensus. Nor shall we try to settle the dispute over whether present North-South income inequality is primarily a legacy of Western industrialism or Western colonial imperialism. On the interdependence between these two sources of the initial gap, see Arrighi and Silver et al. 1999, chapter 4.
6. Daniel Bell's expectation was itself based on Colin Clark's earlier analysis of sectoral shifts from industrial to service activities in the course of economic development (1957). For more recent analyses, see Rowthorn and Wells (1987) and Alderson (1999).
7. On the decreasing effectiveness of industrialization as a means to pursue income/wealth, see Arrighi and Drangel (1986: 53-57). Although this finding was incorporated in some later reconceptualizations of national development (e.g., Gereffi 1994: 44-45), it has largely been ignored in academic and popular discourses about development.
8. On the implications of this switch for development theory, see especially Toye (1993) and Gore (2000). As Hans Singer (1997) points out, the description of development thinking in the post-war era as statist and inward-looking is correct but neither term had the derogatory connotations they acquired in the 1980s.
9. For a detailed discussion of the mechanisms underlying this intensification of competitive pressures, see Arrighi 1994; Arrighi and Silver et al. 1999.
10. In calculating these ratios, and throughout this article, we classified as First World the United States, Canada, Western Europe, Australia, New Zealand and Japan, while the countries classified as Third World are those in sub-Saharan Africa, Latin America, West Asia and North Africa, South Asia and East Asia (except Japan). The data for both income and manufacturing are from World Bank sources. (For the exact countries included in the following analyses as well as the sources, see Tables 1 and 2.)
11. We use GNP data converted into US\$ at actual exchange rates (FX-based data) without adjusting for differences in the cost of living (as PPP-based data does) for analogous reasons. While PPP data allow for a more adequate description of trends in material consumption, FX-based data are a better measure of differences in the relative level of income/wealth among residents of different countries in the global economy. Wealth in a global economy is the command that people have over one another's goods and services on the world market. PPP-adjusted data actually obscure what we seek to measure. For example, even though a book produced in India or China may be significantly less expensive than a book produced in the United States, purchasing *any* of these books takes a smaller percentage of the income of the average resident of the United States than it would take to make the *same* purchases for the average resident of India or China. One can think of this in terms of the difference it makes in the ability of differently located universities to maintain a world-class library.
12. To be sure, manufacturing is a very heterogeneous category with products subject to varying levels of competitive pressure and varying profitability. A central argument in the next section is that there are mechanisms by which the geographical distribution of profitability in manufacturing activities has been continuously reproduced along established geopolitical (North-South) lines—despite continuous Southern efforts to invest in those manufacturing activities with the highest returns available at any given point in time.
13. The regression equations used throughout this section are used, not as models of causal relationships, but as descriptive statistics—that is, as means to identify patterns in the relationship between industrial and income convergence/divergence over time. In Section III, we shall offer our explanation of the patterns identified in this section.
14. See footnote 10 on country classification and sources.

15. For a discussion of this process with regards to the greater ease with which wealthy countries have been able to absorb/accommodate social disruptions associated with industrialization, especially the emergence of strong labor movements, see Silver (2003, especially chapter 3); also Silver (1990).
16. For a detailed discussion, see Arrighi (1994); Arrighi and Silver et al. (1999); and the somewhat different interpretation of Brenner (1998; 2002).
17. Evidence of the growing political strength of the Third World included the US defeat in Vietnam, Portuguese defeat in Africa, Israeli difficulties in the 1973 War, and the entry of the PRC in the Security Council of the United Nations.
18. Leaving aside “errors and omissions,” current account surpluses are indicative of net outflows of capital and deficits of net inflows.
19. All figures have been calculated from IMF (various years).
20. Historically, a specialization of this kind has enabled the declining hegemonic states of world capitalism to turn to their own advantage, for a while at least, the intensification of competition that has undermined their hegemony. As Halford Mackinder put it a century ago in a speech delivered to a group of London bankers, the industrialization of other countries enhanced the importance of a single clearinghouse. And the world’s clearinghouse “will always be where there is the greatest ownership of capital.... We [the British] are essentially the people who have capital, and those who have capital always share in the activity of brains and muscles of other countries” (quoted in Hugill 1993: 305). Today, “the people who have capital” more than any other are U.S. residents. What Mackinder said of Britain at the end of the nineteenth century holds *a fortiori* for the United States at the end of the twentieth century. On the analogies and differences between the present U.S.-centered financial expansion and earlier expansions, see Arrighi (1994) and Arrighi and Silver et al. (1999).
21. For a preliminary analysis of the comparative advantages of East Asia and disadvantages of sub-Saharan Africa in the new global environment of the 1980s and 1990s, see Arrighi (2002: 24-31).

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