UCLA
Conference Papers

Title
Globalization and its Impact on Core-Periphery Relations

Permalink
https://escholarship.org/uc/item/5zn164xm

Author
Berend, Ivan T

Publication Date
2004-02-04

eScholarship.org Powered by the California Digital Library
University of California

Ivan T. Berend

Globalization and its Impact on Core-Periphery Relations

Characteristics of globalization

Globalization is probably the most often used term in social sciences nowadays. Several colleagues, however, maintain that there is nothing new in globalization. The entire early modern and modern history were periods of permanent development of globalization, especially after the discoveries, building colonial empires, later railroads, and establishing laissez-fair system an the international gold standard. The world, no doubt about it, became more international, if you want global all the time.

During the last quarter of the 20th century, nevertheless, new trends and changes emerged. Many experts speak about a new chapter of history, the age of globalization. In my view, we, indeed, may speak about a new period in the history of the world economy. Economic interactions between various countries and continents: trade; capital investment; establishment of subsidiaries, production abroad, and financial transactions all existed before and characterized modern capitalism. A permanent quantitative increase, higher value of trade and foreign investments, indeed, accompanied the 19th and 20th centuries. In the last quarter of the 20th century, however, a further dramatic quantitative change of these interactions transformed the world economy. What actually happened?

Trade, pushed by international agreements, developed by leaps and bounds. Originally the bitter lessons of two world wars and the gloomy interwar decades led to the initiation of an open, interactive world economy. The postwar General Agreement on Tariffs and Trade (GATT), with its multilateral, non-discriminatory character, played a positive role in ending interwar protectionism, economic warfare, and hostility. The Western great powers, most interested in exporting, launched major new initiatives to open markets during the last quarter of the century: the Tokyo Round, concluded in 1979, and most importantly, the Uruguay Round, launched in 1986, led to the Punta del Este declaration, which paved the way for the foundation of the World Trade Organization (WTO) and the opening of a multitude of markets.

Forcing worldwide free trade was also helped by sharply declining cost of transportation and communication. The cost of a three-minute London-New York telephone call decreased from $53 in 1950 to $0.9 by 2000. The cost of an air transport passenger mile was $0.30 in 1950 and $0.11 by 1990.

Exports, mostly as a consequence of free trade agreements and cost reduction, soared. Its value represented 9% of the GDP of the Western World in 1950, but increased to 30% of it by the 1990s. In Western Europe this share reached 36% of the GDP, twice the world average. In 1950, exports were valued at $0.3 trillion, but increased to $1.7 trillion by 1973, and, by the end of the century, jumped to $5.8 trillion; an increase of 350% during the last quarter of the century. **(Chart 1.)** (Maddison, 2001, 127, 362).

Direct foreign investment (FDI), a phenomenon well known since the second half of the nineteenth century, also increased in an unparalleled way. Foreign investment

amounted to $107 billion per annum in 1980, and more than doubled over the next fifteen years, growing four-times faster than foreign trade and eventually reaching 6% of domestic capital accumulation, three-times more than in 1970.

The major players behind this tremendous increase in economic transactions are *multinational companies*—those companies that have operations in two or more countries. Multinationals, though they appeared nearly a century before, became dominant in the world economy in the last quarter of the twentieth century. The emerging dominance of multinationals was closely connected with technological and managerial development, and was, in part, a consequence of the rise of economy of scale and the movement of resources from less to more productive uses, decreasing the cost of production and transportation. According to Al Chandler this constitutes a genuine company development trend (Chandler, 1986; 1990).

The quantitative changes are shocking in this respect as well: in the early 1970s, multinationals numbered around 7,000, at the end of the century, 44,000, with 280,000 foreign subsidiaries, producing one-quarter to one-third of world industrial output. By the mid-1990s, their global sales represented 40% of world trade and 75% of manufactured goods trade. The 500 largest multinationals control about 80% of all foreign production (Eden, 2000, 341), and the 100 largest global multinationals control roughly 20% of total foreign assets, employ 6 million people, and account for nearly one-third of total multinational sales. "Today, most of the 40 million or so vehicles that roll off production lines each year [throughout the world] are made by just 10 global corporations" (Knox and Agnew, 1998, 209). Summing up: the quantitative increase in global economic transactions has, indeed, created a new quality of economic interactions.

Economic interactions, however, not only increased but also changed the traditional international division of labor. Multinationals established subsidiaries in highly sophisticated branches in other *advanced* countries. This trend was closely connected with the new phenomenon of specialization within industries, rather than between them. Intra-industry trade's share steeply increased from the 1970s on. As one of the OECD reviews reported in the late 1980s, during the last twenty years, intra-industry trade increased from 44% to 66% of total industrial trade in Germany and from 46% to 76% in Britain. Both in France and Belgium this share reached three-quarters of total trade (OECD, 1987, 273).

The typical pre-globalization investment in developing, agricultural and raw material producing areas shifted more and more toward investment in other highly developed countries. The geographical destination of German FDI is very characteristic: in 1961, 46% of German investment abroad was channeled to developing or less developed countries. By 1990, less than 20% went to these areas. In 1990, only 2% of German FDI was channeled into mining industries, while nearly 40% was going to trade, banking and insurance business, and another one-third to chemical, electrical, machine building, and car industries. In 1961, only 14% of German investments went to other European Community countries, by 1990, already 41%. Altogether, as a striking new phenomenon, three-quarters of the stock of the world's FDI are located in advanced countries. **(Chart 2.)**

In Great Britain, the chemical, paper, and car industries were modernized by multinationals, and nearly one-third of the British industrial output is produced by multinationals. The same is true for the Netherlands. In rapidly developing Ireland, the

numbers are even more striking, with 70% of exports being produced by multinationals. American subsidiaries in Europe produce one-third of European imports from the United States, and European subsidiaries in the US are responsible for 38% of American imports from Europe (Pollack and Shaffer, 2001, 12-4).

Intra-West European trade, as a natural consequence of the new type of division of labor, also became dominant: in 1958, only 30% of the trade was intra-regional. By 1989, trade between the countries of Western Europe jumped to nearly 60% (Busch and Milner, 1994, 261).

The new division of labor also changed the traditional economic connections between the advanced core and the less developed peripheries. Instead of investing in raw material extraction, the core countries relocated certain labor-intensive and highly polluting industrial branches to peripheral countries with cheaper labor cost and less restrictive environmental regulations. Dutch multinationals are employing three-quarters of their labor-force abroad (Jones and Schröter, 1993, 25). As a consequence of this phenomenon, a strong trend of de-industrialization became characteristic in the most advanced countries. The percentage of the labor force employed in manufacturing sharply declined: between the mid-1960s and mid-1990s, in Britain, the Netherlands, Italy, and Sweden the percentage fell from 40-48% to 16-20%. **(Chart 3.)** The top, science- and knowledge-intensive processing branches, nevertheless, remained in their territories. Basic heavy chemicals, iron and steel, some preparatory branches of leather industries were relocated to peripheral countries, but fine processed chemicals, pharmaceuticals, top level engineering, sophisticated leather ware mostly remained in the core. It is even more so regarding research and development (R&D), the real engine of

economic development, which are highly and one-sidedly concentrated in the hands of multinationals. Over the course of one-and-half decades from 1980, employment in this sector increased by 34%. Western Europe in the mid-1990s employed 1.6 million people in the R&D field. Multinationals account for roughly three-quarters of R&D expenditures for the entire advanced (OECD) world, thus they are the prime movers and monopolists of new technology.

Globalization dramatically increased *foreign exchange transactions*. International bank loans, closely connected to economic activities, reached only 0.7% of world output; but surpassed 16% of it by the early 1990s (Helleiner, 2000; Perraton, 2000; Higgott and Payne, 2000; Coleman and Porter, 1994). Cross border transactions of bonds and equities exhibited an even more striking phenomenon. In 1980, it reached 10% of the aggregate GDP of the most advanced G-7 countries, but fifteen years later it was 140% of aggregate GDP. More than 200,000 currency traders are operating across the world, and the transactions have reached unparalleled proportions, going from $15 billion a day in 1973, to $1.3 trillion daily by 1995, an amount more than 50-times the total value of world trade. **(Chart 4.)** "The global financial tail," noted Philip Cerny, is "increasingly wagging the 'real economy' dog" (Cerny, 2000, 41).

International financial markets, where trillions of dollars are flowing in and out of various countries, undermining currencies, have little to do with productive activities. Less than one-fifth of foreign exchange transactions support international trade and/or investment. More than four-fifth is speculation (Rupert, 2000, 79), as was clearly evidenced by the collapse of currencies, and regional crises. This became the most characteristic new phenomenon of globalization.

Globalization and the Conservative Revolution

Globalization unquestionably represents a new era. In large part because from the early ‘70s it was accompanied by a set of changes that comprise, what Perry Anderson called, a *conservative revolution*. As he defined this process, globalization went hand in hand with the emergence of neo-liberal economics, laissez-faire individualism, and postmodern cultural nihilism. In connection with the latter, Jürgen Kocka has spoken about an irrational, anti-Enlightenment intellectual trend in historiography. The strong belief in the possibility of understanding the world and history, and understand human action in order to form historical trends and pave the way toward progress—a *Zeitgeist* since the Enlightenment—disappeared.

Was it an integral part of globalized free trade and capital flow? My answer to this question is yes and no. The nature of international economic interactions, on the one hand, indeed revitalized laissez-faire ideology. On the other, however, it could be combining with Keynesian control and regulation, and strictly limited to the economic arena. That was not the case. Globalization globalized the ideological concept of “market fundamentalism“ - as George Soros coined this term (Soros, 1998). The prophets of this new *Zeitgeist,* Friedrich Hayek, Milton Friedman, and other members of the neo-liberal school in the mid-1970s, launched an ideological war advocating deregulation, privatization, and free market as the only solutions in cutthroat global competition in a free society.

In Hayek’s argumentation, freedom of the individual and freedom of the market are inseparable prerequisites for one another. As an uncompromising opponent of Keynes already in the 1930s, Hayek forecasted that Keynesian price and wage control

policy led to unemployment and, rather than stabilizing the economy, would create more extreme fluctuation. He was wrong during the thirties and continued to be wrong until the end of the 1960s. His view, that state interventionism is *The Road to Serfdom,* as the title of his 1944 book proclaimed, was wrong too. Very few people accepted that the only role of governments, as he argued, was to protect individual freedom and freedom of market competition. When he published *The Constitution of Liberty* in 1960, he seemed to be the Last Mohican of outdated, classical economic liberalism. Yet, by the 1970s, Friedrich Hayek had again become one of the most fashionable and influential economists and political thinkers (Hayek, 1944; 1960). A 1974 Nobel Prize award confirmed his rediscovery and renown.

Milton Friedman's *Capitalism and Freedom*(1962) became a corner stone of this ideology, attacking state intervention as the real cause of economic troubles, because, he claims, it disturbs market automatism and undermines freedom. Friedman characterized the New Deal policy of the 1930s and the American road "that has been going on for the past forty or fifty years, [as a road that leads] away from a free society…" "Today," he remarked in his address at Pepperdine University in 1977, "total government spending at all levels amounts to 40% of the national income… federal government spending has moved in less than fifty years from 3% to over 25% – total government spending from 10% to 40%… The question is, will we keep trying to continue on this path until we lost our freedom and turned our lives over to an all-powerful government in Washington, or will we stop?"

According to Friedman, privatization of various governmental functions lowers costs and increases efficiency. Moreover, self-regulated market is the real source of

human welfare because the market is able to provide healthcare, pensions, and various kinds of insurance. His "monetarist counter-revolution" accepted only one kind of regulations: by central banks, a slower growth in the amount of money in circulation relative to the growth of the real value of output. It would increase the value of money and guarantee the undisturbed operation of the market (Friedman, 1959; 1963; 1969). Friedman's Nobel award in 1976 crowned the victory of monetarism over Keynesism.

Market fundamentalism was preached in an extremely effective and easily understandable way to influence politics and public opinion. Friedman, as the economic adviser to President Nixon, and Pinochet in the 1970s, contributed significantly to changing political trends. His *Free to Choose* television program influenced the thinking of millions. His oversimplified comparison of Communist China and Hong Kong concluded that differences in income and way of life in the traditionally backward country of one billion inhabitants, and the city-state, which, partly for political reasons, attracted huge outside investments, was a consequence of the different models they had chosen. In a similar way he maintained that Britain is stagnating because of its welfare system, while 'forgetting' about the flourishing German, Italian and Swedish welfare economies.

He attacked social solidarity and advocated laissez-faire individualism, maintaining that welfare institutions are a brutal intervention upon personal freedom, akin to "sending a policeman to take the money from somebody's pocket." Instead, he recommended a radical tax cut: "I think, a flat rate of around 16%;" reducing government expenditure drastically by privatizing nearly everything; and making families and individuals responsible for their schooling, health care and pension plans. The best way

for this, he suggested, is to introduce voucher system for health care, pensions, and education, creating "a free, competitive, private-market educational system… If you have a people committed to getting back to a free society it seems to me that is one of the great virtues of using vouchers." Full employment policy is also a mistake, Friedman argued in his Nobel lecture in 1976: "a dynamic, highly progressive economy, which offers ever changing opportunities… may have a high natural rate of unemployment" (Friedman, 1978, 1-3, 7, 75, 79, 91).

Neo-liberal theory provided prescriptions and programs as a uniform and universal model in a highly ideological form, with an almost religious fervor. Globalization, at last, emerged hand in hand with this new *Zeitgeist.* This ideology certainly helped paving the way for uncontrolled international activities of multinationals and financial capital. As George Soros put it, neo-liberal policy "has put financial capital into the driver's seat." Neo-liberal market fundamentalism thus became part of the era of globalization as Smithian liberal economics belonged to the emerging free trade system in the 19th century.

What made this old new ideology so successful?

The most probable answer lies in part in the failure of Keynesian economics, which was successful for forty years, but ceased to be effective in the 1970s. Rather than generating additional demand, Keynesian state interventionist measures pushed prices upward and contributed to the new phenomenon of *stagflation,* the odd coupling of stagnation with inflation. What were the reasons of this failure? Most probably, it was the strong inflationary pressure, brought about by external, non-economic factors. First, at the end of the 1960s, political turmoil throughout Europe led to strong wage increases,

which were compensated by price increases, creating a wage-price spiral that drove inflation upward. In 1973, and then again in 1979, two major politically initiated oil crises led to a ten-fold increase in the price of oil. Control over inflation was lost exactly at the onset of a recession, and after a quarter-of-a-century of high prosperity, a Kondratiev downward cycle phase began. Nothing similar has ever happened in history. In the past, recessions were accompanied by price decline and the Keynesian demand-side cure worked. It was not the case in this new situation. After forty years of being wrong, Hayek became right.

Another reason might be that the advanced and rich core countries, especially the United States, which had turned to laissez-faire, adjusted relatively quickly and successfully to the new technological and structural requirements of the age of communication revolution, and could cope with the structural crisis of the 1970s and ‘80s. The poor, less developed, strongly state commanded, peripheral economies from India to Latin America, and especially the state-owned and centrally planned Eastern Europe, could not find an answer to the new technological-economic challenges, and they slid into an ever-deepening crisis. Their failure was interpreted as a consequence of regulative, anti-market policy, thus *regime* specific, rather than an outcome of limited peripheral abilities for technological and structural adjustment, thus *region* specific.

At last, it helped the success that the medicine, offered by neo-liberalism, was not a bitter one for the middle-class. It was easy and even attractive to believe that they could best serve national and social interest by acting according to their own business interests. “The most dramatic change occurred in the 1980s,” Joseph E. Stiglitz, former chief economist of the World Bank, and a more recent Nobel laureate, stated in 2002.

The G-7 countries, all the leading economic powers of the world, and the international monetary institutions they created and financed, most of all the International Monetary Fund (IMF), were also champions of – using his words again – “market supremacy with ideological fervor” (Stiglitz, 2002, 12-3). Reaganomics was an ideologically based commitment against “big government,” “tax and spend” policy, and in favor of drastic tax cuts and the withdrawal of the state by contracting out and privatizing key public services. In Britain, several services, previously covered by the Ministry of Defense and the National Health Service (with 2,000 hospitals) were also contracted out after the May 1979 electoral victory of Margaret Thatcher. Previously nationalized firms were re-privatized soon after. Market fundamentalism spread like wildfire: it became a leading view and policy in the United States and Britain, and a political guideline for the international monetary organizations, thus having a major impact on all countries. Germany, Italy, and, from the mid-1980s, France and post-Franco Spain joined as well.

The international monetary system of Bretton Woods, created after the war through lessons learned from previous economic instabilities and wars, and which was based on strict control of capital movements, collapsed along with all of its regulations. The goal of Bretton Woods, as Henry Morgenthau, American Treasury Secretary, characterized in biblical terms, was to “drive the usurious moneylenders from the temple of international finance” (Helleiner, 1994, 164). With the collapse of Bretton Woods, moneylenders now reoccupied ‘the temple.’

The road to deregulation was opened by President Nixon in 1971, when he, following the advise of Milton Friedman, closed the fixed exchange rate era of Bretton Woods and introduced the floating exchange rate for dollar. Furthermore, in 1974, the

American administration abolished its own capital controls and pushed other countries to follow. Britain did so in 1979 by eliminating its forty-year old capital control system. In 1975, the New York Stock Exchange, and in 1986, the London Stock Exchange were deregulated. The Reagan and Thatcher governments had finished the job and a "competitive deregulation race" began: Australia, New Zealand, France, Germany, and by 1988, practically the entire European Community had abolished capital controls, with the Mediterranean and Scandinavian countries following soon there after. (Helleiner, 1994, 168-70).

What are the consequences of globalization for the peripheries?

First, before turning to the facts, let's sum up the dominant views and concepts. According to globalization enthusiasts and neo-liberal ideologues, everybody is profiting from globalization. They renewed and generalized David Ricardo's theory in the broadest possible way by maintaining the all round benefit of globalization. First of all, because in the age of the new technological-communication revolution "the nation state has become an unnatural, even dysfunctional, unit for organizing human activity and managing economic endeavor in a borderless world. It represents no genuine, shared community of economic interests; it defines no meaningful flows of economic activity" (Ohmae, 1993, 78). Mark Zacher speaks about "the declining pillars of the Westphalian temple in which the… world [has] politically worshiped for over three centuries." The Treaty of Westphalia (1648) "recognized the state as the supreme or sovereign power within its boundaries…[nowadays] the world is in the process of a fundamental transformation from a system of highly autonomous states to one where states are increasingly enmeshed in a network of interdependencies" (Zacher, 2000, 480, 519, 521).

In the globalized system, they argued, the social and political trends of the more advanced countries will also be globalized: social convergence will take place, a global civil society will rise, (Richard Falk), and global democratization will follow (Larry Diamond, Juan Linz, Seymur Lipset; Dankwart Rustow). In the age of globalization "geography ended" (Richard O'Brien). Free movement of capital and goods will produce a much more efficient allocation of resources and more efficient production and distribution of goods and services. Capital will be invested where it is most profitable and thus will flow into low-wage-level developing countries. Former categories like 'third world,' and 'core and periphery' become meaningless. James Mittelman paints a rosy picture: "as chains of commodity production and exchange operate above, below, and across national and regional boundaries, generating their own time-compressed spatial relations," inequalities are diminishing. They strongly and one-sidedly stressed the assumed overall positive impact of globalization (Lal, 1980; Dunning, 1993; Mittelman, 1995).

Globalization, nevertheless, has a many-colored, strong opposition. I am not going to discuss nationalist and extreme conservative criticism, which speak about globalization as "betrayal" and "treason" of the national cause, a "death of the nation state" and "embryonic institutions of world government" where "faceless foreign bureaucrats" will decide on national issues. Several Rightwing nationalists speak about an international conspiracy of bankers and financiers, or even American-Jewish conspiracy (Rupert, 2000, 99, 113-5).

I am also avoiding the discussion of some well-based warnings on general dangers. George Soros, one of the main beneficiaries of deregulated financial markets,

notes that individual states are unable to “resist the power of global financial markets and there are practically no institutions for rule making on an international scale. Collective decision-making mechanisms for the global economy simply do not exist… financial markets are inherently unstable… To put the matter simply, market forces, if they are given complete authority… produces chaos and could ultimately lead to the downfall of the global capitalist system” (Soros, 1998, xx, xxiii, xxvii). Robert Cox expressed the same view: “Global finance has achieved a virtually unregulated and electronically connected twenty-four-hour-a-day network… Global finance has the upper hand because of its power over credit creation… Even the combined governments of the Group of Seven (G-7), have not been able to devise any effectively secure scheme of regulation… There is... governance without government” (Cox, 1994, 48-9).

Globalization and growing disparity

While globalization enthusiasts paint a rosy picture on regarding core – periphery relations, their views are highly attacked. A. Hurrell and N. Woods assert that “inequality among states matters… Simply put, globalization affects regions of the world in different ways… For less powerful states in a region… globalization is a process, which is happening to them and to which they must respond… They have little choice but to accept the rules” (Hurrell and Woods, 2000, 528-9, 531).

“When two economies, at different levels of development are brought together,” added Shahid Alam, “the natural operation of market forces tends to widen their initial inequalities… The polarization created by trade is deepened by factor [capital and labor] movements. Attracted by higher returns, the lagging country also loses its capital and skilled labor to the advanced country” (Alam, 2000, 63).

At this point, let us confront the concepts with the facts. In the critical period of the last quarter of the century, in reality, polarization characterized the world economy more than ever before. Between 1973 and 1998, per capita GDP increased in the advanced Western World by an annual rate of roughly 2%. In Latin America, the annual growth rate was only 0.99%. In Africa there was absolute stagnation, an annual 0.01% growth was characteristic, while in Eastern Europe, including the former Soviet Union, there was a serious decline of –1.10% per annum. **(Chart 5.)** Income disparities between the poorest and richest *countries* had a 1:10 ratio in 1913, and a 1:26 ratio in 1950. By 1990, the ratio had increased to 1:40. Income differences among *various world regions*, which decreased in the period of state interventions in the peripheries, went from a 15:1 ratio in 1950 to a 13:1 ratio by 1973, but then broadened during the decades of globalization in the last quarter of the century from 13:1 to 19:1 (Maddison, 2001, 126).

The deep peripheral crisis, stagnation, indebtedness, and mass unemployment on the Latin American continent, and an expanded structural crisis in the 1970s and '80s, provided an excellent opportunity to virtually force the triumphant neo-liberal policy on the entire continent, and gradually on the entire developing world. This policy was enforced according to the principles of the so-called Washington Consensus: "a consensus between the IMF, the World Bank, and the U.S. Treasury about the 'right' policies for developing countries… Fiscal austerity, privatization, and market liberalization were the three pillars of Washington Consensus advice throughout the 1980s and 1990s," stated Joseph Stiglitz. Market fundamentalist ideologies thus played an important role and became a guideline for the peripheries.

When state socialism collapsed in the Soviet Bloc, this "one-size-fits-all" policy was adopted, and forced upon the new countries as an IMF "condition" for assistance. This policy, Stiglitz explains, was inappropriate for developing and transforming countries. The advanced countries, "had built up their economies by wisely and selectively protecting some of their industries until they were strong enough to compete with foreign companies… Forcing a developing country to open itself up to imported products… can have disastrous consequences… [The advanced countries] did not attempt capital market liberalization until late in their development – European nations waited until the 1970s to get rid of their capital market controls – the developing nations have been encouraged to do so quickly" (Stiglitz, 2002, 16-7, 34, 53, 65).

One should add that advocating free market and honestly practicing it are often hypocritically departing from each other. The advanced core countries are paying nearly $ 1 billion a day in agricultural subsidies, which enable their farmers to sell their huge overproductions at prices below their cost of production. Tariffs are often introduced against third world textile and steel products as well. As The New York Times argued, there is an "urgent need to address globalization's imbalances and restore the credibility of the free trade system" (New York Times, 2003).

Forcing a globalized laissez-faire was also harmful for several peripheral countries since self-regulated market system cannot work without state assistance in countries that have incomplete, imperfect markets—which is always the case in developing countries—and that do not have up-to-date information systems. Joseph Stiglitz also called attention to the lack of social, legal, and political prerequisites in the former Soviet Bloc. Free-marketization required the transformation of "societies and of

social and political structures," which are long, historical processes (Stiglitz, 2002, 74, 135).

Consequently, the history of the most dramatic transformation process of marketization and privatization in Eastern Europe went hand in hand with great destruction and suffering. János Kornai considered this decline an unavoidable side effect of the positive process, as he called it, a "transformational crisis" (Kornai, 1993, 2). Unavoidable factors certainly contributed, but major mistakes, made under the banner of immediate introduction of a self-regulating free market, caused an otherwise avoidable additional catastrophe. A premature opening of the countries' markets, without previous technological-structural adjustment led to the collapse of agriculture (sometimes by 50%) and a large part of industry (often 25 to 35%), destroyed jobs, increased unemployment from zero to two-digits figures, and broadened the gap between the region and advanced Western Europe. The over-emphatic 'de-stateization' and the sudden setting in motion of uncontrolled market automatism had an effect similar to the opening of a greenhouse door in the middle of harsh winter. **(Table 6.)**

GDP/Capita in Eastern Europe, in% of the West (Maddison,2001, 185)

Year	Eastern Europe (8 and then 27 countries)	%	Western and Southern Europe = 100
1973	5,522	100	48
1990	6,154	111	38
1998	4,677	85	26

It took an entire decade for the *best* performing countries to recover the losses and again reach 1989 GDP levels. Russia, Ukraine and Belarus recovered to only one-third to 60% of their 1990 per capita GDP levels, and probably need another decade to reach the previous level. A comparison with China also merits special attention: in 1989, the GDP in China was only 60% of the Russian GDP level. In 1999, Russian GDP was only 60% of the Chinese GDP level. This change in GDP had social consequences: in 1989, only 2% of the Russian population lived in poverty (using the $2 per day income level as measurement), but in 1998, 23.8% lived in poverty, with 50% of the country's children living in under poverty-level families (Stiglitz, 2002, 6, 153).

Globalization and the windows of opportunity to catch up with the West

Considering all the dangerous consequences of polarization, a growing core – periphery disparity, and uncontrolled corporate rule, I still do not accept the one-sided approach to globalization as a trend in which all the advantages go to the rich countries and all the negative consequences hit the poor ones. This concept does not correlate with a number of facts. Lloyd Reynolds, analyzing the economic growth of the Third World, categorized 37 countries into four groups, and found tremendous differences in their reaction to globalization: he distinguished among high growth, moderate-growth, low-growth, and no-growth Third World economies. During the 1970s the growth disparity among the *four peripheral groups* was shocking. The first group attained an annual average of 3.5% growth, the second a 2.7% increase, the third had only 1.7%, and the fourth, 0.3% annual growth (Reynolds, 1985, 390-1). During the entire last quarter of the century, Asia (without Japan) achieved the highest growth rate: 5.46%, two-and-half-times more than Western Europe, and even on a per capita basis, 3.54% per annum,

which led to a near doubling of per capita income. Several Asian developing countries, those, which, using Angus Maddison's calculations again, had a stagnating peripheral economy for a century (-0.11% between 1820-70; 0.38% between 1870-1913; -0.02% between 1913-50, measuring in per capita GDP), became rapidly developing and catching up countries, "small tigers," in the second half of the century, with an annual growth of 2.95% between 1950-73, and 3.54% between 1973-1998 (Maddison, 2001, 126). Japanese and American investments and multinational companies played a decisive role in generating this spectacular catching up process.

European experiences reflect a similar disparity in peripheral reaction to globalization **(Table 7.)**:

Per Capita Real GDP Growth (Maddison, 1995, 62; 2001, 265).

Region	1950-1973	1973-1998
Western Europe (12 countries)	3.8	1.8
Southern Europe (5 countries)	4.8	2.2
Eastern Europe (8 and 27countries)	4.0	-0.9

The traditional West European core countries had an annual 1.8% growth rate during the last quarter of the century, while Portugal had 50% higher growth, and Ireland, a former periphery of Britain, had two-and-one-third times higher growth. The former

Mediterranean periphery (and Ireland) gradually caught up with the Western core **(Table 8.)**:

Catching Up of the Southern Periphery: GDP/Capita, 1950-1998.

Year	Western Europe (5 countries)		Southern Europe & Ireland (5 countries)		South in % of the West
1950	5,503	100	2,685	100	49
1973	12,473	227	8,308	309	67
1998	19,147	348	14,873	554	78

During the last quarter of the century, a striking disparity characterized the transformation performance of the former state socialist countries as well. Former Soviet Bloc Central European countries had a 0.73% average annual growth, while the Russian Federation had a –1.08%, and Ukraine a –2.48% average annual decline.

In other words, peripheral countries by no means reacted uniformly. Some seemingly profited from globalization, which in the Mediterranean region and Ireland generated a spectacular catching up process. Central Europe profited more, and had a more successful transformation in the age of multinationals and globalization than Russia and the successor states. In 1973, the former Central European state socialist countries had a per capita GDP of only 82% of the per capita GDP level of the Soviet Union, but by 1998, the former Soviet Union had dropped to 72% of the level of the transforming Central European countries (Maddison, 2001, 185-7).

In the success cases such as Ireland, and in the rather relative success case of Hungary in the 1990s (within Central and Eastern Europe), globalization, especially the

activities of the multinationals, played the decisive role in introducing modern technology in to newly established modern export sectors. It is rather telling that Hungarian success in establishing modern, new export sectors and in conquering the markets of Western Europe was basically the consequence of multinational investments: Opel, Philips, Audi, and IBM produced 30% of Hungarian exports in 1999.

The European Union played an important role in homogenizing economic levels by assisting backward regions within the EU. Though European assistance for the ten new countries of the Union will be more limited than that provided during the 1970s to 1990s to the previously admitted, and at the time less developed, countries—only one-quarter of the agricultural, and one-half of the so-called structural fund assistance will be granted to them—the newly admitted nations will still profit from the cohesion policy of the EU.

When political stability exists, the domestic infrastructure is relatively well-developed, the educational system is good, and trained engineers, computer experts, skilled workers are available, when local value system and religion do not work against international adjustment, globalization might have a positive impact. Domestic abilities and actions play an important role. Certain geopolitical advantages also have a role and can make countries or regions politically and economically more attractive. Infiltration of multinationals, investment from abroad, and a broad market opportunity granted by free trade agreements, in these cases, may make a difference. They may mobilize domestic resources and forces generating high prosperity and a catching up process with the core. These phenomena have already existed a century ago when internationalization of the European economy gained an impetus and, in half a century, led to the catching up

of the Scandinavian countries. A similar, but more deliberate development trend characterizes the Mediterranean and Irish catching up process during the second half, and especially in the last quarter of the 20th century. It might be repeated in the new EU member countries of Central Europe.

Globalization is thus a mixed blessing or a mixed curse. In the last century huge areas of former peripheries became parts of the European core. Further peripheries might be incorporated into the flourishing core during the first half of the 21st century, driving Europe towards a yet far away future of a "peripheryless" continent.

Bibliography

Alam, Shahid M., 2000. *Poverty from the Wealth of Nations. Integration and Polarization in the Global Economy since 1760,* Houndsmills: Macmillan.

Busch, Marc L. and Helen V. Milner, 1994. "The Future of the International Trading System: International Firms, Regionalism, and Domestic Politics," in *Political Economy and the Changing Global Order,* edited by Richard Stubbs and Geoffrey R.D. Underhill, New York: St. Martin's Press.

Cerny, Philip G., 2000. "The Dynamics of Financial Globalization: Technology, Market Structure, and Policy Response," in *The New Political Economy of Globalization,* edited by Richard Higgott and Anthony Payne, Vol.1. Cheltenham: Edward Elgar.

Chandler, Alfred D. Jr., 1986. "Technological and Organizational Underpinnings of Modern Industrial Multinational Empires: the Dynamics of competitive Advantage," in: Alice Teichova-Maurice Lévy-Leboyer and Helga Nussbaum (Eds), *Multinational Enterprise in Historical Perspective,* Cambridge: Cambridge University Press.

- 1990. *Scale and Scope: the Dynamics of Industrial Capitalism,* Cambridge: Harvard University Press.

Coleman, William D., and Tony Porter, 1994. "Regulating International Banking and Securities: Emerging Co-operation among National Authorities," in *Political Economy and the Changing Global Order,* edited by Richard Stubbs and Geoffrey R.D. Underhill, New York: St. Martin's Press.

Cox, Robert W., 1994. "Global Restructuring: Making Sense of the Changing International Political Economy," in *Political Economy and the Global Order,* edited by Richard Stubbs and Geoffrey R.D. Underhill, New York: St. Martin's Press.

Dunning, John, 1993. *The Globalization of Business. The Challenge of the 1990s,* London: Routledge.

Friedman, Milton, 1959. *The Program for Monetary Stability,* New York: Fordham University Press.

- 1963. *Inflation: Causes and Consequences,* New York: Asia Publishing House.

- 1969. *The Optimum Quantity of Money and Other Essays,* Chicago, Aldine Publishing Co.

- 1978. *The Tax Limitation, Inflation and the Role of the Government,* Dallas: Fisher Institute.

Hayek, Friedrich A., 1944. *The Road to Serfdom,* London: Routledge.

- 1960. *The Constitution of Liberty,* Chicago: University of Chicago Press.

Helleiner, Eric, 2000. "Explaining the Globalization of Financial Markets: Bringing States Back In," in *The New Political Economy of Globalization* edited by Richard Higgott and Anthony Payne, Vol.1. Cheltenham: Edward Elgar.

- 1994. "From Bretton Woods to Global Finance: A World Turned Upside Down," in *Political Economy and the Changing Global Order,* edited by Richard Stubbs and Geoffrey R.D. Underhill, New York: St. Martin's Press.

Higgott, Richard and Anthony Payne (Eds), 2000. *The New Political Economy of Globalization,* Vol. 1-2. Cheltenham: Edward Elgar.

Hurrell, Andrew and Ngaire Woods, 2000. "Globalization and Inequality," in *The New Political Economy of Globalization,* edited by Richard Higgott and Anthony Payne, Vol.2. Cheltenham: Edward Elgar.

Jones, Geoffrey and Harm G. Schröter (Eds), 1993. *The Rise of Multinationals in Continental Europe,* Aldershot, Hants: Edward Elgar.

Kornai, János, 1993. "Anti-Depression Cure for Ailing Postcommunist Economies," *Transition: The Newsletter About Reforming Economies,* The World Bank, Vol.4, No.1.

Knox, Paul and John Agnew, 1998. *The Geography of the World Economy,*Third edition. London: Arnold.

Lal, Deepak, 1980. *A Liberal International Economic Order. The International Monetary System and Economic Development,* Princeton: Princeton University Press.

Maddison, Angus, 1995. *Monitoring the World Economy 1820-1992,* Paris: OECD.

- 2001. *The World Economy. A Millennial Perspective,* Paris: OECD

Mittelman, James H., 1995. "Rethinking the International Division of Labour in the Context of Globalization," *Third World Quarterly,* 16 (2).

New York Times, December 30, 2003.

OECD, 1987. *Structural Adjustment and Economic Performance,* Paris: OECD.

Perraton, Jonathan, David Goldblatt, David Held, Anthony McGrew, 2000. "The Globalization of Economic Activity," in *The New Political Economy of Globalization,* edited by Richard Higgott and Anthony Payne. Vol.1. Cheltenham: Edward Elgar.

Pollack, Mark A. and Gregory C. Shaffer, 2001. *Transatlantic Governance in the Global Economy,* Lanham, Maryland: Rowman & Littlefield.

Reynolds, 1985. *Economic Growth in the Third World, 1850-1980,* New Haven: Yale University Press.

Rupert, Mark, 2000. *Ideologies of Globalization. Contending Visions of a New World Order,* London: Routledge.

Soros, George, 1998. *The Crisis of Global Capitalism,* New York: Public Affairs.

Stiglitz, Joseph E., 2002. *Globalization and its Discontents,* New York: W.W. Norton.

Zacher, Mark W., 2000. "The Declining Pillars of the Westphalian Temple: Implications for International Order and Governance," in *The New Political Economy of Globalization,* edited by Richard Higgott and Anthony Payne, Vol.1. Cheltenham: Edward Elgar.