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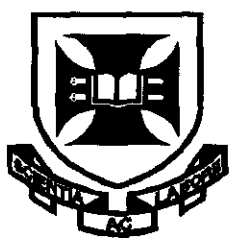

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Unequal Gains of Nations from Globalisation*

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Clem Tisdell†, Serge Svizzero‡
and Laurence Lasselle•

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Abstract

UNEQUAL GAINS OF NATIONS FROM ECONOMIC GLOBALISATION

Briefly reviews conflicting views about whether globalisation promotes economic equality or inequality of nations. The extent of globalisation of markets differs. Labour markets seem internationally more restricted than most other markets. Restrictions on the international mobility of labour seem to be a major reason for inequality of incomes persisting between nations and actually widening. In fact, as economic globalisation has proceeded, income inequality between nations has risen. Combined with restrictions on international labour movements, this inequality may arise, to a substantial extent, because some nations are unable or barely able to participate in economic globalisation for structural reasons. Even though some nations may be very willing to engage in international trade and accept foreign direct investment, little such trade and investment may emerge for them, whereas the opposite may be so for other nations. Such a dichotomy will add to income inequality between nations. However, a fully liberalized world economy with free labour movements may not be conducive to long-term economic growth and is unlikely to promote resource allocation globally that is economically optimal. Given current worldwide institutional arrangements, it seems that the higher income countries are the major economic beneficiaries from globalisation. This is a source of resentment by low-income countries. This resentment is intensified because higher income countries on the whole have, as they have become richer, reduced their aid to developing countries and increased the conditionality of such aid.

UNEQUAL ECONOMIC GAINS OF NATIONS FROM GLOBALISATION

Clem Tisdell, Serge Svizzero and Laurence Lasselle

1. Introduction

There is no widely accepted definition of globalisation but basically it is the process of connecting all parts of the Earth into one entity. Economic globalisation is the process of extending and integrating markets and economies so they are no longer confined to a single region or nation but form part of an international global economic system. The World Bank (2000a, p.1) suggests that the core sense of economic globalisation refers to the observation that "in recent years a quickly rising share of economic activity in the world seems to be taking place between people who live in different countries". This view is widely accepted.

Views differ, however, about the extent to which different nations benefit from globalisation. Mainstream economists mostly believe that all nations participating in economic globalisation realize net economic benefits and many go further and suggest that the process is a strong force for equalising per capita incomes between nations. Therefore, as globalisation proceeds, one might expect to observe convergence in per capita income between nations.

On the other hand, those economists, such as Myrdal (1956) and Frank (1978), with a strong interest in centre-periphery theories of development, take a more critical view. They argue that economic gains from globalisation will be concentrated in centre countries (mostly established high income countries) and that few economic benefits may be received by peripheral countries, mostly low-income developing countries. Many of these low-income countries may, according to this view, suffer economic retardation and some may even become worse off economically than if not linked with economic globalisation. According to the centre-periphery view, globalisation can be expected to cause per capita national incomes to diverge, and income per head may even fall for some peripheral nations or be lower than might have been the case if they had been less strongly enmeshed in globalisation.

Given these different points of view and theories, much effort has been devoted to determining whether processes of market integration involving growing globalisation are

associated with convergence or divergence of the per capita income of nations, and in some cases, regions. As we shall see, resolving the matter is extremely difficult. In considering this matter, it is useful first to discuss different types of markets that may be globalised or become more open. The extension of all markets rarely proceeds at the same rate and today, some important markets remain globally restricted, such as labour markets. Furthermore, even when nations open their markets, for instance for capital by allowing foreign direct investment, not all receive major inflows of such capital. Secondly, we identify conditions that may result in a nation making an economic gain or loss from opening different types of markets. Thirdly, recent data relating to changes in income differences between nations is presented and discussed. Finally, the possibility is raised that a high degree of openness involving intense competition could reduce global economic growth in the long-term, and furthermore, that given spillovers and processes of cumulative causation, and scale economies, such as those identified by Myrdal (1956), Romer (1986) and others, resources may be globally allocated to regions in an economically inferior fashion. Thus an open system may result in allocation of resources that significantly fails to maximise global benefits from resources used for economic activity.

The following hypothesis will be discussed.

(1) The possibility that relative lack of globalisation of some markets, particularly labour markets contributes to persistent inequalities in average per capita income levels between nations. In fact, this might help to explain widening gaps if technical progress is more rapid in high income countries than lower income ones, as seems probable. This would cause the marginal productivity curve of labour (see Figure 1 below) in higher income countries to rise relative to that in lower income countries.

(2) The World Bank argues that income inequality between nations has risen in recent decades. But the relative economic losers, in its view, are those economies that have failed to open up. However, it is argued here that the bulk of the economies that failed to open up or have not become very open may have deep-seated reasons why opening up is not a favourable economic growth option for them. It is possible that the extent of opening up reflects internal conditions conducive to economic growth, rather than vice versa. It is easy to confuse cause and effect. This may have happened in this case. Timing in opening up may also be important in influencing gains from it.

(3) The ability of globalisation to promote economic growth in the long-term might be limited.

(4) Globalisation cannot be expected to result in a Kaldor-Hicks optimal allocation of resources internationally.

Let us consider these matters in turn.

2. Differences in National Economic Benefits from Opening up Markets for Different Commodity and Resource Types

Not all types of commodities and resources participate equally in economic globalisation because of their nature (for example, some involve high market transaction costs) and secondly, there appears to be a greater political reluctance to open the market for some commodities and factors of production, such as labour, than others. Thus both 'natural' and political factors help to explain differences in the degree of participation of commodities in economic globalisation. National net benefits are liable to vary with the category of commodities or resources subject to a global market and the extent to which global markets cover the full range of commodities/resources.

Consider the following categories of commodities including resources:

(1) Products and services.
(2) Capital, especially foreign direct investment.
(3) Labour.
(4) Natural resources.
(5) Knowledge, especially technical and managerial know-how.
(6) Entrepreneurship.

Since 1950, markets for tradeable products and services and natural resources have become more open globally, and so too have capital markets (Lindert and Williamson, forthcoming). In particular, many countries have adopted measures to open their economies to foreign direct investment. This in turn adds to the international mobility of technical and managerial know-how. On the other hand, many nations have resisted pressures for increased migration. Although illegal migration probably has increased in recent years and although there is considerable international movement of labour, global labour markets remain restricted. Yet if a major aim of economic globalisation is to reduce international inequality, relatively easy migration could be a powerful force in bringing about such a reduction in inequality.

It could be argued that if economic globalisation is adding to income inequality between nations, this is because the opening up process is incomplete and in particular, does not include labour to a sufficient extent. If migration was not restricted, then presumably there would be a tendency of labour from low income countries to migrate to high income countries until incomes between countries became equalised on average.

Neoclassical arguments that market integration for tradeable products and services benefits all participants are well known, and include analyses based on comparative advantage in production and differences in tastes. Therefore, as a country opens up this category of markets, we might at least initially expect it to enjoy significant economic growth and rising per capita incomes. However, there has been controversy about whether specialisation by initial comparative advantage will benefit the nation in the long run. Singer (1950) and Prebisch (1954) argue that nations with an initial advantage in agricultural or primary production may become locked into these industries by engaging in free trade. Historical evidence (it is claimed) indicates that the trend in the terms of trade is against primary exports. Therefore, primary exporting countries as a whole experience falling income from exports. While an individual or a few primary exporters might increase or maintain their export revenue by expanding the value of their primary exports, this is not a viable strategy for the whole group because the price effect will reduce their total export revenue given that the elasticity of demand for primary products is relatively low. To avoid being trapped in such a situation, it is suggested that countries with an initial comparative advantage in primary production should foster the development of some secondary or tertiary industry with government support or protection.

Much depends on how strong the lock-in effect is and whether the tendency of the terms of trade to move against agricultural exporters is a longer term one. Lindert and Williamson (forthcoming) argue that it is not a long-term trend. Furthermore, while a lock-in effect is probably present, it is not true that all countries that initially specialised in agricultural exports continue to do so today under open-trade conditions. The United States is an example. Lock-in is not, therefore, absolute but it can be substantial.

A related argument is the infant industry argument of List (1840) that selected industries may require government protection initially in order to develop them to a stage where they can become internationally competitive. The early start of other nations in industrial development

and the advanced stage of their learning-by-doing, may be the main reason for their competitive advantage in an industry. As a result of protection, a late developing nation may be able to overcome this barrier and develop an industry that is even more competitive by world standards. While this argument is valid, the main problem is to accurately select such industries, if indeed the nation concerned has any such industries.

Trading in products and services, however, is not the only relevant aspect of globalisation. International movements in factors of production are also important in globalisation. Movements of capital, especially those involving foreign direct investment, have been given prominence in the globalisation debate. Just as the proportion of world GDP entering international trade has risen in the modern era, so too have international capital movements.

While short-term international capital movements might add to monetary instability, in general, economists have taken a more favourable view of capital movements involving foreign direct investment. Most argue that it can be expected to benefit both the host nation and the foreign investor. Such direct investment often brings not only capital to capital-poor countries but new technologies and know-how. It can act as a catalyst for the development of complementary domestic businesses and even in the longer run, competing domestic businesses. It often provides international market access for products that could not enter this market merely on the basis of domestic effort. Initial exports achieved from production by multinationals and joint ventures in a host country may pave the way for a country to establish itself in foreign markets and eventually gain acceptance for products produced by its own firms. This is likely to happen, for example, in China's case.

These are some possible positive benefits of foreign direct investment. However, centre-periphery theorists, and others, also warn of possible drawbacks. For example, a less developed country could become locked into technological, market and even managerial dependence for its export industries because of foreign direct investment, for instance, by multinationals. Unless special effort is taken by the host, such lock-in could become relatively permanent, and may not maximise its economic advantage. While some small or least developed nations will inevitably remain in a situation of high technological dependence, it is not inevitable for large nations, such as China and India. While foreign direct investment can be expected to accelerate their development, it will probably be most beneficial to such large countries to reduce their degree of dependence on it in the long-term.

While this may happen naturally, it may require some government intervention. Although foreign direct investment can bring immediate economic benefits for the host country, it may not be an unmixed long-term blessing. In the long-term, it may retard the economic growth of the host nation if the host is passive. But some nations have few prospects for development on their own and could obtain most by following a process of continuing economic dependence on foreign direct investment.

Markets for natural resources that are reasonably transportable now appear to be relatively open globally. However, common access to some natural resources of an environmental nature is creating problems as the global economy expands. Emission of greenhouse gases is one such problem. If it does trigger sea-level rises, the economic gains and losses from this will be very uneven between nations.

It is probably true that international movements of knowledge, especially technical and managerial know-how and entrepreneurship, have been facilitated in recent years. For one thing, increasing foreign direct investment makes their transfer easier. Nevertheless, technological gaps between more developed countries and less developed ones can be a persistent (and even a growing source) of international income inequality, as suggested by neo-technology theories of international trade and investment and the 'monopoly-profit' thesis of gains from international trade as developed by authors such as Posner (1961), Hufbauer (1966), Gruber et al. (1967), Wells (1969), Lowinger (1975) and Teubal (1975) and as discussed, for example, by Tisdell (1981, Ch.2). If more developed nations increase their technological lead and increase their ability to enforce their rights in intellectual knowledge as globalisation proceeds, this can be a strong force for increasing their incomes relative to those in developing countries. This could be a major contributor to increasing inequality between nations. Krugman and Venables (1995) have explored a related core-periphery theory but in their model, inequality between nations at first increases and subsequently declines. However, there is no reason to believe that this is a general case and it is unknown how long reversal will take in reality.

Also, highly skilled persons find it is easier to migrate as globalisation occurs because their skills are in international demand. However, for most individuals, the possibilities of international migration are still highly restricted. The UNDP (1999, p.31) observes: "The collapse of space, time and borders may be creating a global village, but not everyone can be

a citizen. The global professional elite faces low borders, but billions of others find borders as high as ever". While significant international movements of labour do occur, globalisation of labour markets seems to lag considerably behind globalisation of markets for the other factors of production, as mentioned above.

This may be for political and cultural reasons. If migration or labour movements were not restricted internationally, a movement of labour from low-income to high-income countries might be expected with a tendency for wages to be equalised everywhere, if diminishing labour productivity is the rule in all countries. In a competitive static setting, wages in high-income countries would fall and they would rise in low-income countries.

This can be illustrated for a simple Ricardian-type case. Assume two countries: A, a higher income country and B, a low-income country, with no trade between the countries. Suppose also only two sets of factors of production. Labour is the sole variable factor and the other factors are fixed in supply and specific to the countries concerned. Furthermore, for simplicity, assume a single internationally untraded product, X, a static situation and diminishing marginal productivity of labour.

Given this set of assumptions, the production possibilities of these two countries can be illustrated by Figure 1. The line CDKE represents the marginal productivity of labour in country A and line FHG that in country B. Suppose initially that the amount of labour (population) in country A is $\hat{L}_A$ and in country B is $\hat{L}_B$ and this corresponds to the supply of labour in each. Consequently, wage levels are w_B in the low income country and w_A in the high income country. At the same time, note that the marginal productivity of labour is higher in country A than in country B so global production is not at a maximum for the initial labour allocation.

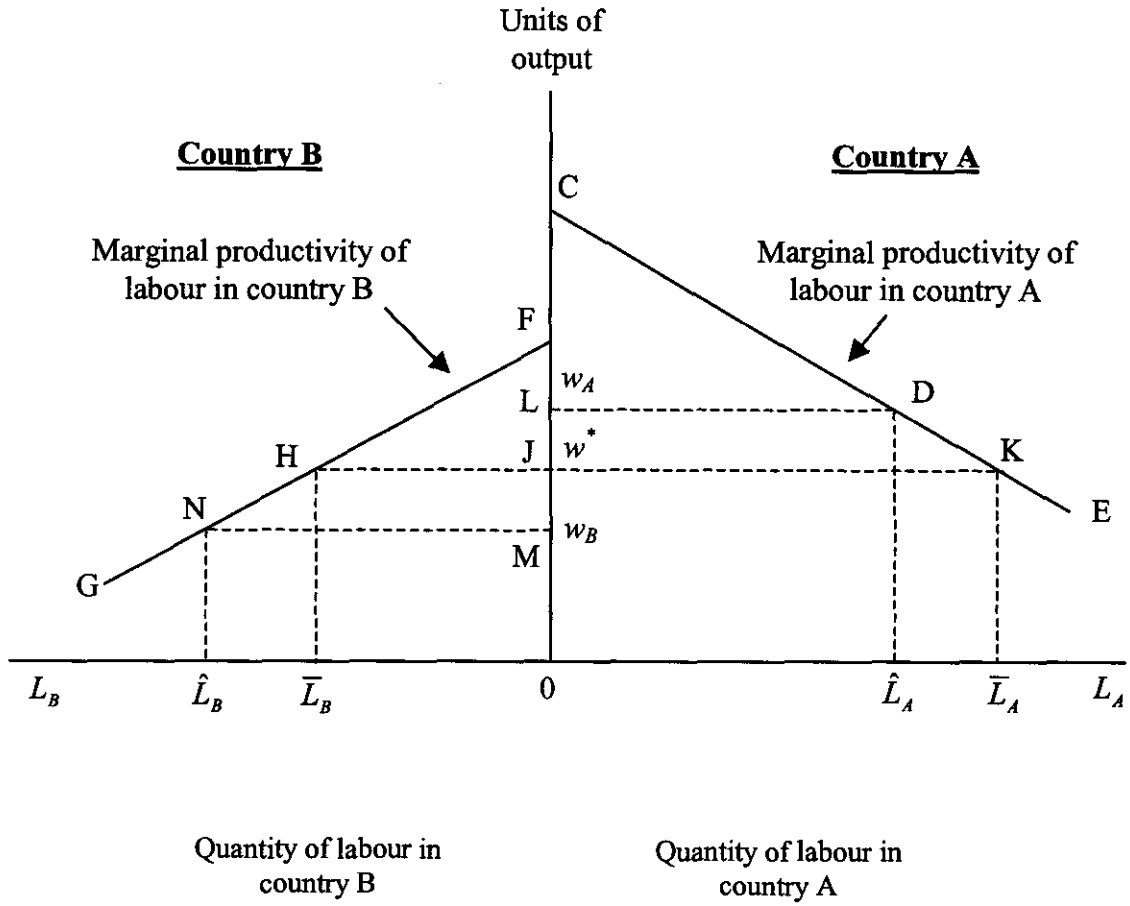

Figure 1 A case in which international labour migration equalises wage-income between nations, raises global production and makes a global Kaldor-Hicks optimum possible.

If, as a result of globalising tendencies, free global migration becomes possible and if there are no barriers to labour movements, labour will move from the low-income country to the high-income one. This process will continue until wage rates equalise, in this case at w^*. The migration process in this case will therefore stop when population equals L_B in country B and L_A in country A. An amount of labour $\hat{L}_B - \overline{L}_B = \overline{L}_A - \hat{L}_A$ migrates from the low-income country to the high income one.

As a result, the incomes of labourers initially in country A, the high-income country, falls whereas the wages rise of those who remain in country B or migrate. The incomes of those who own or possess fixed factors of production in the high income country rises whereas rentiers in the initially lower income country have a reduction in their income. Thus,

globalisation in this case benefits some economic groups and disadvantages others. Nevertheless, a Kaldor-Hicks improvement results.

As pointed out in the Stolper-Samuelson theorem, in the absence of labour movements, free trade in products may have a similar (but not identical) consequences to freedom of labour movements, as outlined above.

It should, however, be borne in mind that the above model is rather particular. It takes no account of market failures such as externalities associated with population increase in a particular country, scale and agglomeration economies and so on. In fact, when such failures are taken into account, free labour movements may not result in a global Kaldor-Hicks gain (see Tisdell, 1990, Ch.9).

It should also be noted that in more realistic models even if greater globalisation of labour tends to equalise wage rates on average between nations, it may increase income inequality within nations e.g. differences in the income of the skilled and the unskilled. If greater labour mobility internationally is associated with a general increase in intensity of market competition, it may have adverse impacts from a Schumpetarian viewpoint, on economic growth. Particular economic problems may arise for countries and regions that become heavily depopulated (see for example, Tisdell, 1990, Ch.9).

Despite this, one would expect residents of low-income countries to benefit most (on the whole) from free mobility of labour (cf. Tisdell, 1990, Ch.10). It could be argued, therefore, that if there is a tendency for income inequality between nations to rise with globalisation, it is mainly because the economic globalisation process is incomplete since labour markets are excluded to a large extent. As long as globalisation remains partial in this way, it may be difficult to eliminate major income differences between nations. Nevertheless, given the extent of globalisation that has occurred, does the available evidence indicate that income per capita of nations are converging or diverging? If regular empirical relationships do exist between globalisation and income inequality of nations, how might these be explained? Let us consider both matters.

3. Evidence on the Impact of Globalisation on Income Inequality between Nations and Reasons for Observed Relationships

Evidence about whether economic globalisation has increased or decreased income inequality between nations is mixed. However, the World Bank (2001c, p.2) reports:

"The distribution of per-capita income between countries has become more unequal in recent decades. For example, in 1960 the average per capita GDP in the richest 20 countries in the world was 15 times that of the poorest 20. Today this gap has widened to 30 times, since rich countries have on average grown faster than poor ones. Indeed, per capita incomes in the poorest countries have hardly changed since 1960, and have fallen in several".

Despite this, the World Bank is not inclined to attribute this growing international inequality to globalisation *per se*. Rather it suggests that those less developed nations more open to trade (those that are more globalised) have in the period 1960-1995 grown at a slightly faster rate on average than the world's rich countries, and that it is the poor closed economies that have grown at a very slow rate or even in some cases, experienced negative growth (World Bank, 2000c, p.2). The World Bank (2000b) cites evidence that more trade in relation to GDP (greater trade openness) promotes economic growth. The World Bank refers to Ades and Glaeser (1999) and Frankel and Romer (1999) in support of its case. The latter suggest, on the basis of empirical evidence that a rise of 10 percent in the trade to GDP ratio of a nation raises per capita income by 5 percent. However, the fit of their linear regression is relatively poor.

Furthermore, we need to bear in mind that a positive association between trade-openness and economic growth does not imply causality. In particular, it cannot be concluded that if some currently lagging countries were able to increase their trade to GDP ratios, they would automatically experience greater economic growth. As discussed later, they may face serious natural or social barriers to increasing their trade to GDP ratio. Secondly, several countries that have had high trade to GDP ratios have not been engaged in free trade. China is an example and its performance influences the conclusion of the World Bank to a considerable extent – it has had a very high growth rate and it has a high proportion of trade to GDP in recent decades. Now (2001) that China has joined the World Trade Organisation, it should move towards a more liberal trade regime. In addition, there are also queries about whether the data are for a long enough period and whether the growth results will be sustained.

It is noticeable also that several rich countries are oil-exporting countries. Their high incomes do depend on exports and they have a high ratio of trade to GDP. However, in the long-term their income from non-renewable resource exploitation is likely to be unsustainable. One does not suggest that they do not trade but their trade may not result in a permanent sustained stream of income for them (cf. Tisdell, 1998; Tisdell and Fairbairn, 1984).

This all indicates that both rich and poor countries having a high degree of trade openness can be very diverse. Therefore, considerable caution needs to be exercised in interpreting the type of regression results reported by Frankel and Romer (1999).

Again, trade to GDP ratios are just one indicator of the globalisation process. For example, foreign direct investment is another significant component. Whether it is closely and positively associated with trade openness is unclear, but it may be. However, its results maybe long-term rather than short-term and difficult to evaluate empirically using aggregated empirical data. In the final analysis, the economic results from foreign direct investments may depend upon the science and technology policies of the host, its capacity to assimilate new technologies and eventually to use these, to some extent, independently and to its own advantage. Not all countries have equal ability to benefit in this way. Furthermore, not all countries will be equally attractive to foreign direct investors. Some less developed nations have poor social and physical infrastructure, relatively unproductive resources, physical barriers to trade and commerce, or socio-cultural and political problems that deter foreign direct investment.

The fact of the matter seems to be that not all countries are able to gain from economic globalisation. If economic growth is limited to the group of those nations that can gain from globalisation, inequality in per capita incomes between nations can be expected to rise as globalisation proceeds. It is easy to suggest that those nations that do not join the globalisation bandwagon do so of their own volition. However, it seems to us that this would be a gross distortion of reality.

Nations with few resources in global demand and too remote to engage in world trade because of physical trade barriers, as are some small Pacific island nations, can hardly be blamed for their predicament or for failing to attract much foreign direct investment. Furthermore, even the socio-cultural and political impediments to investment in some

countries are often beyond the individual control of small groups of nationals in the countries concerned. They are more like exogenous factors that controlled variables. Furthermore, these impediments usually take a long time to change.

Therefore, the fact that some nations do not receive much foreign direct investment and do not have high trade to GDP ratios can be a result of fundamental circumstances which they do not control. Such factors are often signs of structural or basic resource and social impediments that relegate nations to comparative poverty. They are a result rather than a cause of the poverty and lack of growth of many less developed nations. While this may not be true in every case, it seems to be so for a considerable number of poor countries described by the World Bank as poor and closed. Many of these countries would be able to gain most from the globalisation process if their residents were able to work abroad or migrate. Openness, to some extent at least, is a function of the economic growth potential within a country. Openness may largely be the result of factors conducive to economic growth within a country rather than the major impetus to such growth. Nevertheless, mutual causality is likely to be present.

Lindert and Williamson (forthcoming) suggest that the gains which a nation obtains from globalisation depend on when it begins to participate in the process, that is timing. For example, Taiwan, Singapore and Hong Kong had an outward-looking economic policy at a time when most other lower income countries did not. Therefore, they did not have so many competitors and could increase their income substantially by their outward policies. The fact that China opened up economically more quickly than India might also favour China. On the other hand, some countries might open up to foreign direct investment too quickly. For example, the governance of some may be so defective that little of the natural resource rent from the exploitation of natural resources by foreign direct investment may be captured by the host country because of corruption. Furthermore, the captured rent may not be used for investment or be used effectively for this purpose. This, for instance, has happened in the Solomon Islands in the past in relation to the exploitation of its forests (Tisdell, 2000, pp.171-172).

The plight of many of the world's poorest countries is of concern because even if economic globalisation is a panacea for economic growth (which is by no means certain), they are

unable to share in the benefits of it to any considerable extent because of their particular circumstances.

Broadly speaking, nations might be divided into four groups as far as their total economic gains are concerned from economic globalisation: (A) Those able to achieve significant economic gains such as more developed countries producing 'leading edge' technologies and some less developed countries; (B) those countries able to achieve only moderate economic gains; (C) those making no economic gain or negligible economic gain such as those that are too remote or which for institutional reasons are unable to open up to any great extent, such as possibly some remote Pacific island countries and (D) countries that lose by the economic globalisation process, at least initially. This last group may include several central Asian economies in transition. It may, however, be possible for nations to shift categories with the passage of time. The value of the above framework is that it allows for the possibility of unequal gains from globalisation. While optimists may believe that sets (C) and (D) are empty, there is no reason *a priori* to believe that this is so.

4. Will Globalisation Continue to Promote Economic Growth? Will it Promote a Comparatively Ideal Allocation of Resources Globally?

If globalisation is now a major force promoting economic growth, will it continue to be? Possibly economic globalisation might only be a strong growth force in its initial stages when considerable economic inequality exists between those nations able to participate effectively in globalisation. Once this inequality is reduced, globalisation could become a less effective contributor to economic growth. In the mature globalisation phase, opportunities for earning high returns from making 'catching up' foreign direct investments in developing countries may well have disappeared. Furthermore, if the convergence theory is correct, low wages will no longer provide an incentive for investing in those developing countries able to participate in the globalisation processes because their wage levels will have converged to those in high-income countries.

In the mature globalisation phase, economic growth may depend heavily on the ability of firms to innovate. But there are at least three possible reasons why that might falter in the long term in a globalised world:

(1) If a few dominant industries become heavily concentrated as a result of global competition, such concentration may reduce the rate of innovation for reasons mentioned by Schumpeter (1942).
(2) Global competition may reduce business diversity. If such competition is fierce, firms may have to adopt the current 'best practices' to survive. This may reduce the scope for experimentation and diversity both of which can, up to a point, favour innovation and technological progress (Tisdell, 1999).
(3) Intense economic globalisation leads to the loss of economic niches. So businesses are deprived of some market protected areas to use as a base for innovation (Tisdell and Seidl, 2001) and this slows innovation. This is a similar point to the main hypothesis of Schumpeter (1942).

In a world globalised but not intensely globalised, greater technical progress and innovation may occur than would be the case in a highly globalised competitive world. Furthermore, in an innovating business world, the lion's share of economic gains is likely to go to those countries able to maintain a steady rate of innovations provided that their intellectual property rights can be protected. Nevertheless, despite this inequality, the whole globe may, in the long run, be better off as a result of such innovation than would be the case in its absence.

There is, in addition, no guarantee that globalisation will promote a Pareto optimal allocation of resources globally, even if free population movements are allowed. Significant externalities seem to be associated with the creation of new knowledge and its application and up to a point, external economies from agglomeration are present (cf. Romer, 1986). This gives rise to time path-dependence as does learning-by-doing. Thus countries that become part of the economic centre early are liable to persist in the centre and attract resources. But because both timing and externalities are important influences on resource allocation, adjustments do not promote a global optimum. Lock-in effects are present (cf. Tisdell, 1990, Ch.9). The importance of such effects was stressed by Myrdal (1956).

It is probably too much to expect economic globalisation to promote a global Pareto optimum, and it is not clear how distorted resource allocation would be in a completely globalised economic system. Nevertheless, economic globalisation is not the ultimate solution to promoting efficiency of resource use (a dubious ultimate goal in any case) and there is no guarantee that it is going to be a strong force ultimately in promoting economic

growth. Strong economic growth in the long run may require some moderation of market competition.

5. Concluding Comments

Although economic globalisation has proceeded rapidly since 1960, mainly due to reduced man-made barriers to trade, such as reduced tariffs, it does not seem to have been very effective in reducing income inequality between nations taken as a whole. While some less developed nations have gained by their increased openness and will continue to do so, others have been less fortunate. China is probably an example of one of the major gainers, and it seems to have the capacity in the long-term to become a centre country.

Although the World Bank makes much of the fact that in the period 1960-95, poor open countries grew at a slightly faster rate than rich countries, the difference is extremely slight. Furthermore, considering that the base per capita incomes of these countries were already very divergent in 1960, absolute per capita income differences have grown substantially. Thus the absolute gap in per capita incomes between rich and poor open economies has grown. This seems to suggest that rich countries have made relatively greater economic gains during the initial globalisation phase so far than poor open countries, on average. If global power and income are correlated positively, the relative power of the rich countries globally has increased since 1960. Naturally the disparity between rich countries and poor relatively closed countries has become even more marked.

It is highly probable that the residents of most poor countries resent this situation and that it is a source of international social conflict. This may be especially so because several poor countries have relatively closed economies as a result of their circumstances rather than by choice. The income gap between such countries and rich countries has increased markedly.

A further source of resentment on the part of poor countries stems from the fact that as incomes in rich countries have increased with the process of globalisation, they have reduced their per capita aid to poor countries, and have tended to replace grants by concessional loans (cf. Bhattacharya and Rahman, 2001). Such countries are also often advised by more developed countries to participate more fully in economic globalisation. But this is ineffective advice for backwater less developed countries unable to do so due to endogenous impediment to economic growth and development. Thus the fruits of globalisation are not

shared to any great extent by rich nations with those poor nations unable to benefit from globalisation. This adds to growing intranational income inequality and ought to be a matter for serious international social concern.

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