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### Introduction

Two important and complex transformations have characterized the global political–economic system since the end of World War II in 1945. One transformation is the rise and spread of democracy over time and across countries. By the term *democracy*, we mean a national system of political governance based on free elections and broad political representation. We conceptualize this concept as a continuum of political regime types, ranging from full autocracy at one end to full democracy at the other end.

The second transformation is the expansion and deepening of globalization. In recent decades, globalization has been a popular term but is more complex to define than democracy. Scholars typically employ this term to describe recent global transformations toward growing cross-national interconnectedness. Although many scholars tend to focus on the interconnectedness features of particular interest to their own disciplines, some take a broader perspective. For example, Held et al. (2009) cast a wide net, covering essentially all the transformations that have increased international interconnectedness, including political-legal (e.g., growth of international treaties and institutions), military (e.g., disputes, growth of armies, and weapon proliferation), communication and informational (e.g., Internet, telephone, and media), economic flows (e.g., trade and investments), knowledge flows (technology transfers and education), taste convergence (e.g., consumption preferences), social contacts (e.g., migration and tourism), and environmental developments (e.g., pollution and changes in the biosphere), as well as the national and international income inequalities resulting from these processes. Whereas the scope and meaning of globalization are controversial, most scholars agree that, at a minimum, economic globalization implies that countries are becoming more integrated into the world economy, with increasing information flows among them. Greater economic integration, in turn, implies more trade, investment, and financial

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flows, or rising economic openness. We also adopt this conceptualization in our book.

Questions that pertain to democracy and globalization have attracted the attention of scholars, policymakers, and the public at large. These questions stand at the center of our book. We believe it is best to describe our analytical focus by situating it within a big picture of world affairs.

### THE BIG PICTURE AND OUR ANALYTICAL FOCUS

Let us assume we are charged by an intergovernmental organization, comprising all the countries in the world, with the mission to address two questions. First, assuming other things do not change (e.g., public policies, state of technology, and human preferences), what will be the national trajectories of key forces such as income inequality, economic development, democratic governance, military conflict, and environmental degradation in the next decade? Second, assuming other things do not change, how will these economic, political, and environmental trajectories change if we alter certain policies to promote democracy and encourage economic openness? Fundamentally these questions point to the implications of democracy and economic openness for the world in which we live.

Answering these questions helps to predict the evolution of the global system. Although no one can absolutely predict the future, we might be able to say something informative about it if we can explain current and past developments. Indeed, almost all the predictions in the social sciences use the present and recent past as a baseline. The logic driving this approach is straightforward. Because we try to say something about the near future, not the very distant future, we and our immediate offspring will probably still be around. It follows logically that the behavior of the socioeconomic–political–environmental system in the near future is connected to the state of affairs in the present and recent past.

This book *is not* about forecasting the future but rather provides a sound analytical basis for such an exercise. The ultimate goal is to say something new and informative about the direction and magnitude of global transformations, defined in the spirit of Held et al. (2009), that are expected for the near future. To that effect, we must understand theoretically and empirically the interconnections among the relevant forces in a big picture of the world, which is what this book is about.

Going deeper into our purpose in this book, we note that both economic openness and democracy have expanded dramatically over the past six decades. The number of democracies has increased considerably, spreading

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from Western Europe and North America to almost all the regions in the world. Meanwhile, the world economy has witnessed an unprecedented expansion in the volume and patterns of international commerce, cross-border investments, and international production.<sup>1</sup> It is reasonable to assume, which is the basic argument we make and evaluate in this book, that democracy and economic openness, as two important and rapidly changing forces, must have left their marks on many other forces in the international system.

We are particularly interested in the consequences of democracy and economic openness for three important aspects of life on Earth: the economy, the polity, and the environment. One can study the economic, political, and environmental aspects of life on Earth at different levels of analysis, including individual, subnational, national, regional, continental, and planetary. We focus on two levels of analysis: the monadic state and the dyadic interstate. Our choice is not arbitrary, for we submit that the nation-state remains the most important and influential actor in the international system despite the rising challenges from various nonstate actors.

What should we study in terms of the economy, the polity, and the environment? The national economy covers many dimensions, such as the level of development, income distribution, money, investment, saving, taxation, innovation, and so on, whereas the national polity may concern forces, such as the government, the party system, civil society, social cleavages, the law and property rights institutions, and so forth. We could also examine the international aspects of the national polity that involve how states interact with each other. In the environmental domain, there are many aspects that concern nation-states, beginning with how they reach agreements over the environment, the way they treat their own environments, their abilities to provide resources, their levels of food sufficiency (as all types of food ultimately come from environmental sources), and so on. We recognize that, naturally, we cannot study everything at once. Such a study is not only overly complex but also largely intractable. We also face considerable difficulty communicating our findings to the scholarly and policymaking communities, toward which we aim our book. Therefore, we concentrate on the consequences of democracy and economic openness for some key aspects of the national economy, polity, and environment.

<sup>1</sup> Information and communication technology (ICT) and immigration are also relevant. But in this book we emphasize on economic globalization (i.e., flows of goods and capital). One should note that the current globalization wave, which stands at the center of our book, involves much smaller immigration flows than globalization of the late nineteenth and early twentieth centuries, whereas ICT is highly correlated with GDP per capita, which is part of our analysis.

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For the national economy, we focus on the national level of economic development and the national distribution of income. These two forces are important for any country. They inform us about the average standard of living in a country and the distribution of this standard across the population. The importance of economic development for human welfare goes without saying, and the effects exceed economics. The lack of economic development tends to beget grievances, increasing the likelihood of political instability. Spillovers into the environment also occur as poor countries, preoccupied with the immediate needs of subsistence, spend less on environmental regulation and cleanups. A skewed income distribution will most likely make things even worse. As the poor compare their situation to that of the rich, their grievances grow stronger, causing the political regime to break down in some cases. In sum, we are interested in furthering our understanding of how democracy and economic openness influence income distribution and economic development.

For the polity, we are interested in the determinants of national democratic governance and interstate military conflict. It is no exaggeration to claim that these two phenomena are among the most salient issues in international relations and in political science in general. From a normative perspective, democracy and world peace are desirable, for they appeal to the longings of most human beings. In reality, however, democracy and world peace are often difficult to achieve and sustain. The scarcity of resources and the human desire to dominate others have also been with us for millennia, leading to conflicts of interest among individuals and between nation-states. Democratic governance is an important human-engineered institutional solution for resolving conflicts among people and groups living within national territorial boundaries. In the current international system, which operates on principles of anarchy and state sovereignty, interstate military conflict is often employed as an instrument for resolving disagreements among nation states. We seek to find out how the forces of globalization affect the prospect of democratic governance and how democracy and economic openness influence interstate military conflict.

For many years, the environment was on the margin of scientific inquiry and policy analysis. As long as the economy was small in size relative to the environment in which it resided, and as long as the activities of the polity did not exert a large effect on the environment, one could arguably accept this neglect both intellectually and in public policy. Yet conditions have changed in recent decades. Human activities have increasingly caused environmental degradations of various types, impacting human conditions around the world and the global climate system. Environmental concerns

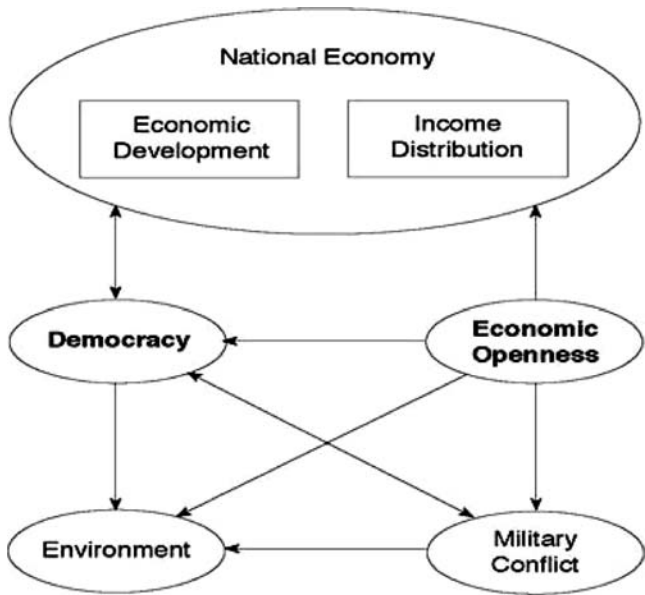


Figure 1.1. Graphical layout of the book.

are no longer marginal issues. In light of these changing conditions, we believe it is important to expand research on the links between our forces of interest and the environment and to address such critical questions as whether spreading democracy, rising trade, and political violence are good or bad for the environment.

CONCEPTUAL FRAMEWORK, ANALYTICAL APPROACH,  
AND CONTRIBUTIONS

The previous section described the primary elements of the big picture we study in this book. This section presents our analytical approach, lays out the conceptual framework within which we operate, and highlights the new things we bring to the table. Figure 1.1 displays a graphical blueprint of our inquiry. Although the interactions we study are in fact more complex and intricate than the figure illustrates, we believe this blueprint is a useful way to guide and visualize the overall structure of our inquiry.

The forces of democracy and economic openness stand at the center of the figure, indicating the analytical foci of our conceptual framework. One set of arrows flows from the center to the national economy in the upper part of Figure 1.1, corresponding to the focus on the economy. The national

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economy is represented by the national level of economic development and the national level of income inequality. The two-sided arrow flowing between democracy and the national economy represents their effects on each other. We will study the reciprocal effects between democracy and the level of economic development as well as the effects between democracy and income inequality. The arrow from economic openness to the national economy indicates that we will investigate how openness influences income inequality and development.

The arrow from economic openness to democracy and the set of arrows from the center to military conflict in the bottom right of Figure 1.1 indicate the part of our analysis focusing on the polity. With respect to the polity, we conduct two analyses. First, we examine how economic openness affects democracy. Second, we study the effects of economic openness and democracy on military conflict.

The set of arrows that flows from the center to the environment in the bottom left of Figure 1.1 represents our focus on the environment. The arrows leading from economic openness and democracy to the environment indicate that we study how democracy and economic openness affect the environment. Finally, we consider the effect of military conflict on the environment.

We seek to shed new light on the causal interactions indicated in Figure 1.1, but the channels depicted in Figure 1.1 do not exhaust all possibilities. The arrows shown in the figure represent the channels we study in this book. They involve some of the most important and intriguing questions in the fields of international political economy, international relations, comparative politics, environmental economics, and global environmental politics. Thus, the reader should construe the conceptual layout in Figure 1.1 as a road map for the structure of our book, not as a model per se. Each of the primary causes and effects in Figure 1.1 is addressed in a separate chapter in the book.

We adopt a quantitative and sometimes formal approach to study the complex interconnections in Figure 1.1 for several reasons. The various interconnections are modeled separately in the respective chapters, assuming other things do not change, but the findings are integrated in the concluding chapter. In the context of Figure 1.1, each primary cause and effect translates into a statistical model in the respective chapter. The effect (i.e., the phenomenon we seek to explain) is called the dependent variable or the left-hand-side variable in a statistical model. The causal determinants of the effect are referred to as independent or right-hand-side variables in the statistical model. We typically refer to the *primary causal factor* in a

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chapter as the key independent variable, and we call the other relevant, but secondary, independent variables in the model *control variables*. Of course, a key independent variable in one chapter often becomes a control variable in another chapter, and vice versa.

In the quantitative approach, we conduct statistical tests of the hypotheses to ascertain whether the effect of each independent variable on the dependent variable is statistically different from zero (where zero means no effect), and we compute the size of the effect for each relationship that is significantly different from zero. We employ large samples of real-world data and, where appropriate, we also evaluate the robustness of our findings in subsamples and with different measurements and statistical techniques. We seek robust, valid statistical inferences that answer the important questions we and others raise.

The advantages of the quantitative approach are fully exploited. First, systematic quantitative analysis allows us to study some forces in detail while controlling for many other relevant factors to prevent spurious findings. Second, the quantitative analysis identifies the average cause-and-effect statistical association and allows the analyst to evaluate whether a theoretically hypothesized relationship is statistically different from zero in the empirical data. This approach is important if we seek to build theories that are empirically valid and generalizable and if we intend to adopt policies that may actually work. Third, the use of large samples of real-world data often prevents subjective case-selection bias and uncovers general patterns, which is critical if we want to understand how the world generally works. Fourth, systematic statistical analysis also enables us to evaluate the robustness of our findings when we vary measurements, samples, and statistical techniques. Finally, the quantitative approach offers a valuable opportunity for us to gauge the substantive size of an effect that is statistically different from zero, which provides useful information for policymakers who have to contemplate the effectiveness of public policies and the various trade-offs associated with competing policy objectives. Therefore, we believe that the statistical approach contributes with rigor and clarity new insights to our analysis of significant issues.

Of course, the statistical modeling approach is not without limitations common to all studies of this type. First, we are aware that our approach may be more technical and numerical than that in many, though not all, of the books on these topics, possibly posing challenges to some readers. To make the findings more accessible to the general readership, we write out explicitly the estimated statistical models accompanied by detailed explanations, present one main set of statistical results, and describe the formal

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and statistical models and their results in a way that does not require prior training in statistics or mathematics for comprehension. We relegate all the technical details to the chapter appendices. Readers who are interested in the substance of our findings only need to read the main text; those who are interested in the technical details can obtain the relevant information from the appendices. We believe that such organization of the presentation makes the book highly readable for a wide audience.

Second, statistical findings imply probabilistic statements regarding relationships of interest, and they are not intended to depict or forecast each particular case. Where appropriate, we highlight some real-world cases for illustration. But in essence, our analysis is statistical and reflects average patterns in the real world.

Finally, statistical models typically include a limited number of variables, relegating other possible influences to the error term. In other words, we should and do make further assumptions concerning which variables to include in each model. At the same time, these assumptions are not arbitrary; rather they are based on theoretical considerations and, to a large extent, previous studies.

Our book brings at least three new things to the table, which other studies of our topics have typically not attempted to achieve thus far. First, we model a relatively large number of forces and topics pertaining to globalization and democracy. Previous scholarly works on these topics tend to be compartmentalized, focusing on one or two aspects of the global system. We acknowledge and model explicitly the economic, political, and environmental dimensions of the global system and their interconnections. Taken together, the findings from the different chapters form a relatively more holistic and integrative view of the inner workings of our world than previous research. Second, because we study seemingly diverse topics in a conceptually coherent framework and treat these topics as different components of a big picture, we are able to uncover interconnections that have thus far received little attention. Finally, because all the analyses employ statistical modeling, we have one coherent methodological approach throughout the book, which controls for various confounding forces, rigorously tests the relationships of interest, estimates the magnitude of each key relationship, and enables us to uncover general patterns.

## STRUCTURE OF THE BOOK

Our book consists of three parts, and democracy and economic openness run through all of them. The first part examines the relationships among



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democracy, openness, and the national economy. The second part investigates the relationships between democracy and openness, on the one hand, and interstate military conflict, on the other hand. The third part of the book studies the relationships among openness, democracy, and conflict, on the one hand, and various indicators of environmental degradation, on the other. Given the complexity of our topics, each chapter typically employs, as an anchor, one of the two core concepts – democracy or openness – relegating the other to the secondary role.

As a preview, we discuss the gist of each chapter, focusing on the organization and flow of the argument and summarizing the key findings. The book includes eight main analyses or chapters, each pertaining to a part of the big picture. The organizational structure of each substantive chapter (2–9) is similar. We begin each chapter by stating the research question(s) and the theoretical argument(s) concerning the relationship(s) studied. On the basis of the theoretical argument(s), we turn to the empirical research that specifies the statistical model, clarifies important research design issues, and describes the primary findings in light of the arguments posited at the beginning of the chapter. The technical details pertaining to each chapter are in the chapter appendix, which follows the general flow of the discussion in the body of the chapter.

The first and last chapters of the book integrate the eight analyses into a larger picture, but do so with different levels of detail. The current chapter introduces the book, focusing on the conceptual framework, analytical focus and approach, and structure. The concluding chapter of the book summarizes the key findings by incorporating them into a revised and much more elaborate version of Figure 1.1, suggests avenues for future research, emphasizes key policy implications, and evaluates the trade-offs and tensions that result from different policy objectives such as economic development versus environmental quality, economic development versus equitable distribution of income, democracy versus environmental quality, economic liberalization versus political liberalization, and democracy versus national security.

### **Part I: The Democracy–Economy Nexus**

Part I of the book focuses on the democracy–economy nexus. We begin our analyses by looking at the two key variables in our book, democracy and economic openness. In Chapter 2, we study the effects of economic openness on democracy, controlling for the important influences of economic development and income distribution. We ask whether more integration

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into the world economy and the wider spread of democratic ideas and norms across countries lead to a rise or decline of democratic governance. This question has captured the attention of policymakers and academic scholars alike, who have provided various answers and policy recommendations. Anecdotal evidence is typically invoked in debates, but systematic evidence is scarce. To answer our question, we examine the effects of trade flows, foreign direct investment flows, financial investment flows, and the spread of democratic ideas on the level of democracy in a country. Our statistical analysis suggests that trade openness and portfolio investment inflows reduce democracy. The effect of trade openness is constant over time, whereas the negative effect of financial investment grows stronger. Foreign direct investment inflows promote democracy, but the effect weakens over time. The spread of democratic ideas is persistently conducive to democracy over time.

In Chapter 3, we examine the effects of democracy and economic openness on income inequality within countries. Although the issue of income inequality was central in classical economics – the body of thought that emanated from the writings of the liberal philosophers of the nineteenth century – it has received relatively little attention in neoclassical economics, the body of thought and knowledge in modern mainstream economics. We believe that the issue of income inequality deserves more attention, because commercial liberalism, or free market-oriented capitalism, and republican liberalism, or democracy as a form of political governance, are not easy companions. Whereas democracy is based on the principles of “one person, one vote” and representative government, capitalism is based on the principles of laissez-faire and private enterprise. Furthermore, democracy is often associated with redistributive policies (e.g., progressive taxation), but capitalism typically rewards heterogeneous individuals with different levels of income. Hence, democracy may suppress income inequality, but capitalism promotes income inequality. A skewed income distribution under capitalism could lead to an asymmetric distribution of political power, which could undermine democracy and, therefore, its effect on income inequality within a country.

Turning to the empirical analysis of Chapter 3, we argue that the effects of democracy and economic openness on income inequality should be analyzed together rather than in separate models that include one force and exclude the other. Economic openness is measured based on national trade flows, foreign direct investment inflows, and financial capital inflows; income inequality is measured by the Gini coefficient of each country in the sample. We find that democracy and trade openness reduce income