Globalization and its effects on developing world

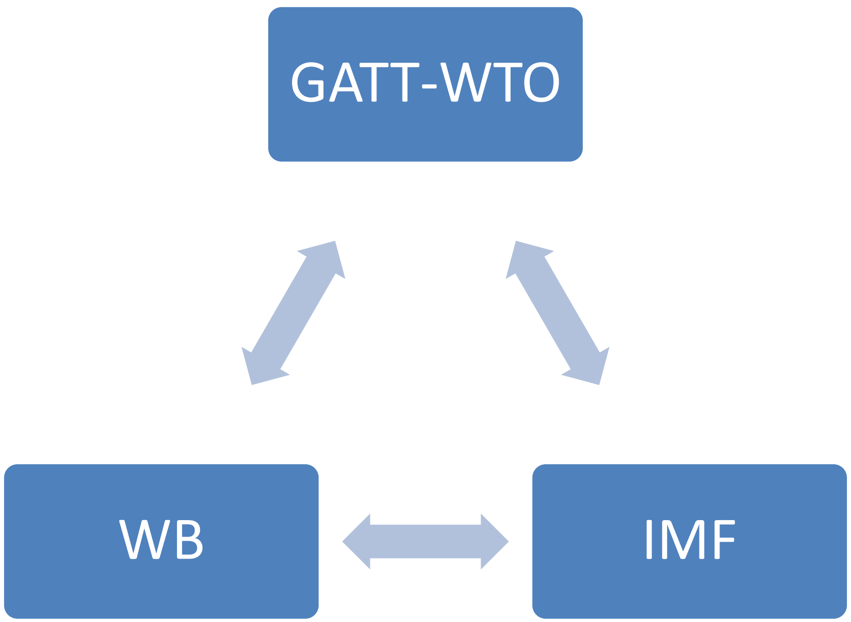
Outline

- What we understand by globalization
- Introducing globalization, and its characteristics.
- Importance of Globalization
- Social Consequences of Market Globalization
- Globalization and economic development in Developing Countries

What is Globalization?

- *A Turkish national, receives a Master's degree in France, will work for an American registered company, which is based in China and started by an Italian....*

Phases of Globalization!



Current 4th Phase! 1980s

- Personal Computers
- Internet, web browsing
- Advancement in communication
- Collaps of SU
- Ind. and moderns efforts of East Asia-China

No nation exists in economic isolation.

Industries, service sectors, levels of income and employment, living standards- are linked to the economies of its trading partners.

This linkage takes the form of international movement of goods and services, labor, business enterprise, investment funds, and technology.

Indeed, national economic policies cannot be formulated without evaluating their probable impacts on the economies of other countries.

Has simply accelerated and gained complex characteristics in recent decades.

Globalization is not a new phenomenon; early civilizations in the Mediterranean, Meddle East, Asia, Africa, and Europe have all contributed to the growth of cross-border trade over time.

Law of Competitive Advantage...

(Because of Trade Liberalization)

IMPORTANCE OF GLOBALIZATION

- Netherlands 99%
- Canada 70%
- Germany 56%
- South Korea 53%
- Norway 49%
- France 43%
- UK 39%
- US 22%
- Japan 18%

Openness
=
(Ex+Im)/ GDP

Economics at the World Bank have found that economic growth rates are closely related to the openness to trade, education, and communication infrastructure.

Source: IMF

Social Consequences of Market Globalization

- Loss of National Sovereignty
- Off shoring and the flight of jobs
- Effect on the Poor
- Effect on the Natural Environment
- Effect on the National Culture

Joseph E. Stiglitz

- One of the most celebrated dissenters of globalization.
- Chief Economist of the World Bank till Jan 2000.
- Nobel Prize in Economics in 2001.
- Chairman of Clinton's Council of Economic Advisors.
- Currently teaching at the Columbia University.

Stiglitz says:
The average European cow gets a subsidy of £1.20 a day, more than what is earned by half the people in the developing world. For much of that world, globalization seems like a pact with the devil.

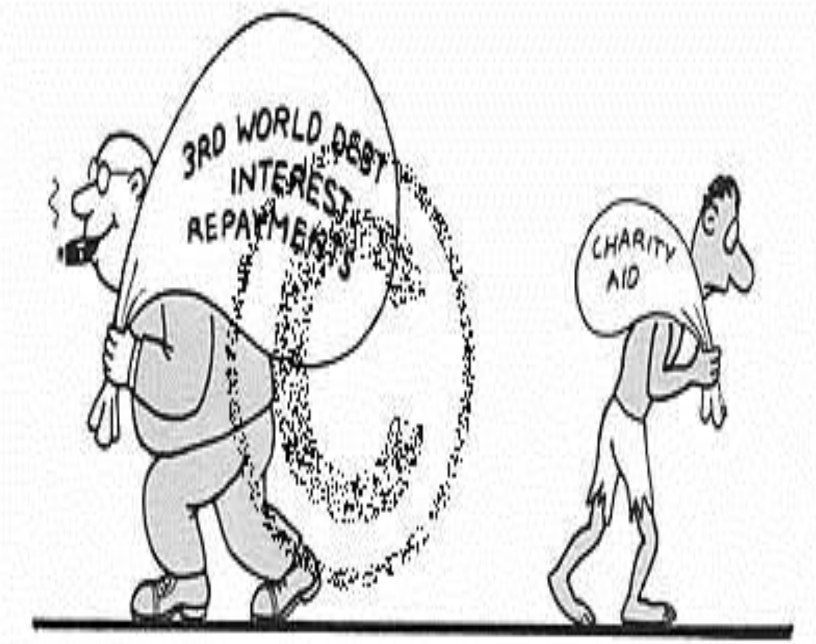
Stiglitz's transition

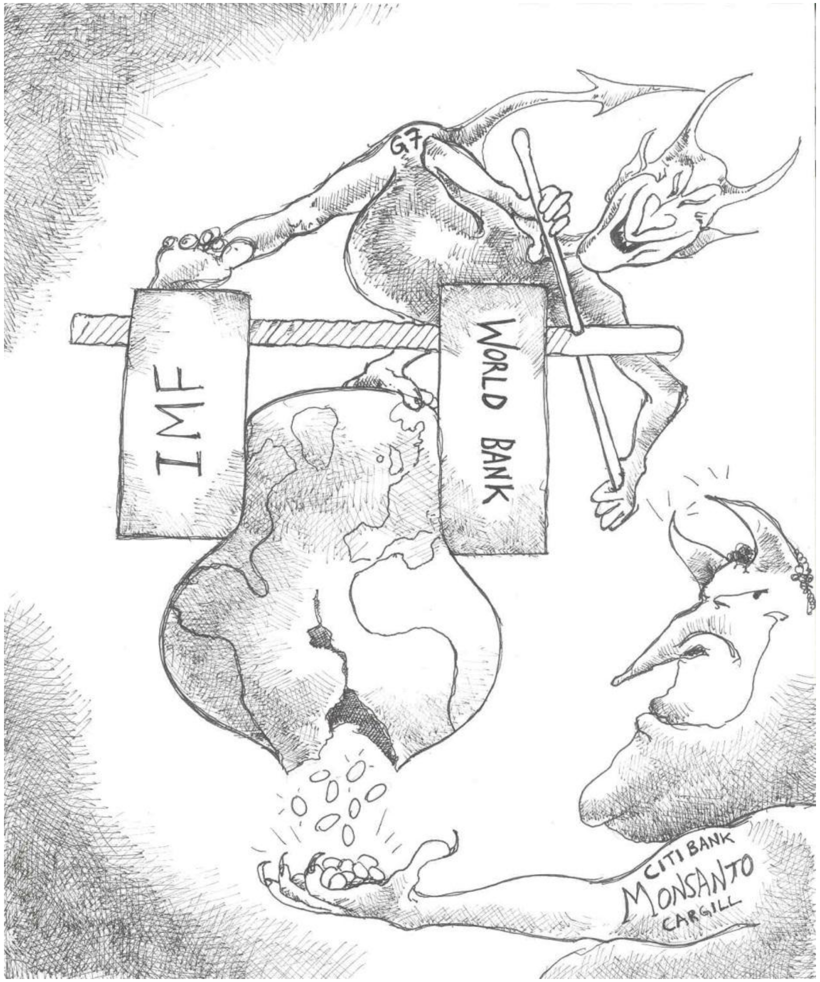
I was in the White House as Russia began its transition from communism and I worked at the Bank during the financial crisis that began in East Asia in 1997 and eventually enveloped the world. I had always been interested in economic development and what I saw radically changed my views of both globalization and development. I have written this book because while I was at the World Bank, I saw firsthand the devastating effect that globalization can have on developing countries, and especially the poor within those countries.

Stiglitz's transition

I believe that globalization— the removal of barriers to free trade and the closer integration of national economies—can be a force for good and that it has the potential to enrich everyone in the world, particularly the poor. But I also believe that if this is to be the case, the way globalization has been managed, including the international trade agreements that have played such a large role in removing those barriers and the policies that have been imposed on developing countries in the process of globalization, need to be radically rethought.

Globalization and Its Discontents





What is the phenomenon of Globalization?

- Closer integration of countries & peoples of the world that has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flow of goods, services, knowledge and people across borders

- Creation of new institutions working across borders

- Three main institutions govern globalization: IMF, World Bank and WTO

The Promise of Global Institutions

Globalization has helped:

- Countries grow faster by opening up to international trade
- Reduce the sense of isolation
- Millions by bringing them foreign aid benefits

Then, why has globalization become so controversial?

The Promise of Global Institutions (Cont.)

- Growing divide between haves and have-nots has left increasing numbers in the Third World in dire poverty
- Neither has globalization succeeded in ensuring stability
- Western countries have pushed poorer countries to eliminate trade barriers
- Environment has been destroyed

The Promise of Global Institutions (Cont.)

- IMF was founded on the belief that there was a need for collective action at the global level for economic stability
- IMF is a public institution established with money provided by taxpayers around the world
- Major developed countries run the show, with only the USA having effective veto

The Promise of Global Institutions (Cont.)

- Around early 1980s, the activities of the IMF and World Bank became intertwined
- The Bank went beyond lending for projects to providing broad-based support, in the form of *structural adjustment loans*, approved by IMF
- However, there was division of labour: IMF restricted itself to matters of macroeconomics in dealing with a country; World Bank was in charge of structural issues

The Promise of Global Institutions (Cont.)

- These institutions could have provided alternative perspectives on challenges to development and transition *but* were driven by the will of G-7
- The IMF has ***failed*** in its mission of promoting global instability; has also been unsuccessful in guiding transition of countries from communism to a market economy
- Jobs have been systematically destroyed before countries' industrial & agricultural sectors were able to grow strong and create new jobs
- Maintaining tight monetary policies has led to interest rates that would make job creation impossible
- Those who lost jobs were forced into poverty

The Promise of Global Institutions (Cont.)

- Structural adjustment programmes did not bring sustained growth even to those who adhered to strictures (eg. Bolivia)

- Underlying problem of the institutions is: *problem of governance*- *who decides what they do*

The Promise of Global Institutions (Cont.)

Reasons for this problem:

- Choice heads symbolize the institutions' problem
- Heads chosen behind closed doors, and it has never been viewed as a prerequisite that the head should have experience in the developing world
- Trade barriers raising prices consumers pay/subsidies imposed on taxpayers is a matter of less concern than profits of producers
- Heads see the world through the eyes of the financial community
- Current system is one of taxation without representation

The Promise of Global Institutions (Cont.)

- Globalization is neither good or bad. It has the *power* to do enormous good
- Process of ‘globalization’ analogous to the earlier processes in which national economies were formed
- Unfortunately, no world government, accountable to all the people of the world
- Current system is that of *global governance without global government*

Broken Promises

- Ethiopia – Started doing really well on all macroeconomic indicators like growth, inflation, employment, etc
- But then, IMF withdraws suspends the assistance to Ethiopia
- IMF insisted opening up of Banking and financial systems. Ethiopia was not in favor of it seeing the experience of Kenya (14 banking failures) who followed IMF guidelines
- Reasons :
  - Flexible expenditure policy of Ethiopia
  - An early repayment of loan
  - This seemed to be a form of colonialism to Ethiopia but standrard operating procedures for IMF

LPG – Liberalization, Privatization, Globalization (Freedom to choose?)

- LPG surely has the power to do a lot of good. But at what cost?
- Pursuing LPG at an alarming rate defeats the very purpose of developing the countries.
- Many LPG policies become being an end in themselves instead of being the means to an end.

Privatization (Freedom to choose?)

- Govt. spends energy doing things which they are not supposed to be doing.
- Govts. have no business to be in business. (Exceptions like steel industry in Korea, Taiwan do exist)
- Privatization → More efficient.
  - Costs – Trimming payrolls.
  - Replacing unproductive workers.
  - Social costs
  - Where does privatization leave countries which have no safety nets in place?

Liberalization (Freedom to choose?)

- Means removal of government interference in trade, capital markets, financial markets, etc.
- The thrust has been on trade liberalization with the main idea being to utilize comparative advantage.
- IMF argues that with liberalization, new and efficient jobs would be created as they replace the old unproductive ones. But, this is not instantaneous.
- Assistance based on the rate at which liberalization is pursued.

Freedom to choose? (Contd.)

- U.S – the prosecutor, the judge and the jury.
- Studies on various countries prove that steps laid out by IMF also did not guarantee progress. (Failures – Bolivia, Argentina, East Asia. Success - Chile)
- Premature liberalization results in increased instability. The costs of such instability is, disproportionately, borne by the poor

Sequencing and Pacing LPG

- Need of safety nets.
- Adequate regulatory framework.
- Uniform policies of IMF does not suit all.(e.g African country). Thus, customise the policy framework for each country.
- Proper sequencing helps in adapting and responding to the challenges of globalization.
- Balancing of the trade agenda in favor of developing countries.

“If globalization continues to be conducted in the way it has been in the past, globalization will not only succeed in not promoting development but will continue to create poverty and instability. Without reforms, the backlash that has already started will mount and discontent with globalization would grow.”

~ Joseph Stiglitz, Globalization and its discontents

Nobel Laureate in Economics 2001, former Chief Economist at the World Bank.