

Is Globalization a Source of Prosperity and Progress or the Main Cause of Poverty? What has to be done to Reduce Poverty?

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Abstract

This article analyses globalization process and its positive and negative sides. Globalization is a double-edged phenomenon. This research is based on comparative method. Two contradictory approaches to understanding globalization are compared with each other. On the one hand, advocates of globalization argue that globalization is a positive phenomenon which promotes greater prosperity and increases living standards of people. On the other hand, opponents of globalization see it as the main cause of impoverishment and economic crisis. The problem of describing the effects of globalization is closely linked with these two contradictory approaches to understanding globalization.

Keywords: globalization, positive and negative sides of globalization, transnational institutions, environmental degradation, global warming

Introduction – Definition of Globalization

Before we start comparing two contradictory approaches to globalization, we have to define it. Globalization refers to the growing interconnectedness of different parts of the world. It is a process which gives rise to a complex form of interaction and interdependency. The world is becoming a global village and interdependence between different parts and regions of the world is growing steadily. Different parts of the world have become so interdependent, that the crisis in one region causes socio-economic problems not only in that particular region, but in other parts of the world too. For instance, Great Depression which emerged in USA was quickly spread to other regions of the world and caused worldwide economic depression in the decade preceding Second World War. Social and political unrest in Arabic countries often causes world-wide inflation and global economic problems. The emergence of global interdependence means that our socio-economic conditions are more and more dependent on the events that occur, and decisions that are made, at a great distance from us. (Heywood, 1997, p. 140) The world has become a global village. One of the most salient features of globalization is that geographical distance is of declining relevance, and that territorial boundaries, such as those between nation-states, are becoming less important. Trade often transcends national boundaries and the spread of international trade has caused the emergence of global economy. In the era of globalization country's economic progress and prosperity depends on its ability to integrate into the global economy and participate actively in inter-

national trade and international business operations. Thus, economic life has been progressively globalized. National economies have been integrated into global economy and they have become so interdependent that they cannot function separately from each other. One of the consequences of globalization is the emergence of multinational companies and transnational corporations. These are very powerful organizations that produce output in more than one state. Transnational institutions are becoming more and more significant actors on the world stage. These organizations now dominate most of the world markets. Although nation-state is still regarded as the most important actor in International Relations, the growing impact of supranational bodies and transnational companies is impossible to deny. (Heywood, 1997, p.151-155)

Positive Sides of Globalization

Liberals and Neo-liberals argue that globalization is a positive phenomenon. They believe that globalization brings new opportunities to poor nations as globalization leads to expansion of world trade and free movement of capital which increases the prosperity and wealth of developing countries of the world. According to liberals not only countries, but also ordinary citizens benefit from this process as it promotes free flow of goods and services, free movement of people and free movement of capital. People can transfer or expand their businesses into foreign countries and they are no longer bound by territorial restrictions. Consumers have a wider range of options to choose from among the products of different nations; producers

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have also an opportunity to decide which place to choose for manufacturing goods and products. Liberals argue that free markets must be allowed to flourish and governments must permit the free flow of trade and commerce. Liberal theorists believe that free trade and commerce create interdependence between states and decrease the possibilities of war. (Mingst, 2004, p.62-65) In fact, many countries achieved economic growth and progress from free flow of trade and commerce. For instance, Asian countries such as Singapore, Taiwan, Malaysia and Thailand benefited a lot from the globalization process. It has to be stressed that Asian economic miracle was fuelled by foreign investment and globalization. The governments of Malaysia, Singapore, Taiwan and Thailand created investment- and business-friendly environment and welcomed technology transfers to their countries. As a result they experienced rapid economic growth, job creation and infrastructural development. (Henderson, 2000) These countries maintained exceptionally high growth rates and some of them were named by experts "Tiger Economies."

Asian countries have been successful in integrating into the world economy. Although China has never reached "Asian Tiger" status, it benefitted also from the globalization process. Trade liberalization policy that Chinese government undertook during the reform period created favorable conditions for foreign investment. Because of the creation of favorable environment for foreign investment, many foreign companies decided to move to China and started to employ local people. Thus, liberal economic and trade policy of Chinese government increased employment opportunities for ordinary people and improved the quality of life for millions of Chinese citizens. Since economic and trade liberalization began in 1978, China has experienced tremendous economic growth and still remains the fastest growing major economy in the world. (Lardy, 2003, p. 4-13) China's rapid economic growth has pulled hundreds of millions of its people out of poverty and increased the life expectancy to 73 years. Rural areas started to develop very quickly and the number of rural poor in the country declined from 250 million in 1978 to just 34 million in 1999. (A World Bank Policy research report, 2002, p.6) The number of literate people has also grown considerably. Nowadays more than 93 percent of the population is literate compared to only 20 percent in 1950. Advocates of globalization often talk about Asian economic miracle and argue that Globalization has created millions of jobs for people not only in Asia, but in other parts of the world too. According to them it has brought material benefits to hundreds of millions of people.

Liberals stress the importance of interdependence and free trade and argue that all states benefit from co-operation and international commerce. They are in favor of economic globalization, because they think that it promotes international harmony and stability. Examples include the

successful integration of Europe through the European Union or regional blocs and economic agreements. All European Union countries benefited from the European integration process. A single market was established in Europe which promotes free trade and commerce and contributes to faster economic growth. Single Market makes it easier to do business in European Union. Trade barriers between countries have been removed and restrictions on movement of capital, goods, services, technologies and people do not exist anymore. People can easily move or expand their business to other European countries without facing legal, technical or physical barriers. Free trade and commerce generates a lot of material wealth and allows member states of the European Union to offer their citizens a better quality of life. In addition, free trade and commerce increases economic ties and interdependence between European states and makes repetition of destructive wars like Second World War unthinkable today.

One of the most significant features of globalization has been the growing importance of international organizations. Liberals are in favor of creation of international organizations because they believe that collective security and peace can only be achieved through international organizations such as United Nations and NATO. In the anarchic international order there is always fear of outbreak of wars and conflicts. International anarchy can be overcome through some kind of cooperation and through the establishment of international institutions which can maintain collective security and international stability. (Mingst, 2004, p. 62-65) Certain problems are beyond the power of national governments to solve such as global warming and pollution. Global problems can only be solved through some kind of collective action. Cooperation between states and construction of effective international and supranational organizations are needed in order to solve global problems and ecological problems. State survival is now dependent on the development of global security network and International organizations play very important role in promoting stability and prosperity in the globalized world.

Negative Sides of Globalization

Opponents of globalization reject the argument that globalization is a source of prosperity and progress. They often talk about the negative sides of this process and argue that globalization has caused the most dramatic increase in global inequality and poverty. According to them positive effects of globalization are not evenly spread worldwide. Some parts of the world are excluded, including a whole continent, namely Africa. African countries, as well as many developing countries do not benefit from the globalization process. On the contrary, the vast majority of African people are marginalized and exploited by the West. The exclusion of Africa from the benefits of the globali-

zation process and the social marginalization of the vast majority of its peoples constitute a serious threat to global stability. Globalization process has not brought prosperity in Africa but rather greater and widespread poverty. International Monetary Fund (IMF) and World Bank forced African countries to pursue Open Market Policy which caused a dramatic increase in poverty in Africa and widened the gap between rich and poor. The Open-up Market policy has caused enormous damage to the economic infrastructure and the industrial basis of many African countries. The continent which could feed itself twenty years ago, has now become a net importer of food. Globalization has caused the most dramatic increase in inequalities between countries of North and the South, as costs of imports from the former have continued to increase while prices for the products manufactured by the latter have actually decreased. (Pax Romana ICMICA/MIIC, 1998)

Marxists and Neo-Marxists often argue that globalization is a new form of imperialism which serves the interests of rich capitalist countries. Globalization primarily serves the interests of powerful nations, which possess large financial and technological means and seek to expand their wealth abroad. Western industrialized countries continue to dominate International system and therefore, this system serves the interest of Western capitalist countries and corporations. Neo-Marxists divide the world into “core” and “peripheral” areas. Core areas such as the developed North exploit the less developed South which provides the core areas with cheap labor and natural resources. (Andrew Vogt, 2010) African countries suffered the worst effects of globalization and still are suffering. African countries still provide the West with cheap labor and natural resources. Access to Western markets is denied to African countries and unfair trade barriers exist for goods in which developing countries of Africa have a comparative advantage such as textiles, garments and agricultural products. Thus, world market remains inaccessible to African products and the flow of aid is limited in both quantity and quality.

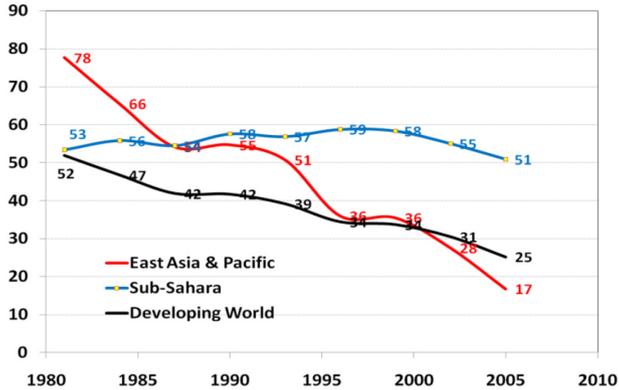
Opponents of globalization argue that this process leads to the weakening of power and influence of nation-states. Trade often transcends national boundaries and most of the products are manufactured by multinational corporations. These are companies that operate in more than one country and have become very powerful economic and political entities nowadays. The revenues of multinational companies and transnational corporations very often exceed the combined gross domestic product of several developing countries. It has to be taken into account that more than half of the world’s largest economies today are corporations, not nation-states. According to statistical data of the World Bank of the world’s largest 150 economic entities, 95 are corporations (63.3%). Wal-Mart is regarded as the largest multinational corporation of the planet. With revenue of \$287,989,000,000 (\$287.99 billion) it is 22nd

largest economic entity. It has more revenue than countries like Indonesia, Saudi Arabia, Norway, Denmark, Poland, South Africa, Greece, Finland, Ireland, Portugal, etc. (Mongabay.com, 2005) Thus, state’s economic power has declined in the era of globalization. There has been a shift in power away from the nation-state towards multinational corporations. Because of the great power of transnational corporations and international organizations, states are no longer regarded as the main actors in international relations. These institutions have become very influential actors in international relations and they are powerful enough to impose their ideas on national governments and influence political decisions.

Globalization offers no protection to working people or to developing nations from the often exploitative practices of multinational corporations. Neo-Marxists often describe transnational companies as the instruments of exploitation and oppression. These companies are constantly looking for cheap natural resources and cheap labor force and therefore, often move to peripheral countries where they can easily exploit people and radically reduce the cost of manufactured products. MNCs clearly pay workers in developing countries far less than workers in industrialized capitalist countries, where labor force is expensive. MNCs transfer domestic jobs overseas and cause unemployment in many countries comprising the “North”. Globalization, especially overseas outsourcing decreases job security. (Pillai, 2010) The idea of “permanent employment” barely exists in the era of globalization. If earlier people had permanent and secure employment, now they live in constant fear of losing their jobs. Manufacturing jobs are outsourced to developing nations like China or India where the cost of manufacturing goods and wages are lower. Millions of workers have lost their jobs because of the outsourcing of manufacturing employment to poor countries. This is the reason why the activities of transnational companies and multinational corporations often cause discontent and outrage among the workers of the industrialized nations.

What has to be done to Reduce Poverty?

Certain countries do not benefit from the globalization process because they are not integrated into global economy. International community has to make efforts to help these countries integrate into global economy. The idea that global integration can reduce poverty is proved by the economic success of Asian countries such as China, India, Vietnam, Malaysia, Singapore, Taiwan, South Korea, Thailand, Philippines etc. These countries have experienced rapid poverty reduction after being globalized. As it is illustrated in the diagram below East Asia and Pacific experienced the most spectacular reduction of the population living in absolute poverty.

Graph 1: Reduction of the Population Living in Absolute Poverty

Source: The Nongovernmental International Panel on Climate Change (NIPCC)

In the 1980s, East Asia and Pacific had the highest rate of poverty in the world and 78% of the population lived below the poverty line. By 2005 the poverty rate had fallen to 17%. In contrast to East Asia & Pacific region, Sub-Saharan African countries did not experience any significant progress in poverty reduction, because they were always less globalized than East Asian countries. Although Sub-Saharan Africa had lower rate of poverty than East Asia & Pacific in 1980-s, Sub-Saharan African countries were unable to reduce poverty and poverty rate remained almost constant throughout decades in this region. Thus, the less globalized countries made much less progress in poverty reduction than the more globalized ones.

Global collective action is needed for the reduction of poverty. About 2 billion people live in countries that are not properly integrated into global economic system and are excluded from the benefits of globalization. Especially people living in Africa and Former Soviet Union feel themselves marginalized. Their exports are confined to a narrow range of primary commodities. (World Bank policy research report, 2002) The benefits of globalization reach too few people. There are very few winners and too many losers. Therefore, poverty reduction should become the main concern of international organizations and international economic institutions. In order to achieve this goal International community should make some efforts to reform world trading system and make existing trade rules fairer. Trade is crucial for the economic growth of developing countries and world trade could be a powerful motor to reduce poverty, but the problem is that international trade rules are rigged in favor of rich nations and multinational companies.

Trade rules are often unjust as they block access to rich nations markets. There are striking inequalities in the trade system which makes it difficult for developing countries to make progress and achieve economic growth. World market remains inaccessible to products which are manufactured in developing countries. Rich industrial countries

force developing countries to lower trade barriers more and more, but at the same time they erect unfair trade barriers to developing world's exports. When developing countries export to rich-country markets, they face tariff barriers that are four times higher than those encountered by rich countries. Protection in rich countries costs developing countries more than \$100 billion per year, twice the total volume of aid from North to South. Rich countries are unwilling to open markets and reduce trade barriers. They levy unfair taxes on products made in developing countries. Rich nations' markets should be more accessible to products made in developing world. Trade rules should be beneficial for everybody and not just for Western countries and powerful multinational corporations. According to the World Bank study the abolition of First World favoring trade barriers would lift 300 million people out of poverty. (World Trade Organization) During international conferences and international forums, politicians from rich countries constantly stress their commitment to poverty reduction, but in practice they keep unfair rules and barriers, that lock poor people out of the benefits of trade. It is vital to create a more transparent and democratic world trading system without any unfair barriers and limitations.

Conclusion

Globalization is a complex and multi-dimensional process and the phenomenon of globalization is vast, vague and contested. Globalization has multiple features and scholars interpret the concept in different ways. However, two contradictory approaches to globalization can be identified: One that describes globalization as a positive phenomenon and as a driving force of progress and another that argues that globalization is a negative phenomenon and the main cause of poverty. On the one hand, advocates of globalization, especially liberals and neo-liberals believe that globalization is a good thing because it increases interdependence between nations and decreases possibilities of war. Not only countries and nations, but also ordinary citizens benefit from this process as there is a free flow of goods and services, free movement of people and free movement of capital. People can easily move or expand their business to other countries. Liberals and Neo-liberals argue that globalization brings benefits to all countries and increases economic prosperity and well-being of people. On the other hand opponents of globalization believe that globalization has not brought prosperity to all countries and nations. According to them some parts of the world are excluded from the benefits of globalization, especially poor and underdeveloped countries of Africa, Asia and Latin America. Marxist and Neo-Marxists argue that globalization increases the gap between rich and poor nations. They divide the world into "core," "periphery" and "semi-periphery". Countries that belong to the "core" exploit the

less developed South, which provides advanced industrialized countries with cheap labor and natural resources. Antiglobalists see globalization as the dangerous process which diminishes the economic power of nation-states and increases the power of non-state actors. They think that the activities of transnational institutions often cause unemployment and the outsourcing of manufacturing jobs to poor countries. There is widespread fear that globalization means unemployment, job insecurity and lower wages.

The extent and impact of globalization vary between countries and regions. Globalization has had both, positive and negative effects on developing countries. Growth and expansion has taken place in some countries, but in others there has been deterioration and marginalization. The benefits of globalization do not reach all countries, because some regions are not integrated into global economy and unfair trade barriers exist between North and South. However, humankind has the capacity to eliminate poverty by reforming world trading system, making existing trade rules fairer and giving poor nations access to reach countries' markets.

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