The Impact of Globalization on Developing Economies

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Abstract

Globalization is one of the most important forces shaping the global economy. Globalization has led to an integrated and interdependent global economy. In this age of globalization, the developing countries, especially Africa, face special risks that globalization and the market reforms that reflect and reinforce their integration into the global economy will exacerbate inequality in trade and income and worsen the problem of unemployment. The theoretical approach adopted in the paper is structural approach on globalization which views globalization as a product of interaction networks inevitable in a world system. The paper reveals that under certain circumstances, globalization can lead to a higher unemployment and an increasing shrewdness in the distribution of income between developed and developing nations. It recommends bridging the digital divide and Africa’s promotion of the tenets of good governance, accountability and transparency as envisaged in the NEPAD and AGOA mechanisms as measures to enhance Africa’s effective participation in the globalization process.

Introduction

Globalization can be seen as one of the most important forces impacting on the global economy. It is accepted that the world economy has become more integrated due to the process of globalization (Newland and Hough, 1991). Despite the fact that globalization is not a new phenomenon, the intensity of the process of globalization has increased in the 1990s (Mostert, 2003).

The increasing intensity in the process of globalization is evident in the increase in financial transactions in the world markets. Hak-Min (1991) indicated that the threefold increase in private capital transactions between 1980 and 1990 could be ascribed to the process of globalization in the international financial markets.

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With the increased reliance on the market economy and renewed faith in the private capital and resources, a process of structural adjustment spurred by studies and influences of the World Bank and other international organisations have started in many of the developing countries. Globalization has brought in new opportunities to developing countries. Greater access to developed country markets and technology transfer hold out promise for improved productivity and higher living standard (Balakrishnan, 2004).

However, globalization has also thrown up new challenges like the growing inequality across and within nations, volatility in financial markets and environmental deteriorations. Besides, a great majority of developing countries remain removed from the process. Globalization has tremendous potential benefits for developing countries. The challenge is to realize the potential benefits without undertaking huge offset setting costs.

The process of globalization is a reality. The increasingly integrated global economy provides an unprecedented opportunity for growth and higher living standard throughout the world. The issues raised in the paper include a clarification of the nuances surrounding the concept of globalization, the impact of globalization on developing economies especially the African economy, the challenge posed by globalization induced policies and programmes on African economy and the measures and strategies that will enhance developing and African countries equal and strong participation in the globalization process. In this regard, it has become important for Africa’s development and growth that policy makers in Africa understand the process of globalization and know how to deal with the impact of globalization (Mosert 2003).

Discussing Globalization

Globalization is a term that has become very popular and used in many different contexts in the literature. It is crucial to evaluate the meaning of globalization as a prelude to assessing its impact on Africa. The definition of globalization needs to be divorced from concepts like internalization, regionalization and liberalization.

According to Mosert (2003), the globalization process is seen as the breakdown of borders between countries, governments, the economy and communities. In the financial markets it is also the blurring of borders between different markets. Globalisation to Redding (1999) has a link to geographical borders. It is the integration between the markets for goods, services and capital. Globalization combines elements of international and multinational as a more advanced stage of integration between countries. A truly global activity does not know any internal borders. It also gives limited recognition because of the fact that the country is irrelevant when it comes to global activities.

In the perspective of international political economy, globalization is the tendencies and processes towards achieving rapid integration of the world
economies through the deliberate formulation and execution of policies and programmes focused on the defined goods of integration and through corresponding construction of the relevant theories and ideologies to defend, uphold and promote the integration process (Onyekpe, 2004. This view of globalization helps to explain the exploitative and imperialistic tendencies of neoliberalism and global capitalism at the heart of the globalization process.

The Synergy between Globalization and Regionalization

Globalization and regionalization are mutually reinforcing, but they are different. The difference between the concepts is linked to the debate between people that see regionalism as building block for the process of globalization versus people feeling that regionalization is a barrier in the process of globalization.

According to Hettne, Inotai and Suneka (1999), the process of globalization is frequently linked to the end of geography. Regionalization can be linked to the increased integration of economies of countries in a region (Mathews, 1987). There are five steps in the common markets, economic unions and a monetary union. Economic integration is seen as a synonym for regionalization.

In the view of Calitz (2000), the process of integration ends with political unity. Regionalization is compatible with globalization in that it provides enough protection until economies of scale improves the efficiency of regional companies to enable them to compete internationally. Before this stage of universal economic integration is reached, the exclusivity of regional grouping can be detrimental for the process of globalization.

While concurring with Calitz, Quattara (1997) indicated that regional cooperation between small African countries can improve their chances to take part effectively in international trade. The process of regionalization can also pave the way for multilateral trade liberation. From the literature, it is known that trade liberalization is an important step in the process of globalization.

Globalization is an extension of the process of regionalization because of the fact that it leads to the diminishing of borders between countries and regional blocks. However, it is important to stress that the two processes are developing at the same stage and are not necessarily in a linear relationship. Due to the advantages and disadvantages, it is even possible that some regions in the world might accept globalization and then, due to the disadvantages, move back to the process of regionalization.

Conclusively, the implications of globalization for a national economy are many. Globalization has intensified interdependence and competition between economies in the world market. This is reflected in interdependence in regard to trading in goods and services and in movement of capital. As a result domestic economic developments are not entirely determined by domestic policies and market conditions. It is thus clear that a globalizing economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and
reactions of policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level (Balakrisnan, 2004).

Situating the Theoretical Discourse

The theoretical approach adopted in the study is structural globalization postulation. The modern world system has been a product of changes and continuities over the past two hundred years. Institutional structures are fundamentally cultural inventions. Market exchange, firms, states, global governance organisations and the civilization ideologies that naturalise them are all grist for the analysis of institutional structures that is the framework for the discourse on globalization.

Human societies are composed of interaction networks and the institutions and forms of consciousness that make various kinds of interaction possible. The world system perspective assets that interaction networks have been importantly inter-societal since at least the emergence of cities and states, but comparative studies reveal important intergroup networks even in systems composed entirely of nomadic hunters (Chase-Dunn and Hall, 1999).

The institutional nature of interaction networks has undergone major transformations with the evolution of social complexity and hierarchy (Chase-Dun, et al, 1999). However, comparative research reveals that all world systems, small and large have exhibited the phenomenon of “pulsation” in which exchange networks alternatively expand and contract. In this regard, globalization can be viewed as, in part “changes” in the intensity of international and global interactions relative to the local or national networks”. In the structural sense, globalization is both integration and interdependence.

Therefore, the globalization process revolves around structural and economic and political globalization. Economic globalization means greater integration in the organization of production, distribution and consumption of commodities in the world economy. The role of international market forces and policies are relevant in this regard. Political globalization in the institutional form of global and inter-regional political/military organization (including “economic” ones such as the World Bank and International Monetary Fund), and their relative strengths to the strengths of nation states and other smaller political actors in the world-system. This is analogous to the conceptualization of economic globalization as the relative density and importance of larger versus smaller interaction networks.

The Impact of Globalization on World Trade

Opponents of the process of globalization indicates that the impact of globalization on developing and developed countries differs. Brittan (1998) indicated that globalization led to an increase in the wealth of developed countries and also led to poverty in the developing countries. The improvement in the
economic situation in the Asian countries was a reference point in his analysis. The improvement in economic growth in the Asian countries led to a reduction in the skewed distribution of income between developed and developing countries. Despite these rather positive developments in some developing countries, many countries are still in poverty and risks marginalization if they do not very soon become part of the international trade system (Mostert, 2003).

A big number of countries developed serious financial problems, which led to an increase in the income gap between developed and developing nations. Between 1980-1990 more than 90% of all financial transactions of the world were executed in 25 of 121 countries world wide (Itak-Min, 1999). The low-income countries share in the globalized capital flows were less than 1% of the total worldwide transactions. These developments are seen in the transnational stage in the development of capitalism.

According to Ohmae (1985:2), the global economy is dominated by three regional blocks, namely America, Europe and the Japanese dominated Asian block. The three regional blocks were responsible for 43% of all global capital transactions and for 56% of all portfolio transactions between 1980 and 1990.

Despite the process of globalization, 77.29% of Germany's exports and 77.81% of imports were still to Western industrialised countries between 1980 and 1990 (Itak-Min, 1994). South Africa's most important export partner is also the European Union, America and Asia. Despite the initiative to improve the level of trade with countries in Africa, only 2.6% of goods and services were imported from the rest of Africa. The conclusion can only be made that the globalization process has not increased the participation of Africa in world trade.

The Impact of Globalization on the International Distribution of Income

The United Nations Development Report of 1992 quotes Manderen Goldsmith (1996) which indicated that the worldwide distribution of income is still skewed. It is also argued that the income gap has increased between countries since 1960. This view is supported by Todaro (1985) who indicated that developing countries only experienced GDP growth of 1.1% per annum between 1960 and 1982. At the same stage the developing countries experienced an average GDP growth of 3.1 per annum.

The IMF (2006b) showed that the richest part of the world population's income has improved six times between 1900 and 2000. The income of the poorest part of the world population only improved by 3% during the same period.

Mason (2001) indicated the issue is much more complicated than merely comparing the relative levels in the distribution of income. Masson compared the level of economic growth in countries that are actively involved in the globalization process. Mason concluded that the thirty developed nations that actively took part in the process of globalization grew by 3.5% in the eighties and 5% in the nineties.
The countries that did not actively take part in the process of globalization did not realize any or just marginal growth rates after 1980. The countries that opened their economies grew at a faster rate than the developing countries (Masson, 2001). It is thus wrong to argue that globalization caused the low and unequal distribution of income in developing countries.

The IMF (2002) also indicated that globalization led to unequalled economic growth during the twentieth century. The global GDP per capital almost increased five times during the twentieth century. This growth also did not happen in a stable manner. The biggest improvement in growth happened in the second half of the century due to the increase in trade and the process of financial liberalization.

It is obvious that globalization has contributed to a significant increase in average economic growth, however, as it has already been indicated, this was not spread evenly between countries. The richest quarter of the world population's income grew six times, whilst the poorest quarter income only grew three times (Mostert, 2003).

The conclusion can thus be made that despite globalization contribution to the increased levels of economic growth it did not contribute to improvement in the skewed distribution of income between developed can developing countries. The problem is that the skewed distribution of income can mainly be attributed to the limited participation of the developing countries in the process of globalization.

**The Impact of Globalization on Unemployment**

Some of the opponents of globalization are arguing that the process of globalization will lead to higher level of unemployment in developing countries. Other economist are of the opinion that competition of low wage countries will rather lead to unemployment in developing developed countries. Brittan (1998) states that it is an oversimplification to argue that the high levels of unemployment in developing countries are caused by globalization.

Brittan is of the opinion that the demand for low skilled workers have declined due to technological developments (Brittan, 1998). The international demand for workers with specialized skills has increased. The reason for this is that the specialized skilled worker is needed to compliment the advancement in technology.

Schalte (1997) differs from the view of Brittan by stating that globalization has led to reduction in the bargaining power of the worker in relation to the pan-global company. This is true because of the fact that the border between countries is still real to workers. There exists limitations in the labour mobility of workers. According to Schalte (1997) it is not certain whether border protection will lead to the loss of job security and lower wages. Globalization is thus not necessarily disadvantaging the workers.
It is mainly the labour intensive and lowly skilled workers that are lower in demand due to the competition in the world economy. These workers would have been under pressure to keep their jobs even without globalization due to the fact that the economies of the developed countries have become more service oriented and that the demand for lower skilled workers has diminished (IMF, 2000).

Policy Implications of the Process of Globalization for Africa

According to Mostert et al (2002) Africa is lacking in terms of economic development against the rest of the world. Africa continues to be at the receiving end of the globalization process because the continent has not taken active part in the process. It is also true that there is no quick fixes for the development problems of Africa. However, the correct measures and strategies adopted by governments in Africa can contribute to the development of Africa especially in a globalized world.

Trade Policy

African countries will benefit a lot from the policy of trade liberalization. Despite the misgivings about trade liberalization as espoused by the World Trade Organization, studies shows that since GATT was set up in 1948, world trade has soared fifteen fold to more than $7000 billion per year. This has helped to boost world output by seven times. This growth has also benefited persons in developing countries. GDP per capita has trebled in developed countries since 1950, life expectancy has risen by over twenty years and adult literacy rates have increased by over thirty percentage points (Moore, 2000b).

It is also indicated that a few developing countries in other parts of the world have positively used trade liberalization and the opening up of their economies. South Korea thirty years ago was as rich as Ghana, now it is as rich as Portugal. In China more than 100 million people have escape extreme poverty in the last decade (Moore, 2000). All these progress have been made clear as a result of trade liberalisation.

The liberalization of trade will not only have positive impacts on the economy of developing nations in Africa. As trade barriers falls, foreign competition will force local companies to produce goods in which they have the advantage against foreign companies. This might cause unskilled workers to loose their jobs. These workers can be retained to be employed in other jobs in the economy (Moore, 2002).

Bridging the Digital Divide

One of the policy measure needed to take advantage of globalization is to try and bridge the digital divide. The issues of access to infrastructure, communication
and knowledge and culture which are crucial to bridging the digital divide are virtually non-existent in Africa.

According to the UN Human Development Report 15% of the world population is home to 88% of all internet users. The situation is even worse in Africa (Black, 2003). With a total population of over 800 million people, there were only 14 million telephone lines in 1999. Eighty percent of those lines were in only six countries. There were only one million internet users on the continent to an estimated 10.5 million in the UK.

There also exists a resistance to technology in the developing world. Many of the communities in Africa are still struggling with hygiene, sanitation and safe drinking water and do not care about the technological revolution. The developed world is already in the information age, while Africa is still grappling with the industrial economy.

The challenge on African governments is to invest wholeheartedly in education, and science and technology. Information and Communication Technology is a prime mover of the globalization process and African countries should do everything possible to key into the trend.

Opportunity Available in AGOA and NEPAD

African countries must seize the opportunities provided by the African Growth and Development Opportunity Act (AGOA) and the New Partnership for Africa’s Development (NEPAD) mechanism. The AGOA Act promulgated during the Clinton era removed import tariffs and quotas on goods that are produced in Africa. In the middle of 2003, 38 of the 48 countries in sub-Saharan Africa were qualifying in terms of good governance and democracy to qualify for the AGOA preferential treatment in exporting to America (Von Keyserlingk, 2003). The peer review mechanism of NEPAD shares the same values as expressed in AGOA and can help to promote trade with America.

Conclusion

It has been argued in this paper that globalization is one of the most important forces impacting on the global economy. Globalization has had specific effects on the economies of the developing countries of Africa. These effects have been both negative and positive. It was indicated that under certain situations, globalization can lead to higher unemployment and an increasing skewing in the distribution of income between developed and developing nations.

Globalization can play a very important role in solving the development problems of Africa. If African countries are prepared to allow for trade liberalization and bridge the digital divide, it will contribute to the development of the respective countries.

African countries should also take advantage of the opportunities offered by the African Growth and Opportunities Act (AGOA) and the New Partnership for
African Development (NEPAD) as these mechanisms enhance trade with America and promote good governance, transparency and accountability in Africa, and therefore represent major pillars to the continent’s effective participation in the globalization process.

References


