Globalization: threat or opportunity to the developing countries?

Globalisation is most important factor that affects world economy. According to Brittan (1998) globalisation is defined " as a whirlwind of relentless and disruptive change which leaves governments helpless and leaves a trail of economic, social cultural and environmental problems in its wake."

Some of the issues will be dealt in this paper are the impact of globalisation on unemployment, the impact of globalisation on the international distribution of income, the impact of globalisation on world trade. Besides that, there are two models in this paper, which is Feenstra and Hanson's model and Zhu and Trefler's model.

The process of globalisation is a reality. Globalisation has created many opportunities for growth and increase the level of standard livings. It is depends on the countries who can follow the trend and take the opportunity in order to improve themselves.

2. 0 The impact of globalisation on labour

2. 1 The impact of globalisation on unemployment

Some opponents of globalisation argue that the developing countries will have higher level of unemployment because of the globalisation. But other economists are thinking that there will have a competition among the low wages countries, this will lead to unemployment in developing countries. It is because developed countries will create the working opportunities to the low wages developing countries.

Brittan (1998) says that it is overly simplistic view that globalisation has lead the high unemployment in the developing countries. He thinks that this is because the demand of unskilled labours are decline because of the advanced of technology. Therefore, the demands of skilled labours are increasing because the company need workers who can work and operate the machine and this will improve their productivity compare to using low skilled workers.

But Nader (1993) and Brecher en Costello (1994)have the different views with Brittan, they states that the workers has less bargaining power in the global company because of globalisation. This is true because of the fact that the border between countries is still real to workers. There exist limitations in the labour mobility of workers. According to Scholte (1997), there is an uncertainty on the job security and lower wages because of the cross border production. Therefore, globalisation is not necessarily bad to the workers.

2. 2 The impact of globalisation on wages and labour standards.

The second labour related issued is regards to the impact of globalisation on wages and labour standards. In order to improve their competitiveness advantages, developing countries will lower their labour wages, taxes and regulations.

Brittan (1998) agrees that if developing countries became more interdependent, it is necessary to protect their workers’ right. Therefore, developing countries have to increase the labour wages, but this will increase the labour standards and this will reduce the levels of participation of developing countries in the world nation.

Litan en Herring (1995: 5) indicated that there is a limit in the way that countries can compete in a competition in laxity. The companies who specialised in the customer's financial services will still prefer to deal with the countries that the financial services are proper regulated.

From this review, it can be seen that developing countries need to find a way to increase their competitive advantages in order to compete in this changing world economy. Likewise, the Economic Intelligence Unit (2002) has indicated that developing countries cannot ignore the workers right to increase their international competitiveness. It is because developed countries still need to find the lower labour wages countries in order to lower their manufacturing cost. This is the opportunity for developing countries to be competitive in the world economy

3. 0 The impact of globalisation on the international distribution of income

Mander en Goldsmith (1996) has indicated that the distribution of worldwide income is still unbalanced. But other economists has the different view with Mander, they argues that since 1960, there is an increase in the income between the countries. Todaro agrees with this view, he also indicated that between 1960 and 1982, developing countries only experienced GDP growth of 1. 1% per annum.

Masson (2001) indicated the issue that comparing the relative levels in the distribution in income. Manson has divide it into two groups of countries in comparing the level of economic growth which is the countries are actively involve in the globalisation and another group is not actively involved in the globalisation. Masson found that the developed countries that actively involve in the globalisation have grown by 3. 5% in eighties and increase to 5% in the 1980. Besides that, those countries which didn’t actively take part did not realise any after 1980. “ The countries that opened their economies grew at a faster rate than the developing countries” (Masson, 2001).

The countries that opened their economies grew at a faster rate that the developing countries (Masson, 2001). Therefore, it is wrong to argue that globalisation has caused the inequality and unequal distribution of income in the developing countries.

4. 0 The impact of globalisation on world trade.

Opponents to the process of globalisation have different view on the impact of globalisation on developing countries.

Brittan (1998) has pointed out that globalisation has increase the wealth of developed countries and it also not wider the poverty gap in the developing countries. Brittan states that the developing countries such as Asian, there are an improvement in their economic situation. This improvement of Asian countries has narrowed the gap of distribution of income between developing and developed countries. Although there is an improvement in their economic, but many developing countries still poor, if they cannot catch up and follow the trend of globalisation.

Hak Min (1999) has the different view with Brittan on the distribution of income between developing and developed countries. He indicated that this has become less skewed because globalisation in the integrated world economy has lead to industrial growth in a limited number of developed countries. Besides that, many countries have been developed serious financial problem. It wills wider the income gap between developed and developing countries.

Hak Min indicated that during 1980-1990, 25 of 121 countries in the world wide have carry out more than 90% of all financial transactions. Therefore, the low-income developing countries just share the globalise capital flows for less than 10% of the total transactions. These developments is seen by Gill en Law (1988: 127) as the transnational stage in the development of capitalism.

Therefore, even developing countries has tried to improve their competitiveness, but developed countries are the main controller of the world economy. Globalization give the opportunity to the developing countries to catch up, if the countries using the right method in the world economy.

5. 0 Models

5. 1 Feenstra and Hanson’s model

Feenstra and Hanson (1996, 1997) have propose a model where there is a continuous goods ordering where it was being differentiated by different levels of skill intensity. This model assumes the process of produce simple final goods which requires different levels of skilled labours. They assume that developing countries are able to meet the demand of unskilled labours, whilst the demands of skilled labours are able to meet by developed countries. Therefore, companies will shift their production to developing countries to lower their manufacturing cost. Therefore, it creates the opportunity to the developing countries since there is an increase on investment and trade liberalisation. Besides that, this will increase the level of skills of developing countries since they have learnt the skills that transfer from the developed countries.

5. 2 Zhu and Trefler's model

Feenstra and Hanson's model have been extended by Zhu and Trefler(2005). Zhu and Trefler have extended it to a case that without foreign investment. Their model is referred to the Ricardian sources that based on the factor endowment. In their model, it indicated that technological catch up by developing countries, therefore many companies are shift their simple process of production to the developing countries since they are able to produce more effectively. Therefore, this will leads to a rise in skilled labour in the developing countries and developed countries; this mechanism is similar to Feenstra and Hanson's model.

6. 0 Conclusion

Globalisation is a threat or opportunity to the developing countries? From this literature review, it has indicated that under certain situation, globalisation will lead to higher unemployment or instability of the countries. It is decide by many factors to determine whether a threat or opportunity is.

In this paper, I have examined this question based on the impact of globalisation on different aspects. Undoubtedly, globalisation can help each country to improve them by sharing the knowledge, high trade flows between countries. Optimistically, it may lead to higher standard of living and servicing in the world. In other word, it may also create the inequality between developing countries and developed countries, because there is a wide gap between developing and developed nations. Therefore, it is difficult to let the developing countries to beyond the developed countries. It is depends on the policy taken by the government. If the country’s government is able to do the right things in the right time, globalisation will create the opportunity such as China is able to compete with US even China is developing countries.