Is globalization good or bad?

Globalisation is a wildly popular subject of discussion in today’s literature. It is a phenomenon which has many different dimensions, which include economic, cultural, environmental and political issues. There is a wide spectrum of different opinions about its origins, present effects and future outcomes. Moreover, almost every globalisation aspect is a subject of a very heated academic debate. The topic is so debatable that there is no one conventional definition of globalisation. Nevertheless, it can be narrowly defined as the international integration of markets in goods, services and capital. Thomas Friedman defines globalisation as “ that loose combination of free trade agreements, the Internet and the integration of financial markets that is erasing borders and uniting the world into a single, lucrative, but brutally competitive marketplace.” Whereas Dicken defines globalisation as “ a more advanced and complex form of internationalization which implies a degree of functional integration between internationally dispersed economic activities” (Dicken, P. 2003).

There are many different ways to approach the issue of globalisation. Most generally the academic debate on the topic of globalisation can be divided into three distinct camps: hyperglobalists (Ohmae, Friedman, Giddens), sceptics (Hirst and Thompson, Ruigrok and van Tulder, Sachs and Warner) and realists (Dicken). While hyper-globalists accept globalisation as a fact and generally perceive it as a beneficial process, sceptics argue that the characteristics of the phenomenon have already been seen at other moments in history and that it is largely negative in its effects. Realists hold the middle ground between these opposing views and support the idea that benefits can arise from globalisation, however it is also critical to establish some sort of regulation. Nevertheless, before considering any theoretical frameworks or any high level academic analysis, I would like to think about a ‘ hard’ socio-economic evidence on which most of the above thinkers arguments are based.

In the main body of my work I would like to consider negative and positive outcomes of globalisation which will be dominantly structured around six main socio-economic factors, which include: effects on employment, growth in inequality, environmental damage, international institutions, power of governments and foreign direct investment (FDI).

Employment.

In regard of employment many sceptics argue that the process of globalisation leads to relocation of work to developing countries from developed, which in effect increases unemployment in the developed world and leads to greater exploitation of workers in the countries to where re-location takes place. To elaborate on the above argument I can say that it was certainly true at the early stages and in many instances still is that there are many places in the world, like South-East Asia, where conditions created by large multinational companies are generally inhumane. Notoriously famous production sites of Nike in Vietnam and China are not as appalling as they used to be, however most developed country workers would still consider them as unacceptable. It also true that many thousands of workers in countries like Britain, Germany and US keep on loosing their jobs to more cost effective sites elsewhere. A good example would be Dyson’s and Black and Decker’s relocation from Britain to lower cost centres in the far east and central Europe. Also there is another frightening aspect in changes of the global employment patterns, which is fall in the real wages. This trend shows up especially strong in the US labour market. Arguably it happens because of increase in wage bargaining powers of large multinational enterprises, which now can use excuse of relocation and increased international competitiveness to ditch an additional pay rise.

On the other hand, it can be argued that the conditions provided by multinational companies in developing countries most of the time are a long step ahead of local business's and keep on improving. One needs to consider a notion of the opportunity cost to see the true picture of what is going on. If a so be employee of the Nike factory would not take a job at the factory he would most likely end-up working for a much lower wage in worse conditions or being forced to supply the ' black market' with any personal services they could, which in most cases aren't of the most pleasant nature. One study found ' wage premium' associated with FDI of 12% for blue collar and 22% for white collar workers. It can also be argued that the ' sweatshops' are just a step in the process of industrialisation, which helps to eradicate uncertainties related to the agricultural societies. An example of South Korea can serve as a good illustration. In 1960's the country was twice as poor as North Korea, however due to the policy of openness adopted by the South Korean government the country experienced a breathtaking period of economic growth; it is now as rich as Portugal and a member of OECD. South Korea also begun as a supplier of basic services like clothe manufacturing, and now it is the biggest shipbuilder, steel producer and provider of broadband internet in the world.

(other employment arguments: labour costs are determined by the amount of labour used, as well as by prevailing local wages. Whereas, the price of a Nike shoe is set according to what consumers are willing to pay for it. We have chosen to leave in democratic societies based on the principles of capitalism and free market economy, so learn to live with consequences of your choice or move to North Korea.

As well arguments like – the workers at the factory would not be able to afford even to buy a one pair of shoes they make with their monthly wages. SO WHAT, employees at Ferrari factory can't afford to buy Ferraris or chambermaids at Ritz Hotel London can't afford to stay at Ritz. The underline is that people do not work in order to consume what they produce).

Inequality.

Another major aspect of globalisation is its affect on world inequality. There is no greater problem facing the world at the beginning of the 21st century than that of world poverty. One in five of the world's 6 billion people live on less than a dollar a day, almost half on less than on 2 dollars a day. Nearly a billion do not have access to clean water, 2. 4 billion to basic sanitation. Eleven million children under five die each year from preventable diseases. (HERE YOU CAN ARGUE BOTH WAYS: EITHER START ATTACKING GLOBALISATION OR SAY THAT IT IS THERE TO HELP). There are many largely contradictory studies on the issue. I also suspect that some of the findings produced by globalisation supporters and sceptics alike can be a subject to ' data-mining'. Nevertheless, it is argued that the growth in absolute income differentials between ' North' and ' South' becomes wider. For instance, 1990-2001 gap between average GDP per head rose from $16, 100 to $19,

100. On the other hand, two French economists at Delta, a research institute in Paris – Francois Bourguignon and Christian Morrison have chartered the change in the global inequality since 1820. They found that world inequality increased steadily between 1820 and 1980 – the gap between the typical person's income and the average widened from around 40% to around 80% – but that between 1980 and 1992, inequality fell a little. Another way to measure inequality is to look at what has happened to people living in extreme poverty. Between 1987 and 1998, the share of the world's population living on less than a dollar a day fell from 28% to 23% (not much if you think about how much profit multinationals made in the same time period).

* Strong relationship between openness and growth, which contributes to reduction in the world poverty and inequality – e. g. Singapore, South Korea, Taiwan since 1960's. India and China recently.

* Effects on skilled and semi-unskilled workers in the US.

(WORLD BANK) Figure 4 suggests that there is no simple association between changes in trade openness and changes in inequality. Certainly there are many well known cases of countries where inequality has risen as they became more integrated into the world economy. Wages of high school educated males in the U. S. fell 20 percent between the mid 1970s and mid 1990s. Income inequality increased in countries such as Argentina, Chile, Colombia, Costa Rica and Uruguay after they liberalized trade at different times in the last three decades. China, one of the fastest integrating countries, also experienced one of the largest inequality, however this was from a situation of very high levels of economic equality prior to integration. Growth was still fast enough to massively reduce poverty. Global Economic Prospec2004 found the number of people living on less than $1 a day in China fell from 361 million in 1990 to 204 million in 2000. But, as Figure 4 suggests, there are also about as many cases where inequality fell with more trade openness.

Environment.

Another very important feature of globalisation is its impact on the environment. According to Thomas Bode (Greenpeace): “ The modern economy is a fire-breathing vampire of petroleum which is slowly cooking our planet”. It is a well known fact that globalisation is linked to increase in pollution levels, which is largely caused by increased travel and more intense use of earth’s resources. In the post Second World War era, the globalization of environmental degradation has been massively accelerated by a number of factors: fifty years of extraordinary resource-intensive, high-pollution growth in the OECD; the industrialisation of Russia, Eastern Europe and the ex-Soviet states; the breakneck industrialisation of many parts of the South; and a massive rise in global population. In addition, we are now able to perceive risk and environmental change with much greater depth and accuracy. Humankind faces an unprecedented array of truly global and regional environmental problems, the reach of which is greater than any single national community (or generation) and the solutions to which cannot be tackled at the level of the nation-state alone; these include, most obviously, global warming, ozone depletion; destruction of global rainforests and loss of biodiversity; oceanic and riverine pollution; global level nuclear threats and risks. Over the twentieth century these transformations have been paralleled by the unprecedented growth of global and regional environmental movements, regimes and international treaties. However, none of these institutions has as yet been able to amass sufficient political power, domestic support or international authority to do more than limit the worst excesses of some of these global environmental threats.

There is an urgent need for some world-wide enforceable regulation which would eliminate opportunities for the large multinational to cut corners in complying with the World environmental standards. (Use examples: Union Carbide in Bhopal India; European forestry companies in south America; Shell and Brent Spar).

On the other hand, It should be noted that argument against globalisation can be considered as an argument against economic growth in general. It is true, however, that growth in developing countries is accompanied by severe environmental degradation. However, recent evidence suggests a more subtle and complex relationship between economic development and environmental protection. The environmental impact tends to decline with economic growth of a country. A 1998 World Bank study of organic water pollution found that pollution intensity fell by 90 per cent as per capita income rose from $500 to $20, 000, with the fastest decline occurring before the country reached middle income status (Figure 6. Hettige, Mani and Wheeler, 1998). Average air quality in China has stabilized or improved since the mid-1980s in monitored cities, especially large ones – the same period during which China has experienced both rapid economic growth and increased openness to trade and investment.

Moreover, openness to trade and investment can provide developing countries with both the incentive to adopt, and the access to, new technologies, which may provide a cleaner or greener way of producing the good concerned. For example, much foreign investment is for export markets. The quality requirements in those markets encourage use of the latest technology, which is typically cleaner than old technologies. A World Bank study of steel production in 50 countries found that open economies led closed economies in the adoption of cleaner technologies by wide margins, resulting in the open economies being 17 percent less pollution-intensive in this sector than closed economies (Wheeler, Huq and Martin 1993).

Another concern relates less to environmental outcomes and more to environmental regulation. It is argued that increased international competition for investment will cause countries to lower environmental regulations (or to retain poor ones), a “ race to the bottom” in environmental standards as countries fight to attract foreign capital and keep domestic investment at home. However there is no evidence that the cost of environmental protection has ever been the determining factor in foreign investment decisions. Factors such as labor and raw material costs, transparent regulation and protection of property rights are likely to be much more important, even for polluting industries. Indeed, foreign-owned plants in developing countries, precisely the ones that according to the theory would be most attracted by low standards, tend to be less polluting than indigenous plants in the same industry. Most multinational companies adopt near-uniform standards globally, often well above the local government-set standards (Dowell, Hart and Yeung 2000; Schot and Fischer 1993).

International Institutions, decline in power of governments and growth in power of multinationals .

There are many different critiques published on the topic of globalization, however one of the most effective ones according to my view are on the inefficiency of large international governing bodies, which supposed to direct the process of globalization towards the greater good.

Our national leaders tell us that top-down corporate globalization is an inevitable, naturally-occurring phenomenon. But the terms of globalization have been defined by a few powerful organizations that operate without transparency or democratic oversight.

There never was economic evidence in favor of capital market liberalization. There still isn't. It increases risk and doesn't increase growth. You'd think [defenders of liberalization] would say to me by now, ' You haven't read these 10 studies,' but they haven't, because there's not even one. There isn't the intellectual basis that you would have thought required for a major change in international rules. It was all based on ideology."

– Joseph Stiglitz, former Chief Economist of the World Bank

The World Trade Organization is the most powerful legislative and judicial body in the world. By promoting the " free trade" agenda of multinational corporations above the interests of local communities, working families, and the environment, the WTO has systematically undermined democracy around the world. In the eight years of its existence, WTO panels composed of corporate attorneys have ruled that: the US law protecting sea turtles was a barrier to " free trade"; that US clean air standards and laws protecting dolphins are too; that the European Union law banning hormone-treated beef is illegal. According to the WTO, our democratically elected public officials no longer have the rights to protect the environment and public health. Unlike United Nations treaties, the International Labor Organization conventions, or multilateral environmental agreements, WTO rules can be enforced through sanctions. This gives the WTO more power than any other international body. The WTO's authority even eclipses national governments.

Created after World War II to help avoid Great Depression-like economic disasters, the World Bank and the IMF are the world's largest public lenders, with the Bank managing a total portfolio of $200 billion and the Fund supplying member governments with money to overcome short-term credit crunches. But the Bank and the Fund are also the world's biggest loan sharks. When the Bank and the Fund lend money to debtor countries, the money comes with strings attached. These strings come in the form of policy prescriptions called " structural adjustment policies." These policies-or SAPs, as they are sometimes called-require debtor governments to open their economies to penetration by foreign corporations, allowing access to the country's workers and environment at bargain basement prices. Structural adjustment policies mean across-the-board privatization of public utilities and publicly owned industries. They mean the slashing of government budgets, leading to cutbacks in spending on health care and education. They mean focusing resources on growing export crops for industrial countries rather than supporting family farms and growing food for local communities. And, as their imposition in country after country in Latin America, Africa, and Asia has shown, they lead to deeper inequality and environmental destruction.

International trade agreements such as NAFTA (the North American Free Trade Agreement) and GATT (the General Agreement on Tariffs and Trade) were written by representatives of large corporations and they function in the interests of large corporations. For example, detailed studies by Public Citizen and other watchdog groups have shown that in the seven years of NAFTA, transnational corporations from the three signing countries (Canada, USA, Mexico) have benefited while the middle classes and working classes of these countries have suffered. More jobs have been lost due to NAFTA than have been created. Several decades of the GATT have lowered corporate taxes by the trillions of dollars, thus helping to bankrupt governments around the world and make them dependent on borrowing from the World Bank, International Monetary Fund and the private banks. This indebtedness then gives immense policy influence to the bankers, who are mainly interested in the money cycle not the life cycle.

The power of influence over governments in shaping the global economy in the corporate interest is of immense value to global corporations. Some argue that globalisation erodes the ability of governments to: raise taxation, regulate markets and manage currencies. That it becomes the “ race to the bottom”. Governments are told to follow two paths. First, deregulate and privatise. This has been pursued in over 90 countries through structural adjustment policies of the World Bank and International Monetary Fund. The bitter legacy is growing poverty in all regions of the developing world, except China.

Second, leave business to regulate itself. Corporations have promised to adopt voluntary ethical standards in response to growing public concern over social and environmental damage. But these have often been a public relations exercise to deflect criticism and the few companies that are implementing these standards compete at a disadvantage to the majority of companies that don’t.

(can use eg. Case study ERM 1992 – UK and Italy had to devalue their currencies. Central banks are powerless in trying to control international speculators – George Soros is a GANGSTER).

On the other hand, there is a substantial evidence that governments did not become more constrained; in some cases there was an increase in their relative powers. For instance, there is a systematic increase in the tax burden in the OECD (Organisation for Economic Co-operation and Development) countries. (CAN’T FIND ARGUMENTS TO SUPPORT ABOVE STATEMENT – think of something yourself).

As well, growing power of multinationals is not such a bad thing after all. It can become a new form of international governance. Multinational companies have very strong financial incentives to behave ethically. If companies will not pay attention to the issues of CSR (corporate social responsibility) their share price can decline, which than leaves than vulnerable to hostile take-overs. There is a growing concern among consumers in the World in favour of support of ethical policies, eg. Fare

Trade Policies – Starbucks claims to be an avid supporter of fair trade policies. Therefore, corporations may face consumer boycotts, whereas governments are pretty much immune to short-run fluctuations in the popular opinion.

Also, some theories of internationalisation argue that MNC’s must have higher efficiency than other firms and governments. According to classical economic theory government spending is highly inefficient, because civil servants lack appropriate motives to search for the best possible use of available resources. Government spending also leads to ‘ out crowding’ of finance available to the private sector, which means that the companies have to face a higher cost of borrowing if they want to increase their spending. Governments are more corruptible (MAYBE). Just think about it – our governments collect in most cases nearly half of their countries GDP, half of all the income generated by the economy during the year. And what they do with it?! Spend on defence or some doomed governmental projects largely oriented to stir public opinion in their favour in order to win next general election. Think about all that money which is being wasted because of bureaucracy. US government only collects 30% of GDP in taxes and US is the richest country in the world.

Multinationals are great innovators: (e. g. Dunning and ‘ ownership specific advantages’, Rugman and the ‘ flagship’ firm).

+ can link to multiplier effect and wage premium.

FDI (foreign direct investment) / Trade.

As expressed in percentage of the global gross domestic product (gdp), the share of the combined inward and outward foreign direct investment (fdi) stocks rose from 19. 2% in 1990 to 34. 0% in 1999 and an estimated 38. 2% in 2000. (I'm sorry but I'm too bored to write in detail about trade or FDI).

Basic argument is the fact that most of the trade and FDI happens between Japan, US and Europe. 69% of FDI goes to developed countries. Some continents are marginalised, eg. Africa only receives 2% of global FDI. However, to my opinion it is absolutely normal. These are the largest economies in the world. GDP of US is over 12 trillion, whereas GDP of Japan (second largest economy) is over 6 trillion, GDP of EU is about 7 or 8 – you cant expect these countries to invest most of their money in Eastern Europe, Africa or South-East Asia. Combined economies of these are dwarfs compared to economies of developed countries. Huge spending in these countries will breed inefficiencies, which than can be followed by another Asian crises (1997) or Russia defaulting on its payments. The cost of finance should reflect its true market value. From the business stand point money should only be invested if they can generate greater wealth, if there are not enough lucrative opportunities to go around developed countries should not be competing with each other by providing cheap loans, but concentrate on their regions. Undervalued finance create slack attitude, breads bureaucracy, corruption and have a great potential of destroying dynamic efficiency of developing world (can compare to governments supporting national champions). (VERY CAPITALISTIC VIEW).

Nevertheless, developing countries are net recipients of foreign direct investment anyway.

e. g foreign firms invest more in Africa than Africa firms invest elsewhere.

Conclusion.

(use your own depending on which view you support).

(Can contrast different theoretical standpoints – check the end of International Business lecture hand-out, week 3 – A BIT BORRING – BE ORIGINAL).