Understanding the global flows with globalisation

ASSIGN BUSTER

Globalisation, although a process that has been ongoing for a while, has only recently been defined and has been termed differently according to different groups of people. More recently, the global flow of goods, services, information, capital and labour across both; national and regional lines have increased greatly, giving rise to the notion that this economic activity is now being ‘ globalised’. Globalisation has been suggested to increase the interdependence and integration between countries on a global scale. In theory therefore, it should allow poorer countries the opportunity to enhance their development and compete with the more economically developed countries (MEDC’s). However in some cases this tends to polarise the rich from the poor. This has polarisation has been described by Quah (1996) as the ‘ persistence and stratification’ of the differences between the rich and the poor. Inevitably therefore globalisation produces two groups of people – the winners and the losers. This essay focuses on three particular global flows which include the labour market and how this has both benefited and disadvantaged the different parts of the global world, due to globalisation. The second flow centres on investment flows and capital, particularly foreign direct investment (FDI) and how this too has produced winners and losers. The final flow is a more recent one and involves the movement of technology and information and how this has managed to increase the benefits and consequences for MEDC’s and LEDC’s.

The flow of labour due to the process of globalisation has been impacted in a number of ways. The globalisation process, like all processes of change, has important costs for the distribution of economic activity around the world in accordance with comparative advantage of countries and their firms. This

relocation inevitably leads to changes in the generation of employment and unemployment, to how labour is compensated i. e. the level and distribution of wages and to the shares of capital and labour in total GDP. These three processes are of vital importance in understanding the impact that globalisation has on labour markets.

In theory therefore, using a notional framework, (De la Dehesa, 1999) globalisation opens the world to international competition and induces better allocation of labour by allowing each country to specialise on its production according to its comparative advantages in factors of production. Most MEDC’s have a comparative advantage when it comes to highly qualified labour and skilled workforce, what they lack is less qualified labour. On the other hand the demand for both skilled and non skilled workers is high in LEDC’s. Most skilled workers in LEDC’s seek employment elsewhere in developed countries causing a brain drain effect as the skilled labour has immigrated. This also has a negative effect on public spending as lower returns are gained from public expenditure in services such as education. In contrast, this could have its benefits for LEDC’s as successful overseas entrepreneurs may bring valuable management experience and access to global networks to the home country.

An inflow of unskilled labour from MEDC’s would mean that workers are willing to work at lower wages and as such produce low cost production. Although an advantage for MEDC’s, as they are able to gain from cheap employment, these positions are then taken over by these cheaper workers and the locals are sometimes left with no jobs. For example Eastern

European migration into the UK where low qualified jobs such as construction and retail are quickly undertaken.

In general, globalisation has increased pressures on the domestic labour markets in terms of wages, job security and the upgrading of skills for movement between jobs. As such those that have benefited the most are investors, entrepreneurs, and managers etc. – all highly qualified workers that are usually found in MEDC's. Therefore workers with internationally sought after education and skills are in this case ' winners'. On the other hand workers who were previously protected by trade barriers and subsidised state enterprises, are usually unable to adapt to the rapid liberalisation of the economy and as such have suffered the most through reduced job security, relocation of jobs or downward pressure on wages (World Bank, 2007) aka the so called ' losers'. The EU although has played a positive impact on European economies to a certain extent, limits workers from other parts of the world (outside Europe) entering the EU and as such LEDC's are seen to lose out once again.

The impact of globalisation on employment will be improved as more countries participate in the global economy and open their markets to international trade and capital flows. This will be particularly felt with the entry of large numbers of (mainly low-skilled) workers from China and India into the global labour force. This flow of labour usually has an impact on the manufacturing industry. This however will cause concerns for other LEDC's as they will struggle to attract investments and manufacturing enterprises given their less favourable conditions – political, economic and social – and higher wage levels and that their domestic markets will import large

quantities of goods from these two countries. As such the completion from other more advanced LEDC's is a problem in itself. Although it is predicted that China will dominate world trade, LEDC's might still be able to produce low skill labour intensive products, as export growth in China and India is expected to raise wages as well as create the need for the import of intermediary inputs.

The second flow that is affected by globalisation is the transfer of FDI and capital. One of the most prominent outcomes regarding global financial flows is the major change in their construction in the 1990s, particularly for developing countries. Based on data published by the World Bank – Global Development Finance 1999, the following trends can be seen in the table on the next page.

Net Long – Term Resource Flows to Developing Countries (1990 – 1998) $bn

1990

1994

1995

1996

1997

1998

Net long-term resources flow

100. 8

223. 6

254. 9

308. 1

338. 1

275. 0

Official flows

56. 9

45. 5

53. 4

32. 2

39. 1

47. 9

Private flows

43. 9

178. 1

201. 5

275. 9

299. 0

227. 1

From international capital markets

19. 4

89. 6

96. 1

149. 5

135. 5

72. 1

Private debt flows

15. 7

54. 4

60. 0

100. 3

105. 3

58. 0

Commercial

Banks

3. 2

13. 9

32. 4

43. 7

60. 1

25. 1

Bonds

1. 2

36. 7

26. 6

53. 55

42. 6

30. 2

Other

11. 4

3. 7

1. 0

3. 0

2. 6

2. 7

Portfolio equity flows

3. 7

35. 2

36. 1

49. 2

30. 2

14. 1

FDI

24. 5

88. 5

105. 4

126. 4

163. 4

155. 0

From the table it can be seen that with an increase in time and in theory – increased globalisation there has also been an overall increase in capital flows and FDI to developing countries. FDI flows have emerged as the most important factor of private capital flows. This increase in capital flows can be seen due to the effects of globalisation through financial liberalisation in both developed and developing countries. This is done in two ways – domestic financial liberalisation and international financial liberalisation. Domestic – encourages market forces by reducing the role of state in finance. This is

done through removing controls in interest rates and credit allocation. International liberalisation, however, demands removal of controls and regulations on both inflows and outflows of capital. In allowing cross border movement of capital, it promotes global financial integration. Capital is not only flowing from the developed to developing countries but also from the LEDC’s to the rest of the world, examples include Mexico, Chile and Thailand.

MEDC’s were first to take on this change of financial liberalisation. Much of MEDC’s financial funds are now tied up in investment trusts, pension funds etc rather than banks. By the 1980’s LEDC’s too were beginning their change. Deregulation of domestic financial markets as well as the liberalisation of the capital account was supported by the World Bank. This rush in foreign equity financing and FDI has been associated with the privatisation of the public sector companies in the developing countries such as Argentina. Under the WTO agreement on financial services, (1998), 70 of its member countries agreed to open up their financial sector. Even though in theory it would seem as though investment is being poured into these LEDC’s, the benefits do not always outweigh the problems. Working conditions and the treatment of workers in plants that produce mostly textiles and footwear for export tend to vary widely. On one side, conditions in foreign owned and subcontractor plants offer extensive evidence of harm, and of the exploitation and sometimes even the abuse of workers. The Kader toy factory in Thailand is a case in point that illustrates the mistreatment of workers. In this case over 100 workers died in a fire as safety exits were blocked or sealed shut. In this case the LED’s tend to lose out to a great extent.

However this is not always the case. Surveys by the ILO for example, have found that the pay for workers in LEDC’s and NIC’s (Newly Industrialising Countries), while low by standards of MEDC’s is still higher than what would be available in the places that the workers come from. In a lot of these cases wages are slightly higher than the minimum wage. It can be argued therefore that not all is bleak for LEDC’s when FDI is involved.

For instance FDI can lead to the creation of jobs and increased employment and output in host countries. This is done directly in companies benefiting from FDI and also indirectly through ancillary services, thereby contributing to an increase in economic growth. In addition, through the transfer of technologies and know-how and access to foreign markets, FDI can lead to temporary movements for the provision of services or others forms of movements of workers, who, know being more knowledgeable are able to find jobs abroad more easily. As such, FDI can have beneficial effects for LEDC’s and they may not always lose out.

The final flow of globalisation is that of information technology and its growing popularity today. This arguably is the reason for the wide gaps in inequalities between MEDC’s and LEDC’s. The internet is being used by over millions of people worldwide and this number is growing. However the spread of communication and technology is highly uneven and most of Sub Saharan Africa is left behind, as well as other parts of the world. This situation is difficult to remedy when a third of the world’s population still live on less than $1 a day.

Technology itself will not help to solve the problems of LEDC’s but the availability and use of information and communication technologies are a requirement for economic and social development in today’s world. Econometric studies have shown the close statistical relationship between flow of information technology, productivity and competitiveness for countries, industries and firms (Dosi et al., 1988). Technology on its own is not enough, this needs to be tied in with a sufficient level of education in general, and of technical education in particular, which is essential for the design and productive use of new technologies (Foray and Freeman, 1992)

The role that technological flows has on countries in stimulating growth and development is that of a two edged sword. On the one hand, it allows countries to leapfrog stages of economic growth by being able to modernise their production systems and increase their competitiveness faster than in the past through the use of innovation and technological advances. The most critical example is that of the Asian Pacific economies i. e. the Asian Tigers, particularly the cases of Hong Kong, Taiwan, Singapore, Malaysia and South Korea. These countries grew rapidly due to increased technological performance and enhancement. This is so despite the current financial crisis, which is unrelated to competitive performance and may be related, in fact, to the attractiveness of booming Asian economies to global technological flows. On the other hand, for those economies that are unable to adapt to the new technological system, they are usually left watching on the sidelines. Moreover, the ability to move into this technological flow depends on the capability of the country to be educated, and to be able to take on board and process new technological equipment and knowledge. This starts

with the education system, from the bottom up, from the primary school to the university. And it relates, as well, to the overall process of cultural development, including the level of functional literacy, the content of the media, and the diffusion of information within the population as a whole. For this reason, many LEDC's especially those in Sub Saharan Africa have been unable to benefit from this global flow. Technology, per say is not the problem, rather the ability to obtain this technology and then learn to use it, is the real issue.

Due to this regions and firms usually in MEDC's that concentrate on advanced techniques and methods of production are able to attract a pool of talent from around the world. This however leaves out some of the local employees who are not able to fit the job description and as such is a win/lose situation. An example of this is Silicon Valley which is the most advanced information technology-producing region in the world. It can only maintain this high level of innovation by acquiring experts from India, China, Taiwan, Singapore, Korea, Israel, Russia and Western Europe, to jobs that cannot be filled by Americans because they do not have the necessary skills. Likewise, in Bangalore, Mumbai, and Seoul engineers and scientists concentrate in high-technology hubs, connected to the Silicon Valleys, while a large share of the population in all countries remains in low-end, low-skill jobs, when they are lucky enough to be employed at all. (Carnoy, 1999). Therefore there is little chance for a country, to be able to benefit from this new ' technological age' without incorporating itself into the technological system.

In conclusion therefore, the three global flows mentioned have both benefited and disadvantaged both MEDC’s and LEDC’s in their own particular ways. All these three flows need to work in accordance with each other in order for development to be more evenly spread and in order for LEDC’s to close down the widening gap of development. Labour mobility flows have allowed skilled workers in LEDC’s to obtain better prospects elsewhere, something that would not be possible without this free movement. On the other, whatever skilled workforce was left behind is now lost to the host country. Capital flows and FDI have helped to provide employment in LEDC’s and increase competitiveness amongst MEDC’s. However problems such as sweat shops and small markets of some countries have meant that this has not benefited all. Finally, technological flows have taken production to another level through innovation and new techniques. Although advantageous to almost all MEDC’s, many LEDC’s are unable to acquire this expertise or technology and as such are unable to share in this technical age. The problem here is not the technology, but the lack of. Globalisation can be understood to mean an increase in global flows. These are just three mentioned. Globalisation involves numerous numbers of global flows that all play their part in this global process which to some extent is restricted to particular regions rather than global flows – perhaps a regionalisation of the world?