Effect of globalisation on poverty alleviation

Globalisation Boon or Bane

The role of globalisation in alleviating poverty has been subject to intense and recurrent debate while the pro-globalisation (Globalism) movement propound that it has helped many countries such as India and China to reduce poverty[1] , the alter-globalist have denounced globalisation as an unfair development that has increased poverty and widen inequality between the rich and the poor. When we talk about globalisation we mean it is a process that is taking place where national economies, societies are being integrated into a global network of communication and trade. The integration of regional economies in the international economy is gradually being done through the liberalisation of trade, capital flows, migration and the spread of technology. The main drivers of globalisation are shown in the diagram below.

Economic globalisation revolves mainly around the idea of liberalising trade and capital flows, this proposal is inspired from J. Williamson set of ten economic policies recommendations known as the " Washington Consensus". Free trade refers to the removal of government erected barriers such as tariffs and quotas to facilitate trade which according to the theory of comparative advantage allows both the buyer and seller to make gains. The arguments in favour of trade liberalisation are that it spurs innovation which eventually benefits the consumer. In a situation where firms have to compete with local and foreign competitors innovating and producing at the lowest possible cost is a necessity if the firm wants to retain customers. When the government has protectionist tendencies i. e. close down or restrict access to the market it is clearly done at the expense of consumers who are charged higher price. A clear of example of protectionism in Russia is the increase in tariffs by 15% on car imports which is believed to be a strategy to weaken the demand for import cars and boost up the demand for Russian cars to help the local car industry which makes car of poorer quality hence the customer loose. In addition the Europe CAP spent a staggering € 49. 8 billion in subsidies to protect its agricultural sector which employs less than 5% of EU population which clearly shows an inefficient allocation of resources. Free trade can also increase a country's output and stimulate economic growth for example in the aftermath of joining the NAFTA Mexico experienced a surge in its export by 12. 5% from 1995-2000. Economic freedom is promoted with trade liberalisation because freer trade increases the consumer options and the positive outcome is that customer sovereignty triumphs. It is also propounded that free trade helps in propagating democratic values because in a country where there is no rule of law i. e. contracts cannot be enforced and investor protection is also poor this will deter foreign investors and hindering economic development. Freedom house state that " the most economically open countries are three times more likely to enjoy full political and civil freedoms as those that are economically closed". Finally it is believed by many economists that slashing trade barriers would boost the world economy by $613 billion[2] equivalent to the Canadian economy.

The case against trade liberalisation has enjoyed strong support among alter-globalist and some developing countries. According to globalists who are strongly supported by developed countries argue that protectionism is a squander of resources (subsidies) to protect unproductive firms which penalise the consumer with products that are expensive and of poorer quality. The economic justification for protectionism for many developing countries lies in the infant industry argument. It is a fact that countries like UK or USA did not flourish on the liberalisation policies that they now staunchly recommend to developing states in fact during the nascent stage of their respective industries both aggressively protected and subsidised them. The rationale for developing countries to protect their infant industry is that even if in the short run the government will have to help them with large amount of funds the benefits accruing to the economy in terms of employment; increase in exports will eventually outweigh the initial cost in the long run. Neutal and Heshmati (2006) stated that though" countries such as China, Thailand, and Vietnam may be premier globalisers and also enjoyed strong economic growth and poverty reduction they have liberalized imports very slowly and still have relatively restrictive trade barriers". Ironically while developed countries are in favor of freer trade they still heavily subsidise their agricultural sector and are able to sell the products at a lower price which causes the poor farmers in developing countries to suffer. In addition viewed from the perspective of poorer countries the idea that freer trade helps to disseminate democratic values is a myth it is acknowledged that corruption is rampant in most deprived nations consequently the entrance of powerful multinationals can amplify corruption with the capture of local politicians by lobby groups to swerve the law in their favour. For example freer trade between China and USA or EU has not been translated in the amelioration of China human rights record. Outsourcing production is also a major component of free trade when large MNE's outsource their production they can compromise more easily in developing nations on the labour and environmental standards by employing child labour[3] and by not complying with eco-friendly standards.

The second aspect of economic globalisation is financial liberalisation which refers to the capital account and financial services liberalisation where government owned banks are privatised and the admission of the private sector in the financial market becomes less stringent. The benefits accruing to the economy with the liberalisation of capital flows is an efficient allocation of capital from developed to developing countries which increase availability of funds for investors to finance technological development and stimulate economic growth. Additionally financial liberalisation is perceived as a commitment to sound economic policies sound economic policies because a country with an open capital account is immediately rebuked by both domestic and foreign investors in the event of a decline in its policy environment hence the need for policymakers to implement sound policies.

The adversaries of financial liberalisation argue that the recent series of financial crisis have occurred because of liberalisation consequently they argue for a non-liberalised economy, for instance Thailand an open economy experienced fast growth and also crisis while India a non-liberalised economy enjoyed slow but sure growth path[4]. Moreover financial liberalisation has failed most developing countries for instance Brazil and Chile had experienced appalling results with bank failures soon after deregulating their financial sector the reasons given are a fragile banking system coupled with a weak institutional environment where the rule of law is weak, corruption rampant and banking supervision failed.

The link between globalisation and technology are unequivocal since without technological innovation globalisation would not have taken place. The internet or fax for instance has made it possible for people/companies to communicate in real time between countries the benefit is that this has significantly condensed time, remove the need for middle men in business transactions. Technology has also reduced asymmetric information by lowering the cost of information. Globalisation and technology has created new industries like the BPO which includes many business such as call-centers, web design, accounting services. Though alter globalist refute the possibility of technology of propagating democratic values in the world, globalism partisans are keen to stress on that internet has given people a platform to voice out their opinion for instance if a MNE's firm is outsourcing its production process in a developing nation where ILO[5] labour standards are not complied then the ILO can denounced this practice which would be tantamount to a massive pressure force causing MNE's to comply with the set standards.

As Jimmy Carter eloquently said " Globalization, as defined by rich people like us, is a very nice thing… you are talking about the internet, cell phones and computers. This doesn't affect 2/3 of the people of the world". The digital divide between developed and developing states is evident it is known that technology innovation is important for growth, but since developed countries has a clear advantage in terms of R&D capacity, supporting infrastructure and also the required literate workforce it is predominantly rich countries that are benefitting of advances in technologies. The argument of technology transfers that can eliminate the gulf in technology mismatch between rich and poor countries through FDI and trade has its limitations since the Intellectual Property Rights (IPR’s) regime has various components which prohibit technology transfers. Additionally to discern why technology advancement has largely served developed countries interest we need to understand that in most developing countries an overwhelming majority of the people make a living out of the primary sector hence FDI in the tertiary sector has not helped them. Though it is largely thought that developing countries have been the hardest hit by globalisation this is erroneous because in developed nations too there have been job losses. The recent phenomenon of off- shoring is a practice where goods/services that were earlier produced locally in developed countries are now shifted in developing states because of lower cost and then imported back in the developed country, this practice has caused massive redundancies in the manufacturing sector and causing discontent among the local population.

Irrespective of one’s view on globalisation it is a non-reversible process that has taken place as such it is in the interest of each country to take the best of this process. The hostility to globalisation in developing countries can be reduced if the policies benefit the majority and not the rich minority, for instance in India the population approved the gradual reform economic policies because the benefits has been felt in the countryside. For developed countries the loss of jobs in the manufacturing and even services sector due to off shoring since the in developing countries people are ready to work for a fraction of what the westerners earn. To mitigate the job losses economist argue that the government should devise apt policies to help the workforce retrain and the private sector must constantly innovate to retain their competitive edge.

References

1. Demirguc Kunt " Financial liberalization and financial fragility" Pg 2-4
2. Froning D. (2000) " The Benefits of Free Trade: A Guide for Policymakers"
3. Griswold D. " Does Trade Promote Democracy?"
4. Ha-Joon Chang. " How the Economic and Intellectual Histories of Capitalism Have Been Re-Written to Justify Neo-Liberal Capitalism"
5. Neutal M and Heshmati A (2006) " Globalisation, Inequality and Poverty Relationships: A cross country evidence" Pg 4
6. Sharma B. " India and China lift millions out of slums: UN"
7. Singh A. " Capital account liberalization, free ling-term capital flows, financial crisis and economic development" Pg 2
8. Ted Case Studies " Nike Shoes and Child labour in Pakistan"
9. 10 benefits of the WTO trading system
10. How to make technology transfer work for human development Pg3-4
11. Democracy and development are winners in the election " S. Dhume"

- http://en. rian. ru/russia/20090112/119431521. html
- http://www. ausaid. gov. au/keyaid/growth. cfm
- http://en. wikipedia. org/wiki/Infant_industry_argument
- http://www. abcarticledirectory. com/Article/Reaping-The-Benefits-Of-Globalization-And-Technology/81138

1. India and China have lifted 125 million people from slums for period 1995-2000
2. 10 benefits of WTO
3. See Nike Shoes and Child Labour in Pakistan
4. Tornell (2006)
5. International labour Organisation