To what extent does globalisation economically

Art & Culture

Module Code: PM504 2T (SS1) Class/Group: Group A, Class F Module Title: Skills for Study 1 Assessment: Essay Assignment Title: To what extent does globalisation economically benefit developing countries? Tutor Name: Graham Henderson Student ID Number: 2059661 Date of Submission: October 25, 2012Globalizationis a source of both hope and apprehension, especially for developing countries. During the past several decades the greater accesses to developing country markets have improved the productivity and living standard and brought significant benefits to economic growth of the world.

On the other hand, these positive influences coincide with shaper polarization, heighted the level of inequality within developed and developing countries (Stallings, 2007). Therefore, this essay will contend that the growth provided by globalization in developing countries is short-term; in the long-term, the huge capital flows, the exploitation of labor and the depletion of resources will create an imbalance in global order which will benefit neither developing, nor developed countries.

Therefore, the aspects of foreign investment liberalization will be introduced firstly, and then will be international division of labor and management of natural resources will be analyzed thirdly. At last, the conclusion of this essay will be drawn. Recently, the majority of developing countries trend to rely on private capital as a source of funding. Since the early 1990s, the external capital flows have made a great contribution to the funding that has made up over 75% (Tanzi, 2004: 532).

The major reason to this capital flow, from less than 30% in the early 1990s to nearly 70% in total by 1998 of sharing on funding, is foreign direct investment (FDI) consistently (UNCTAD, 2003). Since the late of 20th century, due to the great benefits from foreign investment, many countries, developing countries in particular, have changed or created the policies andenvironmentto be more amenable to FDI (Abeles, 2001: 12). FDI is an essential element to the economic growth of developing countries, according to a neo-classical economic perspective (Craves, 1996).

It means that developing countries obtain the benefits directly from FDI through an inflow of capital, tax revenues, and employment, and indirectly through thetechnologyand knowledge from the foreign investor’s to local enterprises and workers (Svenssion, 2002: 576). In addition, the structure of the industry is running to a new level though the entry of competitive foreign enterprises. As a result, to survive in this increasingly competitive environment, local firms are becoming more efficient to raise the productivity to be more competitive; hence, the economic growth rate of developing countries is improved directly.

In contrast, FDI may be detrimental to economic development of developing countries since large amount of foreign investment is negative for local enterprises in long-term. Domestic enterprises are crowded by foreign companies such as some leading multinational corporation (e. g. Apple, Mobil, etc) from developed countries, since they are often significantly superior to local firms. This effect reduces the competition in market and then the industry is dominated by foreign entities.

The panel study of Agosin and Mayer (2000: 150) found that the effect of FDI in Asia, Latin America and Africa, the domestic investment is crowded out. Thus, Agosin and Mayer (2000: 164) conclude that the effects of FDI are not always positive and that FDI policy plays a role in determining the outcome. With the process of globalization, production becomes more globalized, labor market comes to play a greater role in determining the efficiency and productivity of industry. Theoretically, to achieve optimal flexibility of labour market, international division of labour becomes more and more significant (Benner, 2009: 69).

It is the spatial division of labour which occurs when the process of production, and it is also known as " global industrial shift" which means relocated form developed countries (USA, Europe) to developing countries (Asia, Africa, Latin America) to reduce the costs. There is no doubt that the international division of labour reforms the market and brings many advantages to developing countries in short-term. Firms can access to a much larger labour force easily and, thus, this more flexible and competitive market reduces the cost and increased the profits. Therefore, the economic growth rate is improved.

In addition, the employment opportunities and wages for employees can be raised in developing countries. However, IDL also has its negative side in long-term. Along the lines of the Stolper-Samuelson theorem, it is argued that an increase in commodity trade with unskilled labour-abundant, low-wage countries leads to an increase in the wage rate of skilled workers and depresses the wage rate of unskilled workers, according to Eckel (2003: 181). Therefore it turns into the inequality in wage and even leads to the loss of employee in the home country, especially in developing countries, and it becomes sharper.

An international comparison, Gini coefficients, can be used to determine the economic inequality. The average Gini ratio for private households' net income climbed from 0. 29 in 1985 to 0. 65 in 2010 (Afonso and Schuknecht , 2011: 382). If the Gini index is 0, the income is perfectlyequality, 1 stands for absolute inequality. Therefore, the inequality has increased by over twice from the study by Afonso and Schuknecht. It is not only happen in developing countries, but also in developed countries such as UK, Italy and especially in US, with 0. 5 for Gini index (Bee, 2012). Obviously, IDL enhance the inequality. Globalization is also a process to industrialize and modernizing many developing countries, by maximizing the usage and availability of natural resources. For example, due to globalization both India and China are gaining more knowledge and wealth. They can translate their abundant resources into materials to produce more consumer goods, more cars, more fuel consumption, and, more of everything. Then the living standard is improved obviously.

In contrast, Curtis (2009: 431) claims that globalization also permits developed countries to take advantage of developing countries' natural resources. As the high availability of natural resource, developed countries obtain the cheap raw material from the suppliers, most of them are developing countries such as China and India, where the final price of the product is much higher. Thus, the majority of the profits go to the developed countries (Yu, 2010: 184). Moreover, the increasing trends of consumption could cause the shortage of natural resources both renewable and non-renewable resources definitely (Geyer, 2003: 1237).

The resource depletion is likely to bring an end to globalization, the most likely to be limiting in the short term is energy, since the world's economy is dependent on oil. Thus, the imbalanced or unsustainable development of natural resources is positive to neither developing nor developing countries. Many countries especially developing countries with open policies and environment, cheap labour force and abundant natural resources have gained significant benefits from globalization. During the period of 2006-2010 in China, the target of the growth of gross domestic product (GDP) of government is set to be 11. % per year (Liang and Teng, 2012). With the raised of productivity of workers, employment opportunities, and the easy accessibility to the worldwide market, to every corner of the world, more and more people regard the globalization as a necessary factor to improve their lives. However, human only attains a few successes during the promotion of globalization in short-term, but incurring tremendous loss from the negative sides in long-term from FDI, IDL and the use of natural resources. This imbalanced development will benefit neither developing, nor developed countries.

Obviously, the negative association of shaper inequality and openness will hold up when people do a critical analysis on globalization. Word count: 1120 References Abeles, T. P. (2001). The Impact of Globalization. On the Horizon, 9(2), pp 12 – 14. Afonso, A. and Schuknecht, L. (2011). Income distribution determinants and public spending efficiency. Journal of Economic Inequality, 8(3), pp 367-389. Agosin, M. R. and Mayer, R. (2005). Foreign investment in developing countries: Does it crowd in domestic investment? Oxford Development Studies, 33(2), pp 149-162.

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