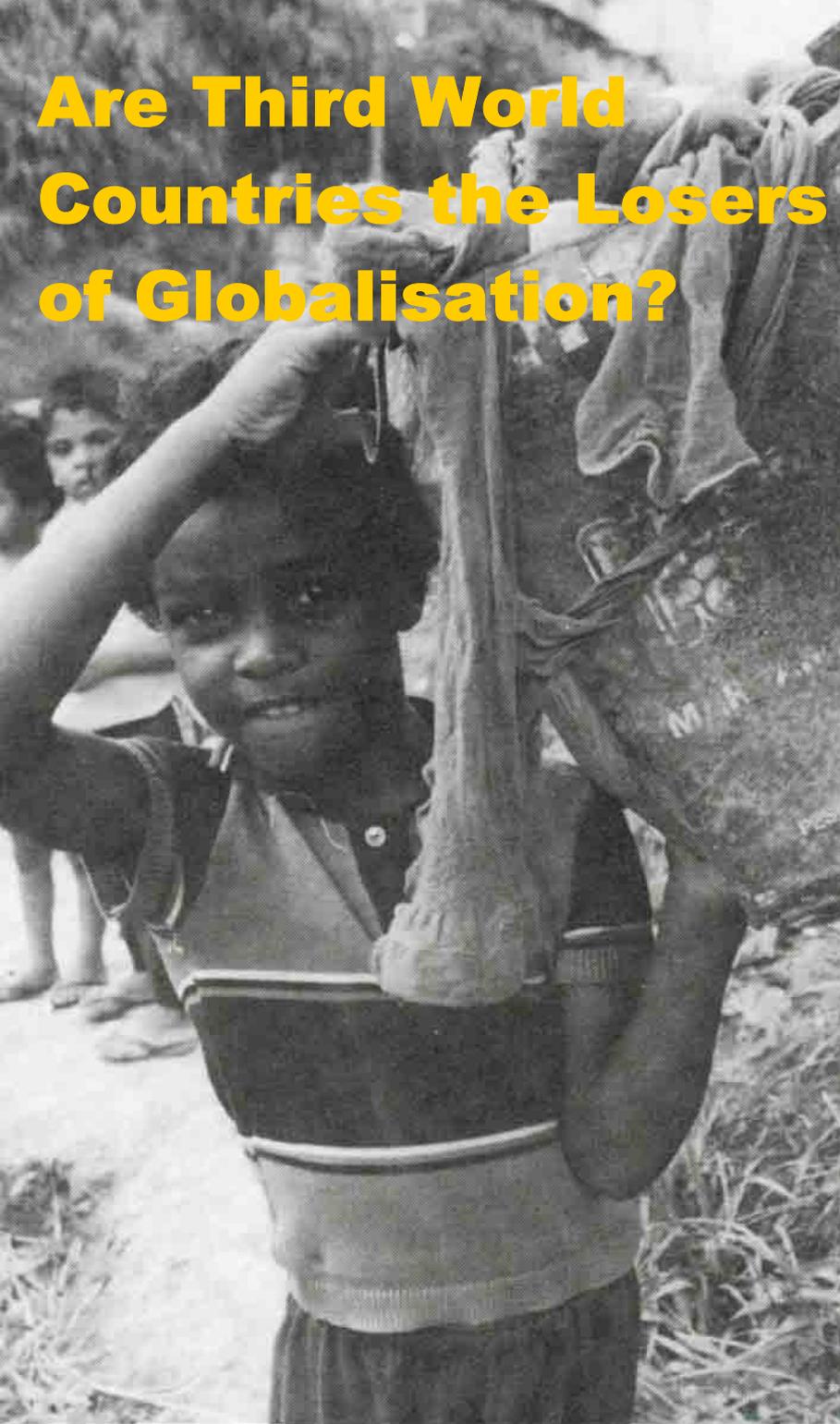


Are Third World Countries the Losers of Globalisation?



Economics

Term Paper
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Introduction

Today more than a billion people are living in extreme poverty having less than one dollar a day at their disposal to live or merely to survive. Moreover, until 2015 the world's population will likely have grown to 7 billion¹. Add to that 58 million HIV/Aids infections largely in the third world countries and more specifically, Africa.

Despite constant lamentation about extortionate taxes and poverty in western countries Europe, North America and part of Asia is wealthier than ever in the history of mankind. Investors from Europe put their money to work in countries around the world. Wal Mart recently announced \$220 billion in sales for 2001 making it bigger than the economies of Indonesia, South Africa or Turkey².

In the last two decades international flows of capital, goods, services, information and labour increased in volume and accelerated substantially. In some industries national boundaries became obsolete, like remnants of a Medieval castle. Meant to protect, but now without function.

NGOs and pressure groups like French Attac or Viviane Forrester, author of "L'horreur économique", a fervent criticism on corporate behaviour and the failure of politics, have accused the process of globalisation of



exacerbating existing global inequalities and being responsible for rising levels of poverty. Others have staged violent riots in Seattle and Genoa at WTO summits.

In this essay I will attempt at clarifying the impact of globalisation on the third world in particular.



*"The Battle of Seattle" –
infamous moment of the anti-
globalisation movement*

What is globalisation?

“ (...) the tendency for the world economy to work as one unit, led by large international companies doing business all over the world. Some of the things that have led to globalisation are the ending of TRADE BARRIERS, the free movement of capital, cheap transport, and the increased use of electronic systems of communication such as the internet: (...)”

Longman Business English Dictionary, 2000

This view of globalisation is probably the most common and agrees with what is written in the introduction.

The origins of globalisation

Explaining the origins of globalisation in brief we have to look into the past. Well, some scholars might argue that has started with the *Vereenigde Oost-indische Compagnie*, aka *East India Company* in the 17th century or the triangular trade between North America, Europe and Africa. These are clearly the beginnings of international trade, but to understand globalisation we only have to go back to the events following WWII.



John Maynard Keynes (middle) at the conference of Bretton Woods

In 1944 at the conference of Bretton Woods the foundations were laid for the IMF to provide greater security and predictability. Three years later, the GATT was established. In three conferences until 1994 a considerable number of obstacles to free trade were

eliminated. Since 1994 the WTO has taken the place to the GATT.

The process of decolonisation gathering momentum after WWII more than tripled the number of states. Only, that the “Iron Curtain” cut through the world and created a bipolar world order disadvantageous to peace, security and therefore, business and economic growth.

Since the fall of the Berlin Wall and the subsequent rapid disintegration of the Soviet Union the process of globalisation was making strides towards a different world order. Trade policy largely ceased being a product of strategic interest but was now largely dictated by economic rationality.

As mentioned in the definition cheaper transport and new means of communication further facilitated the development.

The Third World

Speaking in this context of one third world is rather inadequate. Some former third world countries now belong to the economic middle or even upper class. Still others can be divided into poor, poorer and poorest.

The first step will now be to look briefly at a few countries and see how they developed in the last decade(s) and examine the reasons for their economic success or demise. Lastly, we will look for possible generalisations that can be made as to whether globalisation's effects are negative or positive.

Africa

Between 1984 and 1993 the African economy grew at 2% annually. Not even enough to make up for population growth. Growth until 2001 was slightly bigger (3,375%). To stop poverty from worsening Africa will have to achieve growth rates of about 5%³.

Having escaped western rule, African countries set off to claim their places in the world. The outlook was rosy at that time. Unfortunately, lots of countries had no democratic traditions and were pressed into representative forms of government. Due to boundaries drawn according to European interests people had to live in one state which were utterly unprepared for this. More often than not a strongman assumed control. This led to elites exploiting their countries. Sound economic policy was largely absent.

Although the colonial powers had invested in infrastructure, they hadn't taught their former colonies how to maintain it or how to establish a functioning bureaucracy, which among other factors fostered the economic development of Asian nations like Singapore⁴. In 1960, Belgian Congo had 88,000 miles of usable road, in

1985 the number was down to 12,000 miles. In 1965, Nigeria's GDP per capita was higher than that of



Somewhere in Africa

Indonesia. 25 years later Indonesia's GDP was three times that of Nigeria⁷.

Even in Africa there are exceptions to the rule. Mozambique over the last decade has been one of the fastest growing countries worldwide with GDP growth averaging at around 8% (1994-2001). Tanzania and Uganda have likewise managed to implement a sound economic policy⁵.

The reasons for Africa's rather poor performance can be summed up as follows:

- Insufficient rule of law
- No lasting peace
- Bad economic policies
- Dependence on primary sector

On the map of international business Africa is almost non-existent. With the exception of Big Oil and other extracting industries, there are very few businesses seriously interested in investing in Africa. From 1995's investment in the third world Africa attracted merely \$2 billion or roughly

1%⁶. Globalisation might be partly responsible for lower commodity prices but most African countries would be much better off if they would undertake serious reforms to open their economies, establish law and order and say goodbye to its often authoritarian regimes.

Asia

Asia countries have fared far better than most developing countries. In fact, their progress was so fast, that some can even be counted as fully industrialised countries.

Since Deng Xiaoping became the driving force behind modernisation in China in 1977 the celestial kingdom has made great advances. Having pursued a rather pragmatic foreign policy China has never engaged in any war since the Korean War in 1955. Today, there is widespread support for market reforms and change. The only aspect subject to discussion is the pace of change. The WTO entry will facilitate this process.

India is an example of a country in transition which at the same time is one of the poorest developing countries with more than 350 million poor. Bangladesh is one of the least developed nations in Asia and the most densely populated area state worldwide¹¹.

Most countries in the region have improved their living conditions significantly. Taiwan's GDP is higher than that of Greece or Portugal and almost as high as that of Spain⁷. The astonishing growth in especially Singapore, Taiwan, South Korea and Hong Kong can be attributed to a prolonged period of peace, sound economic policies and a distinct work ethic. Looking at expatriate Asian minorities this becomes even more apparent. Asian students fare better in American universities than do most American students. For centuries Chinese minorities have successfully integrated themselves in economies all over the world.

Even the financial crisis of 1997/98, showing the threats of uncontrolled and uncontrollable capital flows could not stop the Asian economic miracle. To the contrary, those countries most affected by the crisis have installed the necessary systems to monitor and regulate flows of investment.

Latin America



Latin American countries have achieved mixed results over the last decade.

The World in 2000, The Economist:

- Will Latin America's bright future ever arrive?

The World in 2001, The Economist:

- Latin America gets a taste for wealth
- Has Brazil's moment come?

The World in 2002, The Economist:

- Latin America's bad luck

Well, these headlines give a good impression of the economic developments in Latin America. The region's achievement can only be dreamed of by others countries: relatively stable democracies and open economies as well as free speech.

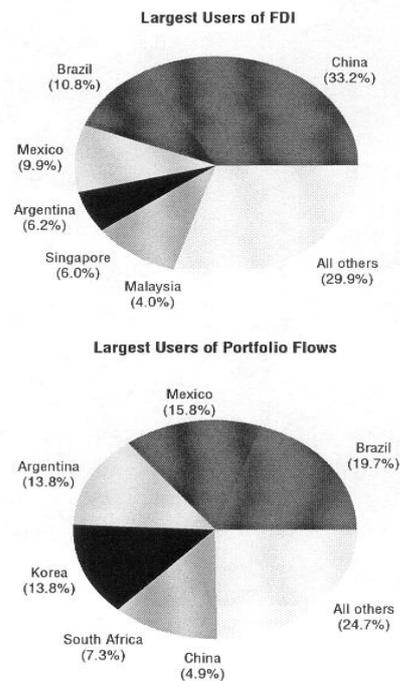
Latin America is still dependant on the western economies as its export markets. Weakening commodity prices in the cases of copper, oil and coffee, coffee prices have declined since 1997 by about 60%, are a major obstacle on the way to economic prosperity⁸. The Caribbean has been hit hard by a slump in the tourism industry due to the events of September 11. Populist rulers like Chavez or the protracted struggle between the Colombian government and the leftist FARC guerrilla have not helped the Latin American cause.

External debt is still too high and countries depend heavily on capita inflows from industrialised economies.

Mexico has prospered and achieved growth rates of roughly 3,14% since 1994. This result has been undermined by the Peso crisis of 1994/95⁹. As a result of its proximity to the US the Mexican Economy has attracted large amounts of capital in form of foreign direct investment (see figure). The economy has faltered lately and growth has slowed. Much will depend on whether Vincente Fox can push

Figure 4.3. Concentration of Capital Flows: Largest Developing Country Users
(Average of 1970–2000)

The largest users of foreign direct investment (FDI) flows are generally in Asia, while portfolio flows are more concentrated in Latin America.



Sources: IMF, *International Financial Statistics*; and IMF staff estimates.

through further reforms e.g. to curb corruption.

Chile has probably been economically the most successful country of Latin America. Its GDP grew at a rate of 7% annually between 1984 and 1993 and of 5% between 1994 and 2001. It is expected to grow by 23% for the period of 2002 – 2005¹⁰.

Russia and economies in transition

Though not a classical developing country, Russia and other former Soviet Union states were left behind economically after the fall of the Iron Curtain. Between 1994 and 2001 its GDP has shrunk annually by 0.7%¹¹. Its GDP per capita is now smaller than that of Venezuela or the Czech Republic. Recently the reformist course of president, strongman and leader Vladimir Putin as well as a surge in oil prices have improved economic conditions.

Combating corruption, improving the collection of taxes and establishing the rule of law will help the country as will negotiating its entry into the WTO. Most Eastern European countries have been sincerely reforming their economies. Some might even harvest their fruits in from of joining the European Union in 2005. Contrary to Russia, these countries have little in common with the third world.

The Middle East

The Middle East has reaped an estimated \$2 trillion (10^{12}) in oil revenues in the twenty years following 1973. Still, one gets the impression that not much has happened since. Elites suspicious to the outside world, overly religious-oriented education systems and political turmoil have stalled progress for decades. Economically the region can be divided into those states with oil and a small population (e.g. Kuwait, Bahrein, Saudi Arabia), states with oil and a big population (Iran) and states without any significant oil reserves (Jordan). The last ones being especially bad off without oil revenues and political influence.



Most middle – eastern governments are today aware of the necessity to diversify there economies. Iran's non-oil sectors will foster the overall growth of an expected 5.3%.

A more than positive example is the rise of Israel as the only Middle Eastern nation with a vibrant IT sector. In a hostile environment, constantly having to worry about existence itself,

it has achieved a small economic miracle – with considerable assistance of the United States.

Some states enjoy considerable riches, but the region is marked by distinct regional discrepancies. Most of the problems present can be found in other third world countries as well.

Globalisation – the Culprit?

Even though we could only take a brief look at recent economic developments in some countries around the world, we noticed how different progressed or regressed. Countries like Bangladesh or countries in sub-Saharan Africa are still desperately poor. Is this the fault of globalisation?



Most countries which are poor today are either burdened with colonial legacies, more often have huge internal self-inflicted problems or sometimes both. Some former colonies like Taiwan or South Korea did more than well.

There seem to be factors which are crucial to economic success. The first is peace. Nothing is able to destroy entrepreneurial spirit and waste resources, human and natural, like war.



Secondly, the rule of law. Only if people are convinced they can harvest the fruits of their labour they will work and invest their gains instead of consuming them right away.

Moreover, a supportive economic policy has to be implemented. Countries hostile to foreign investment and competition will not be able gain from trade and to raise the living standard of its people. In addition the state needs to perform some basic functions and provide certain public goods. Among them are maintaining public order, an education and health system and carrying out certain administrative functions.

In the turn of globalisation, economies are becoming more and more interdependent. A recession in one country will most likely negatively affect a dozen other countries. Globalisation is not a fashion movement in which one can decide whether to participate or stay clear from. Not taking part almost certainly means going into self-imposed exile.

There is a direct correlation between those countries which have liberalised their economies, embraced globalisation and worked on the factors mentioned above and those which have grown most rapidly in the past.

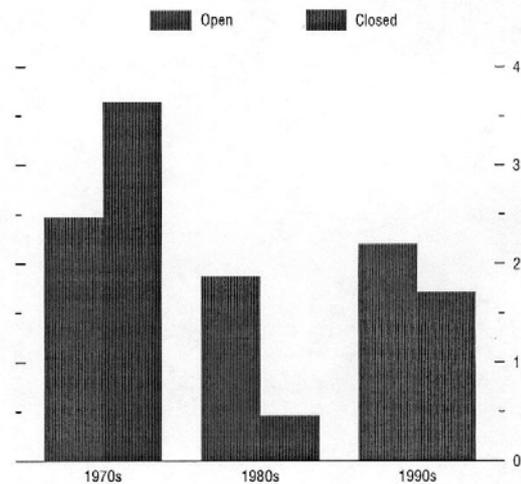
Sheltering one's industries from foreign competition might work in the short term to fix temporary inefficiencies, but will lead to inefficiency and loss of competitiveness in the long term.

Even if lots of the dilemmas in the third world are self-inflicted, I do believe that wealth and the responsibility to use this wealth not only towards one's own ends but also for society as a whole, go hand in hand. The more so, as some of the existing inequalities still date back to decisions made by former colonial powers.

Blaming one's troubles on globalisation is a convenient way of distracting attention from one's own failures. The notion that one does not bear the

Figure 4.4. Per Capita Growth by Liberalization in Developing Countries¹
(Percent)

More liberalized countries tended to grow faster in the 1980s and 1990s, according to the openness measure.



Sources: IMF, *International Financial Statistics*, and IMF staff calculations.

¹A country is defined as open when its openness measure exceeds the average value for the entire sample period for both industrial and developing countries. The remaining countries are defined as closed. See Table 4.2 for country classification.

responsibility for one's fate is completely detrimental towards entrepreneurship, progress, motivation and self-confidence and the confidence in being able to shape one's future.

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