GLOBALIZATION – CHALLENGES AND DEBATES

Prof. Himayatullah Khan Ph.D
COMSATS Institute of Information Technology Abbottabad, Pakistan
Assoc. Prof. Laura Giurcă Vasilescu Ph.D
University of Craiova,
Faculty of Economics and Business Administration, Craiova, Romania

Abstract: Globalization refers to the emergence of a global society in which economic, political, environmental, and cultural events in one part of the world quickly come to have significance for people in other parts of the world. Therefore, globalization is a process leading to increasing integration of the national economies and diminishing importance of political boundaries so far as economic, political and social activities are concerned. This paper explains the meaning of globalization in five broad conceptions, reasons for globalization, key institutions of globalizations and debate over globalization.

Key words: Globalization, Development, Challenges, Developing Countries

1. Introduction

Globalization describes the growing economic, political, technological, and cultural linkages that connect individuals, communities, businesses, and governments around the world. Globalization also involves the growth of *multinational corporations* (businesses that have operations or investments in many countries) and *transnational corporations* (businesses that see they functioning in a global marketplace). The international institutions that oversee world trade and finance play an increasingly important role in this era of globalization.

Globalization is a comprehensive term for the emergence of a global society in which economic, political, environmental, and cultural events in one part of the world quickly come to have significance for people in other parts of the world. Globalization is the result of advances in communication, transportation, and information technologies.

The term "globalization" has acquired considerable emotive force. Some view it as a process that is beneficial - a key to future world economic development - and also inevitable and irreversible. Others regard it with hostility, even fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress.

Globalization offers extensive opportunities for truly worldwide development but it is not progressing evenly. Some countries are becoming integrated into the global economy more quickly than others. Countries that have been able to integrate are seeing faster growth and reduced poverty. Outward-oriented policies brought dynamism and greater prosperity to much of East Asia, transforming it from one of the poorest areas of the world 40 years ago. And as living standards rose, it became possible to make progress on democracy and economic issues such as the environment and work standards (Ramakrishna, 2006). By contrast, in the 1970s and 1980s when many countries in Latin America and Africa pursued inward-oriented policies, their economies stagnated or declined, poverty increased and high inflation became the norm. In many cases, especially Africa, adverse external developments made the problem worse (IMF, 2000).

The crises in the emerging markets in 1990s have made it quite evident that the opportunities of globalization do not come without risks - risks arising from volatile capital movements and the risks of social, economic and environmental degradation created by poverty. This is not a reason to reverse direction, but for all concerned - in developing countries, in the advanced economies, and of course investors - to embrace policy changes to build strong economies and a stronger world financial system that will produce more rapid growth and ensure that poverty is reduced.

2. Globalization: concept and drivers

Globalization refers to the on-going *economic integration process* worldwide. The process is not new of course, and started almost as soon as mankind began to trade. It experienced, however, through history a number of "bursts", such as at the time of the Great Explorers, the Industrial Revolution, the Colonial Experience, and more recently, the Transport and Communication Revolution, through which the world has progressively shrunk as far as the economic space and time is concerned. While it is true that state ventures (or adventures) have at times driven the process, e.g. the colonial conquests, the globalization process has largely *reflected market forces*, specifically, the *exploitation* by large and smaller businesses in the world *of benefits from trade in commodities, goods, services, capital, and even labor, and of opportunities for new investments and markets.* Through increasingly extensive and intensive trade relations, countries have been able to best utilize their respective comparative advantages and achieve other dynamic economic gains. Taking advantage of opportunities for new investments and markets has benefited both advanced and developing countries, the reward being higher growth for both and speeding up of the "catching up" process for the developing world.

The process that has come to be known as globalization i.e., the progressively greater influence being exerted by worldwide economic, social and cultural processes over national or regional ones— is clearly leaving its mark on the world of today. This is not a new process. Its historical roots run deep. Yet the dramatic changes in terms of space and time being brought about by the communications and information revolution represent a qualitative break with the past.

Globalization clearly opens up opportunities for development. We are all aware and rightfully so that national strategies should be designed to take advantage of the potential and meet the requirements associated with greater integration into the world economy. This process also, however, entails risks: risk generated by new sources of instability in trade flows and, especially, finance; the risk that countries unprepared for the formidable demands of competitiveness in today's world may be excluded from the process; and the risk of an exacerbation of the structural heterogeneity existing among social sectors and regions within countries whose linkages with the world economy are segmented and marginal in nature. Many of these risks are associated with two disturbing aspects of the globalization process. The first is the bias in the current form of market globalization created by the fact that the mobility of capital and the mobility of goods and services exist alongside severe restrictions on the mobility of labour. This is reflected in the asymmetric, incomplete nature of the international agenda that accompanies the globalization process. This agenda does not, for example, include labour mobility. Nor does it include mechanisms for ensuring the global coherence of the central economies' macroeconomic policies, international standards for the appropriate taxation of capital, or agreements regarding the mobilization of resources to relieve the distributional tensions generated by globalization between and within countries.

These shortcomings are the reflection of an even more disturbing problem: the absence of a suitable form of governance in the contemporary world, not only in economic terms (as has become particularly evident in the financial sector) but in many other areas as well. This lack of governance can be attributed, in its turn, to the sharp divergence between global problems and political processes that continue to be pursued within national and, increasingly, local frameworks.

An important dimension of the globalization process but certainly not one of the main focuses of attention in discussions on the subject is the gradual spread of ideas and values with regard to civil and political rights, on the one hand, and economic, social and cultural rights, on the other. These ideas and values are gradually laying the foundations for the concept of global citizenship. No one entity embodies this aspect of the globalization process more fully than the United Nations. Under its founding Charter, ever since its inception the United Nations has reaffirmed global ideas and values regarding these rights. These ideas and values have subsequently been ratified by the Governments at a series of world summits (UN, 2002).

Scholte (2005) has clearly stated that disputes and confusions about globalization often begin around issues of definition. Confusion persists because the more specific ideas of globalization are often highly diverse. At least five broad conceptions can be distinguished which are as follows:

Internationalization: When globalization is interpreted as internationalization, the term refers to a growth of transactions and interdependence between countries. From this perspective, a more global world is one where more messages, ideas, merchandise, money, investments, pollutants and people cross borders between national-state-territorial units. In this vein Hirst and Thompson (1996) have identified globalization in terms of 'large and growing flows of trade and capital investment between countries'. Evidence of such globalization is also to be found in enlarged movements between countries of people, diseases, messages and ideas.

Liberalization: A second usage has viewed globalization as liberalization. Here globalization refers to the process of removing officially imposed constraints on movement of resources between countries in order to form an open and borderless world economy. On this understanding, globalization occurs as authorities reduce or abolish regulatory measures like trade barriers, foreigner exchange restrictions, capital controls, and visa requirements. On these lines Sander (1996) suggests that globalization has become a prominent catchword for describing the process of international economic integration. Evidence for such globalization in recent decades can be found in the widespread reduction or even abolition of regulatory trade barriers, foreign-exchange restrictions, capital controls, and (for citizens of certain states) visas.

Universalization: A third conception has equated globalization with universalization. In this usage, globalization is the process of spreading various objects and experiences to people at all corners of the earth. Frequently, globalization as universalization is assumed to entail standardization and homogenization with worldwide cultural, economic, legal, and political converges. For example some economists have assessed globalization in terms of the degree to which prices for particular goods and services become the same across countries. (Bradford and Lawrence, 2004).

Westeranization or Modernization: A fourth common conception of globalization has defined it as westernization, especially in an 'Americanized' form (Spybey, 1996; Taylor, 2000). Following this idea, globalization is a dynamic whereby the social structures of modernity (capitalism, rationalism, industrialism, bureaucratism, individualism, and so on) are spread the world over, normally destroying the pre-existent cultures and local self-determination in the process. Martin Khor (1995) has declared that globalization is what we in the third world have for several centuries called colonization.

Respatialization: Following this interpretation, globalization entails a reconfiguration of social geography with increased transplanetary connections between people. On these lines, David Held and Anthony McGrew have defined globalization as 'a process (or set of processes) which embodies a transformation on the spatial organization of social relations and transactions' (Held *et al*., 1999).

Each of these five conceptions can generate an elaborate and in one or another way revealing account of contemporary history. However, in spite of some overlap between these various notions, their respective foci are significantly different. Thus for example, people who identify globalization as internationalization and people who approach it as respatialization develop very different understandings of the problem (Scholte, 2005).

Some of the main driverss for globalization can be considered the followings: advances in communication, advances in information technology and improvements in transportation.

Most experts attribute globalization to *improvements in communication,* transportation, and information technologies. For example, not only currencies, but also stocks, bonds, and other financial assets can be traded around the clock and around the world due to innovations in communication and information processing. A three-minute telephone call from New York City to London in 1930 cost more than $300 (in year 2000 prices), making instant communication very expensive. Today the cost is insignificant. Advances in communication and information technologies have helped slash the cost of processing business orders by well over 90 percent.

Over the last third of the 20th century the real cost of computer processing power fell by 35 percent on average each year. Vast amounts of information can be processed, shared, and stored on a disk or a computer chip, and the cost is continually declining. People can be almost anywhere and remain in instant communication with their employers, customers, or families 24 hours a day, 7 days a week, or 24/7 as it has come to be known. When people in the United States call a helpline or make an airline reservation, they may be connected to someone in Mumbai (Bombay), India, who has been trained to speak English with an American accent. Other English speakers around the world prepare tax returns for U.S. companies, evaluate insurance claims, and attempt to collect overdue bills by telephone from thousands of kilometers and a number of time zones away. Advances in communications instantly unite people around the globe. For example, communications satellites allow global television broadcasts to bring news of faraway events, such as wars and national disasters as well as sports and other forms of entertainment. The Internet, the cell phone, and the fax machine permit instantaneous communication. The World Wide Web and computers that store vast amounts of data allow instant access to information exceeding that of any library.

Improvements in transportation are also part of globalization. The world becomes smaller due to next-day delivery by jet airplane. Even slow, oceangoing vessels have streamlined transportation and lowered costs due to innovations such as containerized shipping. Advances in transportation have allowed U.S. corporations to subcontract manufacturing to foreign factories.

Advances in information technologies have also lowered business costs. The global corporation Cisco Systems, for example, is one of the world's largest companies as measured by its stock market value. Yet Cisco owns only three factories to make the equipment used to help maintain the Internet. Cisco subcontracts the rest of its work to other companies around the world. Information platforms, such as the World Wide Web, enable Cisco's subcontractors to bid for business on Cisco's Web site where auctions take place and where suppliers and customers stay in constant contact. The lowering of costs that has enabled U.S. companies to locate abroad has also made it easier for foreign producers to locate in the United States. Two-thirds of the automobiles sold in North America by Japan's Toyota Motor Company are built in North America, many in Kentucky and in seven other states. Michelin, the French corporate giant, produces tires in South Carolina where the German car company BMW also manufactures cars for the North American market. Not only do goods, money, and information move great distances quickly, but also more people are moving great distances as well. Migration, both legal and illegal, is a major feature of this era of globalization. *Remittances* (money sent home by workers to their home countries) have become an important source of income for many countries. In the case of El Salvador, for example, remittances are equal to 13 percent of the country's total national income- a more significant source of income than foreign aid, investment, or tourism.

3. Debates over Globalization

Many economists believed that lifting trade barriers and increasing the free movement of capital across borders would narrow the sharp income differences between rich and poor countries. This has generally not happened. Poverty rates have decreased in the two most heavily populated countries in the world, India and China. However, excluding these two countries, poverty and inequality have increased in less-developed including Pakistan and so-called transitional (formerly Communist) countries. For low- and middle-income countries the rate of growth in the decades of globalization from 1980 to 2000 amounted to less than half what it was during the previous two decades from 1960 to 1980. Although this association of slow economic development and the global implementation of neoliberal economic policies is not necessarily strict evidence of cause and effect, it contributes to the dissatisfaction of those who had hoped globalization would deliver more growth. A slowdown in progress on indicators of social well-being, such as life expectancy, infant and child mortality, and literacy, also has lowered expectations about the benefits of globalization.

Three key institutions helped shape the current era of globalization: the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO).

The IMF, in particular, has been criticized for the loan conditions it has imposed on developing countries. Economist Joseph Stiglitz, a Nobel Prize winner and former chief economist at the World Bank, has attacked the IMF for policies that he says often make the fund's clients worse, not better, off. So-called IMF riots have followed the imposition of conditions such as raising the fare on public transportation and ending subsidies for basic food items. Some countries have also objected to the privatization of electricity and water supplies because the private companies taking over these functions often charge higher prices even though they may provide better service than government monopolies.

The WTO has faced much criticism as well. This criticism is often directed at the rich countries in the WTO, which possess the greatest bargaining power. Critics say the rich countries have negotiated trade agreements at the expense of the poor countries. The Final Act of the Uruguay Round that established the WTO proclaimed the principle of "special and different treatment." Behind this principle was the idea that developing countries should be held to more lenient standards when it came to making difficult economic changes so that they could move to free trade more slowly and thereby minimize the costs involved. In practice, however, the developing countries have not enjoyed "special and different treatment." In fact, in the areas of agriculture and the textile and clothing industries where the poorer countries often had a comparative advantage, the developing countries were subjected to higher rather than lower tariffs to protect domestic industries in the developed countries. For example, the 48 least-developed countries in the world faced tariffs on their agricultural exports that were on average 20 percent higher than those faced by the rest of the world on their agricultural exports to industrialized countries. This discrepancy increased to 30 percent higher on manufacturing exports from developing countries.

The agricultural subsidies granted by wealthy countries to their own farmers have earned the strongest and most sustained criticisms, especially from developing countries. Japan, for example, imposes a 490 percent tariff on foreign rice imports to protect its own rice farmers. The average cow in Switzerland earns the annual equivalent of more than $1,500 in subsidies each year as the Swiss government seeks to protect its dairy industry from foreign competition.

The United States enjoys some of the greatest advantages. Because of government payments, U.S. farmers can sell their products at 20 percent below their cost of production in overseas markets. United States corn exports represent more than 70 percent of the total world exports of corn. The United States ships half of the world's total exports of soybeans and a quarter of all wheat exports. Farmers in the United States can sell these grains at half of what it costs to produce them. The resulting artificially low world prices hurt producers in poorer countries where there are no government subsidies.

The European Union (EU) gives its farmers even higher subsidies. The EU is the world's largest exporter of skimmed-milk powder, which it sells at about half the cost of production. The EU is the world's largest exporter of refined sugar, which it sells at a quarter of the cost of producing it. Governments in the developed world pay more than $300 billion a year in farm subsidies, seven times what they give in development aid. Such subsidies have a devastating impact on farmers in poorer countries. Mexican farmers are priced out of local markets for corn by subsidized U.S. exports. Sugar growers in Swaziland and cotton producers in West Africa must compete with products that rich countries dump onto the world market at prices well below the cost of their production due to these subsidies.

Foreign aid from rich countries does little to offset the impact of these subsidized farm exports. Foreign-aid spending by wealthy nations amounts to only a tiny percentage of their incomes and total government spending. The United States gives just 0.1 percent of its gross domestic product (GDP), or about $35 a year per American, in foreign aid. Of this, about one-third goes to just three countries - Israel, Egypt, and Pakistan - which together receive more than twice as much aid from the United States as the poorest billion people in the world do. Europe gives 0.33 percent of its collective GDP and has promised to increase giving to 0.39 percent. Although the United States and Japan, the world's two largest economies, give the most aid in absolute terms, they are at the bottom of the list of countries based on aid as a share of national income. The most generous are the smaller countries of Northern Europe, including Denmark, Norway, The Netherlands, Luxembourg, and Sweden.

Trade Disputes, Rules, and Agreements: Given the importance of foreign trade, one of the most important international agencies is the WTO's Dispute Settlement Board, which is empowered to settle trade disputes under WTO rules. Winners of such settlement decisions by the board are allowed to retaliate against countries found guilty of unfair trade practices. Smaller, developing countries, however, fear cross-retaliation if they confront larger, more powerful nations.

Critics of the WTO in developing countries charge that the rules do not help them and that they have been forced to bear the harsh adjustment costs to free trade while developed countries have not lived up to their liberalization commitments. According to these critics, the terms of trade have gone against the developing countries. The value of developing countries' exports has declined relative to the value of their imports. Not only have the prices of such commodities as coffee, copper, sugar, and cotton fallen substantially for decades but also earnings from labor-intensive manufacturing, such as textiles and clothing, have declined as an ever greater number of developing countries compete for the limited amount they can export to the rich countries. At the same time the developing countries have faced increased prices on goods they import, ranging from computer software to airplanes to medicine.

A WTO meeting in November 2001 in Doha, the capital of Qatar, set in motion a multiyear negotiating process aimed at further liberalizing world trade but with a focus on the needs of the developing countries. However, disputes over agricultural subsidies, the definition of intellectual property rights, and whether poor countries were to be entitled to "special and different treatment" were not easy to resolve. The rich countries had the greater bargaining power, and their trade negotiators were under pressure not to make concessions that would hurt people back home.

In 2003 these issues came to a head as WTO talks in Cancún, Mexico, foundered. Representatives of a group of 21 developing countries withdrew from the talks after the EU and the United States failed to meet their demands for lowering agricultural subsidies. The same countries also resented EU and U.S. proposals that they accept new rules for foreign investment without first agreeing on the issue of subsidies. Some observers believed that the failure of the talks in Cancún made it unlikely that global trade rules could be negotiated by a self-imposed deadline of January 2005. Critics of the WTO have also charged that the developed countries have obtained a set of trade agreements benefiting their large corporations. The Agreement on Basic Telecommunications, for example, opened world markets to large telecommunications companies based in the developed nations. These companies were previously excluded from these markets by government-owned monopolies. The Financial Services Agreement likewise opened opportunities for banks, insurance companies, and stockbrokers in the developed countries as they sought to expand into new markets. Instead of increasing economic stability, financial liberalization caused financial crises in most of the world's economies. An IMF study found that 133 of the fund's 181 member countries suffered at least one significant banking crisis from 1980 to 1995. The World Bank identified more than 100 major bank collapses in 90 developing or formerly Communist nations from the late 1970s to 1994. Many economists believe that these crises were caused by the IMF-imposed financial liberalization on countries that either lacked regulatory agencies or the experience necessary to oversee the financial sector.

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