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RESEARCH METHODOLOGY

RESULTS & DISCUSSION

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GLOBALIZATION: IS IT A HOLISTIC MODEL OF DEVELOPMENT?

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ABSTRACT

The complex nature of the interaction between the growth of economies of most countries and the resultant trade and market patterns, which, to a great extent have been shaped by the nature of scientific and technological changes, have made globalization of the economy almost inevitable for every country. Globalisation is a two-way sword which helps a lot to skillful persons and on the other hand it harms the unskilled people in the name of competition. Infact several studies indicate that even urban poverty is predominantly due to the fact of impoverishment of rural people which forces them to move out of villages to seek some subsistence living in the town and cities. In this process they even lose the open space or habitat they had in villages albeit without food and other basic amenities. But it does not mean that globalization not opens any opportunity for the rural people. Thus, in this paper effort has been made to find out the channels and linkages such as growth, trade liberalization and the nature of technological change and diffusion through which globalization affects people especially underprivileged. Lastly the paper concludes with strategic policy issues and possible solutions for the eradication of absolute poverty and a globalization process which strike a balance on its impact on rural and urban people in order to make it a really inclusive growth strategy, in nutshell a holistic model of development based on equity and justice.

KEYWORDS
foreign trade, globalization, latest technology.

INTRODUCTION

Although globalization was in existence from the beginning but with the revolution of information technology especially during the last two and half decades, national economies with the increasing linkage through international markets for products and factors, leading to cross-border flow of goods, capital, and labor information, technology and management know-how has changed the world economy not only quantitatively but also qualitatively. This Process offers participating countries new opportunities for accelerating growth and development, as well as poses challenges to and imposes constraints on policy makers in the management of national, regional and global economic systems. Though opportunities provided by the globalization are numerous, question arises whether the underprivileged people living in rural areas benefit less than proportionately from globalization or could under some circumstance actually hurt by it.

The fear that the poor have been by-passed or actually hurt by globalization is being highlighted by the number of findings of different studies which examined the trend of world income distribution. There might be consensus that cross-country inequality is decreasing as the average per capita income is increasing but it is a hard fact that the within country inequality is increasing. The country like china and India where Per capita income is increasing comfortably, their citizens are moving further away from earning the average per-capita income as within country inequality in these two countries have been going up. Even the US, which is another very large country, has witnessed high within country inequality. Cornia and Kiiski (2001) found that over the last two decades, inequality has risen in 48 out of the 73 countries. These countries accounted for 73 percent of the total GDP and 59 percent of the total population of the 73 countries put together. Even the developed countries experienced rising inequality as a result of 'greater disparities in market-income', the effect of which compounded by changes in the tax system, public services and income transfers.

On the other hand, the propounder of the globalization presents a rosy picture of the impact of globalization on poverty mainly on the basis of correlation. They emphasize that the decline in poverty in China, India and Indonesia (which was characterized by massive rural poverty) in the recent decades is mainly due to international economic integration. As per the estimate of Chen and Ravallion, the percentage of rural people living below international poverty line (i.e., US $ 1.08 per day at1993 PPP) declined from 79% to almost 27% in China, from 63% to 29% in India and from 55% to 11% in Indonesia during the last two and half decades. But if we analyze it carefully, it becomes very difficult to accept that this decline is primarily due to globalization. In fact, it is the expansion of infrastructure facilities, massive land reform policy of 1978 and the policy changes in grain procurement – prices that was largely responsible for poverty reduction in China, because, the substantial part of the reduction in poverty in the last two decades already happened by the mid 1980s before the big strides in the foreign trade and investment. Similarly, the poverty reduction in India, especially the rural poverty is mainly attributed to the spread of Green revolution in agriculture, large scale anti poverty programmes such as Integrated Rural Development Programmes (IRDP), Rural Landless Employment Guarantee Programme (RLEGP), Employment Guarantee Programme (EGP) and Training of Rural Youth for Self-employment (TRYSEM) etc, and social movements and not the trade liberalization of 1990s. Where as, in Indonesia, it is the sensible macro economic policies- active rice price stabilization policy, massive investment in rural infrastructure and the green revolution that played a substantial role in the reduction of rural poverty between 1980 to 2000.On the other hand, during the same decade, poverty in Sub-Saharan Africa was actually increasing. As per estimate of Chen and Ravallion (2004), the percentage of people living below international poverty line increased from about 42% to 46% in sub-Sahara Africa, but it was mainly due to unstable or failed political regimes, wars and civil conflicts prevalent in various African countries rather than globalization.

According to Cornia (2000), the increased global inequality in recent decades is attributable more directly to the contemporary globalization effects, i.e., the nature of technological changes and policy reform measures such as frequent application of deflation policy under globalization cum adjustment; trade liberalization; the rise of financial rents following financial liberalization and privatization; changes in labor institutions; and erosion of the redistributive role of the state than to the traditional causes of inequality which include high concentration of land and other assets, dominance of natural resources and associated rents, unequal access to education and urban bias.

Therefore, an important issue in the globalization debate, is its impact on the people especially on those who are underprivileged as it is evident that globalization alters inequality vertically as well as horizontally. It may affect horizontal inequality particularly adversely by producing winners and losers among broadly similar groups and class conflicts by vertical inequality. So, in order to understand the impact of globalization especially on underprivileged people, the causal chain of openness-growth-inequality/poverty needs to be scrutinized.

GROWTH-OPENNESS LINK

Trade and capital movement liberalization affect growth directly through exports, imports and capital flows. Trade liberalization policies encourage exports which benefit export industries and contribute to GDP growth: According to Frankel and Romer (1999) trade influences growth both by increasing human and physical capital and by boosting total factor productivity growth.

The switch over from import substitution regime to trade liberalization, in the short run, have some negative results such as fall in the fiscal revenues (because of low tariffs) but this initial negative consequence on output are more than compensated through a more efficient allocation of resources and benefits of competition in the long run. Successful cases of trade liberalization leading to growth are usually found when import liberalization is preceded by, or implemented in tandem with export provision policy and other measures to strengthen the technological capability of domestic producers.

Now in the case of capital flows and its impact on domestic output and growth, if FDI takes the form of 'green field' investment as opposed to investment through merger and acquisition, much of the capital inflow from transnational corporations (TNCs) tend to be converted directly in to factories producing new products, but the transfer of technology, skills and management know how that is assumed to accompany FDI is not necessarily automatic or guaranteed. The IMF study (Prasad et al 2003) acknowledges that it is difficult to establish a strong positive causal relationship between financial globalization and economic growth and on the other hand these short term capital flows contribute to the increased vulnerability to external shocks of the recipient developing countries. Thus countries need to strengthen its fundamental and must develop adequate safety nets to mitigate the contagion effects of the global uncertainty and crisis.

GROWTH-INEQUALITY LINK

The next linkage is the interrelationship between growth and inequality. The classical approach argues that a higher degree of initial income inequality will yield higher aggregate savings, capital accumulation and growth. Whereas, the new political economy postulates that high initial inequality is detrimental to economic growth. The various sub channels through which the linkage of greater inequality to reduced growth operates are, (i) unproductive rent seeking activities that reduce the security of property,(ii)the diffusion of social and political instability leading to greater uncertainty and lower investment,(iii) redistributive policies encouraged income inequality that impose disincentives on the rich to invest and accumulate resources,(iv) imperfect credit markets resulting in under investment by the poor, particularly in human capital, and (v) a relatively small income share accruing to the middle class implying greater inequality has a strong positive effect on fertility, and this, in turn, has a significant and negative impact on growth. Moreover, there are some additional indirect paths such as wide income and wealth disparities impact on education, health and crime, impact of underinvestment in human capital on productivity, all those ultimately affects growth negatively in the long term.

Therefore, the fundamental issue in economic development is the understanding of the mechanisms through which growth affects poverty. There is two alternative approaches and models of the development-- one model emphasizes growth and efficiency under the idea that they eventually, if not immediately, improve the standard of living of the population at large, including the underprivileged, whereas, the other model stresses that the state must play an active role in determining where the benefits of development end up. No one can deny with the fact-that growth is a necessary condition for poverty alleviation especially in the rural areas, but the question is how the impact and magnitude of growth on poverty reduction can actually be fully ascertained and measured; and what is the optimal degree of active state intervention to reduce poverty without sacrificing efficiency. The answer to this question lies in the growth strategy and not the growth itself. But again question arises what would be the definition of pro-poor growth strategy. Despite conflicting definitions there is a general consensus that it would be a combination of higher growth and a more pro-poor distribution of the gains from growth. There may well be trade offs between what is good for growth and good for distribution, as some factors that impede growth may also prevent the poor from fully sharing in the opportunities unleashed by growth. So, there is increasing recognition that the 'trickle down' process often fails to materialize or is too slow to have a significant impact. Therefore, pro-poor growth requires strong commitments on the part of policy makers to adopt pro-poor policies capable of producing and sustaining a distribution -corrected growth path.

Apart from growth channel, there are various other channels such as; changes in relative product and factor prices, factor mobility and changes in global market and power structures, and technical progress and technological diffusion process through which globalization can produce winners and losers, and ultimately affect people especially those living in rural areas.

The income distribution effects induced by a shift in relative product prices in the process of the opening up of trade are well known. The losers especially the underprivileged people residing in rural areas may be vulnerable to these induced effects in addition to the changes in absolute and relative prices of wage goods.

The highly differentiated degree of cross border factor mobility is another channel of producing winners and losers as a result of globalization. The features of factor movement such as the tendency for skilled labor to migrate from developing countries to develop countries, migration of skilled/semi-skilled labors from one region to another region within the country, and Propensity of capital flight to developed countries, particularly during periods of crisis or instability clearly indicate towards the possibility that as globalization would proceeds, developed countries would see inequality fall, while developing countries would experience rising inequality.

The nature of technical progress and of the technological diffusion process is a further channel through which globalization could affect income distribution and poverty. Most of the research and development activities are taking place in developed nations in response to conditions typical of their own resource endowment, which are labor saving and skill biased. Further, technological diffusion and access to new technology is not universal and spontaneous. Therefore, global productive differences may widen over time which may increase income inequality.

Institutional environments are important in determining whether the benefits of globalization are harnessed and spread positively and evenly, and negative shocks associated with globalization are filtered out through safety nets. For example, the impact of globalization on the poor is intermediated on the one hand by domestic political economy, structures and institutions- such as social polarization, oligarchic structure and predatory regimes that may bias confiscate or nullify globalization gains for particular groups of poor. On the other hand, the positive effects of globalization on growth and poverty can be found when institutional conditions are characterized by such elements- as political participation, social cohesion and management of social conflict arising directly form globalization effects. Globalization can also bring about changes in institutional environments by setting up new norms and conventions, as well as new standards of transparency, accountability and enforcement of law and accommodation of human rights and civil movement (Sindzingre 2004).

Now, analyze the effect of globalization on the people especially those who are underprivileged in their capacity as workers, as consumers, and as recipients of public service.

AS WORKER

First take the case of people especially those who are underprivileged and live in the rural areas. They generally are either self employed or wage earners. The self employed work on their own small land, as artisans and petty entrepreneurs in small shops and household enterprises and the constraints they usually face are in credit, marketing, insurance, infrastructure (like roads, power, irrigation etc) and government regulations. In this constrained situation it becomes very difficult for the poor self employed rural people to with stand competition from large agri-business or firms. In Swaziland, the import of sugar products from the European Union countries has undermined the local industries and sugar industry has lost about 16000 jobs and a further 20,000 have gone in transport and packaging, similarly, the cheap imports of processed sugar forcing the farmers to grow other crops or become poorer in Kenya.

Trade liberalization sometimes helps in relieving some of the bottlenecks in infrastructure and services. The international diffusion of technology in agriculture (green revolution) has led to large reductions in poverty, particularly in Asia, even though the larger dependence of farm households on purchased imports that become necessary increased the importance of the constraints of credit and irrigation.

Similarly, multinational marketing chains with global brand names can be very helpful for small producers in establishing brand name, quality and time delivery, which are crucial for marketing, particularly in international markets. At the same time coordinated attempts on the part of developing countries, with technical assistance from international organizations to build international quality certification institutions for their products should be a high priority. Depending upon their initial assets, credit and other infrastructure conditions, some firms adjust well to new trade opportunities, while others find it difficult to cope with the competition. Parker, Riopelle and Steel (1995) in their study of small enterprises in five African countries show that firms that adapted quickly benefited form import liberalization, while those ill-prepared to face competition lost out.

Turning to the poor wage earners, the international trade theory suggests that the workers in a poor country having abundant supplies of unskilled labor have a comparative advantage in products intensive in unskilled labor should benefit from trade liberalization. Hertel et al (2003) estimated on the basis of household survey data that global trade liberalization leads in the long run (when labor and capital are mobile across sectors) to a decline in poverty for all strata of the population, largely because of the increased demand for unskilled labor which lifts income even of some of the formerly self employed who now move into the wage labor market. Vietnam's liberalization of rice trade in the 1990s led to a gainful reallocation of labor of the poor from household occupations to the wage labor market (Edmonds and Pavenik, 2003). However, if some factors of production are intersectorally immobile, and some goods are non traded, real wage of an unskilled worker in a poor country may not go up with trade liberalization. Therefore, opening the product markets internationally without doing anything about the weak or distorted factor markets like credit and infrastructural services may become a sub optimal policy for many poor farmers and artisans, both form the point of view of their exploiting new opportunities and of social protection for those who may need extra help to cope. Therefore, in this situation liberalization policy must be accompanied by a comprehensive policy package that would enhance the capability of certain firms and provide a safety net for people who lose in the process.

AS CONSUMER
Now consider the case of people as consumers. The gains from trade are dependent upon whether they are net buyers of tradable goods. For example poor laborers in east or south India may gain form imports of cheaper rice form Thailand but at the same time may lose from higher prices of medicines (as laws changed in 2005 form recognizing only process patents to the international product patent system under TRIPS).Out of the 115 low income and low middle income countries, 62 are net agricultural good importing countries and 53 are net agricultural exporting countries with the reduction of agricultural tariffs and subsidies in developed countries and the expected price rise would harm the agricultural good importing countries. So against the impression from advocates of agricultural trade liberalization, many poor countries will not gain form liberalization. As per the UN classification out of the 46 least developed countries, 30 are net agricultural good importing countries, and it is very unlikely that with high liberalization some of these countries will transform in to agricultural exporting countries.

AS RECIPIENT OF PUBLIC SERVICES
Now moving to the case of the people as recipients of public services in less-developing countries, the people, particularly those who are in the preponderant informal sector, do not receive much of effective social protection from the state, like education health and public works programmes. It is generally argued that cuts in public budgets (on basic services) to reduce fiscal deficits often come as part of a package of macroeconomic stabilization prescribed by international agencies like IMF. Definitely there is a lot of scope for improvement in the internationally prescribed stabilization programmes to minimize the adverse impact on underprivileged people, it is also true that the fiscal deficits in these countries are often brought by domestic profligacy, and that governments find it politically easier to cut the public expenditures for the voiceless people due to political clout of rich who are disinclined to share in the necessary fiscal austerity, and it is always convenient to blame external agency for the problem originated domestically. The heavy administrative hurdle, bureaucratic and political corruption prevalent in poor countries is another reason for the low quality of public services like education and health etc. So, the major effort required is to strengthen the domestic institution of accountability, instead of blaming external agencies. Environmentalists argue that trade liberalization damages the poor by encouraging overexploitation of the environmental resources like forestry, fishery, surface and ground water irrigation etc., on which the daily livelihoods of the rural poor people crucially depend. But simply restriction on trade would not be the solution because the environmental effects of trade liberalization on the rural economy depend on the crop pattern and the methods of production. Therefore, some programme of (time-bound) trade restriction coupled with serious attempts to overhaul the domestic institution frame work may be necessary.

CONCLUSIONS AND SUGGESTIONS
Finally, the debate on globalization and its impact would continue, but the preceding analysis raises the issue as to whether the present form of economic integration is conducive to the growth-cum-structural transformation process, which is capable of engendering and sustaining pro-poor economic growth and favourable distributional consequences, because the distributional effects of globalization are known to produce winners and losers, both between and within countries. In particular, losers are often extremely vulnerable to change in absolute and relative prices of various goods. Hence, Policy makers need to design an implement an active development policy not only to benefit from, but also to help counteract the negative effects of the immutable forces of globalization.Globalisation is not a natural phenomena but a set of concepts and policies designed by the developed countries on behalf of their companies and financial institution.Therefore,it would be not enough for governments to assume an active role in liberalizing trade and capital movements and de-regulating their economies while passively waiting for the fruits and forces of globalization to pull them on a fast track of development. Instead, it would be wiser to engage in a selective and strategic integration with the world market in order to take the opportunities and to avoid the pitfalls. In this process, the country can itself decide, the way and degree it wants to open up, the timing and sequence of opening up, and the particular sectors it wants to liberalize.

Hence, globalization should not be viewed as a substitute for a domestic development strategy. Instead to make it a holistic approach/model of development; governments of the developing nations need to pursue a selective liberalization and active targeted development policies, particularly for the underprivileged people, such as, expansion of credit, marketing and extension facilities, land reform, public works programmes for the unemployed, provision of education, vocational training and health facilities. On the other hand, developed country must work towards reducing protection on goods produced by the developing countries, facilitating international partnerships in research and development of products (for example drugs, vaccines, crops) suitable for the poor, and by organizing more substantial financial and technology transfers and international adjustment assistance for displaced workers. Apart from all these, the most important is that countries must be given the right and space to review the impact of globalization and they should be able to decide which aspects to make use in future and which aspects to discard, only then our strategy/model will be inclusive in nature and we can achieve real development which would be based on equity and justice, everlasting and highly sustainable.

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