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The Role of Globalization on Economic Development of Developing Countries

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ABSTRACT

Most developing countries depend on the developed nations with the intensions that these developed nations will help them in improving their economy and stabilizes their security challenges. This notion tends to be in a reverse case as most of the developed nations consider the third world or developing countries as places where they can tap resources for sustaining their economic values and maintain their power and control globally. A lot of policies on globalization don't gives developing countries opportunities to build their economy, rather they add burdens to them through huge lending with compounded interests. This paper assessed the role of globalization and its negative effect on the economic development of developing countries. The paper is an ongoing research, but have presently showcase some literature related to the globalization and some of the effects it causes the developing countries. The paper did not make use of any primary as the research is ongoing.

Keywords: Developing Countries, Developed Nations, Economic Development, Globalization, IMF

I. INTRODUCTION

The widespread of economic inequalities and the big technological gap that exists between rich and the poor, the developed and the developing countries, have virtually divided the world into two parts. The rich countries are technologically developed and economically sound. By virtue of this, they are in a position to maintain and even strengthen their hold not only over international economic system but also to explore over the economic and policies of the poor countries which are industrially, technologically and economically under-developed. In the past they were the victims of imperialism and colonialism, and even after becoming sovereign independent states, they continue to suffer from poverty and under-development, and the exploitations by the hand of the rich countries. This is done through several devices like: foreign aid, multi-national corporations, control over international economic institutions and protectionist trade like world trade organization (WTO). These economic policies are virtually forcing the under-developed countries to live with their hardships and sufferings [1].

In trying to assess the role of globalization to the developing countries have to look at it in three (3) phases:

1. Economic and trade processes
2. Education and health systems
3. Socio-cultural effects

The terms globalization is a process of global economic, political and cultural integration. It has made the world become a small village, the borders have been broken down between countries, the history of globalization goes back to the latest of the 20th century, the development of transport and communication technology led to situation where national borders appeared to be too limited for economic activity [2].

Considering the positive roles globalization plays and still playing to the development of developing countries economy, certain negative roles have been playing by the process of globalization or globalizing the economy of the developing nations in order to make sure the power possessed by the rich or developed countries have been sustainably retain [1].

The terms backward, under-developed and developing Countries are often used as synonyms for describing the nature of economy and the level of developments of the poor, under-developed Countries of the world and which are struggling hard to achieve development social, economic and political. In recent times, the Scholars have preferred to use the term "Developing Countries" or the "Lowly Developed Countries" for referring to the poor and industrially and technologically less developed state of the world [1].

The main objective to be achieved in this research is to assess the negative aspect or role of globalization on economic development of the developing or under-developed countries. To achieve that, certain questions have to be asked and elaborated;

1. Does the financial globalization promote growth in Developing Countries?

2. Does the International Monitory Policy (IMPs) really help developing countries economy?

II. DOES FINANCIAL GLOBALIZATION PROMOTE GROWTH IN DEVELOPING COUNTRIES?

The research will summarize the theoretical benefits of financial globalization for economic growth and then review the empirical evidence. Financial globalization could, in principle, help to raise the growth rate in developing countries through a number of channels. Some of these directly affect the determinants of economic growth (augmentation of domestic savings, reduction in the cost of capital, transfer of technology from advanced to developing countries, and development of domestic financial sectors). Indirect channels, which in some cases could be even more important than the direct ones, include increased production specialization owing to better risk management, and improvements in both macroeconomic policies and institutions induced by the competitive pressures or the "discipline effect" of globalization [3].

Perhaps this is not surprising. As noted by several authors, most of the cross-country differences in per capita incomes stem not from differences in the capital-labor ratio but from differences in total factor productivity, which could be explained by "soft" factors such as governance and the rule of law. In this case, although embracing financial globalization may result in higher capital inflows, it is unlikely, by itself, to cause faster growth. In addition, as is discussed more extensively later in this paper, some of the countries with capital account liberalization have experienced output collapses related to costly banking or currency crises as exactly what is happening in my country Nigeria. An alternative possibility, as noted earlier, is that financial globalization fosters better institutions and domestic policies but that these indirect channels cannot be captured in standard regression frameworks [3].

In short, although financial globalization can, in theory, help to promote economic growth through various channels, there is as yet no robust empirical evidence that this causal relationship is quantitatively very important. These points to an interesting contrast between financial openness and trade openness, since an overwhelming majority of research papers have found that the latter has had a positive effect on economic growth [3].

Since the financial globalization failed to attract the major financial problems of the developing countries, therefore, addressing financial issues of the developing countries require domestic policies.

Does the International Monitory Policy (IMPs) really help developing countries economy?

Scholars have given number of definitions to the globalization and yet a common explanation is to be reached. Writer Peet (2003) outlines two consistently related themes of globalization “global space is effectively getting smaller (‘compressed’) in terms, for instance, of the time taken for people, objects and images to traverse physical distance; as a result, social interactions are increasing across spaces that once confined economies and cultures”(p.1) [4].

However, behind this optimistic statement lurks the possibility of something different. It is basically a manipulated process that forced on the countries around the globe. The perpetrators or engineers of the globalization have dominated and ultimately manipulated a world of consumers (Peet, 2003). Allegedly, International Monetary Fund (IMF) and World Bank are the two dominant governance institutions and prominent advocates of globalization. The activities of these organizations around the world, particularly in the developing world should be closely monitored in order to comprehend the adverse effects of their policies. The history of these organizations runs back to the post world war era where the United States (U.S) and United Kingdom (U.K) met to discuss the economic plans for the post war peace (Tabb & William, 2005) [4].

At the Bretton Woods Conference in New Hampshire in 1944, U. S and U.K along with other countries successfully created the IMF and World Bank. As decided in Bretton Woods IMF was assigned two tasks: it would assist the countries with balance of payment difficulties and reduce foreign currency restrictions. Although its mission statement remains same, IMF has undergone major changes in the past few decades to become a powerhouse in the global economy. According to Peet (2003): Today IMF policies directly affect the economies of 184 countries and influence, sometimes drastically and often disastrously, the lives of the vast majority of the world’s people. Today the IMF is probably the single most powerful non-state (governance) institution in the world [4]. Publicly, governments have to praise the IMF, while complaining privately about the policies imposed on them. By contrast, workers and students demonstrate against the IMF, in many cases losing their lives in the process (p.56) [4].

Many claim that IMF economic policies produce poverty, hardship and starvation in the Developing World. Policy prescriptions to the Third World are attached as the "conditions" for lending (IMF, 2007). Loan conditionality, together with economic policies imposed is a way for the IMF to regulate the country's entire economic policy [4].

International monitory policy encounters many short coming in terms of making stability between the developed and developing countries. Some of the short coming include the following:

i. **Limited Scope:**
International Monetary Fund has very limited scope as it strictly deals with the imbalance's of payments arises out of current trade transactions. On the other side, it fails to make adjustments in repayments of war loans or of blocked starting or with exports and imports of capital.
Moreover, it lends only financial help to those countries which are facing a temporary deficit in the balance of payments. This right is also almost reserve in favour of developed member countries [5].

ii. **Indifferent Treatment:**
Another short coming of the Fund is that the Fund adopts discriminate policy in favour of certain countries in its day-to-day functioning. It is said that IMF is only a "Rich countries Club." It provides special treatment to western countries while ignores the interests of backward and underdeveloped countries.
All decisions are taken according to the wishes of rich nations. Even if they flout the directives of the Fund, no disciplinary action is taken against them [5].

iii. **Unscientific Fixation of Quotas:**
It is pointed out that the fixation of quotas has been purely on unscientific grounds. There is no second opinion to say that only economic and political considerations are made. Only rich nations like USA and UK have been kept in mind at the time of fixation of quotas.
In other words, the less developed countries are getting step motherly treatment in fixation of quotas for their need of international liquidity. However, it is argued that there must be some link between IMF quotas and the needs of the country **[5]**.

iv. **Failure to Remove Exchange Controls:**
IMF has utterly failed to achieve the objective of eliminating exchange controls and trade restrictions. It has not succeeded to restrictions on foreign trade of member countries. In the present era, even the most developed countries like USA and UK are adopting protective policies in the field of trade. How action is expected on their part on other member countries **[5]**.

v. **Fails to Attain Exchange Stability:**
The Fund is being criticised to achieve the objective of exchange stability. In other words, it could not maintain complete stability in foreign exchange rates. For instance, exchange rates of different countries have been continuously changing despite the existence of the Fund. France has made the devaluation of her currency against the opposition of Fund. Thus, the failure of exchange stability is the major defect of the IMF **[5]**.

vi. **No Solution of Liquidity Problem:**
The Fund could not make headway in achieving its major objective to promote the international liquidity to its member countries by lending or selling foreign currencies out of its stock. Although the Fund had taken certain steps to improve the liquidity of financial resources but it could not find any solid solution to the problem.
In this direction, scheme of Special Drawing Rights is a step. Still there has been no perceptible improvement in liquidity situation **[5]**.

vii. **Failure to Tackle the Problem of Dollar System:**
Another objection is raised that the IMF failed to tackle the problem of petro dollars. Despite great dollar shortage felt by the sterling countries, the Fund failed to declare the dollar a 'scarce currency' and to adopt the necessary measures to make the dollar freely available **[5]**.

viii. **Dominance of Developing Countries:**
It has been rightly observed by some critics that western countries put more pressure to get the trade controls removed so that their trade may flourish. But it is not in favour of underdeveloped countries to remove such controls over trade.
In fact, the Fund is dominated by the economically developed countries while their counter partners, i.e., underdeveloped countries face the problem of instability of export prices that give rise to the fluctuations in their export earnings.
On the other side, imports beyond the available foreign exchange also create the problem of instability in the country. Thus, the success of the Fund depends only on the degree to which developing countries make the implementation of their development plans and maintain financial stability. In this regard, the role of the IMF is quite unsatisfactory **[5]**.

ix. **No Provision for Automatic Revaluation of Currency:**
Another important defect of the Fund is that it provides no appreciation or revaluation of the country's currency when the country enjoys a chronic favourable balance of payment. The Fund has not succeeded to

achieve the measures of financial assistance to deficit countries and of stimulating the level of income and employment.

Consequently the Fund has absolutely failed to solve the problem of the chronic debtor countries **[5]**.

x. **Wrong Assumption of Par Values:**
The Fund aimed at bringing a system of free convertibility of currencies and to express the part value of their currencies in gold or in term of US Dollars but IMF has failed to achieve this objective. Thus, the choice of the par values of the Fund was ill advised **[5]**.

xi. **Defective membership of the Executive of the Fund**
Another glaring shortcoming of fund is that the Executive of the Fund has been so organised under the safeguard of the interests of the rich countries like America and UK, Truly, these countries have dominance over the executive only due to defective procedure of selection of members to the executive of the Fund **[5]**.

xii. **Only Secondary Role:**
Some critics have openly criticised the functioning to the Fund saying that the IMF plays not only secondary role in international monetary relations but half-heartedly. It has failed to provide facilities for short- run period. This has reduced the creditability of the Fund **[5]**.

xiii. **Most Unsatisfactory Repurchase System:**
The purchase system of the Fund is most unsatisfactory and impracticable to the needs of the developing countries. In fact, it could not control over international transmission of depression and inflation **[5]**.

CONCLUSION

In conclusion, as we can see, the process of globalization has involved all the countries around the world. Developing countries such as India, China, Iraq, Syria, Lebanon, Jordan and some African countries have been affected by globalization, and whether negatively or positively, the economies of these countries have improved under the influence of globalization [1]. But yet considering the above questions and the kind of elaborations given we may say that the process of economic globalization has not helped the economic affairs of the developing countries rather try to maintain and improve the stability and sustainability of developed countries economy by exploiting the resources of under-developed countries to build the developed ones. However, the developing countries have now come openly and strongly against the continued neo-colonial control of the rich countries and are currently engaged in a struggle to secure their due right in International Relations. This situation has given rise to the problems of relations between developed and under-developed country.

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