# Globalization and Wealth Creation in Developing Countries

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**Does the Process of Globalization Help Or Hinder Wealth Creation in Developing Countries?**

The issue of globalization and its effects on developing countries has generated much discourse within political science and International Relations, leading to considerable theory. As societies in the developed global North continue to enjoy the fruits of globalization, concern grows for its effect on those developing countries that are predominantly located in the global South. Their ability to develop in conjunction with the recent acceleration of globalization has become a hot topic of discussion.

This essay will highlight the fact that globalization, specifically neo-liberal economic globalization from the 1980s onwards, has helped wealth creation within developing countries. In order to do so this essay will focus on the following sections. First a preamble to neo-liberal economic globalization will be given. Second an explanation of neo-liberalism and its core values and beliefs. Third arguments that assert that neo-liberal globalization has created wealth within developing countries, followed by counter arguments to this notion. In doing so this essay will show that neo-liberal economic globalization has helped to create wealth within developing countries.

There are many facets and definitions of globalization, technical, cultural and economical to name but a few. However this essay will concentrate upon the latter, namely neo-liberal economic globalization and its effect on developing countries, best defined as"*…the opening up of economies to flows of goods, services, capital and business from other nations that integrate their markets with those abroad."* (Mishkin, 2006: 1)

As the Cold War began global society entered what scholars assert to be the "third wave" of economic globalization (Lechner, 2009). During this period the globe was divided into three "Worlds". The First, those in the West that favoured a liberal capitalist economy, the Second consisting of those in the East that favoured a socialist economy and finally the Third, the least developed countries mainly in the global south, known as the Non-Aligned Movement. For fear ofThird Worldcountries allying themselves with the East, the West encouraged them to adopt a liberal economy and move away from protectionism by offering economic assistance, in the hope that the resulting prosperity would bring with it development and a rejection of socialist ideology (Evans, T and Thomas, C, 2011).

Following increased borrowing by developing countries during the Cold War era and subsequent financial crisis', such as the oil price hikes of the 1970s which led to developed countries raising interest rates, many developing countries were unable to repay debts accrued. WhenMexicothreatened to default on its payments the most developed countries acted by assessing each debt problem individually. By using the Bretton Woods financial institutions, the International Monetary Fund (IMF) and the World Bank, the West implemented Structural Adjustment Programs (SAPs) which came with conditionality's attached in return for loans, including an alteration of the economy via Liberalisation, Privatisation, De-regulation and Fiscal austerity (Oringer, J and Welch, C. 1998), ushering in a new era of global economic thinking.

The early part of the 1980s became dominated by a new political and economic way of thinking, championed by United States President R. Reagan and British Prime Minister M Thatcher, with its implementation made possible via the Bretton Woods financial institutions. The IMF, which managed the international financial system and facilitated trade between countries. The World Bank, tasked with providing loans to countries that required them to aid economic development and the General Agreement on Tariffs and Trade (GATT), replaced on January 1st 1995 by the World Trade Organisation (WTO), which aimed to regulate trade on the international arena (Mishkin, 2006). This new economic theory became known as neo-liberalism and placed the "free market" and a minimal state role at its heart, believing that this would bring about development via a "trickle down" effect. Known as theWashingtonconsensus many assert that neo-liberal economics was the catalyst for the acceleration of globalization witnessed since the 1980s (Evans, T and Thomas, C, 2011).

There are those in the neoliberal camp that suggest globalization has had a positive effect on developing countries and their ability to generate wealth. Stating that the since the 1980s and the introduction of neo-liberal economic policy and the Washington Consensus, the volume of people living in extreme poverty globally has reduced significantly for the first time in over a century. This made possible by increased global economic integration, resulting in effective use of resources, as developing countries specialise in relation to their comparative advantage (Wade, 2004).

Proponents of neo-liberal economics further assert that the recent acceleration in globalization highlights the fact that those countries that have opened up their economies are reaping the rewards of economic growth in a system free from monolithic boundaries, creating a fairer system for the benefit of all that engage within it (Wade, 2004). This notion of a fairer system has led Thomas Friedman to suggest that the world has become flat, with developing countries, small companies and entrepreneurs becoming integrated into the wider economic system with greater ease than before (Friedman, 2005).

The economist Frederic Mishkin also asserts that developing countries that enter the globalization process can generate wealth, citing the cases ofIndia,ChinaandSouth Korea. In the cases ofIndiaand China Miskin notes that both countries, thanks to the globalization process, have removed more than one billion people from extreme poverty. With reference toSouth Korea, Mishkin notes that prior to entering into the globalization process in 1960, the average income per person was 10% lower than inSomalia. In 2006 this situation has taken a dramatic reversal, withSomalia's income per person now one tenth ofSouth Koreas(Mishkin, 2006).

Contrary to the anti-globalization movements concern over the effects of globalization on a developing countries ability to create wealth, IMF data for 2011 shows that the Real Gross Domestic Product (GDP) for emerging and developing countries combined has risen from 4.9% in 1997 to 7% in 2010. For Sub-Saharan Africa, one of the most impoverished areas on the globe, the data also indicates a rise in GDP from 3.6% in 1997 to 4.1% in 2010 (IMF, 2011). In addition, the most recent data indicates that the amount of people living on less than $1.25 per day fell from 1.94 billion in 1981 to 1.29 billion in 2008.Those living below the median poverty line for the developing world also decreased from 2.59 billion in 1981 to 2.47 billion in 2008 (The World Bank, 2012). Although the data suggests moderate growth, in can clearly be seen that those developing countries that partake in the globalization process do benefit and are able to create wealth.

This moderate growth has led to those that advocate neo-liberal economic globalization suggest that poverty and income inequality is a result of developing countries failing to globalise, exploit foreign markets and implement correct development polices. Such advocates rebuke the anti-globalization movement by asserting "*As far as we can tell, there are no anti-global victories to report for the post war Third World.*" (Mishkin, 2006: 6).

There is a growing movement that disagrees with the neo-liberal theory that globalization and the resulting integrated global economy have reduced the level of extreme poverty in the world and enhance the ability of developing countries to increase their wealth. Instead this anti-globalization movement suggest that globalization has increased inequality for developing countries via Trade Tariffs, forced removal of trade barriers, whilst developed countries retain theirs and the maintenance of agricultural subsidies by the governments of developed countries, which effectively priceThird Worldfarmers out of the market.

Those within the anti-globalization movement assert that the dominance and Western capitalist ideology of the global financial institutions, namely the IMF, World Bank and WTO, not only encroach upon a countries economy, override its sovereignty by making demands for fiscal austerity and privatization of state own industry. But also mould the political agenda to the benefit of the developed country and corporate big businesses that are based within.

Central to the neo-liberal notion of a free market is the belief that all markets must be open and available to competition. However the anti-globalization movement view this market as anything but free, as it becomes dominated by the already successful corporations that originate from the developed global North (Makwana, 2006). If this is the case then the ability of a developing country to grow its emerging economy and set the foundations for future prosperity is reduced, as they will be unable to compete against established multi-national corporations.

One of the tools used to liberalize markets in developing countries by the developed global North is the Structural Adjustment Program (SAP).In return for this fiscal injection the developing country must forgo a certain amount of sovereign rights and liberalize, privatize, de-regulate and implement fiscal austerity within its economy. Advocates of Dependency Theory, which asserts that underdevelopment of the global South is a direct consequence of exploitation by the Global North, suggest that neo-liberal policies such as SAPs, restrict development due to reliance on foreign aid, foreign trade, and Foreign Direct Investment (FDI). This results in increased unemployment, a repatriation of profits by investors, reduced government involvement in the economy and the developing country becoming dependant on cheap foreign commodities, subsidised by foreign governments, making it impossible to compete and destroying local industries (Makwana, 2006). This process enables the West to dictate and dominate global economic negotiations to the detriment of the least developed countries (Aregbeshola, 2012).

To contextualise what the anti-globalization movement view as the negative effects that neo-liberal economics and the free market has had on developing countries, effectively inhibiting them from creating wealth, Africa will be used as an example as it contains a vast number of developing countries. In trade terms, of the total volume of the world exports,Africaaccounted for 7.3% in 1948. Following the acceleration in neo-liberal globalisation during the 1980s this rate fell to just 3.1% in 2007 (Aregbeshola, 2012).This is said to have occurred due to the biased export promotion agenda of the West (Magubane, 2002). The volume of imports also declined withinAfrica, from 8.1% of the world's total in 1948 to 3.1% in 2010 (WTO, 2011). This is claimed to give credence to the argument that developing countries like those withinAfricaare unable to develop because they cannot import the necessary technology to do so (Aregbeshola, 2012).

This essay has highlighted the fact that globalization and its effects on the developing world continues to be a major issue, not only within the political classes and academic world, but within societies around the globe. The citizenry in the developed global North are becoming increasingly aware of the disparity between themselves, who enjoy the fruits of globalization and those less fortunate, predominantly in the global South, who are yet to benefit from all that globalization has to offer. As developing countries endeavour to grow their economies, two separate ideologies compete, firstly the neo-liberals that suggest that their economics is to the benefit of developing countries and wealth creation and secondly the anti-globalization movement that rebuke these claims. In assessing whether globalization, specifically neo-liberal economic globalization, has helped or hindered wealth creation within developing countries this essay adhered to the following structure. First a preamble to neo-liberal economic globalization was given including, the end of the Cold War and subsequent dividing of the globe into three "Worlds", a process that dictated economic ideologies. Second a description of neo-liberalism itself, the formation of theWashingtonconsensus and introduction of Western dominance in the world economy. Third arguments put forward by those that suggest that the neo-liberal economic globalization of the 1980s onwards has helped wealth creation within developing countries. Finally counter arguments proposed by the growing anti- globalization movement that assert that neo-liberal economics has done nothing but hinder and restrict wealth creation within developing countries.

In completing all of the steps mentioned above it can be seen that the neo-liberalization of the global economy from the 1980s onwards has helped wealth creation within developing countries. Although the benefits of globalization continue to be disproportionately angled in favour of the developed global North, the internationally recognised measurement for economic growth, GDP, can be seen to have risen for developing countries, including those within sub-SaharanAfrica. In addition the statistics showing the volume of people living below the established and recognised poverty line has also decreased from 1981 onwards. Although these figures do not suggest substantial growth, it is growth all the same and must be viewed as a move in the right direction.

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