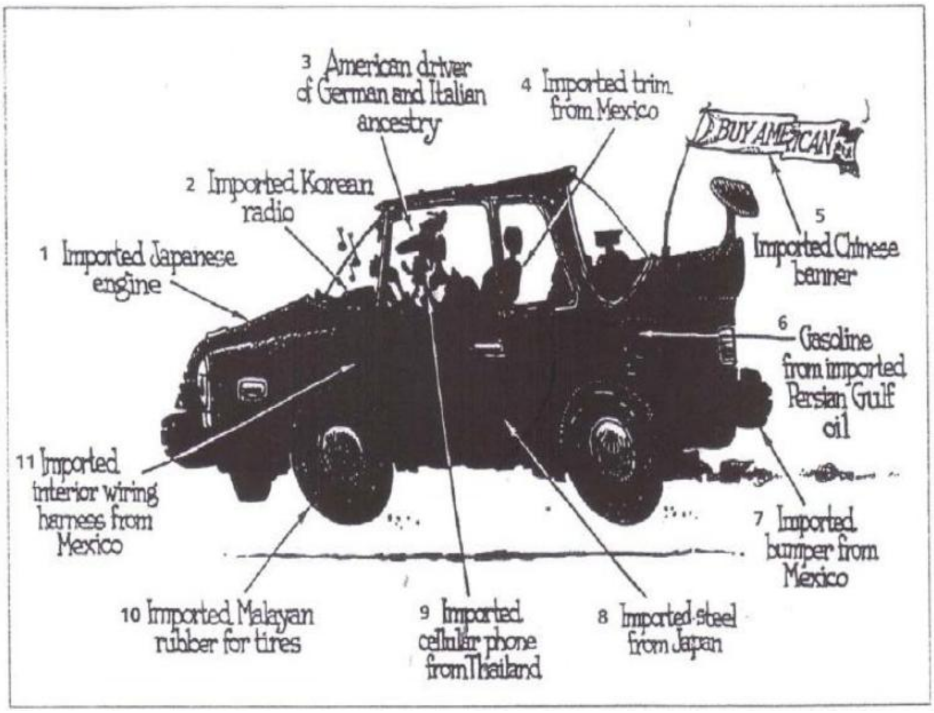
Globalization and the North-South Divide

1. What is globalization?



- Definition:
  - the many ways in which places and people are becoming ever more closely linked.
  - the acceleration and intensification of interaction and integration among various political, economic, and cultural systems (people, companies, governments…). This process has effects on human well-being (including health and personal safety), on the environment, on culture (including ideas, religion, and political systems), and on economic development and prosperity of societies across the world.
  - *"The global village"*: a term used to describe how the world appears to be getting smaller through the accessibility of technology, especially technologies that facilitate the transfer of information. Thus, the actions that occur in one corner of the globe can rapidly and significantly affect people elsewhere.

- Scope: **economics, technology, government, culture and society, environment**

- A controversial issue (see "*The pros and cons of Globalization*"):
  - the neutral view: integration of economic, political, and cultural systems across the globe
  - the positive view: the force that drives economic growth, prosperity, and democratic freedom
  - the negative view: a force for environmental devastation, exploitation of the developing world, and suppression of human rights

- Nothing new?
  - First globalization: Great discoveries, Columbian exchange, triangular trade
  - Second globalization: Colonial empires of the XIXth century, colonial system
  - Today's globalization (since 1945): **third globalization**, more inclusive.
    - Origins:
      - after the end of the WWII, the ***GATT*** (***General Agreement on Tariffs and Trade***) began to remove restrictions on trade between developed countries by reducing their tariffs.
      - The ***Bretton-Woods*** agreement is the second important treaty which gave birth to a new global monetary system between the industrial states. Each state was to maintain exchange rates of its currency at a fixed value (based on gold or dollar), in order to insure stability in the world economy.
      - The ***World Bank*** was created at the time to help countries incapable of maintaining their currency.
    - A <u>lengthening</u> of connections between people and places, with products sourced from further away than ever before
    - A <u>deepening</u> of connections to other people and places in more areas of our lives

2. The driving forces of globalization

- Technological: the invention and application of technologies of transportation and communication which have drawn all parts of the world closer together

  - **Transport**

Transports: ships, planes, cars, trucks → bigger, faster, cheaper

- The arrival of the intercontinental Boeing 747 in the 1960s made international travel more commonplace, while recent expansion of the cheap flights sector (e.g. Ryanair and EasyJet) has brought air travel to the masses in richer nations.
- Containerization: a system of intermodal freight transport using standard intermodal containers, which can be loaded and sealed intact onto container ships, railroad cars, planes, and trucks.
  Around 200 million individual container movements are thought to take place each year.

- **Computer and internet technology**

- *Information and communications technology (ICT)*: Internet, email, videoconferencing, mobile phones (now *smart phones*) Large amounts of data can be quickly move across cyber space, people from different countries can be linked together at any time, managers of offices and plants which are geographically distant can keep in touch easily, TNCs have been able to expand into new territories, either to make or to sell their products. → ***A shrinking world***

Computer-aided design and manufacturing have revolutionized manufacturing processes. They help make manufacturing more flexible and less reliant on human labor, allowing some firms to become more *footloose*.

- Ideological:

- *capitalism*
- *neo-liberalism* (a market-driven approach to economic and social policy which stresses the efficiency of private enterprise, liberalized trade and open markets)
- *free trade*: the lowering of the barriers to trade and investment through organizations and treaties like GATT, WTO, and regional groupings such as the EU or NAFTA

- Transnational corporations

- Transnational corporations (TNCs) are firms with operations spread across the world, operating in many nations (both developed and less developed countries though their headquarters are usually located in developed countries) as both makers and sellers of goods and services.
- Instantly recognizable "*global brands*" such as Coca-Cola, McDonald's have brought cultural as well as economic changes to places where products are made and consumed
- The TNCs' strategies are based on globalization and comparative benefits of the world countries due to
  - geographical differences in wage costs
  - geographical variations in labor productivity
  - geographical contrasts in the extent of labor controllability.
- The phenomenal growth in foreign direct investment (FDI) is the most obvious sign of the increasing integration of the world's economies and much of this investment is by transnational corporations.
- The TNCs strategies are based on globalization and comparative benefits of the world countries: some places are more attractive than others for the TNCs →
  - A low-skilled or high-skilled labor force at the lowest possible price
  - Relatively low levels of corporate and personal taxation
  - Labor flexibility (less *stringent* labor laws)
  - Access to a specific market (example : EU), circumvention of trade barriers
  - Exploitation of new resource locations
  - The spoken languages (English)
  - Avoidance of strict domestic environmental regulations
  - Exchange rate advantages

- International organizations

→ A new global *governance* system. International organizations have grown in power and influence since 1945.

- The most important is the IMF: Based in Washington, it channels loans from the world's richest nations to countries that apply for help. In return, the governments that receive loans must agree to run free-market economies that are open to investment from outside. This means TNCs can enter these countries more easily, further promoting globalization.

  > IMF rules and regulations are sometimes controversial, especially **structural adjustment programs (SAPs)**. For example, in Tanzania, water services to shanty towns in the capital Dar es Salaam were cut off when the country was required to privatize its water services as a condition of receiving $143 million debt relief.

- Other important organizations that work alongside the IMF include the World Trade Organization (WTO) and the World Bank.
- Non-governmental organizations (NGOs), such as Oxfam and Christian Aid, also have a major global influence, working to connect places and people through flows of aid.
- Regional groupings such as the EU, NAFTA
- Economic groupings such as the OPEC, the G8, the OECD

- Markets

More and more people living in major world cities have enough wealth to be significant consumers of goods and services. In 2007, China already had an estimated 30 million affluent consumers, and it is predicted to become the world's largest market for consumer goods by 2015. The growth of major stock markets (where shares of companies are traded and vast amounts of wealth are generated) has also been an important influence. Since 1945, several new stock exchanges have opened, notably Shanghai (China) in 1990.

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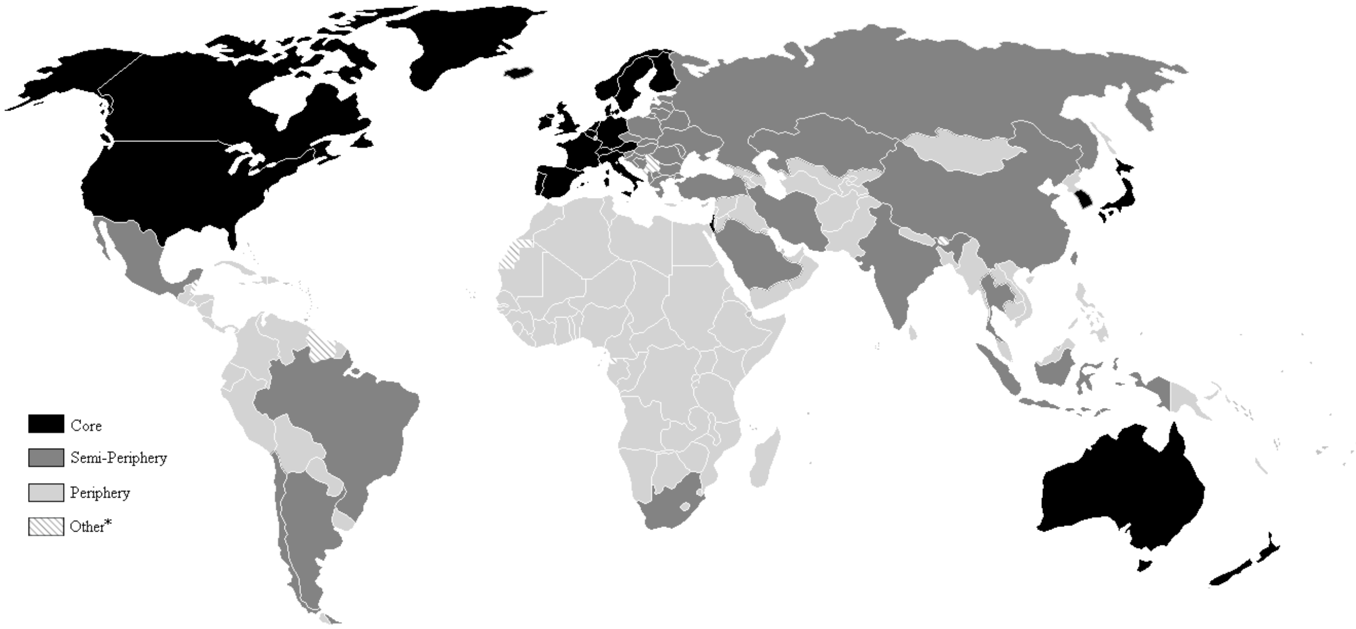
3. Globalization and development

- Measuring poverty and inequality: composite indices, such as **Human Development Index** (**HDI**), Physical Quality of Life Index (PQLI), Human Poverty Index (HPI): single criterion indices, such as **GNP per capita**, adult literacy rate, infant mortality rate.
- Global patterns of inequality: different ways of dividing the world →
  - the North/South divide (*Brandt's line*)
  - Core/periphery



Core/Functioning Core

Those parts of the world that are actively integrating their national economies into a global economy. The Functioning Core at present consists of North America, Europe both “old” and “new,” Russia, Japan and South Korea, China (although the interior far less so), parts of India, Australia and New Zealand, South Africa, and the ABCs of South America (Argentina, Brazil, and Chile). That is roughly 4 billion out of a global population of more than 6 billion. The Functioning Core can be subdivided into the:

Old Core: America, Europe, and Japan

New Core whose leading pillars are China, India, Brazil, and Russia.

Gap/Non-Integrated Gap

Regions of the world that are largely disconnected from the global economy, mostly the Caribbean Rim, Andean South America, virtually all of Africa, the Caucasus, Central Asia, the Middle East, and most of the Southeast Asian littoral.

- the development continuum:

The North-South divide has more recently been named the development continuum gap. This places greater emphasis on closing the gap between rich (more economically developed) and poor (less economically developed) countries. A good measure of on which side of the gap a country is located is the Human Development Index (HDI).

LLEDC → LEDC → RIC → OPEC → FCC → BRIC → NIC → MEDC

LESS DEVELOPPED **MORE DEVELOPPED**

- **LLEDC: Least Less Economically Developed Country**

Least economically developed: Countries lagging behind the main LEDC cluster.
Examples: Ethiopia, Nepal

- **LEDC: Less Economically Developed Country**

Mainly agricultural employment.
Examples: Bangladesh, Morocco

- **RIC: Recently Industrialized Country**

Manufacturing based. Started their modern industrialization in 1980s and 1990s.
Examples: Thailand, Chile

- **OPEC: Oil Exporting Country**

Rich in terms of GNP per capita but unevenly distributed wealth.
Examples: Saudi Arabia, Venezuela

- **FCC: Former Communist Countries**

Former Soviet States. Many with poor scores in HDI. Middle or Low income countries.

- **BRIC: Brazil, Russia, India, China**

The main "emerging" countries, recently joined by South Africa (Mexico comparable but not included because considered more developed)

- **NIC: Newly Industrialized Country**

Manufacturing based. Started their modern industrialization in the 1960s.
Examples: South Korea, Taiwan

- **MEDC: More Economically Developed Country**

Highest standards of living. Tertiary, quaternary based economic wealth though the manufacturing sector is still important. Exemples: France, USA

- Regional patterns: inequalities exist at different *scales,* there are core and peripheral areas within countries (example Eastern/Western China)

- How inclusive is globalization?
Global integration is *spatially selective*: some countries benefit from it, others seem not to.
A few developing countries have increased their trade substantially. These countries have attracted the bulk of ***Foreign Direct Investment (FDI)***.

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<u>Globalization increases the International Division of Labor (IDL)</u>

NIDL : the New International Division of Labor (NIDL) is an outcome of globalization. It is the spatial division of labor which occurs when the process of production is no longer confined to national economies → Globalization increases interdependence

→ The "global industrial shift": production processes are relocated from developed countries (the USA, Europe and Japan) to developing countries in Asia (for example China, Vietnam and India) and Latin America. This is because companies search for the cheapest locations to manufacture and assemble components, so low-cost labor-intensive parts of the manufacturing process are shifted to the developing world where costs are substantially lower. Companies do so by taking advantage of transportation and communications technology. From 1953 to the late 1990s, the industrialized economies' share of world manufacturing output declined from 95% to 77%, and the developing economies’ share more than quadrupled from 5% to 23%.

→ *Deindustrialization* in MEDCs because of competition from low-wages economies

→ *Race to the bottom:* to attract Foreign Direct Investment, countries are given increased incentive to dismantle currently existing regulatory standards.