Globalization and the South

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Globalization's Institutions

The beginning: *Bretton Woods*

The Bretton Woods system of monetary management established the rules for commercial and financial relations among the world's major industrial states in the mid-20th century.

Globalization's Institutions

The Great Depression and World War Two led to a collapse of banks and trade.

Globalization's Institutions

The US emerged from this crisis with half the globe's industrial production and 4/5ths of its gold reserves. US negotiators were in a good position to ensure the new Bretton Woods rules favored continued US economic dominance.

Globalization’s Institutions

The Bretton Woods vision was to create public institutions to anchor each of the three pillars of global economic activity:

Globalization's Institutions

1. ***Production*** **– World Bank:**

Designed to help with reconstruction after the war and to assist long-term production in poorer countries.

Globalization's Institutions

2. *Finance* – International Monetary Fund (IMF):

Oversees the international and financial and monetary order (loans).

Globalization's Institutions

3. *Trade* – GATT: later changed to the World Trade Organization (WTO)

The institution set up to free restrictions on trade.

WORLD TRADE ORGANIZATION

Theoretical Aspects of "Neo-Liberalism"

1. Rule of the "free market"

Neo-Liberalism

2. Cuts in social services (SAPs)

Neo-Liberalism

3. De-regulation of businesses and corporations

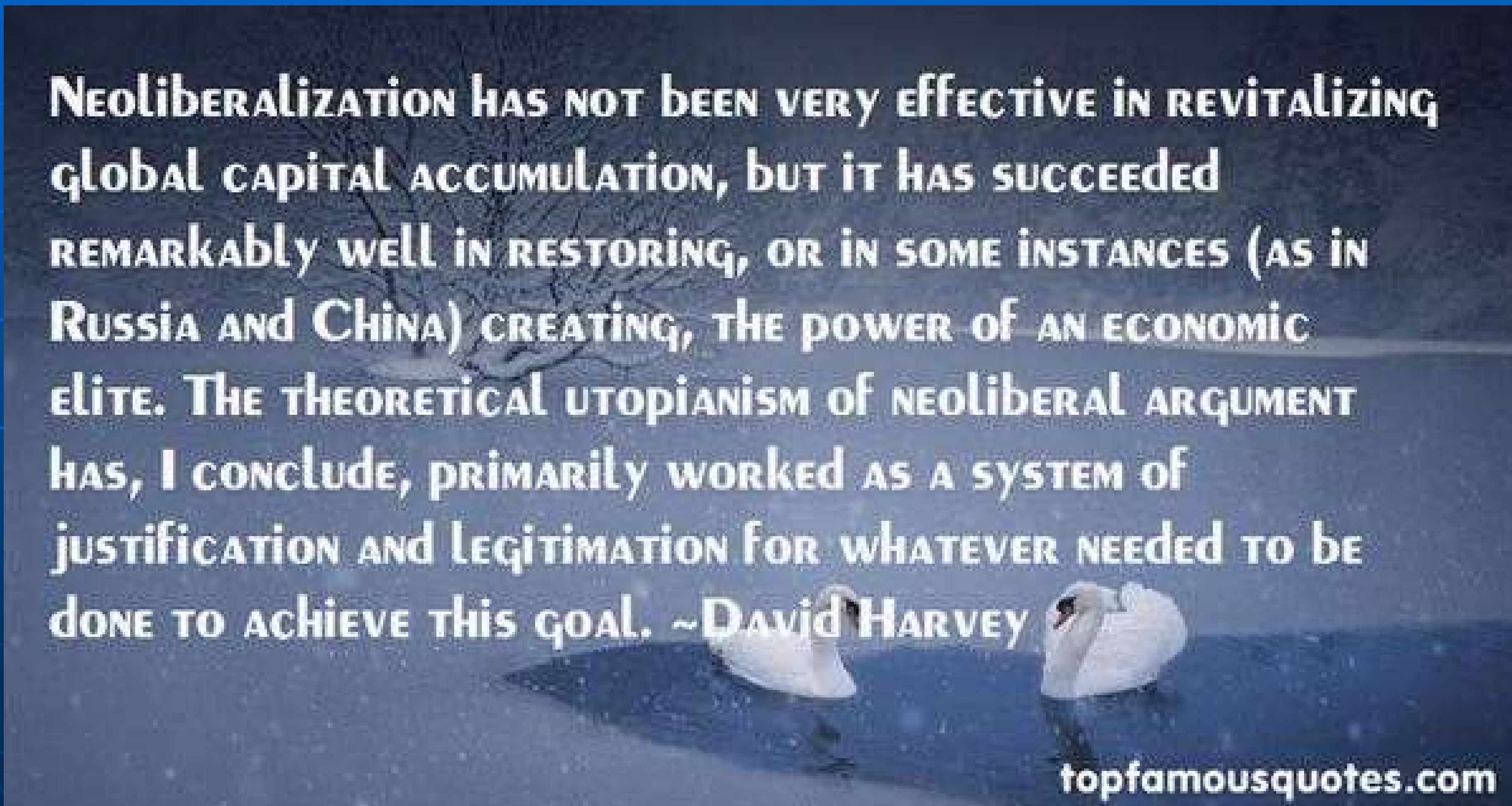
Neo-Liberalism

4. Privatization of public services

Neo-Liberalism

5. Elimination of the concept of "community" or "common good"

Neo-Liberalism



Terms and Concepts

Globalization and the South

Less Developed Countries (LDCs)

…are highly disadvantaged and have a limited ability to advance their interests and compete with the economic giants in the North..

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Newly Industrializing Countries (NICs)

…are usually placed by analysts as being in the South, but in some cases can be classified as a developed market economy (i.e. South Korea, Portugal, Mexico.

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Least Developed Countries (LLDCs)

…are the lowest third of the low-income countries and are experiencing a decline in absolute conditions over the last 2 to 3 decades.

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Approaches to Development

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1. **Liberal** – development can be achieved within the existing structure. Focus is on GNP, trade levels, employment and wage statistics. Recipe for success? Free trade, free investment, and other unimpeded economic exchange will eventually create prosperity for all.

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2. **Structuralist** – development can only be achieved when the politico-economic organization of the world is radically altered to bring development to the LDCs.
    a. Dependencia model
    b. Primary products / raw materials
    c. Neo-Colonialism

Globalization and the South

3. Mercantilist – political considerations govern international economics. Trade, investment, and aid policies of the North are meant to help the North, not the LDCs!

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The results of LDC development attempts so far…?

1. Disparity of wealth within countries.
2. Disparity of wealth between countries.

The effects of modernization?

1. Explosive population growth.
2. Rapid urbanization.
3. Industrial and environmental dangers.

Capital Needs and Development

Globalization has enhanced countries' needs for *capital,* which can be used to supplement their own internal efforts to improve socioeconomic conditions. Countries need *hard currency* such as dollars, euros, and yen, which are acceptable in private channels of international economics.

Capital Needs and Development

The 4 Main Sources of Hard Currency

Capital Needs and Development

1. **Loans** – usually extended by private or government sources.

Problem: leads to *debt crises.*

Capital Needs and Development

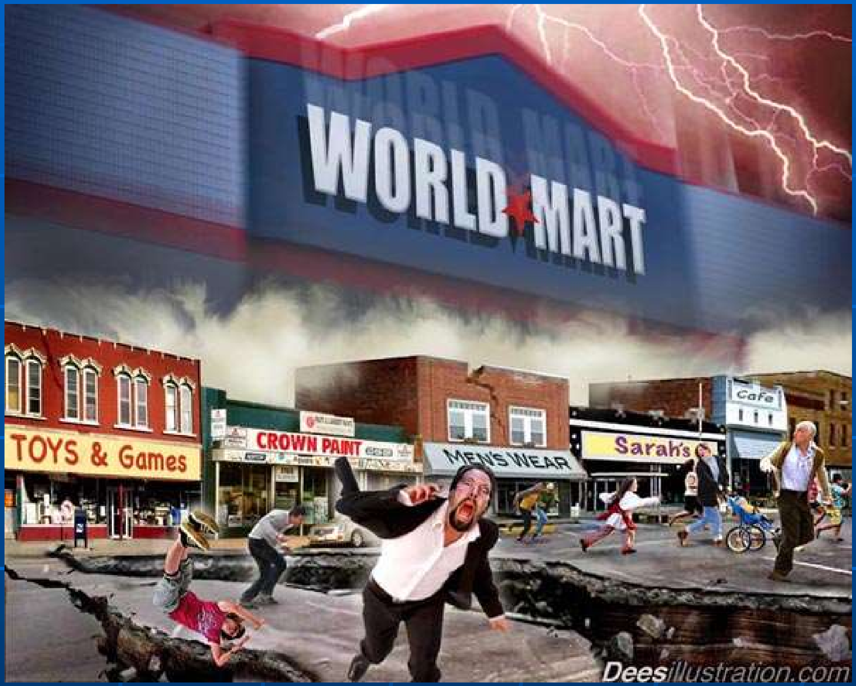
Economic ramifications of loans: bank failures in the North and inability to pay for social and economic development in the South due to large debts.

Political ramifications of loans: strains between lending and borrowing countries and political instability in countries that are struggling to pay off debt.

Capital Needs and Development

2. Private investment through MNCs –

Problem: LDCs are disadvantaged compared to the countries of the North.



Capital Needs and Development

…One study showed that *average* LDC balance for the period of 1984-1990 showed a net inflow of $132.1 billion in investment capital into LDCs but an outflow of $97.6 billion in profit taking - for a net capital inflow of $34.5 billion…

Capital Needs and Development

- **…However, LLDCs fared poorly. Example? Africa…which had a net investment inflow of $8.9 billion, but a net profits outflow of $20.6 billion. Thus MNC activity in Africa *cost* the continent $11.7 billion!**

Capital Needs and Development

3. Trade – export earnings do provide hard currency.

Problems:

a. LDCs command only 28% of world export market.

b. Most LDCs suffer from chronic trade deficits.

c. Heavy dependence on other countries for primary products.

Capital Needs and Development

4. Foreign Aid

– limitations include….

Capital Needs and Development

A. **Political considerations** – most often given on the basis of political-military interest and not development needs.

B. **Military content** – in the 1980s and 90s, approximately half of all U.S. aid involved military transfers.

C. **Measuring recipient per capita aid** – in the 90s, LDCs received $11.80 per capita (Israel received $617 per capita).

Capital Needs and Development

D. Donor aid relative to wealth – of the top 18 industrialized countries, the U.S. was #1 in total dollars given (11.4 billion in 1990), but ranked #17 in amount given as total percentage of GNP.

E. The way aid is applied – often used to fund highly symbolic but economically unwise projects such as airports, sports arenas, or large government buildings. Inefficiency and corruption also a problem.

Alternatives to Economic Globalization?

Yes!

Say critics, based on several core values:

Alternatives to Globalization?

1. New Democracy

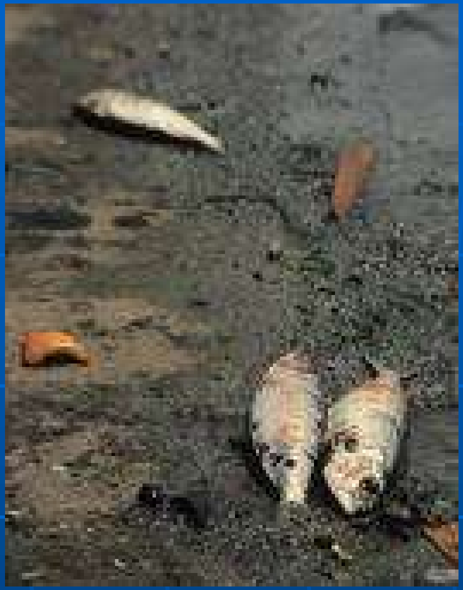
…is an egalitarian approach to economics; every person is a participant in the economy.

Alternatives to Globalization?

2. Subsidiarity

…"localizing" purchases improves the livability of the local economy and also reduces the distance raw material and final products travel to meet end users.

Alternatives to Globalization?



3. Ecological Sustainability

…limit consumption and exploitation. Conserving resources allows us to meet today's needs without compromising our ability to meet tomorrows.

Alternatives to Globalization?

4. Common Heritage

Ecological resources (the commons) cannot be monopolized. History, culture, and civil services belong to everyone.

Alternatives to Globalization?

5. Diversity of Indigenous Peoples

The collective and individual right to maintain and develop our distinct identities and characteristics…

Alternatives to Globalization?

6. Human Rights

"…a standard of living adequate for…health and well-being…including food, clothing, housing, medical care, necessary social services, and the right to security in the event of unemployment…" (United Nations, 1948).

Alternatives to Globalization?

7. Jobs, Livelihood, Employment

Alternatives to Globalization?

8. Food, Security, and Safety

Alternatives to Globalization?

9. Equity

The "touchiest" of the principles; *Could* resources – natural, human, and economic, be distributed more evenly?

Alternatives to Globalization?

10. Precautionary Principles

When a practice or product raises potentially significant threats to harm to human health or the environment, precautionary action should be taken to ban or restrict it.