Is Globalization a Necessary Evil? Side Effects of the Globalization

Claudia Diana POPA  
Faculty of Touristic and Commercial Management  
Dimitrie Cantemir Christian University  
Bucharest, Romania  
E-mail: claudiadevi@yahoo.co.uk

ABSTRACT  
Globalization has stimulated much controversy in recent years. Massive demonstrations are held to coincide with meetings of the World Trade Organization (WTO), the International Monetary Fund (IMF), the World Bank and other gatherings of government and business leaders dealing with the process of developing international trade and investment. The two sides see the globalization in a very different light. The critics of globalization believe that free international trade in goods and financial assets does more harm than good. They view it as a vehicle for enriching corporate elites, to the detriment of poor people and the environment. On the other hand, the supporters of free international trade think that globalization holds the key for increasing the wealth of world's people.

KEY WORDS  
Globalization, multinational corporations, elites, poverty

JEL CODES  
O1, O10, O4

1. Introduction

Globalization refers primarily to an economic system in which raw materials, manufactured goods, intellectual property and financial transactions flow freely (although not equally) across international borders under the supervision of an international trade authority. It also refers to the homogenization of language and cultural identity that accompanies this flux of products, ideas and money. Despite its growing strength, the side effects of this pervasive economic strategy remain little understood. This is especially true for the environmental effects.

How did the world get to this present state of interconnectedness? Some suggest that the nation-state has been a part of a larger international system for centuries and that international integration is a part of a long-term trend (Chase-Dunn, 1998). Others say the contemporary state of affairs is a major transformation in world history while others say that globalization is a convenient myth to justify the creation of a free market and spread of Anglo-American capitalism throughout the major economic regions of the world. Held and McGrew (2000) say that globalization is used as a guise for expansionist capitalism.

The ones who praise globalization point to increased trade, new and better technologies, expanded media and economic growth. The capitalist global marketplace has motivated some of the greatest innovations and has created wealth that far exceeds anything the world has ever known. Moreover, Stiglitz (2002) says that because of the technological advances, many people live longer and have higher standards of living.

However, so many people dislike the country, which they see as the main proponent of the new global marketplace-The United States of America. This is due to the big inequality that has resulted from globalization. We cannot deny the existence of the benefits of globalization. But we...
also cannot ignore the fact that The United States, consisting of four percent of the world's population, dominates all aspects of global free markets. Chua (2003) writes that the richest one percent of the world's population controls as much wealth as the poorest 53 percent. While the United States experienced rapid economic growth in the last decades, many poor countries experienced declining living standards. Chua (2003) wrote that the expansion of the global market has left half of the world's population living on less than two dollars a day and more than a billion people are currently living on less than one dollar a day.

The maintenance of the gap between the rich and the poor is largely achieved by the manipulation of the institutions of globalization. Using institutions such as World Bank and the International Monetary Fund (IMF), the U.S.A. and European Union press less developed countries to open their markets and to submit to agreements advocated by them. The policies of the global economic institutions seem to be close to the interests of the wealthier nations or economic powers.

Nowadays, multinational corporations outsource significant parts of their manufacturing base to poor countries around the world. They exploit low wages of the workers, weaker environmental laws and other factors to perpetuate their dominance of global markets.

2. Literature Review

Globalization has been an extremely controversial issue. Many scientists from various fields such as economics, politics, social field and culture have argued about it and there are many pros and cons. Joseph E. Stiglitz (2003) in his Globalization and Its Discontents wrote: “Today, globalization is being challenged around the world. There is a discontent with globalization, and rightfully so. ...The globalization of the economy has benefited countries that took advantage of it by seeking new markets for their exports and by welcoming foreign investment. Even so, the countries that have benefited the most have been those that took charge of their own destiny and recognized the role government can play in development rather than relying on the notion of a self-regulated market that would fix its own problems.

But for millions of people globalization has not worked. Many have actually been worse off, as they have seen their jobs destroyed and their lives become more insecure. They have felt increasingly powerless against forces beyond their control. They have seen their democracies undermined, their cultures eroded.

If globalization continues to be conducted in the way that it has been in the past, if we continue to fail to learn from our mistakes, globalization will not only succeed in promoting development but will continue to create poverty and instability. Without reform, the backlash that has already started will mount and discontent with globalization will grow.”

“...What is needed are policies for sustainable, equitable, and democratic growth....Development is not about helping a few people to get rich or creating a handful pointless protected industries that only benefit the country's elite...”

3. Theoretical Background

I based this work (this article) on my own observations and on some books and articles on this subject.

4. Paper content

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Globalization has stimulated much controversy in recent years. Massive demonstrations are held to coincide with meetings of the World Trade Organization (WTO), the International Monetary Fund (IMF), the World Bank and other gatherings of government and business leaders dealing with the process of developing international trade and investment. The two sides see the globalization in a very different light. The critics of globalization believe that free international trade in goods and financial assets does more harm than good. On the other hand, the supporters of free international trade think that globalization holds the key for increasing the wealth of world’s people.

Critics of globalization view it as a vehicle for enriching corporate elites, to the detriment of poor people and the environment. Rather than being a democratic system in which the majority of people are involved in economic decision making, is a force that reduces the influence of people at the local level. The political and economical power is taken by the global elites, represented by rich corporations and their governmental supporters.

The free international trade makes goods to be made by producers at the lowest cost, so that people working in that industry in less competitive countries lose their jobs. The local industry collapses quite soon. If foreign competition were limited, the local producers and jobs would be saved. The governments ignore the rights of workers and small and medium producers in order to attract investment and jobs that come from a concentration of production based on comparative advantage. The critics see that the international trade agreements block democratic decisions at the local level as they transfer power away from local authorities to multinational authorities.

Some writers say that international organizations serve only the interests of corporations. An example of this argument is the assertion that the World Trade Organization is a tool of corporations and its agreements are used to generate corporate profits against the interests of citizens of the world. International organizations like the WTO are used as platforms for instituting rules for international trade. The WTO, the IMF and the World Bank are seen by many as undemocratic organizations that assume power over economic decision making that should belong to local authorities.

Moreover, it seems that governments block costly regulations related to environment quality in order to provide a cheaper location for large global firms searching for facilities. If the rich countries impose costly regulations on manufacturers, then these firms will shift production to poor countries that are willing to trade environmental degradation for jobs and higher incomes. Related to this issue, World Bank finances for resource extraction projects such as mining or oil or gas extraction. In this regard, we can mention Roşia Montana’s controversial case from our country. These projects benefit the corporations that receive contracts for work related to the project while environmental destruction is seen as an unimportant by-product. World Bank funding is also seen harmful as these projects often involve the relocation of a large number of poor people, who lose their modest shelters.

It is well known that multinational corporations locate where salaries are cheapest and workers’ rights extremely low. In some places, workers who are injured or ill may be even dismissed without any compensation. Some critics of globalization believe that it may result in the worst employment practices as child labor. These practices affect also the developed countries that might suffer some following effects as workers in rich countries lose their jobs to the workers in countries without worker protection regulation and minimum wages or retirement plans where
employers must pay the minimum to attract an employee. This will lessen little by little the standard of living even in the developed countries.

In a globalized world, competition punishes the relatively unproductive or high-cost producers and rewards the relatively more-productive or lower-cost producers. This means that foreign competition put down some domestic or small and even medium firms.

Critics of globalization believe that corporate and commercial lobbies have disproportionate access to the international organizations such as WTO and IMF and that the rich exploit the power within these international organizations. This belief about the process through which globalization occurs make some to interpret the available evidence negatively. The belief that globalization favors the rich and powerful is fuelled by a number of successful lobbies on the part of corporate interests.

People may enjoy the World Wide Web and easy international travel, but they are critical of the way in which globalization progresses and they think that the optimal level of integration should allow space for national sovereignty, democracy and some government intervention to advance social and environmental protection.

Goldberg and Pavcnik (2004) summarized the findings of the literature on globalization in several points related to its concerns:

1. Trade is correlated with, and often a source of, growth.
2. Growth is on average good for the poor.
3. U.S.A. and European Union agriculture and textile protectionism harms the developing countries.
4. Foreign direct investment is correlated with a source of growth.
5. Liberalization of markets for short-term capital can be detrimental and should be approached with caution.
6. Governments’ safety nets can and should help to reduce negative impacts on the poor who lose because a result of liberalization and, in this way, they increase acceptance of liberalization.
7. The Trade-Related Aspects of Intellectual Property Rights agreement (TRIPs) should be modified to limit negative impacts on provision of drugs to the poor.
8. Access to education, health and credit are important factors in ensuring that the poor benefit from globalization.
9. Poverty should be measured using education and health as well as income.
10. Excessive corporate power (market and political) is a concern.
11. Capture of market or political power by elites has negative implications for growth and welfare.
12. Political reform is needed in many developing countries.

Clearly, the global restructuring process consisted mostly in the consolidation of multinational corporations. They are seen by critics of globalization as monopolies and as the heart of the problem. Joseph E. Stiglitz, winner of the 2001 Nobel Prize in Economics, wrote (2003) that the institutions created to lift up the poorest nations did not do always their jobs. In his opinion, the World Bank, the International Monetary Fund and the World Trade Organization have not adequately used their vast resources to help the poor. Instead, Wall Street and multinational corporations have benefited most. For example, the World Bank may not help the people in developing countries but offers instead loans on condition of trade liberalization or higher interest
According to this study, the share of middle-class neighborhoods in the 100 largest metropolitan areas declined from 58 per cent in 1970 to 41 percent in 2000.

If globalization continues to be conducted in the same way as it has been, if we fail to learn from the mistakes, globalization will continue to create poverty and instability. What is needed are policies for sustainable, equitable and democratic growth. Development does not mean helping a few people get rich or creating a handful of pointless protected industries that only benefit the elites. Critics argue that globalization has resulted in a fiercely competitive global market and unethical practices in business are a by-product.

The primary adverse effect of globalization is that it destabilizes the foundation of the developing countries’ economies, where many cheap and well-made products invade the market. As a result, many local products disappear, as they simply cannot rival the cheap prices and high qualities of the foreign products. For instance, in Paracho, Mexico, a Mexican traditional guitar maker complains that his village has lost its famous craft of building guitars because of the invasion of the cheap and well-made guitars from China (Campbell, 2004). As a result, the smart workers from Paracho are obliged to leave the village to seek another opportunities in the United States. In fact, hundreds and hundreds of villages and cities, especially in developing countries lose their main industries and their traditional crafts. It is also the case of our country in which the industry has been systematically ruined after 1989. These lead to the dissolution of families and communities.

Furthermore, the globalization with all its huge corporations has led to the disappearance of the middle class. This has become a political issue but the politicians did nothing about it. By most measures, the middle class is in decline. A study of the Brookings Institute from June 2006 highlighted the decline of middle class neighborhoods and the increase in upper real estate. According to this study, the share of middle-class neighborhoods in the 100 largest metropolitan areas declined from 58 per cent in 1970 to 41 percent in 2000.

In order to cut down costs, many firms from developed countries have outsourced their manufacturing and even white-collar jobs to countries such as India and China or other countries.

Globalization can be a force for good: the globalization of the ideas about democracy and civil society changed way people think. It helped millions of people to attain higher standards of living. The globalization benefited countries that took advantage of it by seeking new markets or by welcoming foreign investment. However, for millions of people globalization did not work. They saw their jobs destroyed and their lives became more insecure. They felt increasingly powerless against forces beyond their control. They saw their democracies and cultures undermined. Today, the gap between rich and poor countries is expanding, as is the gap between the rich and the poor within these countries. The richest 20 per cent of population spend 86 per cent of the world's wealth.

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from The Third-World, where the cost of labor is low. There are many English speakers in developing countries that are willing to work at one-fifth of a low salary from the developed world. This has caused a lot of resentment among the people of developed countries and they accuse companies of taking their jobs away.

Critics of globalization also raise legitimate concerns about the “Americanization” of the world. They point to American products, television shows, music and attitudes, which virtually destroy the world's diverse traditions. According to critics, this reduction or elimination of ethnic diversity has the potential to lower standards around the world and to uniform the culture. Globalization is homogenizing cultures. Scientist Benjamin Barber claims that the world seem to divide into Jihad, a “bloody politics of identity” and McWorld, “a bloodless economics of profit”, represented by the spread of McDonald's and American popular culture. The English conservative John Gray (1998) says that globalization is a dangerous delusion, a product of the hopelessly utopian Enlightenment dream of “a single worldwide civilization in which the varied traditions and cultures of the past were superseded by a new, universal community founded in reason.” Frederic Jameson sums up the common view: “The standardization of world culture, with local popular forms driven out or dumped down to make way for American television, American music, food, clothes and films, has been seen by many as the very heart of globalization.” Fast food chains like McDonalds and KFC are spreading fast in the developing world. People consume more junk food, which have an adverse impact on their health. Apart from the health concerns, globalization is accused of opening the gates for restaurants and fast foods, which are insensitive to the religious beliefs of the local people. Homogenization of the world is another result, coffee shop on every corner in seemingly every city in every country. So, while globalization does promote contact and exchange between cultures, it also tends to make them more similar to one another.

Cultural growth, like economic development rarely is a steady advance for everybody. Some poor, non-western societies lose. They lose the ethos that makes distinctive their culture, often rooted in religious believes or in shared suppositions about the nature and importance of beauty. The ethos is what provides a culture its self-confidence, its magic. The Islamic scholar Sayyed Hossein Nasr (1996), wrote extensively about the consequences of the global spread of the materialist science and technology that originated in the Western thinkers. They triggered our spiritual alienation from the natural world in the earthly form, which formerly was seen by local people as sacred. This has led systematically to the deterioration of the natural environment and to an inner spiritual crisis. Nasr asserts: “Non-Western societies are forced into a global “economic order” within which they have little choice but to follow models of so-called development that are formulated in the West and in which non-Western religions and philosophies hardly play a role.”

People from developing countries where the most multinational industries have been set up complain that their cities are reduced to garbage-dumps where all the industrial waste is accumulated and pollution raised to a high level. Environmental degradation is an issue debated in various international meetings and globalization is one of the most important factors that have aggravated the situation. Many raw materials are taken away from the natural reserves of our planet to run industries, and pollution severely affects the quality of air and waters. The principal environmental costs of global free trade are well known. They include water, air and soil pollution, exhaustion of non-renewable or slowly renewable resources and global climatic change. A forms of pollution related to globalization are indisputable. One is the pollution provided by the transport of raw materials and finished goods that were formerly produced and consumed locally.
Now, sweet peppers or strawberries from Mexico can be purchased in Canadian markets in mid-winter. Even heavy, minimally processed products are transported around the world to places where they already exist in abundant supply. For example, steel shipped from China has replaced American steel on US market. In many cases, the distant products are cheaper than local ones because of the social and economic subsidies and because the cost of pollution is not included in prices.

Another effect of globalization is the loss of biodiversity. A profound reduction of genetic diversity in agriculture is going on. Since 1970, pharmaceutical, petrochemical and other transnational corporations have bought more than 1,000 once-independent seed companies. Transnational corporations drop all but the most profitable seed varieties from their inventories. The loss of non-commercial varieties maintained by individual farmers is big as representatives of giant seed corporations reach more and more agricultural areas. According to H. Sudarshan (2002), over the last half century, India has probably grown over 30,000 different indigenous varieties of rice. In the last 20 years, this situation has changed dramatically and it is predicted that in 20 years, rice diversities will be reduced to 50 varieties. The impact of globalization has had a bad influence also on wild varieties of food plants.

Livestock breeds also face an increased risk of extinction. During the twentieth century, according to Hall and Ruane (1993): “Of the 3831 breeds or breed varieties of ass, water buffalo, cattle, goat, horse, pig, and sheep...618 are estimated to have become extinct...In countries of the Old World, numbers of breeds are correlated with human population and with land area... Peripheral and remote countries have the highest ratios of breeds per million people, implying that remoteness can also promote diversification.”

Furthermore, globalization has caused a loss of wild species. During the second half of the twentieth century and beginning of the twenty-first, when global trade and the global expansion of new technologies and exploitation of natural areas have been increasing rapidly, species losses have become comparable to those of the great extinction of earlier geological epochs. The negative impact of globalization on wild species is caused by:

1. the increased development and exploitation of populations and natural areas to satisfy new demands of production and trade including land clearing for agriculture, overfishing, road-building and construction,
2. climatic change from excess carbon dioxide methane, fluorocarbons and other chemicals,
3. adverse effects of ecotourism on wild flora and fauna
4. the impact of the huge number of exotic species due to the global trade on local flora and fauna.

Food companies from rich countries flood the developing countries with below-production-cost food exports.

5. Conclusions

While the rich are getting richer, the poor are struggling for a meal. If the current Occupy Wall Street protests are a reminder of how angry people are with the current way of setting up globalization, then the ones who govern us should consider it and start to work towards getting rid of poverty. Ideally, globalization should have resulted in creation of general prosperity, but corporate greed and corrupt international organizations and governments have insured that wealth is not distributed equitably. More and more the society needs a “moral transformation” in
order to fix its general problems from the peak level of our governments to the lower ones. We cannot sort out the problems by shifting the power to some international authorities, which would control everything but we cannot control. This would only destroy the local freedom and democracy, unless they had a high morality and altruism. While globalization becomes a fact, its flow is and should remain a responsibility for all of us.

References