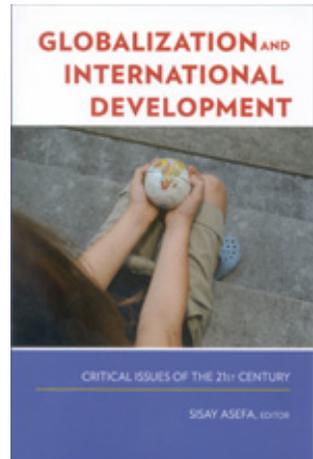

Upjohn Institute Press

Introduction

Sisay Asefa
Western Michigan University



Chapter 1 (pp. 1-8) in:

Globalization and International Development: Critical Issues of the 21st Century

Sisay Asefa, ed.

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2010

DOI: 10.17848/9781441678829.ch1

Globalization and International Development Critical Issues of the 21st Century

Sisay Asefa
Editor

2010

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

Globalization and international development : critical issues of the 21st century /
Sisay Asefa, editor.

p. cm.

Includes index.

ISBN-13: 978-0-88099-366-1 (pbk. : alk. paper)

ISBN-10: 0-88099-366-9 (pbk. : alk. paper)

ISBN-13: 978-0-88099-367-8 (hbk. : alk. paper)

ISBN-10: 0-88099-367-7 (hbk. : alk. paper)

1. Globalization—Economic aspects. 2. Economic development. 3. International trade. 4. International finance. 5. Economic assistance. 6. Poverty. I. Sisay Asefa, 1950-

HF1359.G58277 2010

338.91—dc22

2010010285

© 2010

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007-4686

The facts presented in this study and the observations and viewpoints expressed are the sole responsibility of the authors. They do not necessarily represent positions of the W.E. Upjohn Institute for Employment Research.

Cover design by Alcorn Publication Design.

Index prepared by Diane Worden.

Printed in the United States of America.

Printed on recycled paper.

1

Introduction

Sisay Asefa
Western Michigan University

This collection is based on the papers presented at the 2007–2008 Werner Sichel Lecture-Seminar series held at Western Michigan University. These papers address the issue of globalization with a special emphasis on its impact on poverty. The dawning of the twenty-first century is a propitious time to examine this issue. Advances in transportation and, especially, telecommunications have imposed virtual synchronicity on nations. Information and communication flows are virtually instantaneous. However, wide differences in cultures, political systems, languages, and ethnicities impose barriers to optimal use of the technological advances that have occurred. Extreme variation in the international distributions of wealth, income, and poverty remain as enormous social problems to be addressed.

The general perspective of the economists who have contributed to this collection of papers is that expanding “flows” between countries is the appropriate direction for economies both in terms of accelerating growth and reducing inequalities. These flows include international trade and capital, migration, remittances, and foreign aid. But in addition to these hard commodities and dollars, there are flows of ideas, knowledge, and technical assistance. Of course, as one of the authors reminds us, appropriate intellectual property rights need to be enforced concomitantly with the flow of ideas and knowledge.

The book begins with the chapter by Ian Goldin and Kenneth A. Reinert, who explore how globalization in the structure of trade and capital flows in its various forms (foreign direct investment, portfolio investment, and commercial bank lending) affect poverty. They also discuss the effect of foreign aid, international migration, and remittances, including the global flow of ideas in the form of knowledge and information.

Goldin and Reinert offer a historical view of globalization and describe three distinct stages of modern globalization, the first of which dates back to approximately 1870. In discussing the historical relationship among these three stages, they note that globalization and global poverty can be either positively or negatively related to each other. From 1870 to 1929 and the beginning of the Great Depression, globalization and global poverty increased together. However, the retreat from globalization during the Great Depression and World War II was accompanied by a continued increase in global poverty. A key public policy challenge facing humankind, they say, is to eliminate this still-prominent level of extreme poverty.

Goldin and Reinert write that while globalization has the potential to be a vehicle for shared growth, prosperity, and reductions in poverty, that potential is not yet being adequately realized. They conclude their chapter with several recommendations to improve the effects of globalization.

Chapter 3 by Susan Pozo emphasizes that globalization through migration is a powerful global force with potential benefits for individuals and community out-migrants. Pozo discusses the role of current remittances and how these forms of capital inflows to developing countries have the potential to reduce sudden stops or shocks. In other words, countries that experience large inflows of remittances appear less vulnerable to economic recessions from sudden withdrawal of capital, assuming these inflows are motivated by altruism. Altruism inflows to developing countries are countercyclical, reducing the damage that foreign investors may impart when they perceive sudden shock in poor performance and withdraw financial resources.

Pozo reminds us that free flows of capital where it is abundant should earn low returns to areas where it is abundant and earn higher returns where it is scarce, as in developing countries. Globalization driven both by trade and capital flows generally leads to a positive sum outcome, and not a zero sum game. The same idea is true for migration, which involves the flow of human capital. She concludes by arguing that despite political impediments to labor migration, migration and other forms of globalization driven by technical changes, trade, and capital flows are likely to lead to growth of the world economy with the potential to reduce global poverty.

Chapter 4 by Joseph Joyce explores the impact of globalization on income and wealth inequality. Joyce reviews the evidence on the determinants of disparities in per capita income with a focus on the institutions that affect globalization. He implies that globalization can be better managed to benefit the poor. The United States and other industrial countries have a major responsibility to help promote globalization with a human face. In particular, the greatest challenge of global poverty and inequality exists in Africa and the Middle East in the coming century, with symptoms that pose serious global challenges: deadly conflicts, human rights abuses, terrorism, rebellion, and dictatorships. Overcoming these challenges, Joyce says, will make a significant contribution to globalization and result in global peace, stability, poverty alleviation, and human security.

Linda Tesar, in Chapter 5, examines how the composition of global and financial flows has changed and the role of the markets in the process. She discusses the history of financial flows and their responses to the Washington Consensuses I and II. Washington I refers to policy recommendations by Washington-based global institutions, such as the International Monetary Fund, the World Bank, and the U.S. Treasury, which recommended to developing countries to liberalize market prices by “getting prices right.” This policy later proved too limited and led to the Washington II Consensus of “getting institutions right.”

Tesar shows the change in composition for global financial flows to emerging markets during the post-financial crisis period. External development finance is now more likely to take the form of a sale of domestic assets, with control rights shifting to the acquiring firm, which is a natural response to weak institutions in emerging markets. While control of foreign subsidiaries allows both for capital flow and for protection of property rights of the acquiring firm, it is not a substitute for strong institutions that would extend to all firms in emerging markets. The upshot is this: getting institutions right is critical to attracting FDI in developing economies.

In Chapter 6, Lisa Cook investigates the issue of intellectual property rights based on evidence from plant patents from 1977 to 2007 for selected developing countries. She addresses the problem of the provisions of Trade Property Rights Intellectual Protections in developing countries. With weak capacity to protect intellectual property rights at home, low-income countries are robbed of their innovations, including

cultural and historical property asset rights. Cook explores the question of how a developing country may respond to the challenge of greater intellectual property protection, and whether foreign patent offices have become complements and substitutes for domestic patent offices.

The book concludes with Chapter 7 by Hadi Esfahani, who asks whether we as a society and as individuals are developing the right skills and procedures to deal with the challenges of new global opportunities. To address this question, Esfahani discusses previous trends in globalization, which have consisted of greater integration of world markets with the help of technological progress and improved governance across countries. He then turns to future trends in globalization, and says that policy reforms are unlikely to make countries uniform in terms of governance and regulation, but they will bring about greater harmony. Esfahani concludes his chapter by discussing the types of skills necessary to compete in a future global economy.

One of the goals of this lecture series is that reading these thought-provoking papers will stimulate action. It will stimulate the reader to search for additional resources on the issues raised. It will stimulate the reader to bring a more well-grounded understanding to debates about globalization. It will stimulate readers to confront xenophobic proscriptions to let other countries solve their own problems. Like many aspects of progress, globalization has great potential and has its downsides. The goal of collecting papers that analyze issues of globalization is to inform readers about both.