

Globalization and the Impoverishment of the Third World

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Abstract:

This paper traces the historical development of globalization as a process and analyzes the economic and political impact of globalization on poor countries in Asia, Africa and Latin America. The paper discusses the role of the United States of America in driving and leading the globalization process and directing it in a way that enhances American's own interests at the expense of the great majority of world population. The paper attempts to show that globalization is an imposed process on other countries by different means, including economic, political and in certain instances military intervention. In short, the paper attempts to prove that globalization is, in fact, an imperialist process that works against the long-term interests of 80% of world population. In this respect, it is based on unequal development that resulted in a new world order, whereby one-fifth of world population controls 80% of world natural and industrial resources.

Introduction

Globalization is not a modern phenomenon. It is not, as many believe, the product of the 20th century technological innovations, mainly the information and communications revolution. Rather, globalization is the highest stage in a process of capitalist development that began in the early 16th century with the expansion of international trade. Unequal exchanges have led over time to an international division of labour or whereby Western industrial countries became producers of knowledge, technology and commodities while the rest of the world remain producers of raw materials and exporters of agricultural products. This international division of labour is dominated by the capitalist world system which has divided countries into core, semi-peripheral and peripheral. The development and destiny of the peripheral countries is determined by the core countries which run the capitalist world-system. World system, as a model in social science research was inspired by Immanuel Wallerstein in 1970s. World-systems research is based at the Braudel Center for the Study of Economics, Historical Systems and Civilizations (named after the great French Historian Fernand Braudel) at Binghamton University in New York State [Sklair, 2002]

Wallerstein differentiated between the old empires (such as China, Egypt, Rome) and the new world-system by saying that the old empires were redistributive while the new capitalist world-system was acquisitive in nature.

He stated that the structural consolidation of the capitalist world-system over the past four centuries had included three basic developments:

1. The capitalization of world agriculture that is the more efficient use of the world's land and sea resources in large productive units. We are now witnessing the elimination of all remaining plots restricted to small-scale subsistence production. The parallel development has been the steady concentration of the world's population as salaried workers in small, dense pockets called urban centers.
2. The other major structural change has been the development of technology that transforms raw materials into commodities at reasonable cost.
3. Bureaucratization of societies by means of technologies has strengthened all organizational structures vis-à-vis individuals and groups [Scligson, 1998]

It was only with the emergence of the modern-world economy in the sixteenth century Europe, that we saw the full development and economic predominance of market trade. Capitalization was from the beginning an affair of the world-economy and not of nation-states

[Beynon and Dunkerely, 2000]

The globalization process was speeded up in the twentieth century as a result of technological innovations in transportation, communications, and the transfer of financial capital world-wide. The global economy in the twentieth century, especially in the 1980s and 1990s, was based on new systems of production, finance and consumption driven by transnational corporations (TNCs). That global economy was supported by the spread of a "world" culture that emphasized consumerism as the ideal way of life. The new global culture was advanced and diffused by Western mass media and advertisement agencies. Finally, thinkers and researchers speak of three mechanisms that enabled the capitalist system to survive and expand. These mechanisms are:

1. Concentration of military power in the hands of few dominant countries,
2. Existence of an ideological commitment to the system as a whole,
3. Concentration of international capital and economic surplus in few countries and world centers.

Ohmae speaks of 4 "I"s that have weakened the nation-state and consolidated the process of globalization. These are:

1. Investment world –wide. Capital markets in most developed countries have huge amounts of cash for investment. Japan alone has around \$10 trillion stored away. Investment is no longer

geographically limited. Anywhere in the world if the opportunity is attractive the money comes in.

2. Industry. Multinational corporations are moving their production facilities to third world countries. Industrialization is now mobile and not restricted to national borders.
3. Information Technology. This has enabled companies to operate in all parts of the world without having to build a whole business system.
4. Individual Consumers have become more global in their orientation with access to information about lifestyles around the globe. They are less likely inclined to buy products on national considerations. They want to buy the best and the cheapest products, no matter where they come from [Ohmae, Benyon & Dunkerely: 2000, 239-240].

The Impact of Globalization on Poor Countries: Two Contending Views

James Petras conceived of Globalization as both a description and a prescription. As a description, globalization refers to the widening and deepening of international flows of trade, capital, technology and information within a single integrated global market; in addition to the diffusion of values and cultural practices associated with this development. As a prescription,

globalization involves the liberalization of global markets in the belief that free flows of trade, capital and information will produce the best outcome for growth and human welfare. [Petras, 2001: 11].

In 1996 the leaders of Group 7 of the largest economies raised the slogan "Let globalization be a victory to the benefit of all". Did the slogan materialize? Had all countries benefited from globalization? In fact there are two competing views on the impact of globalization on world poverty and on the existing gap between poor and rich nations. The first view is that of globalization will lead to convergence and the second view asserts that it will widen the divergence between rich and poor countries. Lant Pritchett defines convergence as the tendency for poor countries to grow faster than richer ones and hence their levels of income converge. Lant, Hans-Peter Martin and Noreena Hertz have carried out research to test the validity of the convergence theorem. Their research confirmed that convergence did not take place, and on the contrary divergence between rich and poor countries has widened as a result of globalization. Lant Pritchett had examined the international gap in national wealth in both the long and short terms. He found out that in the long-term which extends from 1870 to 1960, the absolute gap between the poorest and richest countries grew by more than 8 times. During the short term 1960-1990 the gap grew by 45%. Pritchett concluded that there is no hope that poor

countries are likely to converge on rich countries in the foreseeable future. He also concluded that most features of modern economic history indicate a massive divergence in per capita income between rich and poor countries and that the gap continues to grow today. He gave an example of the growth of average per capita income in the United States compared with poor countries. He found out that average per capita income of USA to average per capita income of poorest countries grew from 9 times in 1860 (\$2,181 compared with \$250) to 50 times in 1960 (\$16,779 compared with \$325). [Pritchett in Seligson 1998: 160].

The World Bank and the International Monetary Fund (IMF) have in 1995 admitted that a large number of countries have regressed in the conditions of their development, in many cases to levels achieved in 1980 or even in 1970. These countries have clearly failed to share in the fruits of recent global development or to participate in the "trend towards prosperity". It is worth noting that the World Bank adopts the divergence theorem or view. It takes the position that on the basis of correct policies the gap in global incomes can be closed and more countries can share in the "trend towards prosperity". [Petras. 2001: 20-21]. Moreover, the South Commission has noted in 1997 that world-wide implementation of liberalization, deregulation and privatization since the mid-1980s has resulted in significant deterioration of socio-economic

conditions for a large part of the world population, and the widening of the North-South gap in market-generated wealth and income. The United Nations Development Program (UNDP) concluded that globalization is proceeding largely for the benefit of the dynamic and powerful countries. [Petras, 2001: 18].

Still, UNCTAD has estimated in 1995/1996 that up to 120 million workers are now officially unemployed (35 million in the European Union) and another 700 million are seriously underemployed accounting for 50% of the developing world's labour force. In addition, a mobile labour force of 80 million expatriate labourers has formed to constitute a new world labour market [Petras, 2001: 17]. Hans-Peter Martin says that globalization resulted in 20% of world countries which are the richest countries possessing 84.7% of the world's gross production, 84.2% of international trade and their populations possessing 85.5% of world savings. [Hans-Peter Martin: 2002, 75]. One striking statistics shows that 358 billionaires possess a wealth equivalent to that possessed by 2.5 billion persons, that is half of the wealth owned by the world population [UNDP Human Development Report, 1996]. All these statistics and developments show that if capitalist globalization follows its current course there would never be a chance for the world population to equally or even relatively enjoy the wealth, welfare and prosperity achieved so far. At the April 2000 conference of the

Group of 77 (now 133 countries) the process was called the globalization of poverty.

United States Leading Role in Globalization

This section discusses the leading role of the United States of America in advancing the process of globalization all over the world by means of its economic power and through the international financial institutions it controls, especially the World Bank, the International Monetary Fund and the World Trade Organization which constitute the global 2000 financial network. The creation of a new world order found expression in the establishment of the IMF and the WB which were established as an institutional framework for a process of capitalist development and free international trade. It is well known that these two institutions control international loans and credit and that their loans are essentially based on political rather than economic considerations. They also set very strict and harsh conditions on countries that need loans and credit facilities. The ultimate aim of such conditions is to draw the needy country into the trap of capitalist development. Some of these conditions that harm the poor and middle-income groups in the borrowing country are: lifting subsidies of basic needs by the government that include subsidies of food stuff and medicine, freezing salaries, privatizing public firms, reducing the number of public employees etc.

However, the real globalizing power of the USA lies in the Transnational Corporations (TNCs) that dominate world economy and world trade. Thus, a detailed discussion of the role of the TNCs is quite in place. Literature on TNCs always speaks of the top 500 corporations that dominate world economy and trade. In 1998, of the top 500 TNCs 244 were American, and 61 of the top 100 were American. To cite just a few selected examples on the vast revenues of some TNCs compared to different countries in the year 2000. The richest six countries in the world earned the following revenues in the year 2000: United States \$ 1,828 billion, Germany \$ 996 billion, United Kingdom \$ 541 billion, Italy \$ 530 billion, Japan \$ 463 billion and France \$ 325 billion. Following these most rich countries and preceding most European and non-European countries in terms of annual revenues in 2000 were the following American TNCs: Exxon Mobil \$ 210 billion, Wal-Mart Stores \$ 193 billion, General Motors \$ 185 billion, Ford Motor \$ 181 billion, Daimler-Chrysler \$ 150 billion, General Electric \$ 130 billion, City Group \$ 112 billion. Just to give a few examples, these TNCs had larger revenues than Netherlands \$ 163 billion, Brazil \$ 151 billion, Canada \$ 122 billion, Spain \$ 115 billion, Australia \$ 91 billion, and South Korea \$ 69 billion. [Sklair, 2002: 37]. It is worth noting that in 1993, 22 of the largest TNCs earned more than 50% of their revenues from

foreign sources. The TNCs are more powerful than many nation-states. They have greater interest in globalization and in the new world system than many single governments. Hence, these companies can topple political regimes through using America's military might and political influence. Moreover Hertz noticed that America's foreign policy has been dictated since a long time by the interest of these global companies, rather than by the good of the American people, by human rights or moral considerations. The mobile nature of international capital increasingly tell governments what they can and what they cannot do. Governments are no longer able to defend the interests of their people, even if they want to. TNCs threaten governments by pulling their capital out of the country in order to force them to make huge tax concessions and to build the infrastructure projects at the expense of the state. American President Rotherford Hays described the American government in the following words: "It is a government of companies, run by companies in the interest of companies". [Hertz, 2002: 105, 95, 97]. The ex-governor of the German Central Bank Mr. Hans Tietmeyer said: "Politicians must realize now that they are under the control of financial markets" [Hertz, 2002: 65].

However, the American government tries to hide the real economic, political and military motivations for its interventions behind high moral principles. Petras explains this attitude by saying that the USA is an imperial

democracy, thus it uses moral rhetoric to neutralize domestic public opinion. While American foreign policy is largely directed towards serving the TNCs, politicians who apply that policy require votes. Hence the double discourse of American policy: the practical pursuit of domination for the economic elite and moralistic talk to secure legitimacy from the electorate [Petras, 2001: 139].

TNCs strengthen their control over world economy in three ways:

First, they spend millions of dollars on research and development in order to produce high technologies that help them save on needed labour. The leaders of some TNCs met in San Francisco in 1995 to forecast the condition of world economy in the 21st century. They concluded that 20% of the world labour force would be sufficient to produce all goods and provide all services. They said that this portion of the world population would be working, making money and consuming. What about the others, the 80% who are unemployed? Zbigniew Brzezinski answered that we will give them food and entertainment. At that meeting leaders of globalization rejected the notion of "social commitment" by productive firms. Although the sales of the largest 500 TNCs increased by seven times since 1970s, the number of workers employed by these companies remained the same. Moreover, many permanent jobs were replaced by part-time jobs on contractual basis. For instance, 30% of workers in South America have no contracts.

Second, the TNCs resorted to moving their industries to countries where the cost of labour is low or very low. In this way, the TNCs increase their profits and oppress labour at home.

Third, through control of the mass media, TNCs are able to shape a global lifestyle and a global culture that revolves around consumerism. Moreover, they control the well-being of millions of people around the globe through controlling the prices of food, medicine and other vital commodities.

Aside from TNCs hegemony and exploitation, the USA and other rich Western countries have driven Third World countries into the trap of debts through bilateral lending or through loans provided by the World Bank and International Monetary Fund at very high interest rates which they politely call "debt service". There is almost no third world country free of capitalist debts. Petras cites debts of South America as a striking model. He says that US commercial banks rapidly expanded their international operations in the 1970s so as to use their surplus capital and earn high rates of return. By 1982, the amount of loans extended to governments and the private sector in Latin America, particularly Argentina, Brazil and Mexico reached \$ 257 billion. During the "debt crisis" in 1982, bank loans to the region were reduced. However, the accumulated debt reached \$ 452 billion by the end of the decade, despite the annual interest payments of \$ 170 billion. This debt service has drained the resources of Latin

American countries to the extent that even the President of the World Bank at that time was pushed to note that "a transfer of resources of such proportions is premature" [Petras, 2001: 78]. By 1998, Latin America's debt reached \$ 698 billion.

Globalization led by the international capital, created a world where the poor are marginalized, while the rich get richer. It is a world divided between those who are inside the Trans National Corporation (TNCs) and those outside these corporations. Politicians in most countries have only one solution to offer: A regime based on free economy, consumer culture and the power of money and trade. In fact such a regime is a silent cancellation or abolition of the social contract [Hertz, 2002: 11].

Globalization and American Imperialism

Imperialism is the highest and final stage of capitalism. Globalization is the highest and final form of capitalist development or of the "purely capitalist world system". The process of capitalist development over the past four centuries did not occur spontaneously or in an evolutionary manner. It was actually driven by wars and colonialism. The three major powers who advanced capitalist development and globalization were Britain, France and the United States. Throughout the history of imperial expansion, spokesmen for empires have sought to justify the conquest of peoples and exploitation of resources by

citing "Highly moralistic principles." In the 19th century, the English described the pillage of Asia and Africa as part of the "white man's burden" to bring civilization to the "dark peoples". The French argued that their conquest was motivated by a desire to bring the fruits of French culture to backward societies. In the 20th century, with the rise of U.S. imperial conquests, particularly in the Western Hemisphere, a similar "high moral tone" was adopted to justify U.S. military intervention in defense of its bankers in Santa Domingo, banana companies in Central America and oil monopolies in Mexico. These interventions were justified as "defending order and stability" and "protecting the lives of American citizens." With the advent of the Mexican Revolution, President Woodrow Wilson justified U.S. imperial intervention in the name of "democracy" and "order." After the Russian Revolution, Washington devised a new pretext for intervention – "anti-Communism" and the "Red menace." With the end of the Cold War and the demise of Soviet Communism, Washington turned towards the "narcotic threat" to justify its intervention and control of security policies and officials in Latin America. Then after the event of September 11, 2001 Washington found in fundamentalist Islam a new pretext for invading and subjugating the Arab and Muslim countries, claiming that radical Islam threatens the stability of the world order and America's national interests and security.

The new liberals give priority to capitalist formation and to the global spread of capitalism over the establishment of democracy. This is evident from United States long history in destroying democratically elected non-capitalist regimes in order to replace them with undemocratic or dictatorial capitalist regimes. Petras reviews America's historical record in this regard. We will briefly present a few cases:

Guatemala (1950-54)

In 1950 Guatemalans democratically elected Jacob Arbenz as President. He ran as a moderate nationalist-populist interested in limiting the excessive power of the U.S.-owned United Fruit Company, and in extending social rights to trade unions. In 1954 the CIA, in alliance with sectors of the Guatemala army, landlords and big business overthrew the government and established a military regime that jailed, tortured and killed many democratic activists. Over the next three decades the U.S. government and its corporate business supporters trained, armed and organized the Guatemalan army. The result was the killing of around 200,000 Guatemalans.

Iran (1954)

Muhammad Mossadegh was elected as prime minister of Iran in the early 1950s. He was a nationalist who tried to reduce the excessive dependence of Iran on foreign-owned (Anglo-American) oil companies. He was overthrown in

a coup organized and financed by the CIA. He was replaced by Shah Pahlavi who protected American interests. Washington provided the Shah with military and secret police training, as well as arms and financial assistance for more than 25 years. The Shah ruled his country through the power of the horrible secret police SAVAK.

Chile (1970-73)

The overthrow of the democratically elected socialist government of Salvador Allende is probably the most notorious and best known case of the local and international bourgeoisie clearly asserting its preference for a dictatorship that defended big investors over a democracy oriented towards redistributive policies. And socialism. The military coup of 1973 was preceded by a series of extra-parliamentary actions by the capitalist class and U.S. secret police. The U.S. government, working with major multinational corporations, organized and financed the destabilization program, collaborated closely with the military coup-makers and provided a detailed list of democratic activists of the overthrown regime to the newly formed Chilean secret police. After the coup, the U.S. government, which had opposed international financing of the democratically elected regime, approved a massive flow of financial resources to the military dictatorship. [Petras, 2001: 111-112].

The United State pursued its imperialist policy with greater intensity after the end of the cold war and the fall of the Soviet Union. World-wide development in the early 1990 encouraged the United States to intensify its empire-building project. The first Gulf war, the invasion of Panama, the war in Somalia, the occupation of Iraq, the blundering of its resources, the destruction of the state system and the long-term plans for controlling Iraqi wealth and the Gulf Region Oil reserves, and the threats to the Islamic Republic of Iran were steps taken in the course of strengthening American hegemony over the whole world. The dismantling of the socialist state of Yugoslavia and the expansion of NATO into Eastern Europe fall also in line with the building of a global empire controlled by the United States which is conducive to its national interests. The New Conservatives have advanced the doctrine of "constructive or creative chaos" calling for destroying non-capitalist states and restructuring them. The Middle East Region, especially the Arab states and Iran are the main target of the "constructive chaos" doctrine.

Philip Michel observes that the new state in globalization constitutes a "qualitative change" in the way societies are organized. He believes that local populations and national governments in particular are no longer in control of the key decisions that shape their lives. He adds that national governments should always worry about how international investors and international

financial institutions, such as the World Bank and the IMF perceive their performance, because these governments are deeply indebted and they need future loans [Roberts, 2000: 141-42].

We conclude this section by posing the question: is globalization inevitable and is its triumph final? Globalist advocates believe that and assert that globalization is the wave of the future of humanity. Globalist ideology is upheld by a specific group of capitalists operating at the center of the globalization project, such as investment bankers and brokerage firms that moved to the forefront of the richest U.S. companies. Petras asserts that "globalization is the wave of the future only for speculators and financiers" [Petras, 2001: 44]. Anti-globalist thinkers believe that there are growing pockets of resistance to globalization world-wide, especially in Europe and Latin America. These thinkers believe that one-quarter of the capitalist world cannot prosper when the three-quarters live in deep crisis. The laws of capitalist accumulation cannot operate in such restricted circumstances. The success of capitalism in Europe and the U.S. is largely based on dismantling the social welfare state and abandoning the social contract which regulated the relationship between government and citizens and between businessmen and workers. Some anti-globalization thinkers go as far as to envisage a return to the socialist or collective system which dominated two-thirds of the globe in the

twentieth century. The globalization project is not wholly imposed by international external powers; in fact those who run national states participate in that project through readjusting state institutions and agencies to comply with the dictates of Trans National Corporations and to further their capitalist class interests. The internationalization of the national decision and state power means that international organizations would set the political, economic and administrative agenda and priorities of nation-states.

Conclusion

The previous discussion and analysis supported by historical evidence and case-studies enable us to draw the following conclusions:

1. Globalization is a historical process rather than the product of twentieth century inventions and technologies. Globalization is in essence the result of the painful growth of the capitalist system to engulf all parts of the world.
2. As a world system, globalization was imposed by force on many peoples and lands. It is still protected by America's military might and economic power in all parts of the globe.
3. There is little evidence that globalization will pull up the developing Third World countries to the standard of living of the industrially developed countries.

4. Globalization is a very exploitative world-system that will increase the numbers of the poor and deprived in the world as its laws operate in favor of capital accumulation in a few countries.

5. There is evidence that globalization is not the future of humanity as pockets of resistance began to appear and fight back against United States hegemony, although the battle will not be easy at all. Many believe that by marginalizing labour world-wide, globalization carries the seeds of its own destruction.

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