Globalization and Economic Growth Performance in Developing Countries

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Abstract

The architects of globalization continue to argue that globalization has dramatically improved the standards of living in countries that have endorsed it. Today, many observers still argue that globalization has only succeeded in destabilizing the economies of developing countries rather stabilizing them. Therefore this paper analyzed the impact of globalization on economic growth in developing countries. The analysis showed that globalization and trade liberalization has led to poor economic growth performance in developing countries. Hence, it is recommended that governments of developing countries should adopt sound macroeconomic policies that will bring their economies back on the track of sustainable growth. A stable macroeconomic environment will create more jobs, raise income and reduce inflation, stabilize their currencies and foster economic growth and development.

Key Words: Globalization, Gross National Income, Economic Growth, and Developing Countries

I INTRODUCTION

Globalization means different things. According to Stigliz (2007), globalization is the international flow of ideas and knowledge, the exchange of cultures, global civil society and the global environment. It can also be regarded as an arrangement which aims at adjusting the system of purely national markets into a state of increasing liberalization and removal of restrictions. Under this arrangement, people and ideas move around the world in a greater number propelled by adjusting technologies,

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communication and transports. However, economic globalization aims at the integration of national economies into the international economy. This is through trade, Foreign Direct Investment (FDI) and short-term capital flows, International Flow of workers and mobility generally and flows of technology. In this context, globalization entails a closer economic integration of the world through increased flow of goods and services, capital and even labour.

In recent years, globalization and its ugly face has only succeeded in destabilizing the economies of developing countries instead of stabilizing them. Developing countries refer to those countries characterized inadequate financial resources to spur economic development. We can also define developing countries based on their Gross National Income (GNI) per capita per year. Those countries with a GNI of $1,906 and less are regarded as developing countries. But those countries with a GNI of $12,275 and more are defined as developed countries, World Bank (2013).

With these conceptualizations at the back of our mind, this paper critically examines the impact of globalization on developing countries. The analysis, however, is on economic growth performance. Consequently, the paper is divided into four sections. Part one which is the introductory section forms the main thrust of the paper. Part two focused on macroeconomic problems of developing countries while part three analyzed economic growth performance of developing countries. Part four concluded the analysis with a package of policy recommendations.

II MACRO-ECONOMIC PROBLEMS OF DEVELOPING COUNTRIES

Developing countries tend to be characterized by at least some of the following characteristics. First, there is a history of excessive government control of the economy. This includes restrictions on international trade and government control of large industrial firms. Second, there is a history of high inflation. To finance most expenditures, governments often resorted to

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printing money. This further fueled inflationary pressures in the economy. Third, there is evidence that domestic financial markets have been liberalized. But weak credit institutions abound and banks lend funds they have borrowed to finance poor or risky projects, Krugmen and Obstfield (2007).

Apart from rising rate of inflation, developing countries are also characterized by rising rate of unemployment. Data in Table 2.1 shows the rates of inflation and unemployment in selected developing countries, for the period, 2011-2015.

Table 2.1: Average Inflation and Unemployment Rates of Selected Developing Countries, 2011-2015.

Country	Inflation Rate	Unemployment Rate
Angola	4.13	6.2
Indonesia	6.12	3.6
India	7.30	9.5
Mali	2.10	8.1
Nigeria	9.54`	21.5

Sources (1) Central Bank of Nigeria
(2) The World Bank

As can be seen from the Table 2.1, Nigeria has the highest rates of inflation and unemployment followed by India. This development will obviously have a destabilizing effect on the economies of India and Nigeria.

III ECONOMIC GROWTH PERFORMANCE OF DEVELOPING COUNTRIES

It is usually argued that developed countries have benefited greatly from globalization. Today, the pains of globalization and its ugly face on developing countries need no further dramatization. For example, globalization of trade has re-enforced income inequality in developing countries. While exports of developed countries are expanding, those of developing countries are decreasing. Globalization has led to the

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accumulation of macroeconomic imbalance and marginalization of countries that failed to apply appropriate policies. It has also created a destabilizing impact on rapid short-term capital flows into developing countries. In pursuit of globalization, manufacturing capacity in developing is sinking. Developing countries are giving more than they are receiving from developed nations. These developments have adversely affected economic growth performance in developing countries.

Available data has shown that in recent years, developing countries have been characterized by sluggish economic growth. For example during the period, 2006-2011, GDP grew at an average growth rate of 6.5 percent in developing countries. Aggregate output is measured by GDP grew at 8.7, 6.0, 2.0, 7.5 and 6.2 per cent in 2007, 2008, 2009, 2010 and 2011. As shown in Table 3.1, based on output growth, the overall economic performance of developing countries began to show a downward trend from 2008. The situation later worsened in 2009 when the growth rate of the developing region stood 2.9 per cent. The U.S. global financial crisis since 2008 might have been responsible for this trend, Gbosi (2009).

Available data also suggested that the slowdown of the global and advanced economies negatively impacted the level of economic activities in developing countries. The rate of real GDP growth for the group of developing economies slowed to 6.2 percent from a level of 7.5 per cent in 2011, AFREXIM Bank (2011).

Output growth in emerging and developing economies declined by 0.21 percentage point to 4.7 percent in 2013 from 4.9 per cent in 2012. The development was largely due to spillover effects of the slowdown in major advanced economies especially the U.S. For example, growth in Latin America and the Caribbean declined to 2.6 per cent in 2013 from 3.0 per cent in 2012. In Sub-Saharan Africa (SSA), however, growth strengthened to 14.1 percent in 2013 from 4.8 per cent in 2013. This was attributed to strong domestic demand and favourable non-fuel commodity prices. However, growth rate in Nigeria declined sharply from 6.3 per cent in 2014 to 2.8 per

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cent in 2015, Central Bank of Nigeria (2015). The poor performance of Nigeria's economic growth in 2015 was largely due to the economic recession which the country has experienced since the second quarter of 2015, Gbosi (2015). But the overall economic growth performance of developing countries has not been impressive (see Table 3.1).

Table 3.1 Growth Rates of Developing Countries, 2006-2015

Year	Growth Rate
2006	8.2
2007	8.7
2008	6.0
2009	2.9
2010	7.5
2011	8.2
2012	4.9
2013	4.7
2014	5.0
2015	4.8

Sources: (1) The World Bank
(2) Central Bank of Nigeria

IV CONCLUSION

The Primary purpose of the paper was to analyze the effects of globalization on economic growth performance of developing countries. In recent years, globalization has done more harm than good to the economies of developing countries. Some of the macroeconomic problems of developing countries identified from the analysis included rising rates of inflation and unemployment, external sector instability and extreme poverty.

Consequently, the following recommendations have been proposed. Governments of developing countries should first get their depressed economies back on the track of sustainable growth. A stable macroeconomic environment will create more jobs, raise income and reduce inflation,

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stabilize their currencies and foster economic growth and development. This will enhance the standard of living of their citizens. Finally, they should limit protectionism. Open economies experience faster economic development than economies closed to international trade. Trade encourages nations to discover ways to specialize so that they can become more productive and earn higher incomes.

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