Globalization: Its Nature and Impact on Developing Countries

J. M. P. Pathirage

This paper examines the nature of globalization, some of its key aspects, and its economic impact on developing countries. The study uses secondary data from the relevant literature and it is a qualitative analysis in nature. The process of globalization is facilitated by the inflow of foreign direct investment (FDI) and the worldwide operation of Transnational Corporations (TNCs), technological advancement, which have reduced the cost of transport, communications and information to allow firms to relocate and co-ordinate different stages of production in different countries. It is also facilitated by the liberalization policies pursued by most countries to open their markets for trade, investment and financial flows.

The study shows that globalization brought a much greater degree of economic convergence in the world but its impact on economic growth of developing countries is unclear. Globalization has resulted in increasing the interdependence of economies, improving productivity and average living standards of people, making structural changes in the economies, improving the volume of international trade, foreign investment and technological transfer into developing countries. But the beneficial effects of globalization were highly partial. Some countries in the world may initially gain a great deal while others may benefit marginally. The economic losses and social dislocation that are being caused to many developing countries by rapid financial and trade liberalization, the growing inequalities of wealth and opportunities arising from globalization, and the perception that environmental, social and cultural problems have been made worse by the workings of the global free market economy. Besides, globalization erodes national economic sovereignty as power shifts from national governments to transnational corporations, which dominate world trade, investment and technology and international institutions such as International Monetary Fund (IMF), World Bank and World Trade Organization (WTO), which determine the economic policies to be pursued by developing countries. In such a situation, it is necessary to