

THE EFFECT OF GLOBALISATION ON THE DEVELOPMENT OF UNDERDEVELOPED¹ ECONOMIES

By

MUSA JEGA IBRAHIM

The existing wide disparities between the developed and the underdeveloped economies makes globalisation a tool for stultifying the industrialisation process, and by extension, retarding the growth and development of underdeveloped economies. Trade liberalisation, the cardinal instrument of globalisation ensures that industrialised countries have access to world markets, which enhances further industrialisation of industrialised countries while incapacitating the industrialisation process of the underdeveloped economies. The paper is an attempt to examine issues surrounding the paradox of globalisation and provide a framework for underdeveloped countries to circumvent the overbearing effect of globalisation in their efforts towards industrialisation, economic growth and development.

INTRODUCTION

Globalisation constitutes a critical motivation for development in the contemporary world of today as a result of the challenges it poses to nation states. The equation of global influence is fundamentally determined by a vibrant economy that is characterised by inherent ability to sustain a steady state growth path and development. Theories of economic growth (both neoclassical and endogenous models) converge on the fact that technology is the driving force of economic growth. The crucial factor in global economic equation is therefore technological capabilities, which makes proper utilisation of resources feasible. In turn, the utilisation of resources is a requisite process for attaining technology and generating economic growth.

¹ Classification such as “developed”, “developing” and “underdeveloped” have been used to describe countries depending on their levels of attainment of the features of development. This paper will use underdeveloped countries (economies) due to its focus on the most poor countries of the world that are widely drifted from the status of development, recognizing that developing is ascribed to those countries that have initiated some visible programmes that is culminating into some form of attainment of developmental ideals.

The current trend of globalisation underscores the critical role of industrial development in minimising the level of marginalisation associated with the prance of globalisation. The process of globalisation has given rise to greater competition towards markets and investments. Changes that are sweeping rapidly across the business world have forced businesses and nations to adapt by striving to change old economic behaviours and traditions. Industrial development has become an imperative recourse for underdeveloped economies, in that it must be seen as a key component of their development process. The role of the industrial sector in the newly industrialising countries has further intensified the appeal and the compelling urge for industrialisation for the third world countries.

Considering that economic growth is a regeneration process which implies that lack of economic growth can regenerate itself, is it possible for underdeveloped economies to transform into vibrant economies for growth and development? Given the competitive edge developed economies have over underdeveloped economies and the tacit support for developed economies by such international global institutions as WTO, World Bank and the IMF, the task of articulating and implementing policies and strategies that could create a basis and sustain economic growth and development of underdeveloped economies have become very arduous. In recent times, the impact of globalisation on the development process of emerging economies have aroused closer and more critical examination of the vestiges of globalisation as a result of the persistent failures of such economies. The economic situation of most less developed economies have continued to degenerate and often afflicted by poverty, squalor, deprivation, frustration and insecurity among their citizenry, all of which culminates to political instability.

This paper attempts to examine the effects of globalisation on underdeveloped economies and provide a framework for underdeveloped countries to circumvent the overbearing effect of globalisation in their efforts towards industrialisation, economic growth and development. The paper is organised into five sections: section one is introduction; two is a cursory analysis of the essence and imperatives of economic development; three dwells on the concept, implications and effects of globalisation on underdeveloped economies; four entails propositions on policies and strategies that could be useful to underdeveloped

economies in mitigating the detrimental effects of globalisation to enhance their chances of economic growth and development and section five is concluding remarks.

THE IMPERATIVES OF ECONOMIC DEVELOPMENT

The current thinking in development encompasses sustainable growth, poverty reduction, human development, environmental protection, institutional transformation, gender equity and human rights protection. Development, the ultimate aspirations of modern economies, is the upward movement of the entire social system of a country. More poignantly, development is the attainment of a number of ideals of modernisation such as rise in productivity, social and economic equalisation, modern knowledge, improved institutions and attitudes, a rationally co-ordinated system of policy measures that can remove the host of undesirable conditions in the social system that has perpetrated a state of underdevelopment.

Researchers and policy makers are rediscovering as we move from the decades of adjustment to a new period of reform and growth, the two most important principles of development; one being that during the early phases of development when an economy is no more than a collection of fragmented markets and region, the establishment of government institutions, the construction of infrastructure and the direct participation of the state in key areas of the economy are not only desirable but indispensable preconditions for the growth process; the second principle reflects the notion of the opening-up of investment opportunities through changes in the environment where individuals work, save and invest, in the process of which a basis for new ideas and investment opportunities are created (Gurria, 1992). Proper application of ideas is very crucial in the development process, which Romer (1992) incorporated as a factor of

production and contrasted alternative development strategies based on using existing ideas and producing ideas.

An essential precondition for economic development is economic growth. Kuznets (1971)² defined economic growth as “a long term rise in capacity to supply increasingly diverse economic goods to its population; this growing capacity is based on advancing technology and the institutional and ideological adjustments that it demands” (Todaro, 1994). Increases in the outputs of major sectors of an economy, such as manufacturing and natural resource, either as a result of increases in the use of inputs or improvement in technology, will lead to economic growth. Key macroeconomic indicators such as the gross national product (GNP), gross domestic product (GDP) and net national product (NNP) are used, among other economic parameters, as measures of economic growth performance of an economy. A progressive increase in the outputs of major sectors of an economy is a manifestation of the attainment of economic growth.

Basically, economic growth is driven by a process that is generated and sustained by the effective utilisation of a country’s economic resources. The challenge facing countries in attaining economic growth is that of creating an enabling atmosphere for essential use and the harnessing of economic resources. This challenge has become even more intensified by an increasingly interdependent global economic dispensation that tends to undermine and marginalise indolent economies. This has given rise to disparities among countries of the world in terms of their levels of attainment of economic growth. While some countries have achieved high rates of economic growth, which have led to enhanced standard of living within such countries, other countries of the world have performed dismally, attaining little, and in some cases nothing in terms of economic growth which translates into very low standard of living of their citizenry. Some economies have witnessed a sudden and remarkably very high growth rates even above the world average. This achievement is being referred to as growth miracles. On the other hand those economies that have performed abysmally below world average are referred

² Kuznets, (1971) Modern Economic Growth: Findings and Reflections, Nobel Lecture delivered in Stockholm, Sweden and Published in the American Economic Review, 63, September, 1973.

to as growth disasters. Real productive activities engender economic growth by ensuring a continuous improvement in the methods of production, discovery of new resources and thus creating the necessary conditions for effective utilisation of resources. A multiple sector positive performance is essential for the growth of the overall economy, but a sector of the economy that attracts higher levels of economic activities could stimulate the productive fibre of other sectors towards real production and provide the requisite impetus for sustainable growth of the economy.

The various models of economic growth, which are broadly categorised into classical and endogenous growth models (McCallun, 1996), illuminate the crucial essence of the effective use of factors of production as the veritable mechanism for attaining economic growth. The significant deduction from the convergent expositions of the models is the crucial role of technology as the catalyst for economic growth based on the stimulating and complementing role of production and consumption, as a necessary condition for sustainable growth. Production is meant to provide for consumption, which originates from the urge of the household to consume to attain welfare. Since the more the better, the insatiable motivation to improve on the variety, quantity and quality of consumption leads to discoveries of more sophisticated methods of production, through which technology is derived and acquired to form the bedrock of economic growth. A co-ordinated institutional motivation for effective utilisation of resources is therefore a fundamental condition for generating a sustainable growth path.

A synthesis of the endogenous growth models (see for instance, Sandilands, 2000) points to the fact that the existence of industrial production on one hand, and demand for the products of the industries on the other hand, creates opportunities for market expansion, competition and specialization. Through a favourable “forward linkage” effects, an endogenous self-perpetuating process of growth emerges and feeds on it almost automatically. By the prompting of internal and external economies of scale, the process of industrial production evolves into higher and more sophisticated levels of production, giving rise to further specialization, new products and quality improvements, leading to technological acquisition and economic growth. Adaptation to a growing market,

widened by international trade, stimulates industrial production and provides additional impetus to the attainment of economic growth. The dimension of international trade has given rise to the contemporary challenges posed by globalization. The export-led economic growth hypothesis is hinged on the stimulation of production as a result of larger demand arising from international trade, which induces economies of scale. This hypothesis was inspired by much earlier trade-led growth expositions by classical economists such as Adam Smith and David Ricardo. Thus, industrialization-driven resource utilization process is the key to economic growth, in that industrialization ensures production and generates positive externalities for spearheading the economic growth path. However, the process of globalization has given rise to greater competition towards markets and investments.

Economic development springs-up from economic growth in that the process of generating economic growth give rise to the attainment of basic elements of development and amplifies the urge for further development. Development is like a jigsaw puzzle; it is easier to fit in a particular piece when the adjoining pieces are already in place. Once the difficult parts of the puzzle have been solved, the remaining pieces begin to fall into place almost automatically. Ohiorhenuan (200) asserts that the most striking aspect of the evolution of development thinking over the last fiftyyears is the growing acceptance that development is a journey, not a destination, and that the process may be more important. Although development has universal principles, each society (country) of the world requires adopting different approach based on its inherent peculiarities to initiate and sustain the process of development.

The fundamental convergent proposition on development is the provision of basic needs such as food, education, health, safe drinking water and shelter to the citizenry. It is also widely accepted that this task is better and more appropriately performed by public institutions. This underscores the critical role of the government in the process of economic development. Public expenditure is expected to stimulate the factors of production towards effective utilization of resources, enhancement of the value-adding capacities of the factors of production and thus generating the process of sustainable

growth and development of the economy. The role of public expenditure evolves in the course of development since the fiscal machinery is hinged on the changing needs of the economy, which presupposes that expansion in public expenditure reflects in the growth of the economy in consonance with the varying allocation and distribution needs of the economy. The economic and social progress of any economy depends largely on its government's ability to generate sufficient revenues to finance an expanding programme of essential, non-revenue yielding public services (Todaro, 1994). The government activity or public expenditure version of endogenous growth model argues that various activities of government such as provision of infrastructure services, the protection of property rights and taxation policies could affect the level of baseline technology and thus affects the long-run per capita growth rate. Assuming there is no population growth, the economy can exhibit endogenous growth as a result of contingent pattern of public expenditure. This implies that public services are complementary with the private inputs in the sense that an increase in government expenditure raises the marginal products of labour and capital to individual firms. It is assumed that government purchases a portion of private output, which it uses to provide free public services that is non rival and non excludable. Firms benefit from this and thus maximises profit by equating the wage rate, which equals the after tax marginal product of labour, with the rental rate, which equals the after tax marginal product of capital, which enhances the aggregate output of the economy. Government maximises the representative consumer's inter-temporal utility based on the social optimal growth of the economy. Through the principle of "scale effect", an increase in labour raises the after tax marginal product of capital and expands the social marginal product in a parallel way, which in turn, leads to higher per capita growth rates. However, congestion on government services affects production negatively and retards growth of the overall economy invariably. If a public good is used by more than necessary number of firms, congestion sets in and this leads to inefficiency of the production process.

Adequate provision of basic needs of the society through the state-controlled machinery of government motivate private investments, which enhance the productivity of the

factors of production and leads to growth and development of the economy. The state has a great responsibility in creating favourable conditions for the interplay of societal forces and directing the economic dispensation towards a path of growth and development. Given that development is a process not an event, the role of the state is continuous and does not end at a given level of economic development even though the scope and nature of such roles may change to reflect the intricate dynamics of society. The key to development is the continuing development of human resources and their involvement in creating and using ideas in the economic, social and political dispensation of the society. The social and material condition of individuals within the society should be paramount in policy articulation and implementation. Thus, development is an inclusive process that entails the aspirations of the people of a given society, who are more familiar with their environment; as such can more appropriately diagnose their problems, articulate their vision and design solution for any identified problem of their society. A co-ordinated institutional motivation for effective utilisation of resources is therefore a fundamental condition for generating a sustainable economic growth path that leads economic development.

CONCEPT, IMPLICATIONS AND EFFECTS OF GLOBALISATION ON UNDERDEVELOPED ECONOMIES

Globalisation is inherent to human co-existence and an integral part of human history. It is an international reflection of the interdependent nature of human co-existence. The history of the world has been associated with the process of globalization at different levels relative to conditions at different times. The economic dimension of globalisation is the most formidable and has been the driving force for the political and social aspects. For instance, European cultures found their ways into other parts of the world through the colonisation of colonies which was spurred by the industrial revolution in Europe. The logic of the colonisation process was to create a more integrated world economy controlled by the metropolitan countries as a result of the revolutionary changes in the way production was organized in Europe that gave it a competitive edge over the rest of

the world. The concept of globalisation describes the nature in which the economies of different countries of the world are interrelated and integrated into a larger economic enclave.

The praxis of globalization has caught up with virtually all countries of the world today, which are faced with the realities of increased integration of world trade and capital flows facilitated by the rapid growth of information technology and the opening up of hitherto closed economies. The trend of increased integration of national economies with the rest of the world is gradually evolving into a coherent global economy that is hinged on free markets, investment flows, trade and information. This has the tendency of shifting autonomous economies into the global market by systematically incorporating such autonomous economies into a global system of production, distribution and consumption. Although globalisation is not a new phenomenon, the speed with which it has engulfed countries of the world as a result of fast growing information technology has generated concerns as to its effects on underdeveloped economies. The implication of globalization is embodied in the statement by Peter D. Sutherland, the chairman of Goldman Sachs International and of the Overseas Development Council, in the IMF's 1998 per Jacobson lecture;

“The qualitatively new world economy that has emerged under globalization is characterized by an extraordinary volume and pace of international capital flows and a structure in which the production and marketing of goods and services are integrated across national borders”.

The emergence and the changing structure of the world economy is the most profound implication of the globalisation process, which has altered virtually all aspects of business, industry and manufacturing. Manufacturing activities takes place in different forms at different locations with different product models to take advantage of differences in societal conditions. Irrespective of boundaries between countries and ownership profile of firms and technological wherewithal, firms can establish production units in different places across the world. Scientific and technological breakthroughs have facilitated an international information system that makes it possible for people across territorial boundaries to be aware of new goods and services, whichever country such

new goods and services are produced. Firms across borders gain from externalities such as knowledge spillovers that springs from the quality-ladder process of endogenous growth model analysis. The process of globalisation has opened great opportunities for the exploitation of economies of scale and scope, making for rapid growth and conferring comparative advantage on those with access to it.

A world economic system has given rise to a world capital market. The flow of capital around the world is being facilitated by the nature and dynamic operations of the international economic dispensation. The integration of the capital market ensures the movement of capital to the countries of the world where there is higher returns for capital, which enhances private capital gains. It is now widely recognized that finance capital responds rapidly to new profit opportunities on the basis of sound economic fundamentals.

Trade liberalisation has been the major policy thrust that drives the globalisation process. The significance of international trade in spearheading economic growth and development process underlies the essence of establishing formidable international trading rules to sustain the dispensation of the world economy. Institutional policy instruments are been used to consolidate the gains of free trade around the world. The formation of the General Agreements on Tariffs and Trade (GATT), which later metamorphosed into the World Trade Organisation (WTO), is to serve the purpose of institutional policy framework for ensuring compliance with free trade policies by countries of the world towards achieving, sustaining and consolidating the globalised world economic structure.

The process of globalisation has both positive and negative effects to different category of economies of the world. Competition among firms to get a good a share of the large world market leads to; specialisation and efficiency; better quality products at reduced prices; economies of scale in production; technological and managerial improvements. World output of goods and services will increase both in quality and quantity which is expected to translate into higher living standards of the world population. Rauch and

Trindade (2003) established that free information flow across countries leads to increased international substitutability of factors of production with emphasis on labour. However, Verdier and Theonig (2003) argued that firms and countries tend to adopt the strategy of defensive-skill-biased innovation to curtail the leapfrogging of their technology by others as a result of the process of globalisation.

Developed economies are the main actors of globalization since it is about the expansion of markets for goods and services. Underdeveloped countries, which are not well equipped to produce goods and services that can withstand competition with others, are not likely to be interested in market expansion. While availability of goods and services produced by firms motivates the need for wider markets, availability of markets in turn, provides impetus for further production of goods and services. Inspiration from economic growth and development analysis implies that effective use of resources, which is the critical stimulant for the process of economic growth and development, is hinged on industrial production.

The most discernible characteristic of underdeveloped economies is lack of the infrastructure and motivation for the production of goods and services. This has constituted into a serious setback to industrial production in such countries, which has manifested into difficulties in meeting the basic needs of their domestic economies for goods and services. A cycle of persistent underdevelopment is emerging in these countries as a result of persistent non utilisation of their domestic resources for production purposes. To meet basic consumption requirements, demand for goods and services produced by other economies becomes inevitable, but development of any society evolves from the society's peculiar needs and the strategies towards meeting such needs by the society. Goods and services produced by other societies based on certain consideration have limitations in responding to developmental needs of another society. Due to lack of industrial production, the underdeveloped economies cannot reap the benefits of learning-by-doing and other positive externalities such as knowledge spillovers, Research and Development (R&D) and technological leapfrogging. The unutilised resources of the underdeveloped economies find their ways to the developed

economies for use as raw materials for industrial production. The globalisation process sustains this trend using the overbearing rules of international institutions that are largely controlled by the industrialised countries.

Competition and the benefits of competition spurred by the process of globalization is confined to countries that have taken the advantage of “first-mover” in game theory conceptualisation, but in this case forming a cluster of first mover players and making it difficult for other players of the game to make any effective move. The activities of international organisations such as the General Agreement on Tariff and Trade (GATT) later transformed into the World Trade Organisation (WTO), the International Bank for Reconstruction and Development (IBRD)-more known as the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the G-7(8), are meant to strengthen and institutionalise the prevailing process of globalisation. Essentially, the activities of these institutions are at variance with the internal and evolutionary requisites of economic growth and development of underdeveloped economies by imposing on them policies that do not encourage industrial production. There has been a web of control around underdeveloped countries that has greatly eroded their national policy sovereignty. The rapid integration of financial markets has significant influence on national policy makers in the conduct of monetary and fiscal policies, which has tremendously undermined the achievement of macroeconomic stability of underdeveloped economies. This has also being a source of spreading shocks and disturbances from one financial market to the other.

Globalisation tends to encroach on the internal process of generating and sustaining the process of economic development by internal mechanisms of the society and eventually excludes a large section of the society from the process. The gamut of globalization ascribes roles and functions to various economies, which imposes, without consensus, an international division of labour that is lopsided against underdeveloped economies. The industrialised countries, being the key actors of the process, are very selective in the application of globalization principles. They encourage free trade and free mobility of capital but apply restrictions on the free mobility of labour. While labour mobility

between developed countries is recognized as necessary for sustaining their level of economic activities, mobility of labour between underdeveloped and developed countries is restricted and controlled.

International capital flows have flourished through the process of globalisation and underdeveloped countries have received a fair share of these flows. However, the flows of international capital to underdeveloped economies have not stimulated the process of economic growth and development because such flows are mainly in the form of official development finance, export credits, international bank loans, and bond issues with short-term maturity, which serves the purpose of facilitating the import dependent behaviour of the underdeveloped economies, rather than trigger a process of domestic production that could evolve into industrialization process. The foreign direct investment component of the flows are directed to the service sectors of the economy that have limited or even no linkage with the manufacturing sectors of the economy of the underdeveloped countries. International capital flows have been associated with high risk of volatility, which recently manifested in the East Asian financial crisis. The impact of the volatility of the international capital flows on the underdeveloped economies have culminated into persistent inflation, rise in interest rates, lagging wages and falling consumer demand. This has compounded the unfavourable investment climate of such economies. Uncertainties, falling demand and higher interest rates combine to cause a fall in investment, decline in GDP and rising unemployment, thereby paving the way for recession to set in (Obadan, 1999).

The pattern of international flows has been in accordance with the changing directions, signals and dictates of the forces of globalisation. For instance there was a burst in global capital flows following the collapse of the Bretton Woods system of fixed exchange rate in the early 1970s. Eatwell (1996) observed that, the fluctuating rate system that replaced it stimulated capital flows with a powerful cocktail of the carrot of speculative profit and the stick of financial risk, laced with the proceeds of extensive arbitrage. Other significant factors that led to the sudden and dramatic increase in capital flows in the 1970s were the two major oil price hikes and the need to recycle the attendant

petrodollars. At the onset of the debt crises that afflicted most underdeveloped countries in 1982, capital flows dropped sharply and during most of the 1980s private financing to underdeveloped countries was at a standstill. In the 1970s, aggregate net resource flows maintained an upward trend, rising from \$21.1 billion in 1970 to \$162.1 billion in 1980 but declined in the 1980s to \$93.6 billion in 1985. In the 1990s, aggregate net resource flows to underdeveloped countries experience a rising trend, moving from \$101.9 billion in 1990 to \$284.6 billion in 1996, increased further to \$300.3 billion in 1997 against a favourable global environment marked by continued growth in demand from industrial countries, low inflation, moderately low interest rates, continued liquidity in international capital markets and strong economic performance of major borrowers (Obadan, 1999).

The worsening plight of most underdeveloped economies despite the phenomenal increase in international capital flows is indicative of the ineffective application of the flows to real productive investments that could stimulate the process of industrialization of such economies. Beside the need for appropriate macroeconomic environment to enhance the absorptive capacities of the underdeveloped economies, the strategic interest of domestic economies of the underdeveloped countries and that of owners of international capital are in conflict. An appropriate situation is when surges in capital inflows are clearly attracted by sustainable improvements in competitiveness or potential productivity growth—so that the effects on activity, prices, and trade balance are less of signs of overheating than equilibrating adjustments—the policy response could be focused on improving the absorptive capacity of the economy rather than on containing the destabilizing effects (Schadler, 1994: 21). However, if policy makers in underdeveloped countries are made to be in tandem with the dictates of globalisation, it will be difficult to create the requisite macroeconomic condition for effective utilization of both domestic resources and international capital flows. The situation has been worsened by a large quest for international capital flows by the underdeveloped economies as a major strategy of their economic development process. The rules binding international capital stifles domestic production and retards the growth of such economies. The attendant loss of policy making sovereignty has weakened the institutions of governance of underdeveloped countries and effective governance is a

critical factor in motivating the domestic resources towards attaining economic growth and development. The governments of most underdeveloped countries give premium to satisfying the needs of the developed industrialised countries, while the needs of their citizenry (the electorates) are given secondary considerations. The absence of the crucial elements of responsive governance emanating from the overbearing influence of globalisation is fundamental to the lack of effective policy that could engender economic growth and development of underdeveloped countries.

The interdependent essence of the ideals of globalization is not in existence. Countries that are underdeveloped have been at the receiving end of the prevailing process of globalisation. They serve the purpose of providing impetus to further development of developed countries while they continue to be poorer. The poverty level in some underdeveloped countries continues to worsen. The 1999 Human Development Report warned that globalization may actually increase human insecurity and marginalize the poor which implies that in the era of globalization, there is an increasing danger of growth actually excluding and dislocating large sections of the world population. The governance process are weak and non responsive to the fundamental aspirations economic growth and development of the countries. The lopsided effect of the prevailing process of globalization is assertively captured by Stiglitz (2002):

“Today, few-apart from those with vested interests who benefit from keeping out the goods produced by the poor countries-defend the hypocrisy of pretending to help developing countries by forcing them to open up their markets to the goods of the advanced industrial countries while keeping their own markets protected, policies that make the rich richer and the poor more impoverished-and increasingly angry”.

This situation is not healthy for the underdeveloped countries as well as for the global economy. The extent to which the few industrialised countries can provide the needs of the world economic system is limited by their capabilities and peculiarities. A significant proportion of the world's population (human resources) and other resources are unutilised, which implies that the world economy is operating far below its capacity, resulting into mass unemployment and attendant economic, social and political disequilibria of the world economic system. The intuition of the “scale effect” means that

economic growth and development is dependent on the creation of new ideas, derived from human capital drawn from a pool of population. Ideas do not automatically emanate from population. Certain processes are needed to trigger the inclination towards ideas. If a large chunk of a given population are not made active to participate in the process of creation of ideas, the volume and variants of innovation that could spring up from the process is reduced. The arguments of semi-endogenous economic growth analysis emphasize the fact that seemingly policy invariant parameters, such as population could be a significant source of generating the process of economic growth and development. Economic growth, the imperative requisite to development, is tied to an increase in productivity, which, in turn, depends on new ideas (designs) through R&D, which is dependent on an exogenous variable, the labour force or population. The spill-over effects of the negative externalities of the underdeveloped economies have crippling effects on the developed economies and leads to suboptimal operation of the larger world economy.

POLICY STRATEGIES FOR DEVELOPMENT

The challenges of economic development for underdeveloped countries in the face of growing assertiveness of the forces of globalisation are arduous. Considering that economic development is attained through the utilisation of available resources to enhance the social and economic well-being of the society, it is only the people in any society that can generate and sustain economic development. Countries are expected to provide essential services to the large spectrum of the society in a regenerating process of discovery and widening the scope of its dispensation towards an integrated and cohesive national economy in which linkages between various sectors and regions are entrenched such that every member of the society is given a fair opportunity to advance his/her material condition. It follows that industrialisation is a necessary step towards attaining economic development, which requires a sound and encompassing macroeconomic policy implementation to flourish. However, globalisation infringes on the ability to implement internally cohesive macroeconomic policies for developing countries since they are to adhere to the basic rules of the international economic system. There is

therefore the lack of policy autonomy as a result of *tying the hands of weak countries by the most powerful countries* and in macroeconomics, policy autonomy is critical to the size of policy multipliers. There are therefore two main sources of the challenge to economic development that underdeveloped countries are contending with; one is to identify the needs of their society and motivate the society towards providing these needs in a sustainable industrialisation process; second is to meet the needs of the global economy by adhering to its principles and rules. These two are incompatible as such the adoption of a strategy of convergence between them that can effectively lead to the success of attaining economic growth and development requires a combination of political and economic tools.

Stiglitz (2001) averred that globalisation has a large potential for the world economy and can be of huge benefits to underdeveloped countries and even a viable elixir for the development of underdeveloped economies of the world, suggesting various reforms of the international economic and financial institutions (WTO, The World Bank, IMF) and a fundamental transformation of the governance process of especially underdeveloped countries as a necessary condition for a positive impact of globalisation on the development process of underdeveloped countries. However these reforms are contingent on the developed economies that are satisfied with the way and manner globalisations is being conducted and have been very active in sustaining it. It must be recognised that the rule of the game of globalisation is *self first*, as such the industrialised countries do not conceive a catch-up of other economies as favourable to their interest. The artificial construction of the world economy by the industrialised countries is meant to serve the purpose of economic and political dominance of the group of industrialised countries, over other countries, but they needed to establish a convergence among them in order to minimise the likely effects of undermining each other.

A counter strategy by underdeveloped countries in tandem with the essential needs of their societies towards the use of their domestic resources to provide for goods and services to trigger industrialisation process anchored on selective adherence to globalisation is the most effective measure of evolving a process of economic growth and

development. To this end, the various governments of the underdeveloped economies must realise that their fundamental responsibilities lie with the needs of their societies. It is necessary therefore for such countries to formulate guiding principles of liberalisation of trade and international capital flows into their countries so as to ensure compliance with their domestic economic agenda. Given the stature, influence and the likely negative impact of any counterbalancing strategy of the most industrialised countries, coupled with the fact that certain ingredients of the globalisation process can play some positive roles in advancing domestic interests of underdeveloped countries, an all encompassing outright closeness of the weak economies will be counterproductive. Openness and liberalisation should not be hindered, but the actual extent and pace of it must reflect each country's circumstances and the internally constructed terrain of economic dispensation.

In specific terms, underdeveloped countries need to adopt the strategy of grassroots production and investment, which requires aggressive promotion of small and medium scale enterprises (SMEs), as a viable route to industrialisation in that; they tend to use more locally sourced raw materials; provide more employment opportunities and serve as training grounds for entrepreneurship development. This will enhance capacity utilisation and through learning-by-doing, to be complemented by R&D, lead to new ideas and improved methods of production that could be impetus to local technology utilisation. This strategy of SMEs project initiation and implementation will have the tendency of producing goods and services that meet the basic rudimentary needs of the populace and thus depart from the superlative types of goods and services that are predominantly associated with most industrialised countries but beyond the reach of the majority of the poor people residing in underdeveloped countries. It should concentrate on the domestic markets to regenerate itself over time. Besides satisfying basic needs at affordable prices, the populace will enjoy the benefits of gainful employment and improvements in their knowledge of the processes of production, albeit, at rudimentary level that can mature in the course of time to be able to adapt to higher levels of technology from industrialised countries through international spill-over effects.

To be firmly rooted in the SMEs projects, it is essential for a baseline technology to be used irrespective of the grassroots and rudimentary focus of the initiatives. The global order has uplifted the standards of production processes to different ranges such that a minimum baseline method of production (technology) that departs fundamentally from complete non-machinery rudimentary processes, is indispensable. Most underdeveloped countries lack adequate baseline production processes but can obtain them from a group of emerging countries, whose policies are different from the most industrialised countries. The emergence of countries such as Malaysia and South Korea, using a variant of domestically focused strategy of the SMEs, using lower level technologies, which has enabled them to grow substantially and acquired much higher levels of technology, supports this perception. This group of countries can be a source for appropriate interaction for effective take-off and sustainability of the SMEs projects initiatives of underdeveloped countries. In addition, to forestall a backlash from the most industrialised countries, underdeveloped countries should tailor their trading relations with the developed countries within the terms of globalisation to conform with the needs of their SMEs projects. This implies that their imports from industrialised countries should be mainly on machineries and equipments and other inputs that could facilitate the effective operations of the SMEs. Also, their exports to industrialised countries should be made to be processed raw materials (intermediate goods) rather than primary goods that have little or no domestic added value. The process of transforming the primary commodities into intermediate goods will strengthen the functions of the SMEs. Furthermore, the inflow of international capital should be made to serve the purpose of promoting the initiatives of the SMEs.

To effectively actualise the operations of the SMEs project initiative and sustain it to form the bedrock of industrialisation, economic growth and development, the governance process of underdeveloped countries should assert macroeconomic policy sovereignty to create the enabling environment and provide support services for the thriving and flourishing of the SMEs. Market support policies; soft capital acquisition instruments; skill acquisition programmes and risk management measures are crucial, in addition to the fundamental needs of the larger society such as food, health, education basic

infrastructural facilities, to the success of the strategies for boosting industrialisation and attaining economic growth and development within a globalisation process that tends to undermine and marginalise indolent economies in a creeping assertiveness of political and economic dominance that is threatening the future of several countries with substantial population of the world.

CONCLUSION

The process of globalisation has submerged the growth and development potential of underdeveloped economies by establishing rules and principles that are in conflict with the requisite conditions of their evolutionary process. Globalisation tends to ascribe functions to various economies thereby creating an international division of labour that accentuates the disparity between the most developed (industrialised) countries and the underdeveloped ones. This has been detrimental to the effective use of economic resources of the underdeveloped economies and regenerating a cycle of underdevelopment and its concomitants such as poverty, famine, health hazards, and insecurity, among others.

Lack of effective use of resources by underdeveloped countries means they cannot provide the basic needs of the society through domestic production that could generate positive externalities such as learning-by-doing, spill-over effects and technology acquisition that could trigger a process of industrialisation, economic growth and development. The negative effects of this situation can spill over to the larger world economy which operates at suboptimal level. The growth and development of the underdeveloped economies could be of tremendous benefits to the world economy but globalisation encourages the *self-first* principle of competition. However, underdeveloped countries can initiate grassroots production through the promotion of SMEs to meet their basic domestic needs and tailor their participation in the process of globalisation along serving the purpose of this initiative. This will, if properly established and sustained, overtime, generate production externalities that could spearhead industrialisation, economic growth and development for a virile and prosperous economic future for the

underdeveloped countries of the world, which will inadvertently; strengthen their status within the confluence of globalisation.

BIBLIOGRAPHY

Adenikinju, A. and Olofin, S. O. (2000) "Economic Policy and Manufacturing Sector Growth Performance in Africa" *The Nigerian Journal of Economic and Social Studies*, 43(1), March 2000, 1-20.

Aghion, P. and Howitt, P. (1998) **Endogenous Growth Theory**. MIT Press, London, England.

Ajakaiye, O. (2002) "Economic Development in Nigeria: A Review of Experience", *Bullion (publication of the Central Bank of Nigeria)*, 26(1), January-March, 49-66.

Akanji, O.O. *et al* (1999) Infrastructure Expenditure Policy and Private Sector Output in Nigeria, 1970-1998, *Mimeo, Central Bank of Nigeria*.

Aspe, P. and Gurria, A. J. (1992) "The State and Economic Development: A Mexican Perspective" *proceedings of the Annual World Bank Conference on Development Economics*.

Barro, R. and Sala-i-Martin, X. (1995), **Economic Growth**, McGraw Hill, New York.

Bartelmus, P. (1994), **Environment, Growth and Development: The Concepts and Strategies of Sustainability**, Routledge, London and New York.

Blanchard, O. and Fischer, S. (1989), **Lectures on Macroeconomics**, MIT Press, London, England.

Currie, L. (1974) "The 'Leading Sector' Model of Growth in Developing Countries", *Journal of Economic Studies*, Vol.1, No. 1, May, 1997.

Deme, M. (2002) "An Examination of the Trade-Led Growth Hypothesis in Nigeria: A Co-integration, Causality and Impulse Response Analysis", *The Journal of Developing Areas*, Vol. 36, and No.1.

Dowrick, S. and Rogers M. (2002), "Classical and Technological Convergence: Beyond the Solow-Swan Growth Model". *Oxford Economic Papers*, 54, 369-385.

Eatwell, J. (1996) "International Financial Liberalization: The impact on World Development", *UNDP, Office of Development Studies, New York, Discussion Papers series 12*.

Garba, A.G. (2000) "Deregulation of the Petroleum industry in the Context of Globalisation and Nigeria's External Debt", *presented at one-day seminar organised by the Nigerian Economic Society (NES), Lagos, Nigeria*.

- Grossman, G. and Helpman, E. (1991), **Innovation and Growth in the Global Economy**. MIT Press, London, England.
- Hamberg, D. (1971), **Models of Economic Growth**. Harper & Row, New York.
- Inang, E. E (1997) “The Nature and Challenges of an Inert Economy: A Case Study of the Nigerian Economy” *Presidential Address of the Nigerian Economic Society*.
- Jones, C. I. (1999) “Growth: With or Without Scale Effects ?” *American Economic Review Papers and Proceedings*, pp.139-144.
- Jones, C. I. (1995), “R&D-Based Models of Economic Growth”. *Journal of Political Economy*. 103: 759-84
- Jones C.I (2002) *Introduction to Economic Growth*, W. W. Norton, USA.
- Jorgenson, D. W. and Wilcoxon, J. P.(1998) “Energy, The Environment and Economic Growth” in Jorgenson, D.W. (ed.) **Volume 2: Energy, The Environment and Economic Growth**. MIT Press, London, England.
- Kaji, S. G. (1995) “The ‘How’ of Development”, *proceedings of the Annual World Bank Conference on Development Economics*.
- Kwanashie, M. (1999) “Concepts and Dimensions of Globalization”, *presented at a one day seminar of the Nigerian Economic Society, Lagos, Nigeria, February 11*.
- Li, C. W (2001) “Growth and Scale Effects: The Role of Knowledge Spillovers” *Economic Letters*
- Lucas, R. Jr (1990) “Why Doesn’t Capital Flow from Rich to Poor Countries?” *American Economic Review*, 80, 92-96.
- McCallum, B. T. (1996) “Neoclassical vs. Endogenous Growth Analysis: An Overview” #5844.
- Nelson, R. R. (1996) **The Sources of Economic Growth**. Harvard University Press, USA.
- Obadan, M. I. (1999) “International Capital Flows and the Recent Financial Crises: What have we Learned?” *Presidential Address of the Nigerian Economic Society, July 21*.
- Ogwumike, F. O. and Ozughalu, U.M. (2001) “Growth, Poverty and the Environment”, *Proceedings of the annual conference of the Nigerian Economic Society, 1-22*.
- Ohiorhenuan, J. F. E. (2000) “The Past and Future of Development”, *presented at the annual conference of the Nigerian Economic Society*.

- Pomfret, R. (1992) **Diverse Paths of Economic Development**, Harvester Wheatsheaf, Exeter, Great Britain.
- Olomola, A. S. (2000), "Macroeconomic Policies and Long-run Economic Growth in Nigeria (1960-1998)", *presented at the annual conference of the Nigerian Economic Society (NES), Abuja, Nigeria.*
- Rauch, J. and Trindade, V. (2003), "Information, International Substitutability and Globalization", *American Economic Review, Vol.93, No3, June.*
- Romer, D (1996) **Advanced Macroeconomics**. McGraw Hill.
- Rpmer, M. P. (1992) "Two Stratiefies for Economic Development: Using Ideas and Producing Ideas", *proceedings of the Annual World Bank Conference on Development Economics.*
- Sandilands, R. J. (2000), "Perspectives on Allyn Young in Theories of Endogenous Growth", *Journal of History of Economic Thought, Vol.22, No.3.*
- Schadler, S. (1994) "Surges in Capita Inflows: Boom or Curse?", *Finance and Development, Vol.31, No 1, March*
- Scouller, J. (1999) "Beyond Accounting for Growth" in Dahiya, S. B. (ed) **The Current State of Economic Science**, Vol.5, pp2569-2581.
- Sinha, D. (1999) "The Relevance of the New Growth Theory to Developing Countries" in Dahiya, S. B. (ed) **The Current State of Economic Science**, Vol.5, pp 2457-2466.
- Solow, R. M. (1974b) "The Economics of Resources or the Resources of Economics". *The American Economic Review, 64(2).Papers and Proceedings of the Eighty-sixth Annual Meeting of the American Economic Association, 1-14.*
- Solow, R. M.(1956) "A Contribution to the Theory of Economic Growth". *The Quarterly Journal of Economics, 70 (1), 65-94.*
- Solow (1994) "Perspectives on Growth Theory". *The Journal of Economic Perspectives, 8(1), 45-54.*
- Stiglitz, J. (2002), **Globalization and its Discontents**, W. W Norton, USA
- Strachan, D. (2002) "Review Article: Economic Transition in Africa; Statist Economic Policies, Changing Roles and Reforms", *Journal of Economic Studies, Vol.28, No. 3, pp231-239.*

Thoenig, M. and Verder, T. (2003), “A Theory of Defensive Skill-Based Innovation and Globalization”, *American Economic Review*, Vol. 93, No3, June.

Todaro, P. M. (1994) **Economic Development**. Longman, New York