Globalisation, Development, and Muslim Countries

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Globalization, Development, And Muslims*

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Abstract

This paper treats the emerging new world order not as a thing by itself but as a continuation of the age long gospel of lasses faire or freedom of trade. That freedom eventually resulted in the colonial exploitation of vast tracts of land by the European powers. The same desire to dominate the world so that the resources of the developing economies and their markets remain available to developed nations now walks in the garb of globalization with three main elements: privatization, liberalization, and free movement of goods and capital across the national borders. There has been a history of resistance to freedom of trade in the past, especially by List in Germany, at the theoretical plane. The objectives of converting the world into what is fondly called the 'global village' are no different. Colonialism is reemerging wrapped in a new garb: the discomfiture of the developing countries is only to increase, so they are resisting its onward march. Muslim countries are economically weak and suffer from many disabilities; globalization is likely to work against them. They can ward off the danger by promoting inter alia self-reliance, human development, and mutual support.

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INTRODUCTION

The discussion of issues and policies concerning economic development is a complex affair. To establish their linkages with the emerging notion of globalization is even more so as the contours of the new order are still hazy. If we add further a Muslim dimension to the exercise the difficulties only increase. Yet, in the present paper I address this subject gathering inspiration from an old Greek proverb: it is difficult things that are beautiful. It is not easy to cover all the ramifications of globalization, given the time and space at my disposal. I will focus mainly on the *economic* aspects of the subject. Let me outline the plan I shall follow to cover as much of the topic as I can.

Keeping in view the mixed character of the readership of the journal – familiar and not so familiar with economics – I would begin with a statement of some simple propositions having a bearing on the topic under discussion. I shall then explain that the present euphoria over globalization is little more than the old wine being distilled and filled in new bottles. It is understandable as the present emerges from the past and melts into the future: it is difficult to snap historical linkages fast and abruptly in the socio-economic sphere. Thus, not only does the idea of globalization have historical roots, but it is also being marketed around by the same sort of vendors and with the same ends in view as in the past. Only the method has changed. I shall endeavor to show using a simple model that globalization is operating against the interests of the developing countries. It has to be, and is indeed being, resisted like that in the past by the nationalist and equity-minded forces worldwide. Lastly, I shall argue that globalization, though essentially economic in content, poses a challenge to Muslims that has important cultural dimensions[1]. This challenge cannot be met effectively unless Muslims exhibit *global* solidarity to safeguard their *economic* and other interests.

[1] The cultural dimensions of globalization need a separate discussion. For that the present author, an economist by training, lacks the needed expertise. Thus, the paper makes only cursory remarks about some aspects of the issue.

THE BACKGROUND

Principles of economics have always been the principles of economic *policy*. No economic writing has ever been worth its salt without policy underpinnings. It was the ground realities that mostly led to the formulating of theories for providing legitimacy to the prevailing social order. Theories seldom led the policies, more so the establishment of economic doctrines. This much is conceded even by the philosophers of economic science. Furthermore, the development of the science took place almost exclusively in the West, the most influential and all-pervading contribution emanating from Europe, especially England.

Writers mostly start the history of economic thought from 1500 onward after the Muslims had already lost control over Spain in 1492 and Columbus had discovered America the same year. European societies had by that time entered the era of *commercial* capitalism that continued for a little less than three hundred years. At the time of the publication of Adam Smith's *Wealth of Nations* in 1776 one could easily see *entrepreneurial/industrial* capitalism knocking at the doors of England. After the Second World War the world has evidently slipped into an age of *financial* capitalism[2]. True, capitalism has undergone great changes over the centuries but its foundational elements have stayed unaltered. Private ownership of property, freedom of enterprise, competition, and pursuit of self-interest are shown efficacious for each society irrespective of its stage of development. Economic theory defends even today these tenets of capitalism as an article of faith-- *their collective name is globalization*. The defense wears, as ever, the cloak of economic principles, universal and conducive to the welfare of all.

Vincent de Gournay, a product inspector in France during the Physiocratic era (1750-70), is credited to have first uttered the famous phrase "*laissez faire, laissez passer*" in effect meaning freedom of business enterprise at home and free trade abroad[3]. The inspector perhaps never imagined that his words were going to lay the foundation of an economic system that would dominate human thought and policy through centuries, and would one day be the hard core of a process the world would designate as *globalization*.

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[2] Foreign exchange spot transactions worldwide alone are today more than 70 times the total value of international commodity transactions. See Hasan 2003 p. 52

[3] See Oser and Blanchfield: *The Evolution of Economic Thought* (1990), p.30

France during the middle of the eighteenth century was passing through a crippling economic patch but state authority was still strong. The Physiocrats preferred to operate as a court party to replace the prevailing restrictive economic policies of the Mercantilists. Direct criticism of the state abuses was not possible, nor was there freedom of speech. The only way open to reform was to invent, for neutralizing the arbitrary power, a superior authority. This they saw in what they called the 'Natural Order'. The laws of nature regulate physical phenomena efficiently, and there *are* natural laws, they argued, that would regulate the social order equally well, if allowed to operate unhindered.

The fulcrum of these laws in the social sphere was the human urge to promote self-interest that implied upholding the rights of private property and individual liberty. "The movements of society are spontaneous and not artificial and the desire for joy which manifests itself in all its activities unwittingly drives it towards the realization of the ideal type of State"[4] This is *laissez-faire* pure and simple. Interestingly, even as the Physiocrats were for free trade, the promotion of agriculture, and the minimal role of the state in economic matters, they advocated policies favoring landlords, the aristocracy, and the monarch. They were thus cautious reformers unwilling to eclipse the old order entirely but eagerly awaiting the dawn of capitalism.

Presumably, the most consequential imprint of the Physiocrats on the way economic analysis developed was the influence they had on Adam Smith. Their perception of a natural order regulating social behavior without the need for any central planning was considered to be one of the most liberating notions that ever emerged in the history of economic thought: it shunted economic analysis onto a new path. However, Adam Smith (1723-90) perhaps gave the idea a more elaborate and eloquent expression. He could successfully weave together his own ideas and those of his many predecessors into a systematic and comprehensive treatise, *The Wealth of Nations* (1776). Around the time the book was published, the industrial revolution could be seen taking over England. The oncoming dynamism had already led to the dismantling of the feudalistic and mercantilist restrictions on trade and commerce.

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4 Mercier de la Reviere: *L' Ordre Naturel* 1767, Vol. II p.617. Quoted in Gide and Rist, p.30

With an era of plenty in sight, the need to curb the acquisitive instinct of man now seemed naive: it had become possible, even desirable, one thought, to relax moral restrictions on individual profit seeking. *The Wealth of Nations* provided the logical basis by arguing that there was no clash between individual and social interests: the *invisible hand* – price mechanism in competitive markets – ensured a harmony between the two. Indeed, the book bristles with optimism and exhibits unflinching faith in the spontaneous expansion of social institutions like the division of labor, accumulation of capital, and monetary systems as vehicles of growth in a free enterprise economy. Free trade among nations as promotive of cosmopolitan well-being was an extension of the logic of local specialization. But it was left to David Ricardo (1772-1823)[5] to demonstrate the benefits of free trade flowing to the participating nations, competition ensuring efficient allocation of resources and increased output for them all.

A system based on the private ownership of property, freedom of enterprise, competition, and free trade propelled by the pursuit of self-interest and the policies these theoretical constructs supported ideally suited England of the eighteenth-nineteenth century. The country needed markets abroad for their expanding industries, and also desired control over sources of materials needed as inputs for their perpetual growth. Consequently, the flag invariably followed the trade. Other continental countries too, with the passage of time, did not lag behind. The colonization and enslavement of countries outside Europe became the dominant scene around the globe. The Imperial powers systematically and ruthlessly exploited the colonies for the mother countries' prosperity. Policies were pursued to convert the colonies into suppliers of raw materials to them and a market for their products. The contribution of the plunder to the present economic status of the erstwhile colonizers over the centuries is seldom recognized by their history.

THE EVOLUTION

Above is only a thumbnail sketch of how the principles of economics are erected or used to support policies for achieving the objectives of powerful interests. The same game is on currently under the garb of

[5] For elaboration of his demonstration of this fact see Landreth and Colander pp. 127-131

globalization and the players are no different. Today some five hundred odd multinational corporations from the developed countries produce and control 70% of the industrial output of the world. The population of these countries is less than 20% of the global popualtion but consumes almost 80% of the goods and services all nations produce annually[6]. While one-third of the people in the developing countries are not able to spend one US $ a day, Christmas parties for dogs were being envisaged in the West last year!

Evidently, the poor countries are in need of utilizing more of their resources internally. Consequently, the relative volume of resources, which the developed countries can use in the near future, is likely to shrink. And the law of diminishing returns does apply to the discovery of new resources, at least in the short run. *Globalization* now sweeping the world is the instrument intended to ensure an abundance of resources remaining available to the West. The main ingredients of the present package are the same as in the past: privatization of production, open borders for the free flow of goods and services excluding labor, and competition. Of course, the flag this time need not follow the trade: threats, sanctions, muscle flexing, localized wars and regime change, if need be, are enough to force open the doors, especially when the world is uni-polar. Interestingly, a cultural dimension has also been added to the new liberalization recipe. And this especially is worrying the Muslims.

The persuasive appeal of laissez-faire, liberalization or globalization, irrespective of the nomenclature one may prefer to use, always resided in its presentation as a matter of *principle* promotive of every participant's well-being on an equitable basis. So, protests against the gospel on the grounds of being hurtful to the interests of a particular country were invariably swept aside as partisan flutters. To carry conviction, a principle has to be countered with an alternative principle.

Even its proponents expressed reservations about the universally beneficial character of the package. Adam Smith assigned a role to the state in matters of defense, public utilities, and natural monopolies. Sismondi (1773- 1842) raised his voice against the abuses of private property, ills of unregulated industrialization, and income disparities[7]. He could see that the free play of private interests often involved injury to the

6 See Hasan (2003 b) Table 2

7 See Gide and Rist pp. 198, 716

general interest and that the *laissez-faire* doctrine of Adam Smith had no longer any *raison d'etre.* The eloquence of Ruskin and Carlyle heralded the violent reaction of humanitarianism against the stern implacability of economic orthodoxy. J.S.Mill (1806-73) in his well-known individualist-socialist program presented in his *Principles of Political Economy,* modified the notion of self-interest, questioned the efficacy of unbridled competition, assigned a wider regulatory role to the state for ensuring distributive equity, and pleaded for the empowerment of women in society[8].

All this dissatisfaction and criticism of the orthodoxy, though valid, was brushed aside as emanating mostly from sentiment or sectarian considerations not from convincing logic enunciating new *principles* of economics that had by now won the exalted title of a *science.* It may be noted that with the passage of time many ideas in the package fell apart or diluted in the new currents of thought, but liberalism continued on its triumphant march, Freedom of international trade was accepted as a sacred cow by the economists of every country. In Germany as in England, in France as in Russia, there was complete agreement among the *scientific* communities on the virtues of unhindered trade across national borders. The hammer of logic, a scientific principle, could alone demolish this idol. Friedrich List (1789-1846) of Germany forged this hammer in his work[9]

THE DISSENTION

List's work was a product of circumstances. In the preface he wrote, "The history of my book is the history of half my life". He could well have added that it was also the history of Germany from 1800 to 1840. This is not the place to reproduce that history. Suffice it to say that the country was in bad shape economically. It was far behind England in industrialization. While the movement of goods between states within Germany was much restricted, their flow from abroad, England in particular, was absolutely unhindered. List saw the root of the trouble in trade competition among the unequal. His merit lies in presenting the case

[8] See Robert and Robert (1997) pp. 184-185

[9] *The National System of Political Economy,* (1841). M. Ehrenberg published in 1885 and with an introduction to the English translation of the book – seventh edition – in 1909.

for protection as a counter *theory* to the *principle* of free trade. I believe his work – even if in an abridged form – must be a required reading for students of economics in the developing world.

Freedom of trade was such an entrenched idea in Germany as elsewhere in those days that his plea for protection landed List in prison and he later had to take refuge in the US.

List introduced two ideas that were new to the prevalent economic *theory*. One was the idea of nationality as opposed to cosmopolitanism. The other was the idea of productive power as pitched against the idea of consumable wealth. His whole *System* is built around these two ideas.

List argues that the idea of free trade rests on the hypothesis that men were henceforth to be united in one great community from which war would be banished. The similarity with the current vision of a *borderless* world fondly called the *global village* policed by the powerful is indeed striking. On such a hypothesis, continued List, humanity was merely the sum of individuals. Individual interests alone counted and any interference with economic liberty could never be justified. But between man and humanity stands the history of nations to which the School was altogether oblivious. Every individual forms part of some nation and his prosperity largely depends upon the political power of his nation. Universal good *is* a noble end to pursue, but nations today as ever are of unequal strength and have quite different interests. A *global* union could benefit them all if they met on an *equal* footing. At present the union could benefit only the stronger ones.

Dr. Mahathir echoed a similar sentiment in his keynote address at the seminar on the *Look East Policy: Future Relationship between Japan and Malaysia* in Tokyo on December 12, 2002 when he said:

> Once the countries are opened up, the big corporations and banks would move in. Will there be fair competition between the enormous foreign banks and companies? Of course not, the locals will be swallowed up one-way or the other.[10]

Competition among firms today can no longer be likened, as Marshall once thought, to the growth of trees in a forest. Fish in the ocean, the big eating the small, is a better metaphor. Modern firms tend to compete

[10] New Strait Times December 13, 2002

more on the basis of relative size of monetary resources than for catering to consumer demand. Competition to kill competition is the order of the day and the cup final is often the emergence of monopoly.

Let us turn to the second idea of List. He argued that the equality of nations resides in the equality of their productive power. Trade, he argued, increases consumable wealth alone not the power to produce it. In this connection one sentence of his is indeed worth writing in gold in the history of economic thought:

The power to create wealth is infinitely more important than the wealth itself

This power lies in *manufacturing*, not in trade or agriculture. Manufacture permits better utilization of a country's resources: its waterpower, its winds, its minerals, and its fuel supplies are better harnessed. Industry for List was a social force, the *creator* of labor and capital, not the *natural* result of labor and saving as Adam Smith thought. Its development requires growth of dynamic culture skills and powers of a unified process of production. A nation must sacrifice and give up a measure of immediate prosperity for the sake of this qualitative growth. It must sacrifice some present advantages – gains from free trade – in order to ensure to itself the future ones; it cannot and should not wait for *natural* processes to usher in industrialization. In a beautiful passage List makes the comparison:

> It is true that experience teaches that the wind bears the seed from one region to another, and that thus waste moorlands have been transformed into dense forests, but would it on that account be wise policy for the forester to wait until the wind in the course of ages effects this transformation?[11]

The tariff, apparently, was the only method of raising the wind. However, permanent protection for domestic industry was no part of List's scheme. The industries had to meet certain criteria and show potential for surviving when protection was withdrawn in the course of time. It was never meant to be a shelter for inefficiency. In principle, the case for protection of industries in developing countries against the onslaught of globalization is, indeed, stronger today than ever before. And this is for what these countries must put up a joint fight.

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[11] National System, 1909 p. 87

It is interesting to mention that List's scheme was not put into operation by the German authorities. But the blockade of the English Channel during the Napoleonic wars shut out the British goods from that country, and this automatic protection worked wonders for the growth of her industries. There was no better proof, if proof was needed, for upholding List. On his return from America he was a national celebrity.

GLOBALIZATION: THE MODEL

Is there any evidence of globalization working as an impediment to the growth of developing economies? The present writer is working on another paper that examines the impact of globalization, investment expansion, terms of trade, and military expenditure on GDP growth in 34 developing countries for which data for all the selected variables could be deduced from the World Development Reports for the years 1990 to2000. These countries represent more than 60% of the population of the world and include no less than 12 Muslim countries also. The data set is provided in the Appendix to this paper with definitions of the variables used. I must admit that many compromises had to be made in editing the data and the results are still only the first approximations. But the cross-country model used provides sensible results. It is a simple regression construct:

$$GR = \beta_0 + \beta_1 GL + \beta_2 INV + \beta_3 TT + \beta_4 ME + \mu \qquad (1)$$

Here GR is the average growth of the economy, GL is the degree of global exposure, INV measures the investment growth, TT is the terms of trade, ME is the ratio of military expenditure to GDP, and μ the random disturbance term. The results are tabulated in *Table 1 & 2*.

The predictors in the model explain almost 60% variation in the average growth rate of the developing economies during the 1990s. All the regression coefficients are significant at 5% level. Investment pace has a positive impact on growth. The terms of trade factor has the highest elasticity and shows that in an era of globalization its deterioration may be a worrisome proposition for the developing economies. However, for the present work the crucial finding is that the march of globalization is having *a negative* impact on their growth. Many of them must be having an unfavorable balance of trade causing a drain on their meager resources. Notice that the elasticity of the variable is the next highest making unfettered globalization, as List thought, a plunderers' onslaught on their wealth creating capability. Unexpected is the result of a favorable influence of increasing military expenditure on growth. Logically, one must expect that reduction in expenditure on arms and armies would release resources from the unproductive and competitive waste. Or is it that international arms sellers shower aid favors on their big and regular buyers? Or is it that armies give a sense of internal security, if not immunity, from external threats to the developing countries and relative stability thus promotes growth? At present I prefer to leave these questions unanswered.

TABLE 1

Model Summary

Dependent variable: GDP Growth Rate

R	R^2	Adjusted R^2	Std. Error of the Estimate	Durbin-Watson	F	Sig. of F
0.779	0.607	0.552	1.139	2.453	11.176	.000

Predictors: (Constant), Globalization, Investment growth, Terms of trade, and Military expenditure

TABLE 2

Coefficients

	Constant	Globalization	Investment Growth	Terms Of trade	Military Expenditure
	β_0	β_1	β_2	β_3	β_4
Coefficients	-0.131	-2.094	0.216	3.372	1.995
t-values	-0.090	-2.675	4.064	2.519	3.930
Significance	(0.929)	(0.012)	(.000)	(0.018)	(.000)
Elasticity		0.583	0.274	0.794	0.546

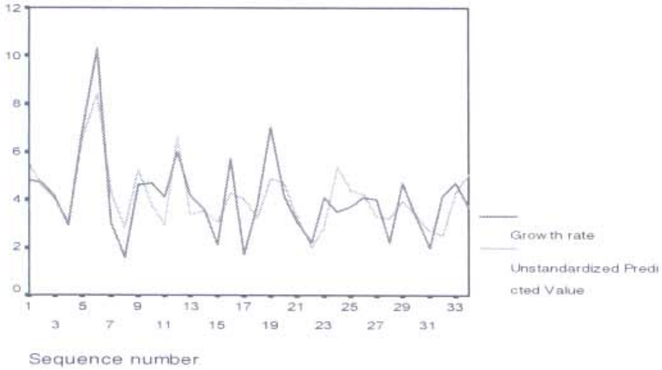

Fig. 1 showing the extent of Model fit

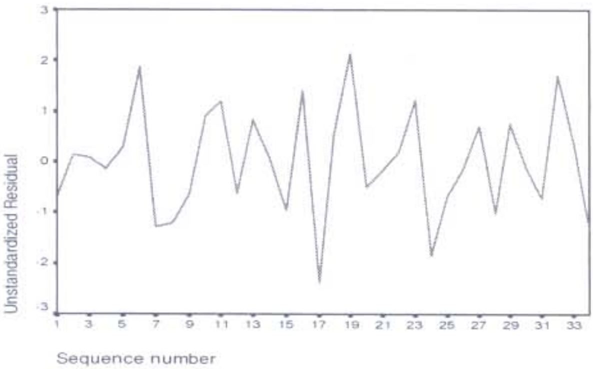

Fig. 2 The residuals are almost trend-free

CIVILIZATION CLASH?

To me the basic challenge of globalization is economic. Indeed, the central issue in this debate is not liberalization but national liberty – to think, decide and act. This liberty is coextensive with economic freedom. Today major global institutions – the UN, the World Bank, the IMF and the WTO – have all been captured by the rich of the world for promoting their own interests even when they clash with the rest of the world. The process of economic colonization is on. But the attention of the people is being deflected from the issue by false alarms of civilization confrontation.

I venture the opinion that civilizations or cultures rarely clash: they tend to converge. They remain locked in an unending process of enriching others and being enriched by them. Absorption, radiation, and accommodation are the hallmark of this process. This is not rhetoric; history bears testimony to it. Why go far, have a look at your own self. See the dress you wear, the language you speak, and the way you behave and react. Is it all Islamic? Is not the acquired and absorbed content already too much? And you enjoy it.

Our youngsters relish the hey hey culture, ya, ya response. We have coined selamat pagi, subah al-noor, shub-ba kher and subh-ratri to replace Western salutations. As if celebrating birthdays with the cutting of a cake was not enough, we started dating, forgot Sheerin-Farhad, Laila-Majnu, Heer-Ranjha and other lovers the world over. And decided to say 'I love you' on each 14th February, Valentine's day. Even an age is not enough to count such examples from old and new, from the East and the West, from the North and the South.

So cultures merge. Throughout history the culture that dominated the scene at any one time had a greater impact on others. But the dominance invariably grew from the barrel of a gun. Anyone wanting to stand up for truth and justice, said Iqbal, must first put strength in his own clay structure. And who could have the strength? Obviously, the answer is one who could be well off economically.

CONCLUDING REMARKS

Muslims, therefore, should not fritter away their energies, time, and resources on cultural issues which, though important seem diversionary or at least of lesser consequence. Economic progress requires skills, dynamism, and above all knowledge. And it is better to grow knowledge than mere gardens. Muslims constitute a fifth of the global population but recent research covering 45 countries having Muslim majorities discovered that during the last decade their combined scientific and technical output was no more than that of such a small country as Switzerland, not much known for her achievements in the area. First class buildings, libraries, and teaching/learning aids we have in many of our educational institutions. What is missing is the love for learning.

Indifferent students, uninitiated teachers, and power conscious administrators dominate the scene in every country. So let us be awake now, lest we may not have a wake up call again. This, I feel, is the first and foremost requirement to meet the challenge of globalization.

Another requirement is unity and collective action. We have vast tracts of land, huge manpower, and a fair share in the earth's known and potential resources. If we are still backward, a contributory factor has been the alarming disunity among us. Believe me, after the Second World War Muslims have killed more Muslims than non-Muslims have. We allowed ourselves to be divided into small cells: kings, democrats, and dictators we had all but often working at cross-purposes. Of the total trade of Muslim countries no more than 12 to 15 percent is among themselves. We are often buying each other's goods from third parties.

Let us prepare a blueprint for the economic cooperation between Muslim countries. This should include a survey of resources: what is available and where. What are we importing from others, and how mutual markets can be developed? What production units we have, what we have resources to produce, and which will be the best economic location for each? For example, we can have shipbuilding, aeronautics, steel mills, cement factories, paper mills and so on planned not on country considerations but on regional merits. Financial integration is easier to attempt: why keep funds in the West under potential threats of a freeze or confiscation? Why not develop a parallel entertainment industry that would avoid all that we find undesirable in what we import? Others are using our locations for their production: why can't we do it? We can hire technicians and actors if need be from outside. There is indeed a lot that can be done jointly for the common good.

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APPENDIX

Country	Growth Rate %	Globalization	Investment	Terms of Trade	Military Exp.
Bangladesh	4.8	1.34	7.0	0.94	1.87
Benin	4.7	1.52	5.3	1.10	1.51
Bolivia	4.1	1.09	10.1	0.67	1.00
Brazil	2.9	1.27	3.1	1.01	0.88
Chile	6.8	0.99	11.4	0.94	1.55
China	10.3	0.72	12.8	1.05	1.88
Columbia	3.0	1.14	7.5	0.80	1.25
Ecuador	1.6	0.84	1.1	0.71	1.04
Egypt	4.6	0.76	6.7	0.95	1.15
Elsalvador	4.7	0.77	7.2	0.89	0.50
Guatemala	4.1	1.09	5.0	0.93	0.55
India	6.0	1.29	7.4	1.50	1.40
Indonesia	4.2	1.30	5.1	0.79	1.23
Iran	3.6	0.94	1.4	0.80	1.32
Kenya	2.1	1.33	4.9	0.98	0.80
S.Korea	5.7	0.91	1.6	1.02	1.27
Madagascar	1.7	0.70	0.9	0.82	1.36
Malawi	3.8	1.17	0.7	1.16	0.88
Malaysia	7.0	1.29	6.2	0.92	1.62
Mauritania	4.2	0.94	6.8	1.06	0.88
Mexico	3.1	1.76	3.9	0.92	1.58
Morocco	2.2	1.17	1.5	0.90	0.61
Namibia	4.1	1.06	2.5	1.01	0.65
Nicaragua	3.5	0.89	12.6	0.95	0.71
Pakistan	3.7	0.92	2.1	1.14	1.07
Panama	4.1	1.22	12.1	0.85	0.72
N. Guinea	4.0	1.17	6.8	0.90	0.68
Paraguay	2.2	1.25	1.5	1.01	1.12
Peru	4.7	1.33	9.0	0.83	1.06
Philippine	3.2	1.70	4.1	1.14	1.14
S.Africa	2.0	1.13	3.0	1.11	0.41
Thailand	4.2	1.19	-2.9	1.00	1.19
Tunisia	4.7	0.91	3.4	0.91	1.28
Turkey	3.7	1.65	4.6	1.09	1.98

Notes to the Appendix:

1. The source of data is the World Development Report (WDR) 1997, 1998/1999, 1999/2000, 2000/2001and 2002.

2. Average growth rate figures are for 1990-2000 taken from WDR 2002, Table 3.

3. The degree of globalization is estimated by using the formula $[(X+M)_{1998} / (X + M)_{1990}] \cdot [(GDP_{1990} / GDP_{1998}]$. The WDR 1998 T.12, 2000 / 2001 T.12 and 1999 / 2000 T.20 are used.

4. Growth of investment is calculated by using the formula $r = [\,^{n}/ (P_n/P_0)] - 1$. Here values for $1990 = P_0$ and $1998 = P_n$ have been obtained through some algebraic manipulations from WDR 1999 / 2000, and 2000 / 2001.

Growth in military expenditure M_2 / M_1 is measured by using the formula $[GDP_1 / GDP_2] / [GDP_1 / M_1] (M_2 / GDP_2)$.