

**Economic and Social Research Foundation  
(ESRF)**



**The Social Dimension of Globalization: main  
issues of concern to Tanzania**

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## **1.0 Background and context**

Globalization refers to a process of growing integration of economies and societies through the cross-country flows of information, ideas, activities, technologies, goods, services, capital, and people. Globalization process has led to rapidly increasing complex interactions between societies, cultures, institutions and individuals worldwide. The increased international economic integration in this context has impacted differently on different economies in the world. Some countries have benefited from globalization having taken advantage of the opportunities created by international trade and flows of capital and technology to bring about economic progress. Yet other countries have not benefited from the opportunities presented by globalization, instead they have lost out. Mechanisms have not been put in place to address the situation of the growing gap between societies to the extent of virtual exclusion of some nations and sections of societies. This situation has raised great concern. The established World Commission on the Social Dimensions of Globalization has the mandate to address this challenge with the ultimate goal of making the process of globalization inclusive. It aims to use the process of globalization as a resource to promote decent work, reduce poverty and unemployment, to foster growth and sustainable development. In this context, the Commission will examine ways in which all international organizations can contribute to a more inclusive globalization process that is acceptable and fair to all. In order to achieve such consensus it is necessary to deal with the problems of insecurity and uncertainty, basic rights, equity and exclusion. It should be possible to shed light on the implications of globalization on people's life and work. To this end the Commission is expected to examine how to increase the effectiveness of existing policies and institutions and seek out and evaluate new perspectives, new instruments and new institutional mechanisms. The work of the Commission is premised on the fact that there is a space and a need new thinking and new policies.

## **2.0 Dimensions of Globalization**

The dimensions include communication and technology, global production networks, trade, mobility of capital, mobility of people, societal trends and policy approaches underpinning globalization. Policy responses can be conceived at national level, sub-regional and regional and at the international level.

### **3.0 Key concerns**

The key concerns should address issues relating to issues such as investment, trade, technology, employment and poverty reduction, security and social protection, rights and labour standards and social dialogue, labour institutions and participatory development.

#### **3.1 Investment and Financial Flows**

Financial flows have grown faster than output and trade. There has been a shift in favour of short term usually volatile financial flows. Foreign direct investment has also increased but it has largely by-passed Africa. The form of financial flow that Africa has accessed is foreign aid (ODA).

The inequality in the area of investment is evidenced by the trend of Foreign Direct Investment flows whereby African countries have been bypassed by the large volumes of investment. In general, the flow of FDI to the developing countries has been very small compared to the flow to the other economies. For instance; United Nations Conference on Trade and Development (UNCTAD) indicate that, although FDI to Africa rose from US\$ 8 billion in 1998 to US\$ 10 billion in 1999, investment by Transnational Corporations (TNCs) into the continent still represent only 1.2% of global FDI flows and just 5% of total FDI into all developing countries. This is because the image of Africa among many foreign investors still tends to be one of a continent associated mainly with political turmoil, economic instability, diseases and natural disasters (UNCTAD, 1999). UNCTAD, in the World Investment Report (WIR2000), stresses that: "The real challenge for the continent lies ahead: integration into the global economy, including integration into the regional or global production networks of TNCs.

Furthermore, the situation is even more challenging to the poorer countries among the developing countries. For instance, while 49 countries classified as the "Least Developed"<sup>1</sup> account for nearly a quarter of the world in terms of the number of countries and more than one tenth in terms of population, their share of world GDP is less than 1 percent and the flow of FDI to these countries represent only 2% of flows to the developing countries put together (UNCTAD, 2001).

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<sup>1</sup> Tanzania is among these countries listed in; UNCTAD (2001), *"FDI to Least Developed Countries at a glance"*

Recently, some developed countries have been trying to put in place some forms of global investment arrangements to liberalize investment. Measures in TRIMS and MAI are cases in point.

The TRIMs (Trade Related Investment Measures) and TRIPS (Trade Related Intellectual Property Rights) was meant to prohibit, effectively from year 2000, investment measures such as the local-content requirement (Obliging firms to use at least a specified minimal amount of local inputs) and foreign exchange balancing (limiting the import of inputs to a certain percentage of their exports). Such measures had been introduced to protect a country's balance of payments, promote local firms and enable more linkages to the local economy. The prohibition of these investment measures will make the attainment of development goals much more difficult and cause developing countries to lose some important policy options to pursue their industrialization.

In 1995, there was a move to put in place a Multilateral Agreement on Investment (MAI). The key areas in this regard include:

- The right to entry and establishment of foreign investors and investments
- The right to full equity ownership
- National treatment (treating foreign investors at least as well as local investors);
- The right to free transfer of funds and full profit repatriation
- Protection of property from expropriation, and
- Other accompanying measures such as national treatment rights in privatization.

Khor (2000) points out that these measures are aimed at increasing the pressure on the developing countries to liberalize their investment foreign investment rules and to extend national treatment privileges to foreign investors. These measures have increased the need for developing countries to examine the nature of foreign investment and review appropriate policies for managing foreign investment. Also Pigato (2000) observed that FDI flows to most developing countries were mostly meant to take advantage of the domestic market, and have mainly been channeled to the natural resources sector. A considerable part of these activities involve exhaustible resources.

There are at least three concerns that a country like Tanzania should be able to address. First, the source of financial flows that Africa has had access to (ODA) has been stagnating and even declining in the past decade. A major concern with this source is that it has been associated with

aid dependence, a situation which has eroded local initiative and obscured accountability for government policies to the extent important decisions and other policy priorities are influenced from external partners. Efforts which Tanzania has taken through TAS and IMG are encouraging ways of addressing the problem and should be considered by other countries for possible replication. Second, short term financial flows have the potential of being associated with volatility and financial crises similar to the one Asia experienced in 1997. Third, FDI has by-passed Africa to a large extent. With the benefit of hindsight, it can be argued that the FDI which entered the country could have benefited the country more if greater effort had been put into taking initiatives in three areas. First, initiatives should have been taken to promote the development of the local private investment jointly with FDI. Local entrepreneurship has not teamed up effectively with FDI to ensure capacity building of the local private sector. Investment promotion initiatives have paid greater attention to attracting FDI as such rather than in critically examining how FDI is to stimulate the development of local investment and local entrepreneurship. Second, FDI could have been channeled more into dynamic and competitive activities with a high technology content. FDI has occurred more in natural resource based investments than in the more dynamic activities like in modern industries activities which have the potential to develop new competitive advantages and new export structures as a step away from the traditional exports. The structure of world trade has shown increasing share of high-tech products and a declining share of primary products. Tanzania needs to follow the trend of diversifying exports into more dynamic exports into increasingly high-tech products. High-tech products are associated with dynamism in trade. Third, more government revenue could have been generated from FDI if excessive tax concessions had not been offered. FDI has not been effectively taxed due to competitive offers of favourable terms such as tax holidays and tax relief which goes with TIC certificates. Tax revenues from FDI could have been higher. Efforts being made to cut down on some of the excessive generosity are welcome.

### **3.2 Trade**

World trade has grown faster than world output. This is an indication that there has been increasing interdependence leading to exchanges of goods and services through trade. The structure of world trade shows a shift from trade in primary products towards trade in manufactures and services. Within relatively more dynamic group of manufactures and services, fastest growth has occurred in high-tech products which have a high content of technology.

While in general, the world trade has been unequal, favouring the developed nations, one issue of major concern has been the terms of trade fluctuations for the poor countries. The fluctuation has been a result of both internal and external factors. Internally, these countries are faced with several constraints such as debt, too weak an infrastructure and capacity to develop industrial exports (hence dependence on the export of primary products). Externally, these countries face low commodity prices for their exports, while facing high import prices. The ultimate solution must be to diversify into more dynamic exports which fetch a decent price in the market. Tanzania tried to industrialize in the 1970s following an import substitution regime but the initiative did not develop a competitive industrial sector which could withstand competition. The agenda for changing the position that Tanzania occupies in world trade was correct even if it did not succeed. The challenge is to resume that item of the development agenda and seek to change location in the international division of labour through industrialization. The international development community is not very keen to see Tanzania industrialize but the decision to put industrialization on the development agenda is in the hands of Tanzanians themselves. Industrialization initiatives will need to be taken but it should be recognized that the context in which industrialization will be taking place has changed dramatically since the 1970s. Industrialization will need to be more private sector driven, observing market orientation and incorporating the principle of competitiveness.

Market access is another important issue. The tendency of the industrial countries to heavily subsidize and protect their agriculture amounts to restricting the opportunities for benefiting from trade in some areas in which African countries are presumed to have comparative advantage. Similarly market access for textiles and garments has been made difficult by the slow implementation of the Multi-Fibre Agreement (MFA). The point about making markets accessible to developing countries should be taken very seriously. In the past, market access was provided by the European Commission but the supply capacity was the major bottleneck.

### **3.3 Technology**

The innovative activity, which is the source of technology generation has been highly concentrated in a handful of industrialized countries, and mainly dominated by small number of larger corporations. Table 1. below reveal an extreme form of concentration with just ten countries accounting for the bulk of all technological activity in the world.

**Table 1: Major source countries of technologies, mid 1990s**

Country	R&D expenditure		US Patents taken		Technology fees received		FDI outflows	
	1993		1977-1996		1993		1995	
	billion ppp \$	% of Total	000	% of total	billion \$	% of total	billion \$	% of total
USA	166.3	39	985.3	57	20.4	40	95.5	30
Japan	74.4	17	307.6	18	3.6	7	21.3	7
Germany	37.1	9	136.2	8	7.3	14	35.3	11
France	26.4	6	52.7	3	2	4	17.5	6
UK	21.6	5	52.8	3	2.9	6	37.8	12
Italy	13.2	3	22.1	1	0.9	2	5.1	2
Canada	8.4	2	34.4	2	0.9	2	4.8	2
Netherlands	5.1	1	16.9	1	6.2	12	12.4	4
Sweden	4.8	1	17.3	1	0.4	1	10.4	3
Switzerland	4.2	1	25.5	1	2	4	8.6	3
Subtotal 10	361.5	84	1650.8	95	46.6	91	248.7	79
World	428.58	100	1732	100	51	100	315	100

Source: Kumar (1998)

From the above table, it is evident that the top ten countries account for as much as 84% of global resources spent on R&D activity annually, they control 95% of the technological output in terms of patents taken out in the US, and receive 91% of global cross-border royalties and technological fees. Hence, the concentration of technological output appears to be more uneven than technological inputs. The control over technology is reflected in their nearly 80% share of global FDI outflows.

In general, developing countries other than the Asian Newly Industrialized Economies (NIEs), play a negligible role in global innovative activity and clearly lag behind. Even the transfer of technology to the Third World Countries is negligible compared to the transfer between the industrialized countries and the NIEs.

TRIPs agreements oblige countries to introduce Intellectual Property Right legislation with standards of protection that are similar to those in Northern countries. This agreement is likely to affect countries like Tanzania in at least three ways. First, it will exert so much pressure on the capacity to develop such a standard legislation and implement it in the midst of many governance challenges the governments have to cope with currently. Yet the main beneficiary is the innovator most of whom are located in the developed world. In that case, the beneficiaries should be able to meet a substantial part of the resources involved in creating that capacity. Second, these agreements could make it more difficult to undertake indigenous technological

development. In the past many countries developed technologically through the processes of imitation of products and processes. This opportunity will no longer be available. This will make it more difficult to undertake technological development through the process of learning by imitation and could actually lead to higher prices of procuring various technologies. Third, it could result in an increase in the prices of various essential products in the poor countries who were acquiring it cheaply from the imitators. While in the past these countries exempted agriculture, medicines and other essential products and processes from their patent laws, with the TRIPS agreement on all products these exemptions will be suspended. The prices of medicines are expected to shoot up in many countries, reducing access by consumers. The problem of inability of AIDS patients in developing countries to have access to patented drugs due to their high prices has already become a major issue of concern.

The TRIPS agreement has also won the attention of many environmentalists as it opens doors to the patenting of life forms such as micro-organisms and modified genetic materials which are seen to be detrimental to the environment. It has been argued that the present lack of controls and accountability in biotechnology research and application will likely accelerate biodiversity loss and could threaten natural ecosystems, Khor (2000).

### **3.4 Employment**

The national policies are expected to be directed to achieve faster and sustained growth as a necessary condition for expanding employment opportunities. In the long run, the growth of employment and incomes is influenced by the quality of human development, technology used, investment made and infrastructure in place. Globalization, offers opportunities through investment, trade and information flows but it is also associated with threats of vulnerability arising from financial crises, ecological fragility, unemployment and terms of trade and flexible labour markets (e.g. casualization of labour).

In response to intense competition and technological change organization of production processes is being transformed towards greater flexibility and quick response to changes in demand. The resulting more flexible labour markets have taken forms such as outsourcing, out contracting, temporary or part-time work. The ability to adjust to changing market conditions also means that job opportunities are expanding through increasing sales and through linkages with developed country firms. A case in point is data processing for MNCs which can be done

in the country for companies abroad and home-based work which can combine well with family responsibilities. However, these developments also result in reduced job security, are associated with less training, lower pay and benefits and increasing volatility of labour income. In many countries in Africa employment has shifted towards informal activities. The level of productivity in the informal activities is relatively low and competition has reduced profit margins even more intensely. These developments are exerting pressure on social security systems. The threat on social security systems is aggravated by the effects of HIV/AIDS.

By locating their production facilities, Multinationals have exported jobs from developed countries to developing countries through foreign investments and outward production in special economic zones. This, it is argued, has led to the increase in unemployment in the developed countries. However, it is not clear whether this “export” of jobs has resulted in any employment increase in the developing countries.

Through trade liberalization, governments have encouraged the replacement of domestically produced goods with goods produced abroad. The Third World countries are most affected in this respect, since they are mainly a market for manufactures from the industrial countries.

The increased application of technology, especially in globally operating companies, can reduce the use of and dependence on labour especially unskilled and semi-skilled labour. The demand for unskilled and semi-skilled labour is falling and wage differentials are increasing. While employees in modern and technology driven industrial and services sectors are integrating successfully in the world economy, employees in many tradition industries are losing jobs. Some traditional industries are being rejuvenated through the innovative use of new technologies. Access to new technologies and investments in competitive technologies has become essential for sustainable employment growth and successful integration into the world economy.

One important issue in the area of employment relates to the use of discriminatory migration policies in the industrial countries. While these countries have been advocating free movement of commodities and capital, the same has not been true in relation to the movement of labour. In the industrial countries, increasing restrictions are imposed on labour movement with the exception of highly skilled migrants –e.g., medical personnel, engineers, scientists, etc. The result is that poor countries are limited in the possibility of taking advantage of their one

relatively abundant asset – unskilled and semi-skilled labour, while being depleted through “brain drain”, of those skills which are desperately needed.

Globalization has supported the free flow of goods and services and capital but not labour. An exception, however, is skilled labour apparently because the North needs it to come from developing countries like Tanzania. This practice costs the poor countries in two ways. First, poor countries are deprived of the opportunity to make full use of their unskilled labour (by exporting it), a resource which they have in abundance. Second, they lose even the few trained personnel (through brain drain) who have been trained at high cost. One important implication of the brain drain is that investment in education in a developing country may not lead to faster economic growth if a large number of its highly educated people leave the country. Also, efforts to reduce specific skill shortages through improved educational opportunities may be largely futile unless measures are taken to offset existing incentives for highly educated people to emigrate.

### **3.5 Poverty, Inequality and Social Dimensions**

Of the 6 billion world population, 2.8 billion live on less than \$2 per day and 1.2 billion people live on less than \$1 per day. The distribution of world wealth and income is extremely unequal. The richest 20 countries are 37 times richer (in terms of incomes) than the poorest 20 countries and worse still this gap has doubled in the past 40 years. The situation is likely to get worse. For instance, the 48 least developed countries with a population of 570 million people have lost their share world trade to half (0.4%) over the past 20 years. This situation has been and continues to be aggravated by the protective policies in the developed countries especially in agriculture and textile and garments where the least developed countries have a comparative advantage.

Drug trafficking is one of the social ills that has been fueled by globalization. The developed countries are not doing enough to curb demand for drugs. Greater effort is being applied to curb the supply side rather than the demand side. The balance needs to be tipped towards controlling demand for drugs which is largely in the realm of developed countries.

### **3.6 Learning**

Due to the increase in the global flow of information, globalization has had a significant impact on learning. However, with only 2.6% of the world's Internet connections, Africa is lagging behind in using information and communication technologies to promote learning. The main challenges that Africa is facing in this area include: to improve access to infrastructure, to prepare the appropriate content and to assess the social and economic impacts.

The Policy Action Group on Learning identifies the main issues in this regard to be:

- ◆ The opportunities, challenges and problems associated with the use of information and communications technologies
- ◆ The articulation of the roles and areas of prime involvement for the private sector in traditional and non-traditional learning.
- ◆ The examination of the roles, mandates and operating philosophies of major Multi-lateral bodies within the UN system and among the Bretton Woods organizations, to ascertain areas of common purpose, divergence, overlap, and duplication; and to identify ways of raising the profile of education in general on their respective agenda.
- ◆ The review of issues related to the relationship between learning and cultural preservation and diversity, multiculturalism, linguistic preservation and the promotion of basic human rights throughout all aspects of learning.
- ◆ The review of the dichotomy between learning for sustainable development and learning as an individual intellectual pursuit.
- ◆ The assessment of the opportunities and challenges surrounding life – long learning, the inter – relationship between formal and non-formal ways of learning, new approaches to formal learning that reflect varying social and economic conditions and the roles that formal and non-formal learning can play in combating poverty.
- ◆ The review of the intellectual and resource requirements of the agents of the transmission of knowledge (teachers, etc), including the means by which various stakeholders can assess results of their actions and interventions.

### **3.7 Governance**

With globalization, there have been some major developments in the area of governance and policy in the developing countries. Democracy has gained new pace in Africa – with most

countries moving to political pluralism and a number of aspects associated with the system, including: Periodic elections, Broadened individual political rights and participation and exposure to diverse political views. Globalization of news and information has increased access to alternative sources of information about events. Strengthening the institutions that uphold democracy, especially the legislature and the judiciary remain challenges that most countries face.

While these are viewed as achievements, the increased external influence on the political systems of most African countries cannot be ignored. Today democracy is seen as “good” if it is “Western”, and influence of the Western countries on various political processes – especially elections has come to be an issue of serious concern (Sometimes some political analysts fear that the judgment by these countries is biased, as they consider an election to be free and fair only when the winner is the candidate they like).

Another governance issue which has attracted widespread international criticism is corruption in Africa. It is known that grand corruption involves international big business who are in a strong position to buy favours. It takes “two to tango”- bribes have to be offered and accepted. While the Tanzania government has been making efforts to fight corruption by exposing it and punishing corrupt practices the OECD countries have been paying lip service to it and have done little to expose it and punish the international perpetrators of corrupt practices. A balance in fighting corruption is needed i.e. OECD to do more to deter their companies from engaging in corruption.

### **3.8 Policy**

Policies at national, regional and international levels are bound to influence the inclusive features of globalization.

A market economy, integrated into the world economy, needs to possess healthy institutions and a supervisory and regulatory framework that guards against unhealthy or destructive competition, promotes equity and fosters good sovereignty and corporate governance. Experience has shown that complete trade liberalization has been harmful to some countries especially those whose capacity to supply is limited. In those countries policies to stimulate supply response have not been appropriate to build the capacity to respond to competition. These experiences suggest that careful management of trade and capital flows is necessary to reduce the threat from globalization.

National policies need to be directed towards achieving faster and sustained growth of output as a necessary condition for expanding employment and incomes while improving income distribution and reducing vulnerability. Appropriate incentive systems, infrastructure and capacity building are vital for beneficial integration into the world economy. Sustained public and private investments in human resource development, technology and infrastructure and important determinants of longer term growth and inclusion in the globalization process.

Although globalization has in some ways reduced room for manoeuvre for government policy at national level it is possible to make fuller use of regional cooperation and pursue policy making in a more differentiated and strategic way. For instance, the approach to the MNCs could pay greater attention to making it possible for nation states and sub-regions to intelligently use the MNCs for attaining their longer term development objectives. With the appropriate policies, it is possible to use FDI in a strategic way in order to acquire the needed capital, technology, marketing networks and management methods which should enable countries like Tanzania to build the capacity to compete and carve a new position in the world economy.

There is need for stronger global governance to ensure fair management of global public goods such as macroeconomic management, formulation of rules of international exchange and investment, provision of global infrastructure and research in socially important spheres (e.g. AIDS). The global system of economic governance needs to exhibit good governance in terms of being more communicative and consultative through which disputes can be resolved, consensus built and performance continually reviewed. International action through debt relief and improving aid relationships can contribute to ensuring gains to poor nations and poor people. In order to help poor countries and poor people help themselves, global good governance must facilitate opening of markets in developed countries to imports of products and services for which poor countries have a comparative advantage beginning with agriculture and labour intensive manufactures and services and moving gradually to more technologically dynamic exports.