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1

Introduction

Munawar Iqbal and Habib Ahmed

Globalization and the New World Order

Poverty alleviation (or, more broadly, social justice) and globalization (a word often used for the emerging New World Order) are the two buzzwords of our time. The two are closely linked. The proponents of globalization argue that it is one of the most potent forces to generate growth and hence reduce poverty. Others view it as an instrument in the hands of the countries in the North to exploit the resources of countries in the South and thus aggravate the problems of poverty and deprivation, especially in the long run. We will examine these arguments as we proceed, but first we need to understand what globalization in fact stands for.

Broadly speaking, globalization can be defined as a set of socio-political processes that lead to local societies being opened up to foreign influences. In this sense, there is nothing new about globalization; it is as old as humanity itself. Whether we are discussing Egyptian kingdoms in 1200 BC or the British Empire in the nineteenth century, it is a story of foreign influence on local economy, culture and institutions. As we will see, the modern globalization is also about an Empire, the 'Allied Empire'. What is new in the contemporary concept of globalization is its scale and scope.

Contemporary globalization

Chronologically, contemporary globalization started at the end of the Second World War. Since then it has passed through three distinct periods: (i) the period between 1945 and 1971; (ii) the period

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between 1971 and 1990; and (iii) the period since 1990. It was in 1944 that the victors of the Second World War assembled at Bretton Woods in an economic conference to lay the foundations of the New World Order. In addition to making a firm commitment to expand international trade, the participants of the conference agreed to establish binding rules on international economic activities. The participants also agreed to the establishment of three new international economic organizations: the International Monetary Fund (or IMF to administer the international monetary system), the International Bank for Reconstruction and Development, now known as the World Bank (initially established to provide loans for Europe's post-war reconstruction, and later to the rest of the world), and the General Agreement on Tariffs and Trade (GATT, charged with fashioning and enforcing multilateral trade agreements). In 1995, the World Trade Organization (WTO) was founded as the successor organization to GATT. In the political field, the United Nations (UN) was established in 1945 to take care of 'collective security' and to ensure peace and stability. Over time, the UN became active in several other fields such as health, education, food security, child welfare, refugees, and population control.

Within the prescribed limits of the so-called Bretton Woods system, individual nations were free to control the permeability of their borders. This allowed states to set their own political and economic agendas. In practice, however, the Bretton Woods institutions, at the behest of their 'patrons', used their 'conditionality' provisions to influence the policies of debtor nations. They were able to do that because of their undemocratic structure and the undue influence of the G-8 countries. A similar centralization of power was witnessed in the decision-making process at the United Nations.

The hegemonic structure of Bretton Woods institutions came to the forefront in 1971 when President Richard Nixon unilaterally declared the non-convertibility of dollars into gold which led to the collapse of the Bretton Woods system. The ensuing decade was characterized by global economic instability in the form of high inflation, low economic growth, high unemployment, and public sector deficits. By the 1980s, a powerful movement of globalization had gathered pace, linking the notion to the 'liberation' of economies around the world. The movement was led by leaderships in the US and the UK and was supported by neo-liberalist philosophers.

This New World Order received a further boost from the collapse in 1989–91 of communism in the Soviet Union and Eastern Europe. With the USA becoming the sole super-power and Europe and Japan its allies, the incorporation of the 'Allied Empire' had been achieved. Now any disputes between the US, Europe and Japan (or G-8 countries, for that matter) are like interstate disagreements.

In terms of its scope, contemporary globalization is much stronger than any such experience in the past. Globalization has such a wide multidisciplinary scope that 'Globalization Studies' has now become a new discipline. As mentioned above, globalization is a 'set' of social processes, but there is no consensus on what kinds of social processes constitute its essence. However, despite some overlaps, we can discuss the scope of globalization under the following categories: (i) economic globalization; (ii) political and institutional globalization; (iii) technological globalization; and (iv) socio-cultural globalization.

Before proceeding, we must state that globalization is not necessarily bad. It has made a number of positive contributions in each of the above areas, some of which will be pointed out in the following discussion. It can be empowering as well as coercive; it can open up new opportunities as well as be exploitative; it can democratize as well as autocratize. In brief, it is not something to worship; it is something to manage, mould and adapt.

Economic globalization

Under this heading two major issues relate to international trade and international financial flows. Many people associate economic globalization with the issue of free trade. Globalization is seen simply as an extension of the tendency throughout human history towards increasing specialization and trade. It offers people access to a range of new ideas, technologies, information, resources and, most importantly for developing countries, to markets. If the opportunities of globalization are taken up they can lead to more jobs, more investment, stronger sustainable economic growth and, ultimately to poverty alleviation. The total value of world trade increased from \$64 billion in 1950 to \$6.5 trillion in late 2002 (UN, 1997; United Nations Conference on Trade and Development 2003). Increased integration gives developing countries opportunities to utilize their abundant labour to sell goods and services in the global market. Export-led growth in many countries has enriched much of Asia, making millions of

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people better off. The growth in trade between nations has contributed to lifting hundreds of millions of people out of poverty over the past 50 years.

To be sure, free trade based on specialization, competition and the spread of technology increases efficiency of production at a global level and there are overall gains from trade. But it is less clear whether the profits resulting from free trade have been distributed fairly within and among countries. Many countries have failed to benefit from the process of trade liberalization and have been left behind. Developing countries that failed to integrate into the world economy had negative growth rates during the 1990s (World Bank, 2002, p. 5). As a result, various indicators of economic well-being deteriorated for these countries. The number of people living in poverty in the world increased by about 100 million over the 1990s (Stiglitz, 2002).

Why have some countries been able to harness the positive potential of globalization for growth and poverty reduction, while others have not? There are some necessary conditions for globalization to become an instrument of growth and poverty alleviation. The World Bank (and other institutions under the influence of the North) keeps emphasizing location, climate, poor internal policies, weak infrastructure and institutions, high population growth and corrupt governance as reasons for the developing countries' inability to benefit from globalization (see, for example, World Bank, 2002, p. 7). These are not entirely wrong as some of the studies in this volume also show, but the injustices of the New World Order are no less important. It has been pointed out that Western countries impose rules on the developing world that they do not abide by themselves (Stiglitz, 2002, p. 6): for example, while Western countries require developing countries to remove trade barriers, they keep their own, preventing the export of goods from poorer countries. It is also pointed out that agricultural commodity exports from Northern countries put subsistence farmers in the South out of work. It is hard for poor countries to build domestic industries when the WTO's rules make it difficult for such countries to protect their industries from undue competition from rich countries. It has also been pointed out that while the free movement rules apply to goods and services, something that favours Western countries, they do not apply to free movement of labour, which could be of benefit to poor countries. Some people see globalization as the spread of capitalism,

in which the labour of the poor countries is exploited for the benefit of the rich countries. The same countries which favour free trade put restrictions on labour movement, thereby not letting market forces to equalize wages across countries.

There is a feeling that the developed West has reaped a disproportionate share of the benefits of globalization at the expense of developing countries (Stiglitz, 2002, p. 7). How can the situation be improved? What can Muslim countries do to ensure that they are not marginalized in a rapidly globalizing world? Ahmad (Chapter 2) gives the Islamic perspective on globalization and Azid and Chaudhury (Chapter 4) examine the structure of the economies of some Muslim countries and discuss ways and means through which these countries can strengthen their economies within the contemporary international economic order to deal with globalization. They suggest more cooperation among the Muslim countries to deal with challenges arising from the global economic order.

The internationalization of trade has gone hand in hand with the liberalization of financial transactions. Its key components include the deregulation of interest rates, the removal of credit controls, and the privatization of government-owned banks and financial institutions. Millions of individual investors now utilize global electronic investment networks not only to place their orders, but also to receive valuable information about relevant economic and political developments. 'E-businesses', 'dot.com firms' and other virtual participants in the information-based 'new economy' trade hundreds of billions of dollars over the Internet.

The aggregate value of internationally traded financial instruments is now more than 100 times the value of imports and exports. This massive growth is predominantly due to the growth in short-term transactions in derivatives and other purely money-dealing currency and securities markets that trade claims to draw profits from future production. In other words, investors are betting on commodities or currency rates that do not yet exist. The main difference between the globalized economy of today and that of the nineteenth century is the greatly increased volume of *short-term* financial transactions relative to the flows of *real* goods and services and long-term investment. According to the Bank for International Settlements (BIS), in the United States, for example, the ratio of cross-border financial transactions to real GDP rose from 9 per cent in

1980 to 135 per cent in 1995.¹ This has left the stability of the international financial system hanging in the balance, depending on the whims of speculators. Global speculators (mostly located in the North) often take advantage of weak financial and banking regulations to make astronomical profits in emerging markets of developing countries. By moving in and out merely by the click of a mouse, they can create artificial booms and busts in these economies. The 1997–8 Southeast Asia crisis shows that the economic gains achieved over decades can be lost within months, mainly due to the globalization of financial transactions (Wade, 1998).

The Islamic perspective on financial dealings has much to offer in order to help reduce the instability of the financial system. In the Islamic financial system finance is closely linked to real goods and services. In general it is not possible to sell something until it is in the ownership and possession of the seller, and so the possibility of destabilizing speculation is drastically reduced. Islamic asset-based transactions and risk-sharing modes of financing can bring about stability and equity in the financial sector. Wilson (Chapter 3) discusses some aspects of the Islamic financial system and highlights how they can contribute to the international financial order in a positive way.

Political and institutional globalization

Globalization is an over-arching international order shaping the domestic politics and foreign relations of virtually every country. It is changing governance structures based on the principles of national self-determination and the sovereignty of 'nation-states' in four fundamental aspects. First, the power of the nation-state has been curtailed by the liberalization of trade and investment flows governed by international agreements, and massive flows of capital, people and technology across territorial boundaries. National governments are not able to formulate their monetary, fiscal, environmental and other policies in isolation.

Second, the governance structure has assumed an international character due to the establishment of a network of international institutions with varying degrees of writ over national policies. Institutions such as the UN, IMF, the World Bank, the Environmental Protection Agency (EPA) and the WTO have been created to look after collective security, the stability of the international financial

system, cooperative action on environment, mutual trade liberalization and so on. In addition to such international organizations, there are several regional institutions, such as the European Union (EU), the Organisation for Economic Cooperation and Development (OECD), the Asia-Pacific Economic Cooperation (APEC) forum, and the Organization for Petroleum Exporting Countries (OPEC) which put constraints on the powers of the national governments to formulate policies for their countries.

Third, the emergence of thousands of voluntary, non-governmental organizations (NGOs) with worldwide reach is undermining state sovereignty in many ways. International NGOs such as Amnesty International, Greenpeace and Democracy Watch serve as very powerful pressure groups to influence the political and economic decisions made by nation-states and intergovernmental organizations.

Finally, the internationalization of media has shifted the power of the 'fifth column' to the international arena. During the last two decades, a small group of very large transnational corporations (TNCs), such as CNN, BBC World and Disney, have come to dominate the global market for news, entertainment, television and film. This propaganda machine is mightier than any machine gun. The media empire is as coercive as the political empire, if not more.

For countries in the South, all of these are simply 'instruments' in the hands of the North. The decision-making of almost all international organizations is concentrated in the hands of the USA and its allies. The process of reaching international agreements is biased in their favour. The international media empire lies within these countries. Even the NGOs are financed, monitored and manoeuvred by them, either overtly or covertly.

Technological globalization

To an ordinary person the most obvious manifestation of globalization lies in the growing political and economic interdependence fuelled by 'new technologies' such as personal computers, the Internet, mobile phones, pagers, digital cameras, cable televisions, satellites, jet planes, space shuttles and supertankers. The Internet, in particular, has played a crucial role in facilitating globalization by connecting billions of individuals across the globe, allowing the instant transfer of information, money and news, making new forms

of production arrangements possible and extending effective working hours. Technological developments have been taking place regularly throughout human history, but the scale of these developments in the last 3–4 decades has been unprecedented. This has brought an immense increase in global wealth and unparalleled convenience to everyday life.

While globalization precedes, as well as extends beyond, these technological developments, it is not possible to deny that these new innovations have played a vital role in the creation, multiplication, expansion and intensification of global social interconnections and exchanges. Since most of these technologies emerged during roughly the same period as the rise of contemporary globalization, these are viewed as essential components of globalization. And once again, the ‘digital divide’ between the North and the South is so wide that the technological globalization is considered nothing but a facet of the ‘Allied Empire’.

Socio-cultural globalization

Globalization is understood by some as a process of cultural homogenization, and the promotion of human rights and democracy across the globe. Others see it as the destruction of national and other geographically distinct senses of community by globally-imposed and commercially-sponsored patterns of culture through the media: the ‘McWorld’ syndrome. McWorld is the product of a superficial American popular culture driven by expansionist commercial interests and consumer capitalism. Rock ‘n’ roll, celebrity gossip and pornography are all construed as American cultural exports. Northern media corporations inundate worldwide television schedules with movies, entertainment and advertisements based on Western culture which increasingly shape people’s identities and the structure of desires around the world.

McWorld also symbolizes a dismal, utilitarian, imperialistic consumer capitalism that is invading the world’s markets, concentrating economic power in the hands of a few corporations. A close look at corporate sales and country GDPs reveals that 51 of the world’s 100 largest economies are corporations; only 49 are countries.² These multinational corporations control much of the world’s investment capital, technology, and access to international markets. Taking advantage of the lack of regulation in poorer developing

countries, they may locate polluting industries in those countries, log tropical forests, or develop mines with inadequate controls. Since almost all of these corporations belong to the North, McWorld is taken to be another name for the 'Allied Empire'.

Ahmad (Chapter 2) emphasizes the need for the Muslim *Ummah* to protect its identity in the face of this American cultural flood and suggests strategies for doing just that. Wilson (Chapter 3) sees positive opportunities for using globalization for the Muslim world's own purposes, including disseminating Muslim beliefs. He points out that Islam itself promoted globalization in past centuries through the transmission of its value system. Concentrating on finance, he states that the Islamic financial system has something new to offer to the world, and then goes into detail to describe some of its unique features. He also quotes Armour (1999), to suggest that faith communities through their strengthened social interaction are in a better position to resist cultural homogenization and protect their value systems.

The Internet plays a central role in changing cultures around the world, as it does in almost all other aspects of globalization. It has introduced a form of communication that is seemingly beyond all ownership and control; and it has encouraged a concurrent characterization of the present era as the 'Information Age'. This 'information culture' has both positive and negative aspects, as any surfer of the Internet can easily ascertain. Parents are now struggling to protect their children from the negative effects of several components of the Internet, but the technology seems to be working against them.

Poverty in Muslim countries and globalization

The extent of poverty in any society is affected by the natural resources available to it. In addition, it is affected by the social values and norms, customs and institutions prevailing in the society. The Muslim *Ummah*, a collection of 57 Muslim countries and scores of Muslim communities around the globe, is rich in resources. Islamic values also place a great deal of emphasis on provision of basic needs and poverty alleviation (Iqbal, 2002). While it is expected that each individual will exert himself to the fullest extent of his potential to fulfil his needs, Islam has instituted

social support mechanisms for those who may face situations and circumstances in which they may not be able to earn enough to meet their needs (Zarqa, 1988).

Yet it is an unfortunate fact that today a large part of the *Ummah* lives in conditions of dire poverty. Out of the 57 Muslim countries, 22 are judged by the United Nations to belong to the Least Developed group. The Islamic Development Bank, the sole Islamic multilateral financial institution, recognizes another six as Least Developed. Various indicators show that the overall status of poverty in Muslim countries is serious. The aggregate output produced in these countries is small compared to population, giving an overall lower standard of living.³ The overall poverty level is also reflected in the education and health indicators. Ahmed (2004) reports that more than half the population in 26 Muslim countries (51.5 per cent) lives on less than \$2 a day, and close to a quarter (24.6 per cent) lives on less than \$1 a day in these countries. An estimated 20 per cent of the people in the world (1.2 billion) live on \$1 a day and 46.7 per cent (2.8 billion) of them live on \$2 a day (World Bank, 2001, p. 3). The corresponding percentages of poverty for Muslim countries indicate that a relatively large per centage of the population of these countries is poor compared to world averages.

This was not always the case. Until the eighteenth century, Muslim countries enjoyed a favourable position in global wealth. It is a historic fact that during the colonial period a massive transfer of wealth took place from the colonies to the colonizers. Many people claim that that process has not stopped; it is only the form that has changed. What was previously being done through military means is now being done through markets. What was previously being done through warships is now being done through wireless communications. What was previously being done through machine guns is now being done through computers. The transfer of wealth from the world's poor to the world's rich is accelerating. In 1960, the richest fifth of the world's population had 30 times as much wealth as the poorest fifth, but by 1995 the proportion had risen to 82 times. Ahmad (Chapter 2) points out that according to a CNN survey came out in September 2003, only 40 billionaires owned US\$955 billion, which is greater than the total wealth of almost 30 per cent of Third World countries, the abode of over 1.2 billion people. While over a billion persons in the world live on less than US\$1 a day, the

European Union gives a subsidy of US\$2 per cow per day, and this subsidy in Japan is US\$7.5 per cow per day.

This is not to deny that internal factors have also played a significant role in aggravating the situation. Many Muslim countries have emerged from political colonization, but have not emerged from the cultural colonization which has been going on and is being intensified by the forces of globalization. Gusau (Chapter 7) gives a profile of poverty in Nigeria and discusses various misplaced policies that were implemented to rectify the situation. He suggests different policies drawn from Islamic teachings to eradicate poverty.

An important issue that is preventing development in many developing countries is corruption. Al-Yousif (Chapter 6) discusses how corruption is an obstacle to development as it negatively affects government revenues, economic growth and equality. After discussing the relationship of corruption and development by examining the causes and consequences of the vice, he gives the Islamic viewpoint of corruption and its remedies. The focus of the solution from an Islamic perspective is to change individuals by providing them with the correct teachings of Islam. Gusau (Chapter 7) also discusses the negative impact of corruption in the Nigerian economy and suggests moral education, among others, to reduce the menace of corruption and as a result reduce poverty.

Pirasteh and Karimi (Chapter 5) examine trends of various demographic and macroeconomic variables and their impact on the growth rates in a sample of Islamic and non-Islamic countries. The results show some differences between Muslim and non-Muslim countries. They suggest that a slower population growth rate brought about by gender inequality reduction could achieve the goal of equitable economic growth and development.

Conclusion

The integration of economies and societies due to globalization brings forth opportunities of overall economic development in general and poverty alleviation in particular. Given the pervasiveness of poverty in Muslim countries, there is a need to address how these economies can ensure growth with equity from Islamic perspectives. The Islamic worldview of economics encompasses both material and moral dimensions. Development policies in many poor

countries fail as these are based on models that are not consistent with the culture and values of the people. The result is the existence of immoral practices such as corruption which retard growth and increase poverty. Islamic economists need to come up with pragmatic solutions that entail norms and principles to address the problems of poverty in Muslim countries.

While the process of globalization has increased levels of income in some countries, many countries have not benefited from it. The way in which the New International Economic Order will affect various economies will largely depend on how countries design their strategies and frame their policies in the face of a rapidly changing world environment. As globalization seems to be irreversible, it is necessary to discuss how the issues of growth and poverty can be addressed from an Islamic viewpoint in the process of integrating into the 'global village'. Another challenge faced by the Muslim *Ummah* is to formulate a strategy whereby it can protect its cultural values and convince the world of the need for a peaceful cultural co-existence.

Notes

1. Bank for International Settlements 66th and 67th Annual Reports.
2. Steger (2003).
3. For example, 47 Muslim countries had a population of 1.1 billion with a combined Gross Domestic Product (GDP) of US\$1.31 trillion in 2001. This means that 18 per cent of the world's population produced 3.8 per cent of the world output. The combined GDP of 47 member countries was less than that of the UK (US\$1.33 trillion), 74 per cent of GDP of France (US\$1.8 trillion), 24 per cent of that of Japan (\$5.65 trillion) and 15 per cent of that of the USA (\$9.01 trillion). For a detailed study of poverty in Muslim countries, see Ahmed (2004).

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