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MASTER'S DEGREE THESIS

THE IMPACT OF GLOBALIZATION ON HUMAN  
DEVELOPMENT IN THE DEVELOPING  
COUNTRIES:

THE CASE OF CENTRAL AND SOUTH AMERICA

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# ABSTRACT

## THE IMPACT OF GLOBALIZATION ON HUMAN DEVELOPMENT IN THE DEVELOPING COUNTRIES: THE CASE OF CENTRAL AND SOUTH AMERICA

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The purpose of this study is to determine to what extent globalization influences the human development in the case of Central and South American developing countries. Specifically, this study attempts to explain what kind of globalization (economic, social or political) influences what area of human development, to determine whether this effect is positive or negative, and to explore what makes this effect be negative or positive. The motivation leading this research is the fact that globalization has not brought improvement in the developmental conditions of the population as a whole. In the case of Central and South America, the puzzles are why globalization does not affect positively to everybody? What causes globalization to affect positively or negatively a country or to the population? Does globalization affect positively or negatively the human development of developing countries? This research aims to empirically test the impact of globalization on human development by studying 17 Latin American countries in a range of time from 1995 to 2009, in order to confirm that the effect of globalization on human development of developing countries depends on specific aspects of globalization and human development, as well as the level of state fragility and delinquency.

The outcomes from empirical data analysis that employ panel corrected standard errors (PCSE) modeling reveal that globalization has a conditional correlation with human development in Central and South American countries. That is, globalization has both positive and negative effects depending on specific

aspects and their indicators to measure each aspect of globalization (economic, social or political globalization), the specific area of human development examined and the level of state fragility and delinquency in each country. The overall globalization index is found to have a positive effect on human development index. However, when globalization is disaggregated, the economic globalization sub index is found to have a negative effect, while social and political globalization sub indexes have positive effects on the human development. More specifically, FDI shows a constant positive effect while trade shows a constant negative effect on human development. Also, when political and social variables are tested, high levels of state fragility, transnational drug trade and urban crime are found to have negative impacts on human development, while democracy and an effective government are found to be positive for human development in Central and South American countries.

***Keywords:*** *Human Development, Globalization, State Fragility, Delinquency.*



## 초록

# 개발도상국의 인간개발에 대한 세계화의 영향: 중미와 남아메리카의 경우

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이 연구의 목적은 중남미 개발도상국의 인간개발에 세계화가 어떤 영향을 미치는가를 탐구하는 것이다. 세계화의 다양한 측면, 즉 경제적, 사회적 및 정치적 세계화를 구분하고, 동시에 인간 개발의 다양한 지표를 구분한 뒤, 세계화의 각 측면이 인간개발의 각각의 지표에 미치는 효과를 실증적으로 분석한다. 이 연구는 세계화가 인간개발에 긍정적 혹은 부정적이라는 이분법적 인식을 가진 기존 연구 경향을 벗어나, 인간개발에 대한 세계화의 조건부적 효과에 주목하고자 한다. 이 연구는 1995년-2009년까지 17개 중남미 국가를 대상으로 개발도상국의 인간 개발에 대한 세계화의 영향은 세계화의 다양한 측면과 인간 개발의 지표에 따라 긍정적일수도 혹은 부정적일수도 있음을 경험적으로 분석한다. 즉, 세계화를 경제적, 사회적, 정치적 세계화로 구분하고, 과연 어떤 세계화가 구체적으로 인간개발의 어떤 지표에 긍정적 효과를 갖는지 혹은 부정적 효과를 갖는지를 실증적으로 밝혀보고자 하는 것이다. 또한 이 연구는 세계화가 인간개발에 미치는 효과를 매개하는 중요한 변수로서 국가 취약성(state fragility)과 민주주의를 강조한다. 이 연구에서 사용되어진 양적분석 모델은 Panel Corrected Standard Errors (PCSE)이다. 이 연구의 가장 중요한 경험적 발견은 경제적 세계화는 인간개발에 부정적 영향을 미치고, 사회적, 정치적 세계화는 인간개발에 긍정적 효과를 미치는 것이다. 그러나 경제적 세계화에서도 외국인 직접 투자 (FDI)는 지속적으로 인간개발에 긍정적인 효과를 갖는 반면 무역자유화는 부정적인 효과를 갖는 것을 발견했다. 또한, 국가취약성과 다국적 마약범죄와 같은 조직범죄의 수준이 높은 국가에서 세계화가 인간개발에 미치는 긍정적 효과는 감소하는 반면, 상대적으로 민주주의 수준과 정부의 효율성이 큰 국가에서 세계화는 인간개발에 긍정적 영향을 미친다는 것을 발견했다.

**키워드** : 인간 개발, 세계화, 국가 취약성, 범죄.

# CHAPTER 1

## INTRODUCTION

The globalization process has not brought improvement in the developmental conditions of the population as a whole. The inquiries are why globalization does not affect positively to everybody? Why does globalization affect positively or negatively a country? Does globalization strengthen or weaken the human development in the developing countries? When addressing these inquiries, while some studies reveal positive effects, others reveal negative effects on human development. For example, while the UNCTAD claims that globalization has negative outcomes for developing countries, the World Bank claims that globalization is the only way to improve the development for the developing countries (UNDP 1999, 2000).

It is important to address these inquiries to understand in detail what a country's advantages or disadvantages are when facing globalization will help policymakers to create wise policies according to each country's particular situation so that they can successfully integrate their economies to the international economic system and improve the human development at the same time. The majority of countries in the world are underdeveloped and need to get more attention because they are a potential source of

development worldwide. This research aims to study the impact of globalization on the human development of 17 Latin American countries in a range of time from 1995 to 2009. This is in order to theoretically test the hypothesis that the globalization effect on human development depends on the measure of globalization and human development used for the test, as well as on the level of state fragility and delinquency in Central and South American developing countries.

According to Amartya Sen, Nobel Prize laureate for economics in 1998, Human Development means to increase the prosperity of human life rather than the richness of the economy of the country. The expression 'human development' was the consequence of criticism to the approach that there was a close link between a national economic growth and individual economic development. In this sense, human development was defined as "the process of enlarging people's choices and improving human capabilities (the range of things that they can do or be in life) and freedoms so that they can live a long and healthy life, access to education and a decent standard of living, participate in their community and the decisions that affect their lives" (UNDP 1992)<sup>1</sup>.

In the case of Latin America, it is structural violence and inequality that undermine economic and human development itself. There are also

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<sup>1</sup> UNDP Report - Belize 2011 pp1.

problems such as high levels of political and economic instability, urban violence, citizen insecurity, transnational drug trade and transnational criminal networks, deadly diseases. States must guarantee a decent standard human development for its people. A good number of states in Latin America are not capable of fulfilling satisfactorily this basic principle (because there is not enough security for the population, large portions of the territory are under the control of gangs or criminal networks and the authority and legitimacy of the governments are seriously damaged), states can be seen as fragile states. And state fragility negatively affects not only the human development of the country, but also the human development of neighboring countries because state weakness is believed to have spillover effects (Lambach 2007).

It has also been claimed that globalization makes weak states (that already have trouble fulfilling their duties for their people) to be weaker because it diminishes the role of the state in the economy and the provision of welfare, giving a free pass to transnational corporations, which are occasionally more powerful than the state itself (Sorensen 2000).

Previous studies (World Bank 2002; Bhagwati 2004; Kremer and Maskin 2006; Dreher 2006) have found that economic globalization (namely FDI and trade) and economic growth are positively related. One of the most representative examples of this positive correlation in the last decades is the rapid

growth in China. It certainly has also been the case of most industrialized countries such as ones among the OECD members (OECD 2002). However, many studies have also shown that economic globalization also has negative effects which can be seen in poor or underdeveloped countries including Latin America (Gilpin 1987; Buzan 1991; Robbins 1997; Nef 1997; Ferraro 1998; Robbins and Gindling 1999; Wood 1997; Biel 2000; Conteh-Morgan 2002; Ahmed 2004).

The assumption that a good economic situation of the country will eventually lead to a higher human development of the citizens has led to the promotion of rapid growth based on neoliberal policies including a strong focus on macroeconomic stability, the liberalization of domestic markets, privatization, and rapid external trade and financial liberalization. However, when states are weak they are not capable of controlling their economies effectively and are subject to the external market forces which are beyond their control (Ahmed 2004).

With respect to social and political globalization, studies have also found both positive (Datko 2011; Sirgy 2004; Ming-Chang 2006; Nash 2010; Usma 2009) and negative effects of globalization (Datko 2011; Millar-Wood 2009; Nash 2010; Salazar 2007; Gordon 2008; Jaramillo 1987).

Globalization is not an easy concept to measure. Several scholars prefer to measure globalization through trade and FDI understanding globalization

as essentially economic (Seity 1997; Ellwood 2001). Others try to deepen the concept of globalization to consider social, cultural, political and even military aspects of globalization (Shaw 1997; Baylis Smith and Owens 2008). Therefore, it is reasonable to think that because globalization has been measured in different ways, the results of researchers have been different as well.

For the purpose of this study, globalization will be measured in different ways. Foreign direct investment (FDI) and international trade will be used as the first measure. Globalization (KOF<sup>2</sup>) index which is the combination of economic, social and political globalization will be used as the second measure. Economic globalization sub index (alone) will be used as the third measure. Economic, social and political globalization (KOF) sub indexes (together) will be used as the fourth measure of globalization. These four measures have been selected for a better understanding of the real effects of globalization (however measured) on human development.

The data that has been selected in this research is from 1995 to 2009<sup>3</sup>, which was the period in which the climax of economic and financial liberalization under an open economy has been felt in Latin America. 17

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<sup>2</sup> KOF Globalization Index . The measure includes economic globalization, social globalization, political globalization and the overall globalization index which includes the combination of the 3 types of globalization previously cited. Dreher, Axel (2006). "[Does Globalization Affect Growth? Evidence from a new Index of Globalization](#)" , *Applied Economics* 38, 10: 1091-1110.

<sup>3</sup> The data has been collected from different sources including the World Bank, Polity IV, Wikipedia, and each country' s sources such as Police Reports of crime and homicides.

Latin American countries have been selected for this research: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Uruguay and Venezuela.

The Statistics have been analyzed through Panel Corrected Standard Errors (PCSE) with HDI, a decent standard of life (measured by GDP per capita), long and healthy life (measured by life expectancy at birth), and access to education (measured by public spending on education) as dependent variables. FDI, a ratio of Trade to GDP, globalization index, economic, social and political globalization index, fragility index, delinquency (a combination of gangs and crime rate), democracy, and government effectiveness were used as independent variables.

The potential of this study includes the contribution to providing empirical evidence by testing the relationship between globalization and human development in Central and South America in such a way that will allow us to differentiate what kind of globalization is positive or negative in distinct areas of human development. And this is with the purpose of helping policymakers to have a clearer idea of what can be done according to each country's peculiarities to enhance the human development in a globalized era.

The study finds that globalization has a conditional correlation with

human development in Central and South America. That is, globalization has both positive and negative effects depending on the specific aspects and their indicators to measure each aspect of globalization and human development, as well as the type of globalization examined and the level of state fragility and delinquency in each country. The overall globalization index is found to have a positive effect on human development index. However, when globalization is disaggregated, the economic globalization sub index is found to have a negative effect, while social and political globalization sub indexes have a positive effect on the human development.

FDI shows constant positive effects on human development, possibly because investments are expected to create new jobs for the national population and help reduce the unemployment. While trade shows constant negative effects on human development, possibly due to the unequal terms of trade within the trade agreements which favor positively mostly to the biggest country and negatively to the smallest country. Also, when political and social variables are tested, high levels of state fragility, transnational drug trade and urban crime are found to have negative impacts, while democracy and an effective government are found to be positive for human development in Central and South American countries.



## CHAPTER 2

### LITERATURE REVIEW

#### A. Globalization and Human Development – Concepts

Scholars have addressed globalization from many different points of view. As a result, there is no such thing as a unique concept of globalization. Many scholars have tried to relate the concept of globalization to various theoretical issues and ideas such as modernization (Modelski 1972; Morse 1976), economic interdependence (Cooper 1968), global village (McLuhan 1964), world society (Burton 1972). Some scholars argue that globalization is essentially an economic process and therefore it can be measured by trade and FDI (Seity 1997; Ellwood 2001; Beer and Bosweel 2001; Blomstrom 1992; Frankel and Romer 1996; Li and Reuveny 2003). Other scholars also see globalization as a process affecting not only the economic realm, but also the social, cultural, political and even military realms (Shaw 1997; Baylis et al 2008; Dreher 2006).

This study will understand globalization as a multidimensional concept. That is, globalization will be addressed in its economic, social and political areas. Economic globalization will be understood as the flow of

goods, capital and services as well as information and perceptions that accompany market exchanges. Social globalization will be understood as the spread of ideas, information, images and people. And political globalization will be understood as the diffusion of governmental policies through embassies abroad, membership in international organization, and international treaties (Dreher 2006).

Human development is also a multidimensional concept. The UNDP defines the concept of human development in terms of a long healthy life, access to knowledge, and a decent standard of living (UNDP 1990). According to Amartya Sen, Nobel Prize laureate for economics in 1998, Human Development means to increase the richness of human life rather than the wealth of the economy<sup>4</sup>. The UNDP provides us with another concept of human development as “the process of enlarging people’ s choices and improving human capabilities (the range of things that they can do or be in life) and freedoms so they can live a long and healthy life, access to education and a decent standard of living, participate in their community and the decisions that affect their lives” (UNDP Reports 1992)<sup>5</sup>.

On the basis of these previous studies to define the concepts of globalization and human development, this study understands them as follows. Globalization will be understood as a multidimensional process by which

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<sup>4</sup> UNDP, “*Origins of the Human Development Approach*” pp1

<sup>5</sup> UNDP Report - Belize 2011 pp1.

different countries become more closely integrated in an economic, social, and political manner allowing an intensive flow of goods, services, money, people, ideas and cultures. On the other hand, human development will be understood as a multidimensional people-centered approach where the main concern is the improving of individual opportunities of having a better education, a healthier life and a better standard of living.

Now that we have clarified the concepts of globalization and human development we can proceed to the central question of this study. That is, the relationship between globalization and human development. Scholars have previously addressed the relationship between globalization and human development from different points of view (Ming-Chang, 2006; Diener and Diener 1995; Ranis, Stewart, and Ramirez 2000). Among these points of view, there are three main theories regarding the impact of globalization on human development.

The first theory is from the neoliberal school which understands globalization in terms of inflows and outflows of goods, services, capital, technology, and workers, and human development in terms of human well-being or a better quality of life (QOL – in terms of economic, consumer, social, and health well being). This school claims that trade, cross-border investment and technological innovation improve the efficiency of production and therefore it generates prosperity. This school also posits that benefits

of globalization can be spread over all the people as long as the labor market is quick to respond to changes in supply and demand, and in that way improve the human well-being of the population (Grennes 2003). The second theory sees globalization as a new hegemonic plan or a new world order that transnational money and global powers operate in order to facilitate capital accumulation in the unrestricted market having as a result few improvements for most countries (Ming-Chang 2006; Petras and Veltmeyer 2001). Globalization pursues the private interests regardless of people (Smart 2003), which results in the inequality of benefits of those who are already less privileged, undermining the human well-being of the populations (Scholte 2000).

The third position recognizes that globalization is a process that has benefits and disadvantages as well (Sirgy 2004; Ming-Chang 2006). Sirgy concludes that globalization is a double-bladed phenomenon that affects not only positively but also negatively the well-being of the population. Ming-Chang's work (2006) concludes that at the international level political globalization has positive impacts while economic and social globalization do not have a positive outcome when development level and regional differences are operated as controls. Also, he finds that the overall globalization index has a positive impact on human development (Ming-Chang 2006). Agosin argues that the integration in the global economy must have an

interrelationship with sustainable human development and the promotion of fast economic growth (Agosin 2000). Similar position adopts Mayer-Foulkes (2006).

This study considers both globalization and human development as multidimensional. Following this logic, the positive and negative effects of globalization on human development will be analyzed separately in an attempt to analyze those effects in a more disaggregated way.

## **B. THE IMPACT OF GLOBALIZATION ON HUMAN DEVELOPMENT**

### **1. THE EFFECTS OF GLOBALIZATION ON A DECENT STANDARD OF LIVING**

#### **Positive Effects of Globalization on a Decent Standard of Living**

##### **Economic Globalization**

A decent standard of living has an economic base and it refers to the access to a basic income from productive and remunerative work, or from some publicly financed safety net (UNDP 1994). Studies have found a positive correlation between economic globalization and an improved standard of life (Dreher 2006; Grossman 1990; Krugman 1994). For some scholars, the wealth of

the country will eventually translate into the wealth of the population, and globalization can help accelerate the economic development (Dreher 2006). Four features can be seen in a globalized economy 1) comparative advantages determine the extent of specialization in human capital intensive production of goods, 2) large scale of the world economy induces an exploitation of new technologies, 3) ideas and information spread quickly and creates spillover effects and 4) better financial opportunities induce ordinary investments in general and investments in research and development in particular (Grossman and Helpman 1990).

Trade may on the other hand increase the average productivity by shifting resources to industries with lower average costs, and through concentration and rationalization of the production (Helpman and Krugman 1985; Krugman 1994), and thus enhancing economic growth. The hypothesis of export promotion explains that the exports, especially in the manufacturing sector, are an important priority to the economic growth.

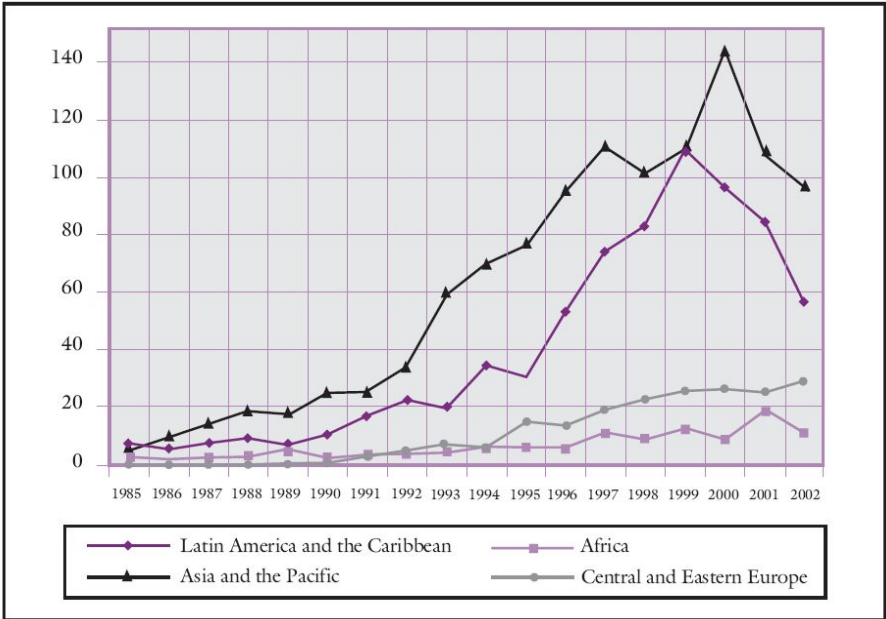
From this point of view, globalization means an opportunity for developing countries to attain quicker economic growth by trade and investment (Nesser 2001). FDI permits foreign investors to acquire benefits from their resources, while FDI recipients acquire technologies, international production and trade channels etc. FDI provides resources to developing countries such as capital, innovation, technology, research, etc.

And all of these are important for developing countries to industrialize and develop. Also, globalization and regional integration declines the costs of trade. (Nesser 2001).

Ajit K.Ghose (2004) found that FDI inflows in particular can certainly help to accelerate economic growth in developing countries, especially when these enable the recipient country to promote exports of manufactures. The foreign direct investment (FDI) shows significant impacts on Human development index (HDI) because rises in FDI help to increase the employment opportunities that improve the standard of living (Nesser 2001). Other scholars who found a positive correlation between FDI and economic growth are Dollar (1992), Frankel and Romer (1996), and Borensztein (1998). In Latin America we see an increasing flow of FDI in graph 1, which is from 1985 to 2002. This is expected to have a positive impact on the human development of Central and South American countries.

Also positive correlations between trade and economic growth have been found (Dollar and Kraay 2001; Greenaway 1999). Following this logic, although there are problems with rapid development, globalization is a very positive force that takes countries out of poverty because it causes an economic cycle that brings faster economic growth (Bhagwati 2004).

Graph 1. Inflows of FDI in Developing Countries 1985–2002 (in US\$ billions)



Source: Department for International Development, 2007.

**Social Globalization**

People who believe in the goodness of social globalization claim that cultural assimilation provides all the information that without globalization would remain unknown. And this kind of knowledge that now can be shared worldwide can be used in order to improve health care, education, environment and much more due to the fast spread of information and knowledge that now can be accessed (Datko 2011). Social globalization points to a big stream of cultural and information exchanges between people across



countries and this might improve cosmopolitan solidarity, build hybrid identity or encourage openness to alternative knowledges (Scholte 2000).

Mass media and increasing communication technologies are very important for social globalization. Social globalization creates a new sort of opportunities to improve the standard of living in many ways. Nowadays a country certainly needs professionals who are able to communicate and relate with people from many different cultures and languages, which might translate into a better paid occupation in the home country and abroad (Sirgy 2004). At the national level, if the country is able to attract enough tourism, the possibility is open for tourists to consume in the country as well as the opening of new businesses aimed to the attention of foreigners.

According to the comparative advantage theory, globalization means benefits through the access to innovative ideas and more investment opportunities in other countries (Ming-Chang 2006). Also, in the case of most of underdeveloped countries many people's relatives migrate to another country in order to improve their standard of living and this in turn translates into remittances which have a positive direct impact on the standard of living of those who receive this money.

## Political Globalization

As countries become more interdependent on each other, problems like terrorism, climate change, diseases, and crime have become international, and as such, they require international decisions because these problems are beyond the control of the state (Nash 2010). International treaties achieved by countries in meetings or conventions like the World Summit for Social Development (UN1995) or the declaration of the Millennium Development Goals (UN 2003), the declaration to the right to development (UN 1986), the International Covenant on Economic, Social and Cultural Rights (UN 1976), may help by reaching agreements about legislation concerning economic and social measures in order to enhance the standard of life of the populations.

International institutions and non-governmental organizations (NGOs) are powerful enough to fight for a specific cause (like human rights, environmental issues, etc.) by lobbying and adding pressure on the government and big companies as well as through the media and protests in order to improve policies (Nash 2010). Another aspect worth mentioning is that as governments liberalize, democratize and become more politically open, corruption is expected to reduce because the population becomes more involved in the political life of the country and therefore the transparency in governmental policies is expected to increase, which may indirectly

translate into a better standard of living for the population.

## **Negative Effects of Globalization on a Decent Standard of Living**

### **Economic Globalization**

Previous studies have also found that the effect of globalization on the economic area of human development is not always good (Cornia and Court 2001; Kremer and Maskin 2006; Bulmer–Thomas 1996; Gordon 2008; Rice 2006; Ahmed 2004; Gilpin 1987; Robbins 1997; Nef 1997; Ferraro 1998; Wood 1997 Conteh–Morgan 2002; Blomstron 1992), especially when economic liberalization and industrialization seems to have unequal effects. Globalization has left no option to emerging and developing countries but to fit into the global economy. It has facilitated the cross-border connections between people, countries, goods, money, investment, trade and even culture and ideas. However, this process of internationalization often tends to damage and marginalize weak economies. This negative effect leads to the rise of economic inequalities among countries. While some countries have achieved high rates of economic growth, others have achieved very low rates of growth that in turn mean a lower standard of living for people.

According to Ibrahim (2004), underdeveloped economies lack on the infrastructure and motivation for production. In addition, he sees the persistent underdevelopment as a cycle resulting from the non utilization of their domestic resources in the production, which makes this countries turn to an excessive import of products. At the same time, the resources that are not utilized usually go to the industrialized countries as raw materials for industrial production (Ibrahim 2004). Buzan (1991) explains that trade favors industrial products over raw materials and in addition, countries that industrialize late face markets already full of higher quality goods than those they can produce to export. Even more, in the process of modernization, these poor countries find themselves in unbearable debts (Buzan 1991; Stiglitz 2002)<sup>6</sup>.

Globalization is also blamed for the worsening of inequality (Flemming and Micklewright 2000; Cornia and Court 2001; Robbins 1997; Robbins and Gindling 1999; SAPRI Report 2004). Empirical evidence shows that the widening of the income gap started in China after 1984 when the reforms

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6. "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" . (Stiglitz 2002), "Globalization and its Discontents" . W. W Norton, USA. Preface pp 15.

reached the urban industrial sector. The rise in India's inequality can be seen since liberalization started in the early 1990s. Russian inequalities rose after the collapse of the Soviet regime in 1991, and this owed much to the surrender of trading privileges and assets to a few oligarchs (Flemming and Micklewright 2000).

Cornia and Court (2001) have found that new technology, trade liberalization, stabilization and adjustment programs in developing countries, financial liberalization, privatization and distribution of financial assets, changes in labor market institutions and state tax and transfer systems are the "new causes" of inequality. Time series studies have also found that wage inequality has increased after globalization in developing countries such as Argentina, Chile, Colombia, Costa Rica and Uruguay (Robbins 1997; Robbins and Gindling 1999). Additionally, Wood (1997) finds that while increased openness is related to a decrease in wage inequality in the Asian Tiger economies in the 1970s and 1980s, it is related to increased inequality in Latin America in the 1990s (Wood 1997).

Another often criticized point is the financial crises as a result of the fast way in which financial transactions are made. The emergence of worldwide financial markets and better access to external financing for borrowers has made it easier for anybody to make any kind of financial

transaction anywhere. Because worldwide financial structures grow more quickly than any international regulatory regime the instability of the global financial infrastructure severely increased. Some examples are the financial crises of 1980s, 1998-1999 and the impact that international crises have had on Latin American economies, like 1930 and 2007-2010. The effects of financial crises are particularly worse in the developing countries, since they are more dependent on the industrialized countries, and lack on the resources to stimulate the economy, forcing millions of people going poor and jeopardizing seriously economic, education and health security of the citizens.

## **Social Globalization**

According to Sirgy (2004), negative effects can also appear due to the increasing country interdependence. Although social globalization allows the participation in the international society and therefore the participation in an improvement in the standard of life of those who are able to prepare for the globalized era, some people may still argue that these benefits are not for everybody. That is, in order to get the benefits you first need to prepare for it through a higher education that includes the learning of technology, foreign cultures and languages, not all the population will be

able to acquire such a knowledge due to the increasing cost of this education, and therefore they will be excluded, creating winners and losers (Datko 2011). In underdeveloped countries, the quality of the education in the private and public sector is quite different. Therefore only those who have access to private education are granted a better training while those whose economic possibilities do not allow them to pay a private education are condemned to a lower quality education and therefore a lower paid job.

Also, the increasing use of the outsourcing services might play a negative noticeable role in those who even when they have acquired high education, get replaced for cheaper labor and therefore they become part of the unemployment statistics. This might also encourage political and economic instability and even social rebellions.

### **Political Globalization**

Political globalization involves a variety of different actors on the global field. And sometimes these actors are much more powerful than the states themselves. Some scholars have argued that international institutions threaten the sovereignty and authority of the state by imposing policies and rules from outside. Also, the fact that these international institutions are not accountable to anybody undermines the possibility of individuals to take

any action against the decisions that put them in disadvantage (Nash 2010). One of the most cited examples of this situation are the Structural Adjustment Programs (SAPs) created by the World Bank and the IMF as policies for developing countries. These policies are applied through free market conditionalities<sup>7</sup> lest severe fiscal discipline, which in turn leaves no option to the developing countries but to obey, regardless those who might be negatively affected.

## 2. THE EFFECTS OF GLOBALIZATION ON A LONG HEALTHY LIFE

### Positive Effects of Globalization on a Long Healthy Life

#### Economic Globalization

A long and healthy life, for purposes of the Human Development Index is measured by the life expectancy at birth. However, it also means to have the security of an appropriate nourishment and health while living. Health

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<sup>7</sup> “When a country borrows from the IMF, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial aid from the international community. These loan conditions also serve to ensure that the country will be able to repay the Fund so that the resources can be made available to other members in need”. (IMF 2011). The IMF factsheet on conditionalities can be found at <http://www.imf.org/external/np/exr/facts/conditio.htm>



security seeks to guarantee a minimum protection from different diseases and unhealthy standards of living. When we see the effects of globalization on health security, we can see enormous opportunities with technology advances in the struggle to cure diseases, but it also has many challenges in the spread of them. For example, among the good results, over the last years the world life expectancy has increased from 50 to 64 years and infant mortality has decreased at least the half. And in developing countries, in a study regarding the years from 1960s to 1990s, it was found that the life expectancy increased from 45 to 62 years, while child mortality fell from 216 to 95 per thousand populations. However, 92 percent of the global disease is found in the low and middle income nations (Diaz-Bonilla et al 2002).

### **Social Globalization**

As argued previously, social globalization is believed to have a positive impact in life expectancy through the improvement in the standard of life. Let us take tourism for instance. Tourism allows foreigners to consume in the country as well as the opportunity of opening new businesses as the access to innovative ideas shows up with tools like the internet (Ming-Chang 2006). The spread of ideas and information through social

contact will allow foreign doctors and international donors to help developing countries, allowing people to have access to a better health care before, during and after pregnancy, as well as during life. Also, in the case of most of underdeveloped countries many people's relatives migrate to another country in order to improve their standard of living and this in turn translates into remittances which have a positive direct impact on the standard of living, and therefore in the life expectancy of those who receive such money.

### **Political Globalization**

In the political realm, we can see the development of an increasing number of nongovernmental organizations that act as main agents of public policy, including humanitarian aid and development efforts. According to Pongsapich (2004), political globalization must serve as a guideline for social policy and plans aimed to enhance the health conditions of the less privileged. Political globalization plays an important role in national policies such as health and education. For example, Pongsapich describes the social development program adopted in Thailand which is the result of the 10 commitments made by the UN members and includes policies such as access to social services, poverty eradication, productive employment, and partnership with national, regional and international agencies in order to enhance

social development (Pongsapich, 2004).

## **Negative Effects of Globalization on a Long Healthy Life**

### **Economic Globalization**

Latin America has a much differentiated income distribution, and this restricts the access to food for the poorer segments of the population (Shapouri and Rosen 2000). Empirical studies show a strong positive relationship between income level and food security (Winter 1993; Behrman and Wolfe 1987; Handa 1999; Thomas and Straus 1992), which makes it very important to access a decent income. Susan George (1987) finds six factors that determine the distribution of food. These are a) the North-South division, b) wealth redistribution policies, c) the rural-urban bias, d) social class, e) gender, and f) age.

According to the Center for Strategic and International Studies (2006), thanks to progress in agricultural technology farmers have increased their crop yields, helping the world avoid mass starvation and malnutrition. Also, traditional producers (those who grow their own food) can now be involved in cash-crop production. However, because of cheap imported food the prices to

grow food for consumption or local market are too expensive compared to imported food, therefore the production of subsistence crops in the developing countries declined severely. In addition, the structural adjustment programs (SAP) implemented in Latin America were exclusionary themselves. Only those big enough were able to produce and export their crop production, while the small ones were left aside (Spoor 2000; Smith 1993; Bulmer-Thomas 1996; Kay 1995; Reza and Echeverria 1998).

The unequal economic growth has helped also to an unequal emergence of health problems. In the case of developed countries, higher incomes have contributed to the improvement of some basic health trouble. On the other hand, low income countries still face health problems such as undernourishment and communicable diseases (like HIV/AIDS). Accordingly, it is not a surprise that the best human, economic and technical resources are concentrated in the high income segment helping them improve their health, while the low income segments are still excluded. And this does not happen only within countries, but with globalization, it takes an international face when for example the brain drain of health specialized professionals migrate to higher income countries.

## Social Globalization

Globalization has also affected health security, making it easier to spread diseases to humans. Modern means of transportation allow more people to travel around the world faster creating new opportunities for diseases to move faster as well. Citizen security also contributes enormously to a long healthy life, and globalization has helped a lot in the increasing insecurity of the population from dangers like threats from other groups of people (ethnic tensions), from violent individuals or gangs (crime, street violence), from predatory adults, human trafficking, etc. Latin America is one of the most violent zones in the world and social inequality is believed to play one of the most important roles in this problem (World Bank 2003; Fajnzylber and Stack 1984; Tickner 2007).

By 2004, according to the Geneva Declaration on Armed Violence and Development, Central America had a 29.3 rate of intentional homicide per 100,000 populations, while South America accounts for a 25.9, which is twice the world average. Individually, El Salvador, Honduras, Guatemala, Venezuela, Colombia, Belize, Panama, and Mexico are among the 20 most violent countries in the world, with El Salvador, Honduras and Guatemala being the worst in

the world (Wikipedia 2010)<sup>8</sup>.

Although it is not a new problem, it worsened in the last years due to the facilities that globalization gives, such as easier money transactions, faster means of transportation and mass communication. Violence has not only great financial costs but also it is one of the main causes of a difficult economic, social and democratic consolidation process (UN 2007; UNODC 2010). The financial costs of violence for Central America and Mexico are considered to be approximately from 12 to 14 percent of the GDP (USAID 2006).

In today's language, gang is a concept that refers to a criminal organization. Gang members in this area of the continent are estimated to have from 50,000 to 305,000 members and a considerable amount of the domestic crime is considered to come from them (UNDP 2006; UN 2007). Their activities range from drug and people trafficking, murder, extortion, robbery and kidnapping. The problem becomes worse when these gangs operate not only locally but also internationally (from the 1980s onward). And with the help of technology, transportation and communications, the acquisition of money and weapons, power and influence across the Latin American region, until the point of having enclaves in every country, becomes easier. Migration and deportation (in the Latin American case, mostly from the US) also play a very important role in this phenomenon because it helps to the

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<sup>8</sup> The list of countries by intentional homicide rate can be found at [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_intentional\\_homicide\\_rate](http://en.wikipedia.org/wiki/List_of_countries_by_intentional_homicide_rate)

cycle of the internationalization of the crime. Their operations are highly organized and sophisticated, and very well financed, usually from illegal activities like drug trade.

### **Political Globalization**

A very common factor in most of Latin American countries is the Structural Adjustment Programs (SAP) that came in the liberalization policy package. With Structural Adjustment Programs (SAP), health becomes a good with privatization and turns health into a private interest for many actors. And this, in turn, can provoke many confronting policy positions that will seek to fulfill those private interests and orient benefits for certain segments of the population rather than the general population's needs.

In principle, the privatization of health should increase the competency, the number of services, availability, quality and efficiency of health services. However, in countries like Colombia, Chile, Peru, Mexico and Argentina this was not the case (Salazar 2007; Gordon 2008; Mesa-Lago 1986; Jaramillo, 1987; Currea-Lugo 2000). Many problems have arisen in these countries, like inequity in the service, emphasis in the correction and not prevention of health, ineffective decentralization of the health service and ineffective focalization of subsidies, etc.

### 3. THE EFFECTS OF GLOBALIZATION ON EDUCATION

#### Positive Effects of Globalization on Education

##### Economic Globalization

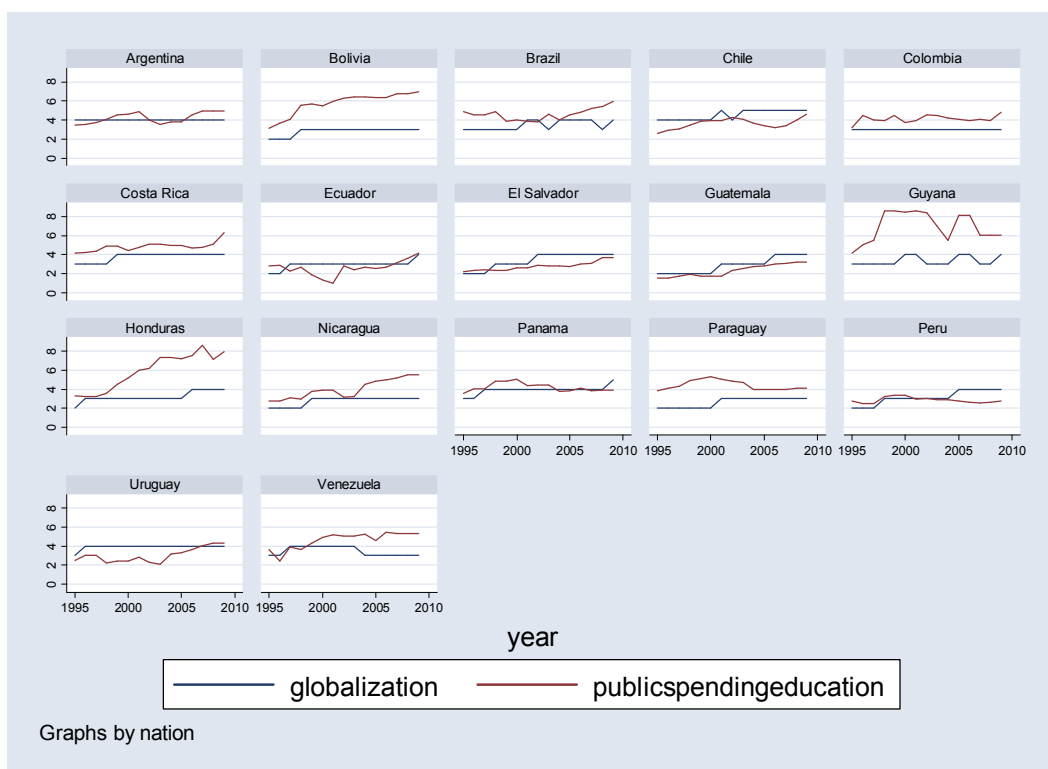
Education is an extremely important part of the human development of a nation because it improves the opportunities of a better quality of life and it is very closely related to economic growth. And it is very important in a globalizing economy, because education is expected to contribute to the productivity through the higher skill labor required for the changing markets.

Burbules (2000) makes a series of hypotheses concerning the economic, political and cultural levels of globalization in relation with education policies. Economically, there might be two hypotheses. The pressures of externally imposed austerity conditions (for example, as a condition of IMF loans) may lead to reductions in expenditures on education, while in other cases, the wish for economic competitiveness and productivity may encourage increased expenditures on education, which appears to be the case of Latin America (Graph 2). Politically, some countries will organize education according to nationalism and citizen loyalty, while in others a notion of



international citizenship may be conquered, encouraging travel, foreign language study, and multicultural tolerance. Culturally, some nations will accept, even encourage, an increased dependence on the media, popular culture, or new communication and information technology, while in others these same trends will increase the resistance to external influences (Burbules 2000).

Graph 2. Globalization Index and Public Expenditure on Education in 17 Central and South American Countries, 1995–2009



Source: Dreher 2006; Red de Instituciones Sociales de América Latina y el Caribe, RISALC 2010.

According to Rodrik (1997) openness is very likely to translate into more generous social programs. And Sirgy argues that global flows impact positively the human development because it allows the state to extract more resources which can be invested in social spending (Sirgy 2004). In this globalized era, education is highly important, as well as training, basic competencies and skills as key factors in investment, trade and competition for jobs and markets.

### **Social Globalization**

In order to create those professionals needed in the globalized world, schools have changed the educational programs including the study of diverse cultures, languages and the acquisition of the necessary skills for the workforce. Also, the education now counts on the facilities generated by the internet which allows the acquisition of a huge amount of knowledge. Out of the school, social media and social networking reduces considerably the cultural barriers and allows the exchange of information with different peoples from all around the world (Datko 2011). Again, in order to become more competitive in the global market, the state is expected to invest in education.

## **Political Globalization**

Political globalization is expected to help state institutions strengthen, to be more democratic and therefore, with a better accountability system, corruption is expected to reduce. When corruption reduces, public funds are expected to redistribute more equally among the population through social and public spending in health, education and other public and social policies aimed to beneficiate people. Also, educational systems are often compared to each other internationally, and this can be seen as an incentive to invest in the national educational system.

## **Negative Effects of Globalization on Education**

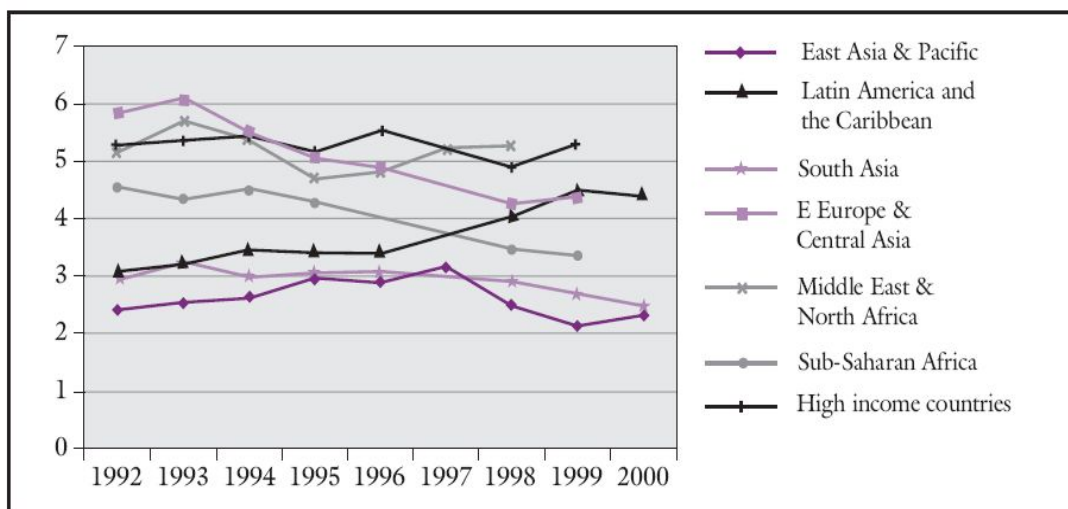
### **Economic Globalization**

The processes of globalization have important consequences for education, for example transforming teaching and learning, educational practices and public policies which are very much of national concern. Economic restructuring is also likely to cause fiscal crisis and budget reductions affecting the welfare state and as a consequence privatization of social services, health, housing, and education might increase (Burbules 2000). Other studies also show the impact of the Structural Adjustment Programs on

education (Adams 1989; Carnoy 1995, 1999, 2001, 2004). However, in the case of Latin America, public spending on education has actually increased from 1992 to 2000 and we can see it in graph 3.

But there is a problem. In developing countries, education quality is much lower for students from low-income families who attend public schools and do not have access to a better quality higher education. In Latin America, education is profoundly stratified, an effect that is perpetuating income inequalities. Also, globalization complicates the relationship between the supply and demand of labor within countries giving path to the international division of labor. (Carlson 2002).

Graph 3. Public Spending on Education, 1992 - 2000. (% of GDP).



Source: Department for International Development, 2007

A very worrying issue is that in the Latin American countries,

unemployment rates often rise rather than falling with higher educational attainment (Carlson 2002). Fresh graduates from university fail to find a new job due to the already skill-oversaturated labor market. There is a serious disparity in the region between the working skills and the capacity of the labor market to supply jobs that match those skills. There is also empirical evidence that suggests a negative correlation between trade and social spending (Garret 2001).

### **Social Globalization**

Even though it is clear that in order to be competitive governments need to invest in education, in many developing countries public resources for education are not enough. According to Millar Wood this is because these countries are “unsuccessful globalizers”. That is, not very well integrated into the global economy. Sometimes, international social trends like fashion, issues orientated to gender equality and attitudes from other countries will not be welcome everywhere. Some scholars argue that the flow of cultures and ideas transforms the politics of national identity (Held and McGrew 2003). In response to this disapproval, many counter globalization groups emerge fragmenting the nation into cultural or ethnic enclaves instead of creating a global culture (Wood 2003).

### **Political Globalization**

From the point of view of the critics, globalization produces negative

influences because it weakens the capacity of the state of making decisions and creating the necessary welfare policies for the nation. Agencies such as the WTO and IMF who have promoted the globalization (and with it the obligatory Structural Adjustment Programs) have forced governments to accept neoliberal reforms by reducing fiscal expansion and cutting social spending. For example, in order to attract foreign companies and investment, the state must reduce the taxes which in turn results in a decrease of public resources for investment in welfare policies like health and education (Panic 2003). Scholars argue that governments often tend to reform their education systems according to decisions made by “non-accountable, non-transparent, and non-democratic corporate headquarters and international agencies” (Wood 2008:48).

According to Usma, neoliberal globalization destroys public services because it privatizes public institutions in order to liberalize the private market. This in turn, places the responsibility of success or failure in the hands of the global market (Usma 2009). As international institutions and transnational corporations move on to a knowledge-based economy, the international division of labor continues to exacerbate because developing countries continue to specialize in lower skilled products and services while only a small group of industrialized countries specialize in high skilled products and services.

## CHAPTER 3

### HYPOTHESES

The main hypotheses are defined as follows:

1. The effect of globalization on the level of human development is specific to various dimensions of globalization and human development.
2. The effect of globalization on the level of human development depends on the level of state fragility and delinquency in Central and South American countries.

With respect to hypothesis 1, previous empirical studies on globalization have proven that the reconciliation of their results is not possible. While some find positive correlations, others find negative, and others find both. There might be various reasons for this issue. The first reason might be related to the measure of globalization and human development used for the test. For example, in studying the effect of globalization and inequality, scholars found that the sign and significance of the effect of globalization on inequality depends on the measure of globalization used. They found that the effect is usually negative for trade/GDP while FDI/GDP is positive (White and Anderson 2001; Garret 2001). Similar results are expected when

the effects of globalization are analyzed on human development. The second reason might be related to the sample selected. The impact of globalization will not be the same in industrialized countries and developing countries (Wood 1997; Ming-Chang 2006).

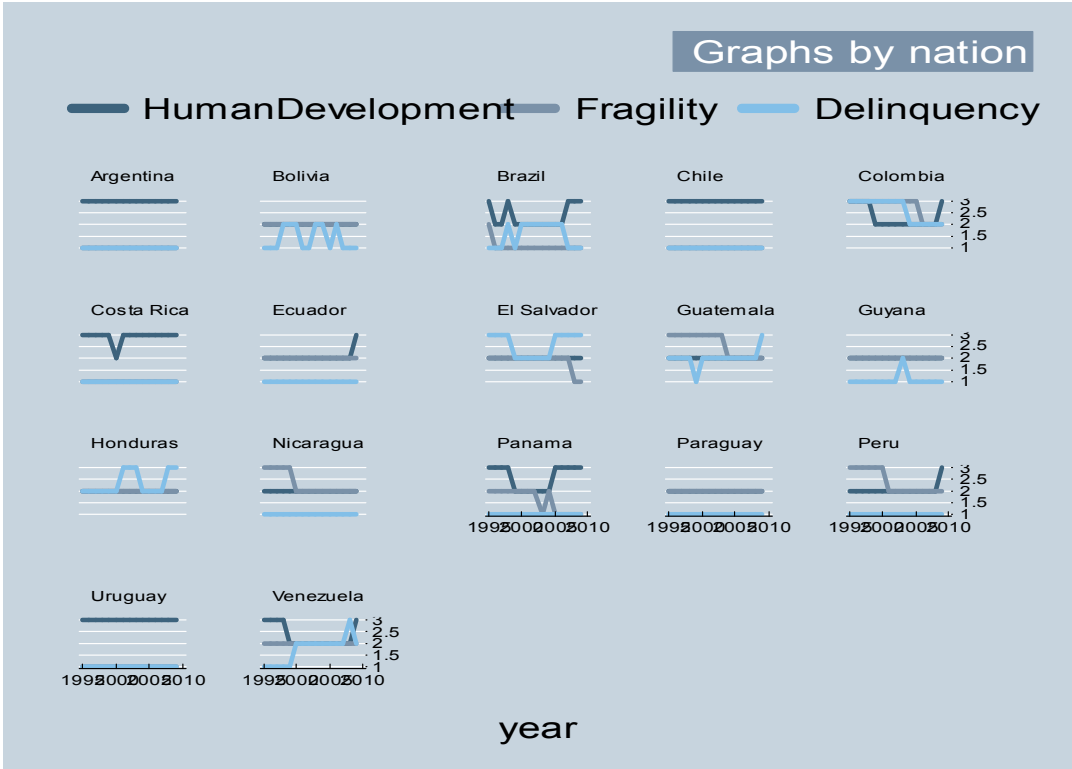
A third reason might be related to the local and regional characteristics taken or not taken into consideration at the time of the analysis (even among similar countries the effect of globalization on human development will be different due to the local and/or regional characteristics of the country in question). Since this study focuses its attention on developing countries, the first and third reason will be tested. Following this reasoning, globalization is expected to have both positive and negative effects depending on the measure of globalization, the measure of human development, and the local/regional characteristics analyzed in the theoretical model.

With respect to hypothesis 2, state fragility is dangerous for national, regional and international stability, because they can be secure shelter for criminal organizations, focal points for drugs and arms trade, they can spread conflict and instability across their borders and they can provide neither the essential public goods nor security for their populations (Ottaway and Mair 2004). Taking a look at Graph 4 we can see the relationship between human development, fragility index and delinquency. The



generality indicates that those countries with higher human development also have the lowest fragility index and delinquency.

Graph 4. Relationship between HD, Fragility Index and Delinquency.



Source: Dreher 2006; Red de Instituciones Sociales de América Latina y el Caribe, RISALC 2010. Polity IV 2010

The hyperglobalizers imagined a more secure world as a result of globalization (Gantzkel and Li 2003). However, they did not foresee how the process of globalization encouraged the aggravation of insecurities (Lamback

and Debien 2007). When using fragility index as the dependent variable and the independent variables are economic, social and political globalization indexes and delinquency, economic globalization and delinquency show positive impacts on state fragility. Let us see for example that the same technology and means for international trade of goods and services is also used for drugs, arms and people trafficking, undermining in this way the human development of the citizens at the national and international level.

Following this logic, economic globalization is expected to have negative effects on human development, while social and political globalization are expected to have positive effects when state fragility and the violent environment are together in the same theoretical model.

Based on the above central hypotheses, we can specify them as more testable hypotheses as follows:

#### A. THE EFFECT OF ECONOMIC GLOBALIZATION ON HUMAN DEVELOPMENT

- 1) *The economic globalization process is likely to affect adversely the GDP per capita of developing countries in Central and South America under an environment characterized by state fragility and violence.*

The comparative advantages necessary to compete are not enough in Latin America, especially in the small countries where the obvious competitive advantage is cheap labor. That is why only those few people who specialize

are able to benefit from globalization, while the majority of the population who are not able to specialize and compete, end up in factories or underemployed, contributing to the already existing inequality. Following the same logic, the small national companies, for whom the new technologies are too expensive, cannot compete with the big transnational companies that overwhelm the country with cheap products, and therefore, the small companies disappear. The more fragile the state is, the less it is going to act on behalf of the citizens against the transnational capitals. Altogether with an environment in which violence and urban crime frighten national and international investment and a government not capable of ensuring the basic security for the population, the decent standard of living becomes difficult to achieve.

*2) The economic globalization process is likely to affect adversely the life expectancy of developing countries in Central and South America under an environment characterized by state fragility and violence.*

Inequality, worsened by economic globalization, is very likely to translate into a restricted access to a proper nutrition, sanitary and health systems for poor segments of the population. Unequal economic growth helps to an unequal manifestation of health problems and to an unequal improvement of basic health problems and communicable diseases. State fragility and violence are likely to cause a stronger investment in security

(in order to reduce the delinquency and encourage investment) reducing social spending like health.

*3) The economic globalization process is likely to affect positively the public spending on education of developing countries in Central and South America under an environment characterized by state fragility and violence.*

Countries are expected to invest in education in order to prevent delinquency and improve the skills of labor in the new technologies required by a globalized economy and in that way become more competitive. Economic globalization is positively correlated with education. It is a two-way relationship. Economic globalization impacts positively the public spending on education as much as public spending on education impacts positively on the economic globalization. Education is extremely important insofar it contributes to the productivity and competitiveness through a higher skilled labor.

#### B. THE EFFECT OF SOCIAL GLOBALIZATION ON HUMAN DEVELOPMENT

*4) The social globalization process is likely to affect positively the GDP per capita of developing countries in Central and South America under an environment characterized by state fragility and violence.*

The social globalization process through the media facilitates the education and training necessary for a higher skilled labor and provides the familiarization with different cultures and different languages. This is very likely to have a good effect on the earnings of people. The national economy can be benefitted from international tourism through consumerism and investment. Also, internet shows to be a new opportunity for business and investment opportunities in other countries. An important point is also the inflows of income (remittances) that directly impacts positively the standard of living of the population who receives it.

*5) The social globalization process is likely to affect positively the life expectancy of developing countries in Central and South America under an environment characterized by state fragility and violence.*

Internationalization, information flows and tourism might help encourage foreigners to visit and invest in the country, including health workers or volunteers who usually go to underdeveloped countries to help. Social globalization provides the access to all kinds of information that can be used in order to improve health care.

*6) The social globalization process is likely to affect positively the public investment on education of developing countries in Central and South America under an environment characterized by state fragility and violence.*

Countries are expected to invest in education as the spread of ideas, information, images and people increases, because it should be seen as imminent opportunities for a) increasing the competitiveness of the national economy in the international system, and b) reducing the violence and strengthen institutions through a higher education and training of the general population.

#### C. THE EFFECT OF POLITICAL GLOBALIZATION ON HUMAN DEVELOPMENT

*7) The political globalization process is likely to affect positively the GDP per capita of developing countries in Central and South America under an environment characterized by state fragility and violence.*

Good relations with neighbor countries might encourage regionalization and in that way improve the opportunities of a more profitable and balanced commercial activity with industrialized countries. Also, good relations with many other different countries might encourage foreign direct investment and in that way improve the standard of living of the general population through new companies, FDI and employment. International treaties are expected to help by reaching agreements and legislation concerning measures aimed to improve the standard of life of the populations. Furthermore, nongovernmental organizations are well known for fighting for causes related

to the well being of the citizens and pressing governments and big companies in order to improve policies oriented to the welfare. Also, as countries become more politically open and democratized, corruption is expected to reduce and the policy making process is expected to be more transparent, translating into more investment for the populations, reduction of violence and strengthening of state institutions.

*8) The political globalization process is likely to affect positively the life expectancy of developing countries in Central and South America under an environment characterized by state fragility and violence.*

In the case of developing countries (most of the times fragile and violent), good relations with other countries and international donors might help for the achievement of loans and/or donations for investment in public areas such as health, and in that way improve the conditions under which the life expectancy of children are undermined. Also, nongovernmental organizations are expected to contribute to the humanitarian aid and development efforts, as well as to the construction of plans aimed to improve the health conditions of the poor segments of the populations and encouraging partnership with foreign agencies in order to enhance social development.

*9) The political globalization process is likely to affect negatively the public spending on education of developing countries in Central and South America under an environment characterized by state fragility and violence.*

When states are weak, they lose their sovereignty to create welfare policies for the population, letting these to be created (and imposed) by transnational capitals. Not having enough resources for all the welfare policies required by the citizens and at the same time being in a globalized environment that forces them to be competitive (not through industrialization but through the attraction of foreign investment), states are expected to reduce taxes and this is expected to translate in less resources for investment in education.

In the next table we can see the expected results compared to the obtained results. In the first part, globalization effect on the human development overall index, the expected results are the same as the obtained results, except for Foreign Direct Investment, which was expected to be negative, but the result is positive. The same can be said about the Globalization effect on a decent standard of living and a long healthy life. In the globalization effect on education, the expected results match the obtained results, except for social globalization, which was expected to have a positive impact, but the result is negative.



## Summary of Expected Results and Obtained Results

Globalization effect on HD			
		Expected Results	Obtained results
Globalization effect on HD Overall Index	Trade and FDI	Negative	Negative --- Positive
	Economic Globalization	Negative	Negative
	Social Globalization	Positive	Positive
	Political Globalization	Positive	Positive
	Overall Globalization Index	Positive	Positive
Globalization effect on a decent standard of living (GDP)	Trade and FDI	Negative	Negative --- Positive
	Economic Globalization	Negative	Negative
	Social Globalization	Positive	Positive
	Political Globalization	Positive	Positive
	Overall Globalization Index	Positive	Positive
Globalization effect on Education (Public Spending on Education)	Trade and FDI	Positive	Positive --- Positive
	Economic Globalization	Positive	Positive
	Social Globalization	Positive	Negative
	Political Globalization	Negative	Negative
	Overall Globalization Index	Positive	Positive
Globalization effect on a long and healthy life (Life expectancy at birth)	Trade and FDI	Negative	Negative --- Positive
	Economic Globalization	Negative	Negative
	Social Globalization	Positive	Positive
	Political Globalization	Positive	Positive
	Overall Globalization Index	Positive	Positive

## CHAPTER 4

### DATA AND METHODOLOGY

The purpose of this study is to find to what extent the globalization process affects the human development in Central and South American developing countries, to determine what kind of globalization is beneficial or prejudicial to what specific area of human development, and to determine under what conditions this effects occur. The variables will be explained first, and finally, the model will be described. The data that have been selected in this research are from 1995 to 2009<sup>9</sup>, which was the period in which the climax of economic and financial liberalization under an open economy has been felt in Latin America. 17 Latin American countries have been selected for this research: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Uruguay and Venezuela.

The dependent variables are Human Development Index, Long Healthy Life (measured by life expectancy at birth), Knowledge (measured by the public

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<sup>9</sup> The data have been collected from different sources including the World Bank, Polity IV, Wikipedia, and each country' s sources such as Police Reports of crime and homicides. Appendix 1 summarizes all the sources of the data collected and the descriptive statistics for all variables.

spending on education) and a Decent Standard of Life (measured by GDP per capita). The independent variables are Globalization proxies (Trade and FDI, Economic Globalization, Social Globalization, Political Globalization and overall Globalization Index). The control variables are Fragility Index, Delinquency, Democracy, and Government Effectiveness, country and time dummies. The number of observations (country-year) in the full model is 255. The number of observations or countries is 17. The variables are described as follows:

#### A. VARIABLES<sup>10</sup>

*Human Development*: Our dependent variable and the subject of this study is human development and for its measure the Human Development Index will be used. The data has been collected from the UNDP Reports concerning the years 1995 to 2009<sup>11</sup> for 17 Central and South American countries: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Uruguay and Venezuela. The

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<sup>10</sup> Appendix 2 shows the correlation table of all the variables regarding the model and the correlation among all the globalization measures. The correlation among the globalization measures vary considerably, which indicates the difficulties associated with measuring a concept such as globalization.

<sup>11</sup> The UNDP Human Development Reports 1995–2009 can be found at. <http://hdr.undp.org/en/reports/>

HDI measures the average achievements in a country in three basic dimensions of human development:

- A long and healthy life, as measured by the life expectancy at birth<sup>12</sup>.
- Knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrollment ratio (with one-third weight).
- A decent standard of living, as measured by the Gross Domestic Product per capita (Purchasing Parity Power in \$US).

Countries and regions have been classified into three categories:

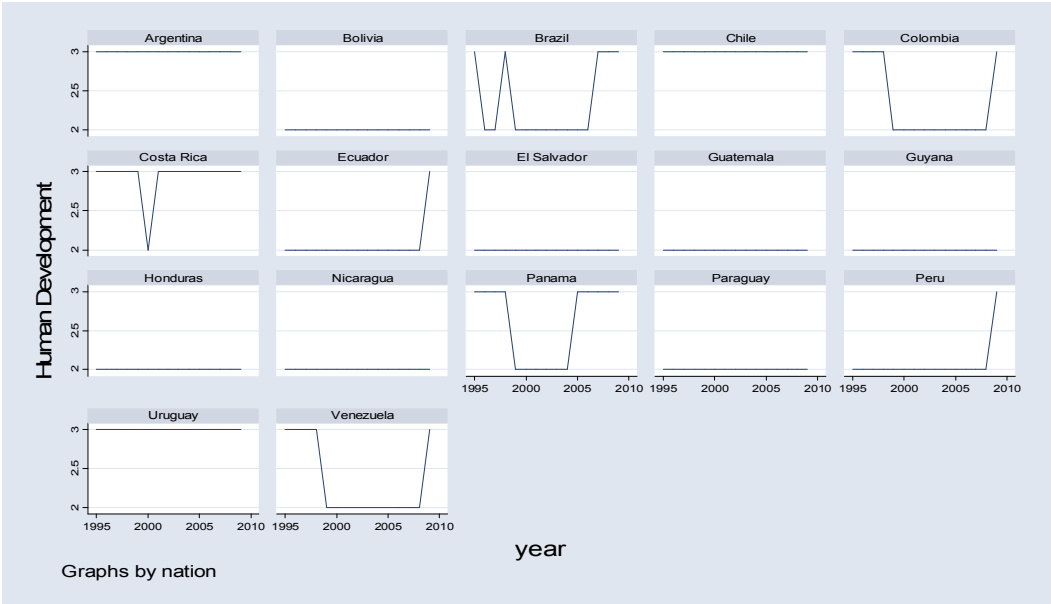
Low Human Development	<0.499
Medium Human Development	from 0.500 to 0.799
High Human Development	> 0.800

Human development in Latin America is much differentiated. Some countries enjoy a high level of human development while others do not. Graph 5 shows us the variances in human development of Central and South American countries over the period of time concerning 1995–2009.

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<sup>12</sup> The Human Development Index is the geometric mean of the three dimensions mentioned above and can be expressed as  $HDI = (I_{Life}^{1/3} I_{Education}^{1/3} I_{Income}^{1/3})$ . The index can have a value between 0 and 1. The nearer it is to 1, the higher the level of human development. For more details about the calculation of the index, [http://hdr.undp.org/en/media/HDR\\_2010\\_EN\\_TechNotes\\_reprint.pdf](http://hdr.undp.org/en/media/HDR_2010_EN_TechNotes_reprint.pdf)

Graph 5. Human Developing Index in 17 Central and South American Countries, 1995-2009



Source: UNDP Human Development Reports 1995-2009.

**Long and Healthy Life:** the UNDP measures it by using the life expectancy at birth. It will be used as dependent variable in order to examine the impact of globalization on this area of human development. The data has been collected from RISALC.<sup>13</sup>

**Education:** the UNDP measures education by using the adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary

<sup>13</sup> RISALC - Red de Instituciones Sociales de América Latina y el Caribe (UN/ECLAC). Life Expectancy at Birth for the countries and the period of time selected in the sample can be found at <http://www.risalc.org/porta/indicadores/ficha/?id=18>

gross enrollment ratio (with one-third weight). Due to difficulties in finding the complete data for all the years and all the countries included in the sample, this study will measure knowledge by the Social Spending on Education as percentage of the GDP. It will be used as dependent variable in order to examine the impact of globalization on this area of human development. The data has been collected from RISALC.<sup>14</sup>

*A Decent Standard of Living:* the UNDP measures it by using the GDP per capita at current US\$. It will be used as dependent variable in order to examine the impact of globalization on this area of human development. The data has been collected from the World Bank database.

*Globalization*<sup>15</sup> : As explained in the introduction, the measure of globalization for this study as independent variable will follow 4 different methodologies in order to ensure the consistency of the results:

1. Trade and FDI have been widely used as a measure of globalization. Trade is calculated as imports+exports/GDP. FDI is calculated as the net inflows of investment from foreign investors. Both of them will be used as the first methodology in order to identify the impact of

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<sup>14</sup> RISALC - Red de Instituciones Sociales de América Latina y el Caribe (UN/ECLAC). The Social Spending on Education for the countries and the period of time selected in the sample can be found at <http://www.risalc.org/portal/indicadores/ficha/?id=52>

<sup>15</sup> Appendix 3 summarizes the four methods of globalization measurement used in this study.

them on human development of the Central and South American countries contained in the sample. The data has been collected from the World Bank database 2010<sup>16</sup>.

2. KOF Globalization Index is based on Axel Dreher's work 'Does globalization affect growth?' (2006). The Index is divided into the sub indexes (for details please refer to the appendix 5)<sup>17</sup> a) economic globalization, which is characterized by a long distance of flow of goods, capital and services as well as information and perceptions that accompany market exchanges, b) social globalization, which means a spread of ideas, information, images and people; and c) political globalization, which means diffusion of governmental policies.
3. Economic globalization sub index alone will be used to measure its impact on human development. The sub index consists of:
  - Data on actual flows (trade, FDI, portfolio investment, income payments to foreign nationals).

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<sup>16</sup> The World Bank Database 2010 can be found at <http://data.worldbank.org/data-catalog>

<sup>17</sup> "For the calculation, each of the variables is transformed to an index on a scale of one to hundred, where hundred is the maximum value and one is the minimum value. Higher values represent greater globalization. Data are calculated on a yearly basis. The data is transformed according to the percentiles of the original distribution. The weights for the calculation of the sub indices are determined with the help of principal components analysis for the entire sample of countries and years. The weights are then determined in a way that maximizes the variation of the resulting principal component, so that the indices capture the variation as fully as possible. The same procedure is applied to the sub-indices in order to derive the overall index globalization" (Dreher 2006 pp2).

- Data on restrictions (hidden import barriers, mean tariff rate, taxes on international trade, capital account restrictions).

4. Economic globalization sub index, social globalization sub index and political globalization sub index will be used in the same model to differentiate the effect of each of them on human development. Social and political globalization sub indexes consist of:

i) Social globalization

- Data on personal contact (telephone traffic, transfers, international tourism, foreign population, international letters)
- Data on information flows (internet users, television, trade in newspapers)
- Data on cultural proximity (number of McDonald' s restaurants, number of ikea, trade in books)

ii) Political globalization

- Embassies in country
- Membership in international organizations
- Participation in UN Security Council missions
- International treaties.



## Control Variables

In the course of this research, the impact of a large number of control variables has been examined, including fragility index, democracy, delinquency, government effectiveness, dummies for each country and dummies for each year contemplated in the sample.

***State Fragility:*** For the measurement of this control variable, this study uses the state fragility index measure based on the Polity IV project data set of Marshall and Cole<sup>18</sup>. When states are no longer capable of guaranteeing the basic human security (which is the most important function of the state) to its people, guaranteeing human rights at home or abroad, or maintaining democratic institutions functioning appropriately, they are considered as failed states (Chomsky, 2006). This variable is expected to have negative effects on human development, because fragile states grow more slowly than other low-income countries, they usually fall behind in the achievement of

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<sup>18</sup> “The Fragility Matrix scores each country on both Effectiveness and Legitimacy in four performance dimensions: Security, Political, Economic, and Social. The State Fragility Index, then, combines scores on the eight indicators and ranges from 0 “no fragility” to 25 “extreme fragility.” A country’s fragility is closely associated with its *state capacity* to manage conflict; make and implement public policy; and deliver essential services and its *systemic resilience* in maintaining system coherence, cohesion, and quality of life; responding effectively to challenges and crises, and continuing progressive development”. State Fragility Index and Matrix 2010. Global Report 2011, p12. The “State Fragility Index and Matrix. Time-Series Data, 1995–2009” can be found at <http://www.systemicpeace.org/inscr/inscr.htm>

Millennium Development Goals, and they are believed to have ‘spillover’ effects on neighboring countries including reduced growth, mass migration, organized crime, diseases, environmental degradation and more.

*Delinquency:* For the measurement of this control variable a combination of two variables is used: the dichotomous variable of presence of gangs<sup>19</sup> in the country, and the homicide rate<sup>20</sup> reported in each country. Since a high number of homicides are believed to be committed by gangs, the variables were combined in one. This variable is expected to have negative effects on human development because an insecure environment undermines and takes away national and international investment. It clearly affects badly the long healthy life, the education and the standard of living of the populations since it is very expensive for a country to deal with delinquency and might affect negatively important social investment in other areas because a major investment in security is required.

*Democracy:* For the measurement of this control variable, this study uses a dichotomous measure of democracy, based on the Polity IV data set of

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<sup>19</sup> In order to verify the existence of gangs in the countries contained in the sample, a variety of news articles and police reports were examined in each country regarding the years 1995–2009.

<sup>20</sup> The homicide rate was collected mainly from Wikipedia and also from various police reports of each country and time period contained in the sample.

[http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_intentional\\_homicide\\_rate](http://en.wikipedia.org/wiki/List_of_countries_by_intentional_homicide_rate)

Jagers, Gurr and Marshall (2010)<sup>21</sup>. Previous studies have addressed the importance of political democracy in human development (Leftwich 1996; Ming-Chang 2006; Ersson and Lane 1996; Hadenius 1992; Lena and London 1993; Przeworski et al 2000). This study expects democratic governments to have a positive effect on changes human development as their countries become more integrated into the international economy.

***Government Effectiveness:*** The measurement of this control variable is based on the Global Governance Indicators by the World Bank (2010)<sup>22</sup>. The index includes Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. For the construction of the models used in this study, only the sub index Government Effectiveness was used because of the highly correlation among the six sub indexes. Furthermore, this study considers that when the government is effective, the other five sub indexes are expected to be positive. This variable is expected to affect positively the

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<sup>21</sup> In the database, countries were ranked by subtracting the 10-point autocracy scale from the 10-point democracy scale. Any country that scores at least six points is coded as democratic, and the others as authoritarian. For this research, the variable was dichotomous. That is, whether the country is democratic or not. The measure of democracy used in this research is the "Regime Authority Characteristics and Transitions, 1800-2010" from Polity IV Project, and it can be found at <http://www.systemicpeace.org/polity/polity4.htm>

<sup>22</sup> The availability of the data excludes the years 1995, 1997, 1999 and 2001. In order to correct this, and based on the premise that this kind of indicators do not vary considerably from one year to another, the data was duplicated so that the blanks could be filled. For example, the data corresponding to the year 1996 was duplicated for 1995, year 1998 was duplicated for 1997, and year 2000 was duplicated for 1999 and 2002 was duplicated for 2001. The Worldwide Governance Indicators from the World Bank, 2010 can be found at <http://info.worldbank.org/governance/wgi/index.asp>

human development because it assures a friendly environment for the citizens as well as for national and international investment.

*Country Dummies:* The models also take into consideration the fixed effect of each country to highlight the important distinction between analysis of cross-national differences and the analysis of changes within individual countries over time. Country dummies are included in order to correct for factors that might impact a country's human development because most variables vary more across units than over time.

*Time Dummies:* Finally, the models also take into account the fixed effects of time. Yearly dummies are used to account for the important differences in national or international influences of shocks that affect the human development in multiple countries at the same time over the course of our time period.

## **B. THE MODEL**

In the analysis of these data, a cross sectional time series (CSTS) model is used, estimated through panel-corrected standard errors (PCSE), and country and time dummies to control for fixed effects. This methodological procedure establishes a high threshold for estimating conventional levels of

significance. Such estimates are more reliable because the estimation of the standard errors is more efficient and consistent (Beck and Katz 1996). The use of panel corrected standard errors usually produces conservative results, because it tends to increase the standard errors of the estimates.

Furthermore, the inclusion of dummy variables tends to deflate the statistical significance of the other regressors which means that the causal hypotheses might be rejected prematurely, but it also increases our confidence that results which do emerge as significant are not the consequence of unsound statistical assumptions or inappropriate econometric methods (Kaufman et al 2002).

For the analysis of the interaction between human development and globalization, the following empirical model is formulated, where countries are represented by  $i$  and time by  $t$ :

$$HD_{it} = \alpha + Glob_{it} \beta_1 + X_{it} \beta_2 + \delta_{ik} + \rho_{tk} + \varepsilon_{it} \tag{1}$$

In equation (1),  $HD_{it}$  represents the human development in country  $i$  during year  $t$ .  $Glob$  is a vector for different proxies of globalization such as Trade and FDI (measurement 1), Economic Globalization (measurement 2),

Economic, Social and Political Globalization (measurement 3), and the overall Globalization index (measurement 4).  $X$  is a vector that includes the independent variables presented above, which either are considered as potential mediators through which globalization influences human development or as exogenous factors affecting human development, but not themselves influenced by globalization.  $\delta_{ik}$  corresponds to a set of country (dummies) fixed effect ( $k = 1, 2, 3 \dots 16$ ) that captures stable differences in human development between countries. Argentina is dropped.  $\rho_{tk}$  is a set of period (dummies) fixed effect ( $k = 1, 2, 3, \dots 14$ ) capturing the influence of shocks that affect human development in multiple countries at the same time. Year 1995 is dropped.  $\varepsilon_{it}$  is an error term assumed to be normally distributed.

Our dependent variables are a) Human Development overall index, b) Long and healthy life (measured by life expectancy at birth), c) knowledge (measured by public spending on education), and d) a decent standard of life (measured by the GDP per capita). For each of the dependent variables, the four measures of globalization are applied in order to determine the difference of the impact on each of the human development variables, if existent.

## CHAPTER 5

### RESULTS

For the presentation of the results, two tables were constructed. Table 1 shows the regression results of the four estimation models on the four dependent variables considering the influence of several controls without the country and time dummies, while the table 2 shows the same results with the country and time dummies<sup>23</sup>. In table 1, the results of the estimation of the relationship between human development and globalization show that several proxies for globalization indicate different effects on the human development in Central and South American countries. This agrees with general hypothesis 1. For the overall human development index, we have FDI with strong positive impacts, while trade has strong negative impacts, maybe because in the case of developing countries FDI permits the creation of new employments through investment, while trade puts developing countries in a serious disadvantage compared to the industrialized countries. The overall globalization index has strong positive impacts, constantly.

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<sup>23</sup> The country and time dummies were not shown on table 2 due to space. However, the result of the country and time dummies are explained among the general explanation of the results.

Economic globalization sub index has negative impacts on human development. And finally, when the economic, social and political globalization, are tested together, economic globalization has strong negative impacts, while both social and political globalization have strong positive impacts. These results mostly agree with the general hypotheses. Remarkably, a country' s participation in the international political system can bring many good things such as management of epidemic diseases, human rights issues or global environmental concerns, which contribute to progress of human well-being (Ming-Chang 2006).

With respect to the controls, state fragility index has strong negative impacts in the four models. Delinquency, as expected, has strong negative impacts on human development constantly in the four models. Democracy shows positive effects but not significant on human development. Finally, the government effectiveness shows strong positive effects constantly in the four models used for the estimations.

In table 2, we can see the results of the estimations for the relationship between human development and globalization (with country and time dummies). We have that all the measurements of globalization have positive but not significant impacts. The control variables show no strong impact on the four models used for the estimations. However, democracy and government effectiveness became negative. In order to understand this, we



should take into consideration that, as explained before, the inclusion of dummies tends to deflate the statistical significance of the other regressor (Kaufman et al 2002).

Regarding the country dummies, as expected all the countries showed a negative impact when compared to Argentina, which is the omitted variable and the highest HDI of the region. Costa Rica, Chile and Uruguay show a negative sign but not significant, Those countries are situated among the highest HDI in the region. With respect to the time dummies, almost all the years showed strong negative impacts when compared to 1995 which is the omitted variable, except 2009 which showed strong positive impacts.

Summarizing, the more economically open and higher trade, the lower will be the human development of Central and South American countries while the higher the foreign direct investment the higher will be the human development. The more open to the globalization as a whole (economically, socially and politically), the higher is the human development expected to be. All of this means that economic growth by itself will not lead to a higher human development unless the political and the social globalization are used alongside with the economic globalization.

Table 1. Determinants of Human Development and Its Indicators in 17 Central and South American Countries, 1955–2009

Human Development Variables	HDI (1)	HDI (2)	HDI (3)	HDI (4)	GDP (1)	GDP (2)	GDP (3)	GDP (4)	Life Exp (1)	Life Exp (2)	Life Exp (3)	Life Exp (4)	Education (1)	Education (2)	Education (3)	Education (4)
FDI	0.08 (3.27)**				444.25 (3.68)**				0.59 (3.73)**				0.13 (1.71)			
Trade	-0.05 (2.35)**				-511.71 (4.41)**				-0.57 (3.15)**				0.76 (7.93)**			
Globalization Index		0.21 (4.01)**				1518.84 (5.58)**				2.36 (8.21)**				0.36 (1.91)		
Economic Globalization			-0.01 (0.69)	-0.06 (2.52)*			-64.17 (0.39)	-77.47 (0.55)			-0.15 (0.63)	-0.59 (2.87)**			0.64 (6.24)**	0.58 (5.01)**
Social Globalization				0.27 (5.90)**				1398.13 (7.09)**				3.15 (8.35)**				-0.22 (1.30)
Political Globalization				0.07 (4.08)**				749.60 (6.26)**				0.87 (7.91)**				-0.24 (3.18)**
Fragility Index	-0.26 (5.00)**	-0.16 (3.11)**	-0.30 (5.36)**	-0.08 (1.43)	-1787.84 (5.91)**	-971.04 (3.24)**	-1956.55 (5.27)**	-566.19 (2.35)*	-2.92 (5.70)**	-1.63 (3.08)**	-3.17 (5.55)**	-0.56 (1.29)	-0.36 (2.34)*	-0.31 (1.19)	-0.33 (2.03)*	-0.62 (2.83)**
Delinquency	-0.01 (5.68)**	-0.01 (5.94)**	-0.01 (6.07)**	-0.01 (7.63)**	-13.89 (3.92)**	-10.37 (3.64)**	-14.44 (3.68)**	-14.29 (3.78)**	-0.04 (5.89)**	-0.03 (5.27)**	-0.04 (6.00)**	-0.04 (7.89)**	0.01 (2.55)*	0.01 (2.34)*	0.01 (4.00)**	0.01 (3.62)**
Democracy	0.01 (1.09)	0.00 (1.13)	0.01 (1.39)	0.00 (0.70)	3.96 (0.37)	-1.99 (0.23)	1.43 (0.30)	-4.21 (0.34)	0.04 (1.30)	0.03 (1.66)	0.03 (1.77)	0.01 (0.66)	-0.01 (0.81)	0.00 (0.37)	-0.01 (0.48)	-0.01 (0.57)
Government Effectiveness	0.25 (4.30)**	0.17 (2.81)*	0.34 (4.56)**	0.27 (3.80)**	721.66 (1.97)	50.00 (0.14)	1205.29 (2.37)*	314.21 (0.91)	-0.30 (0.72)	-1.46 (3.16)**	0.39 (0.84)	-0.49 (1.38)	-0.34 (2.23)**	-0.61 (2.89)**	-1.02 (4.59)**	-0.71 (3.05)**
Constant	2.07 (16.84)**	1.60 (8.87)**	2.23 (19.16)**	1.30 (6.17)**	4001.62 (6.12)**	-246.32 (0.29)	4195.37 (6.02)**	-2446.89 (2.25)**	75.33 (52.98)**	68.98 (50.74)**	75.99 (61.37)**	64.79 (45.74)**	3.17 (6.13)**	4.45 (6.34)**	4.20 (9.78)**	5.79 (6.85)**
Observations	255	255	255	255	255	255	255	255	255	255	255	255	255	255	255	255
Number of nations	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
R-squared	0.40	0.40	0.34	0.49	0.40	0.40	0.26	0.54	0.31	0.36	0.25	0.55	0.25	0.05	0.17	0.21

z statistics in parentheses

\* significant at 5%; \*\* significant at 1%

Table 2. Determinants of Human Development and Its Indicators in 17 Central and South American Countries, 1955–2009 (With Time and Country Dummies)

Human Development Variables	HDI (1)	HDI (2)	HDI (3)	HDI (4)	GDP (1)	GDP (2)	GDP (3)	GDP (4)	Life Exp (1)	Life Exp (2)	Life Exp (3)	Life Exp (4)	Education (1)	Education (2)	Education (3)	Education (4)
FDI	0.04 (1.31)				-221.48 <b>(2.68)**</b>				0.05 (1.29)				0.01 (0.21)			
Trade	0.05 (1.26)				-290.42 <b>(2.57)*</b>				-0.12 (1.03)				0.40 <b>(2.14)*</b>			
Globalization Index		0.08 (1.85)				-71.40 (0.39)				0.22 <b>(2.43)*</b>				0.03 (0.22)		
Economic Globalization			0.04 (1.29)	0.04 (1.23)			148.96 (1.09)	209.48 (1.49)			0.06 (1.01)	0.02 (0.40)			0.00 (0.01)	0.01 (0.10)
Social Globalization				0.08 <b>(2.06)*</b>				146.92 (0.74)				0.01 (0.07)				-0.11 (0.84)
Political Globalization				0.03 (1.39)				-226.55 <b>(2.29)*</b>								-0.07 (1.08)
Fragility Index	-0.01 (0.20)	-0.01 (0.24)	-0.02 (0.55)	-0.01 (0.20)	124.94 (0.72)	231.35 (1.32)	275.96 (1.40)	304.48 (1.52)	-0.02 (0.12)	-0.01 (0.05)	-0.05 (0.32)	-0.05 (0.34)	-0.24 (1.39)	-0.22 (1.17)	-0.24 (1.33)	-0.28 (1.50)
Delinquency	0.00 (1.77)	-0.03 <b>(2.21)**</b>	0.00 (1.59)	0.00 (1.76)	3.99 (0.71)	6.01 (1.05)	7.93 (1.29)	6.07 (1.05)	-0.01 <b>(2.22)*</b>	-0.01 <b>(2.43)*</b>	-0.01 <b>(2.31)*</b>	-0.01 <b>(2.22)*</b>	0.02 <b>(3.29)**</b>	0.02 <b>(3.40)**</b>	0.02 <b>(3.34)**</b>	0.02 <b>(3.47)**</b>
Democracy	0.00 (0.57)	0.00 (0.51)	0.00 (0.49)	0.00 (0.67)	2.80 (0.91)	0.64 (0.20)	-0.30 (0.09)	-3.01 (0.72)	0.00 (0.70)	0.00 (0.80)	0.00 (0.76)	0.01 (1.10)	-0.01 (1.21)	-0.01 (1.28)	-0.01 (1.27)	-0.01 (1.25)
Government Effectiveness	0.01 (0.16)	-0.02 (0.31)	0.00 (0.17)	-0.02 (0.28)	-561.12 <b>(2.43)*</b>	-434.77 (1.69)	-468.39 (1.73)	-375.70 (1.50)	-0.05 (0.69)	-0.10 (1.33)	-0.06 (0.77)	-0.12 (1.42)	-0.11 (0.64)	-0.17 (0.99)	-0.16 (0.97)	-0.14 (0.85)
Constant	2.93 (12.99)**	2.95 (14.50)**	3.10 (18.06)**	2.79 (13.29)**	8094.76 (11.14)**	6715.56 (7.74)**	6172.37 (8.70)**	6876.40 (6.55)**	72.99 (221.58)**	72.47 (177.81)**	73.02 (230.07)**	72.26 (149.16)**	3.38 (5.97)**	3.79 (6.34)**	3.88 (7.66)**	4.42 (6.60)**
Observations	255	255	255	255	255	255	255	255	255	255	255	255	255	255	255	255
Number of nations	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
R-squared	0.77	0.77	0.77	0.78	0.87	0.86	0.86	0.86	0.98	0.98	0.98	0.98	0.80	0.79	0.79	0.79

Table 3. Determinants of Human Development and its Indicators in 17 Central and South American Countries, 1955–2009. The Influence of State Fragility and Delinquency

HDI Variables	Low Fragility	High Fragility	Low Delinquency	High Delinquency
FDI	0.93 <b>(2.38)*</b>	0.04 (1.74)	0.06 <b>(2.17)*</b>	0.08 (1.01)
Trade	-0.1 (1.40)	-0.01 (0.50)	-0.07 (1.54)	-0.11 (0.84)
Economic Globalization	0.04 (1.03)	-0.03 (1.09)	0.06 (2.06)*	-0.14 (1.21)
Social Globalization	0.31 <b>(4.80)**</b>	0.11 <b>(2.57)**</b>	0.32 <b>(7.01)**</b>	-0.13 (1.29)
Political Globalization	0.06 <b>(1.73)*</b>	-0.01 (0.45)	0.06 (3.46)**	0.22 (1.29)
Constant	1.09 <b>(4.12)**</b>	1.91 <b>(14.60)**</b>	1.04 <b>(6.56)**</b>	1.84 <b>(2.88)**</b>
Observations	159	96	230	25
Number of nations	16	11	17	5
R-squared	0.37	0.13	0.47	0.37

z statistics in parentheses

\* significant at 5%; \*\* significant at 1%

## DISAGGREGATING THE HUMAN DEVELOPMENT

*A Decent Standard of Life (Measured by GDP per capita):* In table 1, we find that FDI has strong positive impacts while Trade has strong negative impacts on the GDP, consistently. The economic globalization sub index shows negative impacts. The overall globalization index shows strong positive impacts, constantly. Finally, when the three sub indexes are tested together, social and political globalization showed strong positive impacts, while economic globalization showed negative impacts. In fact, when the three sub indexes are the only independent variables, the three of them show positive impacts, but when delinquency is added, economic globalization becomes negative, and when state fragility index is added, it becomes even more negative. This mostly agrees with hypotheses 1, 4 and 7.

State fragility index and delinquency show strong negative impacts in the four models. And surprisingly, democracy shows negative impacts in GDP per capita in three of the four models. According to Ray (2011) in newly developing democratic countries high levels of government spending as a result of citizens' demands usually have negative impacts on economic growth (Persson and Tabellini 1994; Huntington 1968; Ray 2011). Finally, government effectiveness shows positive impacts on GDP per capita.

When compared to table 2, FDI and trade both showed strong negative impacts on GDP. The economic globalization showed positive impacts. The overall globalization index showed negative impacts. And when the three sub indexes are tested together, economic and social globalization showed positive effects, while political globalization showed strong negative impacts on GDP per capita. The control variables showed a very curious behavior. Surprisingly, state fragility index showed positive impacts, as well as delinquency, while democracy (models 3 and 4) and government effectiveness showed negative impacts, possibly as a result of the inclusion of the dummies in the model.

Regarding the country dummies, as expected, all the countries except Chile, showed negative impacts when compared to Argentina, which is the omitted variable and the highest HDI of the region. With respect to the time dummies, almost all the years, except 2002, 2003 and 2004, showed positive impacts when compared to 1995 which is the omitted variable. This means that when all else is held constant, the GDP per capita of Central and South American countries has increased almost every year, when compared to 1995.

*A Long and Healthy Life (Measured by Life Expectancy at Birth):* In table 1 we continue to see the same pattern. While FDI shows strong positive effects, trade shows strong negative effects on life expectancy. The overall

globalization index shows strong positive effects while the economic globalization sub index shows negative not significant effects. When the three sub indexes are tested together, economic globalization shows negative while social and political globalization show strong positive effects on life expectancy. This agrees mostly with hypotheses 2, 5 and 8. Control variables show the expected result. State fragility index and delinquency show strong negative impacts. Democracy shows positive impacts but government effectiveness shows negative impacts in the four models. It has been proven before that corruption is negatively correlated with population health because corruption in the acquisition of contracts and supply of medicines or the lack of publicly funded health insurances does not bring good outcomes for the life expectancy of the population (Holmberg 2010)

When compared to table 2, FDI shows positive impacts while trade shows negative impacts, neither of them significant. The overall globalization index shows strong positive effects. Economic globalization sub index shows positive and when the three sub indexes are tested together, all of them show positive impacts on life expectancy. With respect to the controls, Fragility index, government effectiveness, and delinquency show negative effects. Democracy shows positive effects on life expectancy.

Regarding the country dummies, as expected, all the countries except Costa Rica, Panama and Chile, showed negative impacts when compared to

Argentina, which is the omitted variable and the highest HDI of the region. With respect to the time dummies, all the years showed positive impacts when compared to 1995 which is the omitted variable. This means that, when all else is held constant, the life expectancy of Central and South American countries had increased every year, when compared to 1995.

*Education (Measured by Public Spending on Education):* in Table 1, all the measurements of globalization in models (1), (2) and (3) showed positive impacts. However, in model (4) when the three sub indexes were tested together, economic globalization showed strong positive impacts while social and political globalization showed strong negative impacts on public spending on education. This agrees mostly with hypotheses 3 and 9, but it is contrary to hypothesis 6, that claimed positive impacts of social globalization on public spending on education. One possible explanation to this might be that in the case of developing countries, governments will prefer to have high numbers of low-skilled workers in order to attract FDI through cheap labor. It is the most viable and faster way in which underdeveloped countries are able to be competitive.

About the control variables, state fragility showed the expected negative effects in the four models. The other three variables showed an interesting behavior. Delinquency showed strong positive effects in the four models. The



explanation might be that when delinquency and insecurity are high, education seems to be the logical path to follow in order to reduce them and attract foreign and national investment. Democracy and government effectiveness showed negative effects in the four models. Democracy has empowered public teachers to demand the government for better salaries. The problem is that when the country does not have enough resources, the investment has to shift from investment in quality of education to investment in public salaries. Also, the effectiveness of the government might be seriously damaged with corruption in the contracts, agreements and public investment in education.

When compared to Table 2, all measurements of globalization showed positive effects in models (1) and (2). Economic globalization sub index showed negative impacts and when the three sub indexes were tested together social and political globalization showed negative effects while economic globalization showed positive effects on public spending on education. All the control variables show the same sign as in table 1.

Regarding the country dummies, as expected, all the countries except Costa Rica, Honduras, Bolivia, Guyana and Paraguay, showed negative impacts when compared to Argentina, which is the omitted variable and the highest HDI of the region. With respect to the time dummies, all the years showed positive impacts when compared to 1995 which is the omitted variable. This

means that, when all else is held constant, the public spending on education of Central and South American countries had increased every year, when compared to 1995.

We have seen through these results that the sign and the significance of the effect of globalization on human development depend on how globalization and human development are measured, and we can also notice the same pattern when human development is disaggregated. As we can see, the different proxies of globalization all have different impacts on human development. State fragility and delinquency play a remarkable negative role in the impact of globalization on human development in Central and South American countries. Democracy and government effectiveness did not show the expected strong positive result on human development.

#### **IMPACT ACCORDING TO STATE FRAGILITY AND DELINQUENCY**

Furthermore, the results of the test show that the impact of globalization on the human development also varies depending on the level of state fragility and delinquency in developing countries. That is, the impact of globalization on the human development varies at different levels of state fragility and delinquency. For example, looking at table 3, we can see

that FDI is the only variable that showed always positive effects. Even more, FDI showed stronger positive effects on human development in those countries with a low state fragility and low delinquency. Trade, on the other hand, showed negative impacts at all levels of state fragility and delinquency, implying that trade brings more negative than positive effects in Central and South American countries.

Economic globalization sub index showed negative impacts at high levels of state fragility and delinquency, and positive impacts at low levels of state fragility and delinquency. The social globalization sub index showed strong positive impacts at low levels of state fragility and delinquency, and negative impacts at high levels of delinquency. Finally, political globalization showed general positive impacts on human development, except at a high level of state fragility.

Therefore, we can imply from these results that in general, the globalization process will bring negative results to those countries with high levels of state fragility and delinquency. As states work on the strengthening of their institutions and democracy, as well as in the reduction of a violent environment, the effects of globalization promise to be positive on the human development.

## CHAPTER 6

### CONCLUSION

So can we conclude that globalization is positive or negative for developing countries? The preceding analysis has demonstrated that globalization can have diverse impacts on human development of Central and South American countries. However, these diverse effects depend in the first place on how the concepts of globalization and human development themselves are measured. For instance, the overall globalization index was found to have positive impacts on the overall human development index. After this, this study tried to disaggregate the impact of globalization on the three areas of human development, and as a result, we saw that the overall globalization index has positive impacts on the three areas of human development, which are a decent standard of life, education and a long and healthy life.

When the globalization index was disaggregated and tested against the disaggregated human development, we saw that trade has positive impacts on the life expectancy, but it also has negative impacts on the GDP per capita

and public spending on education. On the other hand, FDI was found to have positive impacts on the three areas of human development. When the economic globalization sub index was tested alone, the result was positive for the investment in education, but negative in GDP per capita and life expectancy.

When the three sub indexes (economic, social and political globalization) were tested together, in GDP per capita, economic globalization was negative, while social and political globalization were positive. In public spending in education, economic globalization was positive, while social and political globalization were negative. And in life expectancy at birth, economic globalization was negative, while social and political globalization were found to be positive.

In the second place, the results of the test also depend on the level of state fragility and delinquency. That is, the impact of globalization on the human development varies at different levels of state fragility and delinquency. So we can imply that in general, the globalization process is likely to bring negative results to those countries with high levels of state fragility and delinquency. As states work on the strengthening of their institutions and democracy, as well as in the reduction of a violent environment, the effects of globalization promise to be positive on the human development.

From the perspective of an industrialized country, there is no doubt that globalization is definitely a positive process that has many more advantages than disadvantages. From the perspective of a developing country, it is clear that openness to economic globalization will not automatically lead to human development. The opportunities offered by globalization will be successfully seized depending on the integration of economic, social and political globalization policies together working in favor of the nation rather than in favor of the great capitals. And of course the strengthening of the government is required, as well as the correct functioning of democracy, and the reduction of delinquency and insecurity in order to promote national and foreign investments.

Economic growth should be seen as a means to enhance human development, but it cannot succeed by itself. It needs the active participation and the effectiveness of the government as well as other social actors like international organizations, NGOs and the civil society itself. Economic, social and political globalization must be together in order to compensate the long-term imbalances of the globalizing process and in that way promote the successful integration of the small economies and have an overall positive impact on the human development of developing countries.

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## APPENDIX 1 DESCRIPTIVE STATISTICS AND SOURCES OF DATA

VARIABLE	MEAN	STD. DEV.	MIN	MAX	SOURCE
HDI	2.333333	0.472332	2	3	Human Development Reports 1995–2009
GDP per capita	3381.562	2343.692	684.8755	11490.03	World Bank, 2010
Life expectancy	71.34471	3.937679	61.6	77.3	RISALC - Red de Instituciones Sociales de América Latina y el Caribe (UN/ECLAC) <a href="http://www.risalc.org/porta/indicadores/ficha/?id=18">http://www.risalc.org/porta/indicadores/ficha/?id=18</a>
Public spending on education	4.149256	1.489487	0.97882	8.6	RISALC - Red de Instituciones Sociales de América Latina y el Caribe (UN/ECLAC) <a href="http://www.risalc.org/porta/indicadores/ficha/?id=18">http://www.risalc.org/porta/indicadores/ficha/?id=18</a>
FDI	2.95E+09	6.22E+09	4.94E+09	4.51E+10	World Bank, 2010 <a href="http://data.worldbank.org/data-catalog">http://data.worldbank.org/data-catalog</a>
Trade	1.996078	0.990101	1	5	World Bank, 2010 <a href="http://data.worldbank.org/data-catalog">http://data.worldbank.org/data-catalog</a>
Globalization Economic	3.352941	0.721534	2	5	Dreher, 2006
Globalization Social	3.466667	0.987055	1	6	Dreher, 2006
Globalization Political	2.278431	0.761348	1	4	Dreher, 2006
State Fragility Index	4.52549	1.324488	2	6	Dreher, 2006
	8.423529	4.512563	0	20	Polity IV
Delinquency	20.47941	19.95649	0	85	The homicide rate was collected mainly from Wikipedia and also from various police reports of each country contained in the sample. <a href="http://en.wikipedia.org/wiki/List_of_countries_by_intentional_homicide_rate">http://en.wikipedia.org/wiki/List_of_countries_by_intentional_homicide_rate</a> In order to verify the existence of gangs in the countries contained in the sample, a variety of news articles were examined in each country regarding the years 1995–2009.
Democracy	7.403922	6.189716	-88	10	“Regime Authority Characteristics and Transitions, 1800–2010” . Polity IV Project. <a href="http://www.systemicpeace.org/polity/polity4.htm">http://www.systemicpeace.org/polity/polity4.htm</a>
Government Effectiveness	1.980392	0.3488	1	3	Worldwide Governance Indicators. World Bank. 2010. <a href="http://info.worldbank.org/governance/wgi/index.asp">http://info.worldbank.org/governance/wgi/index.asp</a>



## APPENDIX 2 CORRELATION TABLE OF THE VARIABLES USED

	HDI	Glob	FDI	Trade	Ec glob	Soc Glob	Pol Glob	State Fragil	Governm Effectiv	Delinq	Democra
HDI	1										
Globalization	0.5314	1									
FDI	0.2227	0.2127	1								
Trade	0.1487	0.0515	-0.328	1							
Economic glob	0.2393	0.597	0.0374	0.5659	1						
Social Glob	0.5182	0.6804	0.0117	0.2104	0.4551	1					
Political Glob	0.3105	0.4066	0.4118	0.6109	0.1462	0.0183	1				
State Fragility	0.4464	0.5157	0.2239	0.0788	0.2859	0.5084	0.2048	1			
Government Effectiveness	0.3266	0.4343	0.1874	0.0344	0.4155	0.1837	0.2525	0.1887	1		
Delinquency	0.4051	0.2307	0.0562	0.0571	-0.248	0.1543	0.0831	0.3083	-0.0942	1	
Democracy	0.1531	0.1222	0.0442	0.0407	0.0947	0.1891	0.0246	0.1779	0.0657	0.0887	1

## APPENDIX 3. MEASUREMENTS OF GLOBALIZATION

Measurement 1	Measurement 2	Measurement 3	Measurement 4
FDI	Overall Globalization Index	Economic Globalization Sub Index	Economic Globalization Sub Index
Trade			Social Globalization Sub Index
			Political Globalization Sub Index
Source: World Bank, 2010	Source: Dreher, 2006	Source: Dreher, 2006	Source: Dreher, 2006

## APPENDIX 4. SAMPLE COVERAGE

Costa Rica	Argentina	Guyana
El Salvador	Bolivia	Paraguay
Guatemala	Brazil	Peru
Honduras	Chile	Uruguay
Nicaragua	Colombia	Venezuela
Panama	Ecuador	

## APPENDIX 5. DREHER' S GLOBALIZATION INDEX DESCRIPTION

Source: Dreher, Axel. 2006. "Does Globalization Affect Growth? Empirical Evidence from a New Index". *Applied Economics* 38, 10: 1091:1110

Updated in:

Dreher, Axel; Noel Gaston and Pim Martens. 2008. "Measuring Globalization - Gauging its Consequences". New York. Springer.

Indices and Variables	Sources	Definitions
<b>A. ECONOMIC GLOBALIZATION</b>		
<b>i) Data on actual flows</b>		
Trade (percent of GDP)	World Bank (2010)	Trade is the sum of exports and imports of goods and services measures as a share of gross domestic product. Data are in percent of GDP
Foreign Direct Investment (percent of GDP)	UNCTAD (2010)	Sum of inward and outward FDI stock as a percentage of the GDP
Portfolio investment (percent of GDP)	IMF (2010)	Portfolio investment is the sum of portfolio investment assets stocks and portfolio investments liabilities stocks. Data are in percent of GDP.
Income Payments to Foreign Nationals (percent of GDP)	World Bank (2010)	Income payments refer to employee compensation paid to nonresident workers and investment income (payments on direct investment, portfolio investment, and other investment). Income derived from the use of intangible assets is excluded. Data are in percent of GDP.
<b>ii) Data on restrictions</b>		
Hidden Import Barriers	Gwartney et al (2010)	The index is based on the Global Competitiveness Report' s survey question: "In your country, tariff and non-tariff barriers significantly reduce the ability of imported goods to compete in the domestic market?" The question' s wording has varied slightly over the years.
Mean Tariff Rate	Gwartney et al (2010)	As the mean tariff increases, countries are assigned lower ratings. The rating declines toward zero as the mean tariff rate approaches 50%.
Taxes on International Trade (percent of current revenue)	World Bank (2010)	Taxes on international trade include import duties, export duties, profits of export or import monopolies, exchange profits, and exchanges taxes. Current revenue includes all revenue from taxes and no repayable receipts (other than grants) from the sale of land, intangible assets, government stocks, or fixed capital assets, or from capital transfers from nongovernmental sources.

		It also includes fines, fees, recoveries, inheritance taxes, and no recurrent levies on capital. Data are for central government and in percent of all current revenue.
Capital Account Restrictions	Gwartney et al (2010)	Index based on two components: (i) beginning with the year 2002, this subcomponent is based on the question: "foreign ownership of companies in your country is (1) rare, limited to minority stakes, and often prohibited in key sectors or (2) prevalent and encouraged". For earlier years, this sub-component was based on two questions about "access of citizens to foreign capital markets and foreign access to domestic capital markets". ii) Index based on the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions, including 13 different types of capital controls. It is constructed by subtracting the number of restrictions from 13 and multiplying the result by 10.
<b>B. SOCIAL GLOBALIZATION</b>		
<b>i) Data on Personal Contact</b>		
Telephone Traffic	International Communication Union (2010)	International voice traffic is the sum of international incoming and outgoing telephone traffic (in minutes per person). When fixed and mobile traffic is not available, fixed traffic is used.
Transfers (percent of GDP)	World Bank (2010)	Sum of gross inflows and gross outflows of goods, services, income or financial items without a quid pro quo. Data are in percent of GDP.
International Tourism	World Bank (2010)	Sum of arrivals and departures of international tourists as a share of population.
Foreign Population (percent of total population)	World Bank (2010)	Foreign population is the number of foreign or foreign-born residents in a country. Data are in percent of total population.
International letters (per capita)	Universal Postal Union, Postal Statistics Database	Number of international letters sent and received per capita.
<b>ii) Data on Information Flows</b>		
Internet Users (per 1000 people)	World Bank (2010)	Internet users are people with access to the worldwide internet network.
Television (per 1000 people)	World Bank (2010)	Share of households with a television set.
Trade in newspapers (percent of	United Nations	The sum of exports and imports in

GDP)	Commodity. Trade Statistics Database	newspapers and periodicals in percent of GDP. Data are provided by the Statistical Division of the United Nations and correspond to those published in the UN World Trade Annual.
<b>iii) Data on Cultural Proximity</b>		
Number of McDonald's Restaurants (per capita)	Various sources	Number of McDonalds, Restaurants (per capita)
Number of Ikea (per capita)	Ikea	Number of Ikea (per capita)
Trade in books (percent of GDP)	UNESCO (various years); United Nations Commodity; Trade Statistics Database (2010)	The sum of exports and imports in books and pamphlets in percent of GDP. Data are provided by the Statistical Division of the United Nations and correspond to those published in the UN World Trade Annual.
<b>C. POLITICAL GLOBALIZATION</b>		
Embassies in country	Europa World Yearbook (various years)	Absolute number of embassies in a country
Membership in International Organizations	CIA World Factbook (various years)	Absolute number of international inter-governmental organizations
Participation in UN Security Council Missions	Department of Peacekeeping Operations, UN	Personnel contributed to UN Security Council Missions per capita.
International Treaties	United Nations Treaties Collection	Any document signed between two or more states and ratified by the highest legislative body of each country since 1945. Not ratified treaties, or subsequent actions, and annexes are not included. Treaties signed and ratified must be deposited in the Office of Secretary General of the United Nations to be included.