Does globalization inherently increase inequality or can it be made to work for the poor?

I aim to explore in the following essay the contentious issue of inequality inherently increasing amongst the poor because of globalization. The advocates of globalization will argue that it brings the chance of prosperity to the impoverished corners of the world. This view is furthered by many commentators and market based economists' would suggest that trade liberalization has benefited the so called poorer countries as it opens up opportunities and advantages all states. On the other hand opponents of globalization believe it is the cause of growing poverty and inequality in the world as union leader Jay Mazur put it in (Foreign Affairs), "globalization has dramatically increased inequality between and within nations" ("Labor's New Internationalism," January/Febuary 2000) (cited in Held et al, 2003, 447). This statement could be advanced by reports from the United Nations (cited in UNDP, 1999) that found poverty and inequality between rich and poor countries is expanding, not retracting and the prime reasons for this have been attributed at the global trading and finance system. This culminated with the thoughts of Robert Wade "Global inequality is worsening rapidly" cited in The Economist, (2001) would essentially indicate that globalization does not benefit the poor, contrary to what anti-globalists proclaim; surely globalization can be made to work for the poor?

It has been argued that globalization since 1980 has actually benefited economic equality and reduced poverty through international trade. Consider that if there was no international trade then surely the restriction of trade could not be beneficial as it would impose further hardships on the poor and the developing world. Some facts to judge would be that inequality had existed for around 200 years, and it peaked around 1975. Since then however, inequality has stabilized greatly. Evidence of this is best illustrated with the examples of China and India where accelerated growth of these large but originally poor countries has taken place. In a paper recently published by David Dollar and Aart Kraay of the World Bank they examined data from 73 developing countries to study the impacts of the globalization era over the last two decades. They identified the top one-third of developing countries in terms of increase in trade to GDP over the past 20 years and labelled them "globalizers". If we compare the globalizers with those that have opted not to globalize then we can find that the annual per capita growth rate of the globalizing group has accelerated steadily from one percent in the 1960s to five percent in the 1990s whilst "non-globalizers" only accelerated one per cent. Economists largely agree that openness toward foreign trade and investment explains the growth of those actively trying to globalize (cited in Held et al, 2003, 447). This evidence does insinuate that globalization can be made to work for the poor.

Although many commentators such as union leader Jay Mazur suggest that inequality has increased because of globalization, it has not resulted in higher inequality within economies. Obviously inequality has indeed gone up in some countries but it has gone down in counties such as the Philippines, Brazil and Bangladesh. Furthermore even in countries such as China where they have experienced a rise in inequality, you would be wrong to think that globalization has not benefited and worked the poor. China has seen the most spectacular reduction of poverty in world history – which was supported by opening its economy to foreign trade and investment (cited in Held et al, 2003, 448). This indicates even if globalization does increase inequality in some cases this does not mean that it naturally affect the poor in an adverse manner.

The opening of the economy many globalization sceptics suggested would create "winners" and "losers", the losers being the poor and the winners being the rich. It would be wrong to argue that trade and investment liberalization would not have distributional consequences as some states will benefit in the short term. However, Dollar and Kraay found (only working on the countries working in the bottom 20 per cent of the income distribution) that the so called losers do not come disproportionably from the poor. Importantly, the research they carried out actually found the only countries that had reduced or achieved any large scale poverty reduction in the 1990's were those countries that had became more open to foreign trade and investment (cited from http://www.worldbank.org). Also cited from the same article, two more commentators Shaohua Chen and Martin Ravallion estimated that in the countries that globalized during the post-1980 period, those people considered absolute poor (living on less that $1 per day) declined by 120 million through the short period of 1993 and 1998 whilst in comparison with the non-globalizing world, the number of poor increased by 20 million. These statistics show that globalization has been working for the poor how is it possible that anti-globalists can argue otherwise?

Globalization cynics believe that trade liberalization has an adverse affect and therefore can seriously hurt the poor. Although resource is opened up in the short term, anti-globalists cite a number of arguments to the contrary. Ngaire Woods would argue that International trade is an aspect of globalization which has had highly uneven consequences. There is clear evidence that high levels of trade in today's world economy are strongly concentrated in trade among industrialised countries (cited in Held et al, 2003, 466). It is in these industrialised countries you will find multinational firms (MNCs), so when a country opens up to foreign trade the MNCs compete with the domestic firms and increase pressure on them. In many cases you will find that the domestic firms simply crumble and are forced out of business as they simply cannot compete therefore putting domestic workers in mass unemployment.

International trade is a characteristic of globalization that has had decidedly irregular consequences. Although pro-globalists will try and dispute how much trade has actually increased, the point I alluded to in the above paragraph indicates high levels of trade in today's world economy are focused among the more developed countries. These industrial leaders include Australia, Belgium, Canada, France, Germany, Italy, Japan, The Netherlands, Spain, Sweden, the United Kingdom, and the United States. Even though Globalization advocates the opening of world markets and the increase flow of transactions among all states we find that the effects of change are vastly unequal. Although many developing countries have liberalized their trade policies, some are being marginalized. These countries that are benefiting little from expanding their markets are Madagascar, Niger, the Russian Federation, Tajikistan and Venezuela. The ironic thing is these states are considered highly "integrated" with exports nearly 30 per cent of GDP for Sub-Saharan Africa had only 19 per cent for the OECD (cited in Held et al, 2003, 424) Essentially trade liberalization has cemented inequality among these and other states. It can be disputed that trade liberalization can also lead to higher poverty by reducing the demand for unskilled labour and worsening the income distribution. Some evidence of this can be seen particularly in Latin America where openness to trade during the 1980s and 1990s coincided with an increase in the demand and return to, skilled labour relative to unskilled labour, and a worsening of income distribution. An explanation of this coming about is that trade liberalization has been associated with the introduction of higher-level technology which requires the use of skilled labour. The reason is that the cost of the imported capital depends not only on the price of capital goods but also on tariffs that are acquired in purchasing a unit of capital goods abroad. In countries where there is a worsening income distribution, workers will find it difficult to finance the acquisition of the new skills, therefore making it more difficult to escape from poverty and in turn increasing inequality amongst the poor.

Income inequality is often something that is mentioned by anti-globalisation analysts, they share the belief that there is an uneven playing field between the poor and the developed countries. This claim can be reinforced by the fact exports are growing faster than global GDP, they have an increasingly important bearing on income distribution. Similarly world trade shares reflect income distribution patterns. Thus, for every $1 generated through export activity, $0.75 goes to the world's richest countries. Low-income countries receive around $0.03. Unless developing countries capture a far larger share of exports, trade will continue to fuel widening gaps in absolute income (cited from http://www.imf.org). It is undoubted that if this "uneven playing field" continues then absolute income will continue to grow amongst the poor as at the moment with the current share of exports, the only countries benefiting are the industrialized states and most definitely working against the poor.

If we choose to look more closely at the international financial and monetary system, with the emergence of the global capital markets and things such as the floating exchange rates, we will see many vulnerabilities of an increasingly globalized international financial and monetary system. Decisions are taken up via the G7, the Bank for International Settlements (BIS), and the IMF. Interesting to note, the United States is the largest voter and shareholder and it is therefore not surprising that when the developing countries during the 1970s tried to increase their voice on international financial and monetary system, they had almost no success. Why would the United States and the rest of the industrialized states want to give there wealth and power away? The vulnerabilities I was alluding to before include the collapse of the Mexican currency in 1994, recent crises in East Asia 1996-7 which caused worldwide repercussions, cutting global output by an estimated $2 trillion in 1998 -2000 (cited in Held et al, 2003, 470). This perhaps, shows best that the larger developed countries such as the United States are unwilling to give away their wealth and power and are more interested in maintaining there stranglehold over issues such as trade. This is a prime example of how globalization does not work for the poor especially when states hold this much power.

If we focus on inequality and the fact it has been rising in many countries since the early 1980s we could explore the effect globalization has had on some states and then perhaps we will get a greater insight to how globalization has treated the developed and poorer states. In China for instance we can see the gap widening between the export-oriented regions of the coast and the interior; the human poverty index is just under 20 per cent in coastal provinces, but more than 50 per cent in inland Guizhou (cited in Held et al, 2003, 425). Using the Gini coefficient, which is a measure of income inequality we can see in countries of Eastern Europe and the CIS have recorded some of the greatest rises ever indicating that globalization is not benefiting them at the moment. Furthermore we can see Organization for Economic Cooperation and Development (OECD) countries have registered big increases in inequality after the 1980s especially Sweden, the United Kingdom and the United States. As we can see inequality between countries is extremely evident and is on the increase. The income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960. In the nineteenth century, too, inequality grew rapidly during the last three decades, in an era of rapid global integration: the income gap between the top and bottom countries increased from 3 to 1 in 1820 to 7 to 1 in 1870 and 11 to 1 in 1913 (cited in Held et al, 2003, 425). Arguably these statistics are even more concerning as by the late 1990s the fifth of the world's people living in the highest-income countries had:

- 86 per cent of world GDP – the bottom fifth just 1 per cent
- 82 per cent of world exports markets – the bottom fifth has just 1 per cent
- 68 per cent of foreign direct investment – the bottom fifth just 1 per cent
- 74 per cent of world telephone lines, today's basic means of communication – the bottom fifth just 1.5 per cent

(Cited from Held et al, UNDP Report 1999, 2003, 425)

This essentially shows how evident inequality is as the gap between the rich and the poor is almost unbelievable. The pro-globalists argue that convergence will soon occur yet there has been no proof of this yet. Taken from the UNDP Report 1999 again below indicates once more the serious problems of inequality;

- OECD countries, with 19 per cent of the global population, have 71 per cent of global trade in goods and services, 58 per cent of foreign direct investment and 91 per cent of all internet users
- The world's 200 richest people more than doubled their net worth in the four years to 1998, to more than $1 trillion. The assets of the top three billionaires are more than the combined GNP of all least developed countries and their 600 million people
- The recent wave of mergers and acquisitions is concentrating industrial power in mega corporations at the risk of eroding competition. By 1998 the top 10 companies in pesticides controlled 85 per cent of a $31 billion global market – and the top 10 in telecommunications, 86 per cent of $262 billion market
- In 1993 just 10 countries accounted for 84 per cent of global research and development expenditures and controlled 95 per cent of the US patents of the past two decades. Moreover, more than 80 per cent of patents granted in developing countries belong to residents of industrial countries.

(Cited from Held et al, UNDP Report 1999, 2003, 425)

The evidence above illustrates that the OECD countries have benefited a great deal more than the poorer, developing or "globalizing" countries. Although the OECD countries only have 19% of the population they have 71 per cent of global trade demonstrates that globalization inherently increases inequality and indicates how globalization works for the rich and not the poor.

Globalization can be seen to promote equality as I alluded to some points in my opening paragraphs. Pro-globalists would make the argument that from 1975 inequality has stabilized greatly and proof of this is within China and India where accelerated growth of these large but originally poor countries has taken place. David Dollar and Aaart Kraay believe that with China we have seen the most spectacular reduction of poverty in world history which was supported by opening its economy to foreign trade and investment. This furthered with the view that research carried out by Dollar and Kraay found only countries that had reduced or achieved any large scale poverty reduction were those that had tried to become more open to trade and foreign investment. This insinuates that globalization has in fact helped reduce poverty whilst with the "non-globalizing" countries the number of poor increased by 200 million. Although Dollar and Kraay argue this, people such as Jay Mazur and Ngaire Woods have the complete opposite view that globalization is damaging to the poor and does not benefit them. This is illustrated by the Gini coefficient which proves that places like Eastern Europe have recorded some of the greatest rises ever in inequality. Furthermore stats such as the OECD countries holding 86 per cent of world GDP and 82 per cent of world exports markets compared to the very poor only holding 2 per cent combined shows that inequality is extremely apparent. It is these particular statistics that show how much globalization does indeed promote inequality and does not work for the poor. Although it can be seen to help some countries, there is no doubt that the majority of the time the only countries that are benefiting are the industrialized countries such as the United States and Great Britain, so to conclude globalization does inherently promote inequality and in only small isolated instances has it been made to work for the poor.

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