

Effects of globalization poverty and inequality politics essay



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There are many definitions of the term, globalization. It just depends on who you ask and in what context the term is being used. For the purpose of this paper, I will define my globalization as economic integration on a global scale; which includes increase in free trade - free flow of goods, services, people and money, and more foreign direct investment. The one thing everyone can agree on is the fact that our world has become increasingly interdependent. For instance, a crisis in the Niger Delta region of Nigeria could have an impact on the price of oil in America. Globalization has flourished in recent years due to advancements made in technology and the decreasing costs of transportation. Technological advancements have also helped to make communication that much faster. This makes doing business with people across the Pacific or the Atlantic easier and faster. Thanks to globalization, billions of lives across the globe has been touched or changed, in one way or another. Some exponentially, while some minutely. Despite all the good that globalization has brought to some parts of the world, not everyone is affected by it. And at the same time, some are affected, but not in a positive way.

Poverty and inequality are two different ideas, and can be interpreted in many

ways. But the most commonly used or widely accepted definition of poverty is living on income of less than \$1 a day, and without access to basic necessities like food, shelter, clothing, etc. Poverty is a genuine social problem, because by definition it signifies a lack of the resources necessary for a decent life. It is only tenuously if at all related to income inequality, since one could have zero poverty in a society in which the gap between the

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incomes of the worst-off members of society was huge; imagine if the poorest person in America earned \$100, 000 a year and the wealthiest \$1 billion. The more competitive and meritocratic a society, the more intractable the problem of poverty. The reason is that in such a society the poor tend to be people who are not productive because they simply do not have the abilities that are in demand by employers. It is unlikely that everybody (other than the severely disabled) can be trained up to a level at which there is a demand for his or her labor, and so there is likely to be an irreducible amount of poverty even in a wealthy society , unless there is provision for generous welfare benefits which might in some cases discourage work.

Most of the evidence authors and economists use to support the argument that

globalization (in essence free, but not necessarily fair trade, and foreign investment) has been a good source of growing economies and improving the lives of citizens comes from China and India. China being the most populous nation is on its way to being an economic power in the world, overtaking the United States. One could make the argument that China owns the United States, as things are right now. As the saying goes, “ you owe the bank a dollar, the bank owns you; but the bank owes you a million dollars and you own the bank.” This is the case with China and the United States. How did China come to “ own” the United States - the super power of the world in many respects, including economic?

Many argue and there is evidence that China's economic growth stems largely from

China opening up to free trade and foreign investment. China opening up its border to free trade has grown its economy and wealth, as a nation. India fits into this category as well. India's economy has grown, but not as much as China's. Still, it is significant. But is everyone in China and India, and anywhere else in the world for that matter singing the praises of globalization and the good fortunes it has brought to them? No. The fact that we live in a globalized world does not necessarily mean that it is universal and neither is it equal in any sense of the word. There are people who live in remote areas of the world who have not felt the impacts of globalization. Going further than that, many have arguably been adversely or negatively affected by globalization. Globalization while growing nations' economies, does not lead to equal income distribution for its citizens. Likewise, not all nations benefit equally from free trade. Income distribution has become more polarized with the rich getting richer and the poor getting poorer, increasing the gap between the "haves" and the "have-nots."

Some authors do not agree, nor do they think that globalization is to blame for the

disparity in income distribution, while other authors are not so convinced.

One author who thinks that globalization has done more good than harm is Erich Weede. His article is titled, "Globalization and Inequality." Weede argues that despite increased inequalities between countries with large economies, inequalities among households have been reduced. Weede

agrees that economies like the United States and China suffered some disparities in their domestic income distributions, and this is why globalization has come under attack. And as a result, there have been calls for protectionism, which he says “ harms the global economy, the prospects of the poor to grow out of poverty and worse still, likely increases the risk of war.” (Weede 2008, p. 415)

Weede argues that globalization is beneficial because it has “ led to a significant reduction

in poverty.” (Weede 2008, p. 418) He uses the argument of China, saying that although income distribution is unequal, millions of people have been pulled out of abject poverty as a result of globalization. He goes further to say that although India’s growth has not been as much as China’s, and income distribution has been less changed, yet again, hundreds of millions have been pulled out of abject poverty. And in the case of Latin America and the continent of Africa, they have benefited less from globalization, but then again, their demographics cannot be compared to that of Asia, therefore their lack of growth cannot cancel out or negate the huge impacts that globalization has had in Asia. He also purports that to benefit or to win in this system of globalization, “ participation” is required, and nothing is gained by “ abstaining.” (Weede 2008, p. 418)

Weede also goes on to point out that the reason some (like Chinese and Indians) benefit

from globalization and others (like Africans) do not is a result of “civil war or long periods of bad governance and poor economic policies.” (Weede 2008, p. 419) Here is a quote from the article.

“One may illustrate global change with data provided by Indian economist Surjit Bhalla (2002: 187). He defines people with a daily income between \$10-\$40 USD as members of the global middle class. In 1960 this class consisted largely of whites; only six percent were Asians. By 2000, however, 52 percent was Asian. The era of globalization is one in which Asia is now recovering, after falling for about two centuries further behind the west. Except for Africa abject poverty worldwide is likely to become significantly reduced within one or two decades. The African share of abject poverty in the world is expected to rise until 2015 from 36 percent to about 90 percent (Bhalla 2002: S. 172)” (Weede 2008, p. 418)

Weede's arguments for the reasons why Africa and Latin America is not reaping the

rewards of globalization are easy to agree with. The continent of Africa has been heavily colonized, and the “leaders” left to govern have adopted the same oppressive methods of governance that they have seen the colonizers use to keep the majority of the population down and without a way out.

Corruption is widely spread in the continent, which keeps any rewards of globalization (if there is any) out of the hands of the marginalized majority. These “rewards” fall into the hands of the small percentage on top that controls the flow of money, and most of them have accumulated wealth that surpasses the income of the nation put together. They have offshore

accounts where they keep the money, while the rest of the population is living in poverty, and do not have access to basic necessities human beings need to get by. For instance, access to clean water, sanitation, even food. Also, Africa has not opened up to free trade globalization like China did. Just like Weede said, nothing can be gained from “ abstaining.” Also, civil wars have a long term effect on not just the nation, but on its neighbors as well. A lot of resource is put into facilitating these unrests, which could otherwise be used to grow the economy.

Weede goes on to argue that globalization is all about competition. And in order to

compete, one has to adapt. He says, ‘ Such a process generates not only winners. There will always be losers” (Weede 2008, p. 420) This could apply to Latin America and Africa being losers in this competitive game of globalization, and countries like China or India being winners to some extent, and countries like the United States being absolute winners. Or it could also mean that those who are unable to compete domestically are losers. With globalization, the pool of workers to choose from has grown even wider, and with all the technological advances, the demand for skilled labor has also increased. Uneducated people living in rural areas will not be able to compete with their educated counterparts who live in the cities and thus have more opportunities and resources to go after the jobs that require skills and pay more. Many African nations and maybe some in Latin America as well, do not have the capabilities, either in revenue, capital, or technological advancements that other competitors who are getting ahead have, and so they cannot compete at the same level. But it could be different. Africa and <https://assignbuster.com/effects-of-globalization-poverty-and-inequality-politics-essay/>

Latin America are rich in natural resources that if used wisely, and a government free of corruption is put in place, they could compete with Asia, by harvesting their natural resources and actually using the revenue generated to facilitate more technological growth, and infrastructure, which attracts global entrepreneurs.

In contrast to Weede, Amitava Dutt and Kajal Mukhopadhyay argue that international

institutions, mostly pointing to the IMF and the World Bank (which they call the Bretton Woods Institutions), are responsible in some ways for the inequality among nations. They say that these two institutions play an important role in the international economy, the same kind of role that the State plays in individual national economies. But they also point out that we hardly have an international “ authority which could perform for the world as a whole the task of the nation state in an individual country.” (Dutt and Mukhopadhyay 2009, p. 324) They examine the IMF and the World Bank’s contributions to global inequality by “ focusing on some of the changes in the global economy that they have promoted. In particular, we examine the impact of some widely used measures of globalization on the inequality across nations, that is, international trade, and international capital flows.” (Dutt and Mukhopadhyay 2009, p. 324-325) They talk about the United Nations as an international organization that does not have as much impact as the IMF and the World Bank does, but has taken the view that global peace is linked with economic progress. And so have added to their goal the task of bridging the gap between the rich and poor nations by encouraging

more cooperation “ between the North and the South in all spheres of economic and social life...” (Dutt and Mukhopadhyay 2009, p. 325)

The idea behind creating these two organizations (IMF and World Bank) was to help

countries experiencing problems to stabilize their economies, by giving them fiscal advice and recommendations. Dutt and Mukhopadhyay say that their roles have changed over time. They are under pressure from Transnational Corporations, and the US Treasury, which want more and freer access to global markets. They say granted, all these institutions do is give recommendations, but poorer countries have to “ obey” because in times of need or trouble, they are the ones who supply the funds to facilitate development projects. The authors also maintain that “ the basic principles governing the institutions are neo-liberal in nature, and are known as the ‘ Washington Consensus’.” (Dutt and Mukhopadhyay 2009, p. 326) They promote free trade, more trade liberalization on the part of the South in the North-South divide, and capital flows. It is no anomaly that poor countries will have to do what the North recommends, because they have no say, as votes are allotted to countries based on their financial standings and thus, financial contributions. The little South is easily overruled or somewhat conquered by the giant North.

The authors use an econometric method for their empirical analysis to investigate the

roles that globalization and international institutions have played in national inequality, over a period of time, from 1960 to 1995. The main conclusion
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they have drawn from their analysis is that “ some of the major aspects of globalization following from the activities of international institutions lead to an increase in the inequality across nations.” (Dutt and Mukhopadhyay 2009, p. 332) They also found that an increase in global trade leads to an increase in inequality, and vice versa. Although they are careful to point out and acknowledge that other internal factors may contribute to inequality among nations, but for the purpose of their paper, they have focused on some areas of operations of international institutions. Like the agenda of the Washington Consensus. Dutt and Mukhopadhyay also conclude that if international institutions want to help poor countries, they will desist from doing business as they are being done right now. They say promoting trade liberalization is not the way that poor economies will bridge the gap of inequality. Rather, international institutions “ should allow poor countries to pursue more interventionist trade and capital flow policies which are more likely to bring them the benefits of globalization, and should facilitate more aggressively the transfer of appropriate technology from rich to poor countries.” (Dutt and Mukhopadhyay 2009, p. 336)

What Dutt and Mukhopadhyay did not touch on is how money is being lent to poor

countries. As I stated earlier, along with many other factors, corruption is one of the major reasons why Africa is going backwards, and international institutions are feeding into it. I do not think that international institutions (IMF and World Bank) have the best interests of poor economies on their agenda, and neither are they interested in the betterment of their

economies. If they were, they would not lend huge amounts of money to <https://assignbuster.com/effects-of-globalization-poverty-and-inequality-politics-essay/>

countries that they know will most likely not be able to pay back the debt. They lend money to countries without asking them to turn in reports of how the money is being spent, and for what purpose it is being used. For all they know or care, the money lent to a poor country is being wired to an offshore account under the name of the President's daughter. This could be avoided by simply following up with loans granted to a country.

Arie Kacowicz in her article essentially examines and sums up all sides of the argument

of globalization and its impact on poverty and inequality within the context of the North-South divide. She examines the three perspectives on the issue. The radical perspective which says that globalization causes and deepens poverty, the liberal logic which says that globalization reduces and may even eradicate poverty, and the realist or agnostic perspective which says that there is no necessary link between globalization and poverty. (Kacowicz 2007, p. 571)

For those with radical perspective, she basically emphasizes the points already made

about how in order to compete, poor countries need capital, which they have little or none of, and their inability to compete. She also touches on the point of adaptation. She says, just like Dutt and Mukhopadhyay did that the governance of the Bretton Woods institutions is not doing anything to help, as the poor countries are not able to build their economies, but instead open up their economies and they become something of a "reserve" for cheap

labor and natural resources. She says people who have this radical view <https://assignbuster.com/effects-of-globalization-poverty-and-inequality-politics-essay/>

conclude that the North is tramping upon the South. She uses the word “exploitation” of the Third World by a system of global capitalism characterized by inequality both within and among national societies.

(Kacowicz 2007, p. 572)

For the liberal perspective, there is a “direct and positive (“reversed”) relationship

between globalization and poverty: the more globalization takes place, the less poverty there will be.” (Kacowicz 2007, p. 573) Again, the contrast between Asia, which embraced globalization thereby reducing poverty, with Latin America and Africa is made here as well. Their economies have not grown and thus have not been able to reduce poverty because they are inward-oriented. Essentially, globalization reduces poverty, and reduction in poverty leads to a decrease in inequality, within and among societies. It is also argued that if only Third World countries were open to globalization, the technological advances of the North, which is the driving force, could help raise standards of living. (Kacowicz 2007, p. 573)

The third view, which is realist, does not see any clear link between globalization and

poverty. Supporters of this ideology argue that “many of the problems associated with globalization are linked to other factors, which are not part and parcel of the more limited phenomenon of globalization.” (Kacowicz 2007, p. 574) With this argument, problems that exist within a society like poverty and inequality, have nothing to do with globalization. They are

directly related to the governments and the policies they adopt. Hence, the <https://assignbuster.com/effects-of-globalization-poverty-and-inequality-politics-essay/>

only actor who can affect poverty and inequality is the State itself, and its policies, and not the external global actors. Therefore, globalization should not be labeled as good or bad, because it can be beneficial, or not, depending on how States administer and manage their policies. (Kacowicz 2007, p. 574)

What is the lesson to be taken away from all this? Globalization creates winners and

losers. Those who are willing and are able to take advantage of globalization have benefited and will benefit from it. Conversely, those who have failed and continue to fail to take advantage of globalization have remained stagnant and will. Globalization does not go and seek the poor or “unequal” out. The poor must be proactive and adventurous to seek out the opportunities of globalization. If care is not taken, the same issues that excluded members of a society from desirable options, or from resource they might otherwise have obtained, can disadvantageously affect their descendants’ ability to engage in today’s global equal opportunity war. One must also keep in mind that as developed countries have more economic power, they will continue to grow at a faster rate than developing or non developed countries, which at any rate will continue to widen the gap of inequality. But, as evidenced by China and India, despite inequality, millions can be pulled out of abject poverty.

There is no one solution, nor a formula solution for the case of globalization and its

effects on poverty and inequality. Globalization has flattened the playing field to the point where the traditional solution that has worked in the past will not apply. One may have to modify what one believes in order to cope with reality.

Rich countries could give development aids to poor countries, but that does not mean

there will actually be any developing, thanks to non-transparent and corrupt governments. Conclusions right now are pessimistic. Pursuing the path already established offers little or no hope for near term equalization of income among and within societies.