Global poverty trends and global trade challenges

Sociology, Poverty

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Introduction

Gilder (2012) definespovertyas a deprivation of basic human needs. These comprise of material and non-material needs that are required to facilitate a comfortable life. High levels of poverty lead to social exclusion, which limits the capability of individuals or groups to actively contribute towards community or national development as a result of limited resources (Nolan & Whelan, 2010). Several efforts have been made to increase the income of people across the globe to enable them afford basic needs. Most of the people that have affected by poverty are from developing countries in Africa, Asia, and South America (World Bank, 2013). There have also been efforts aimed at increasing the affordability of these basic items. Such efforts include placing subsidies on basic commodities, which have been successfully implemented in countries like Egypt (Reuters, 2013). Even with these efforts in place, there are several other factors that limit the success of these efforts, especially in developing countries (Alkire & Foster, 2011). Some of these factors include corruption, brain drain of educated professionals and unequal price distribution, which often creates a wide gap between the rich and poor. According to statistics from the World Bank, a total population of 1. 22 billion across the globe lived under the poverty line (spending $1. 25 per day). Comparing this to 1990 where the statistics were at 1. 91 billion living under the poverty line, an improvement has been made (World Bank, 2013). This is a clear indication of the effectiveness of strategies that have been implemented to fight poverty. This paper intends to present an in-depth discussion of poverty and transformations that have taken place within the past four decades. It also seeks to examine the social, political and economic challenges that result from global trade and inequality.

Poverty and its Causes

As mentioned in the previous section of this report, poverty is the deprivation of basic material and non-material needs. It is classified into absolute and relative poverty. The present-day absolute poverty line has been set by the Word Bank at $1. 5 and $2. 5 a day (Couch et al., 2010). Relative poverty is referred to as an estimate of inequalities in income. It is usually calculated as the percentage of people that live below a certain income median (Couch et al., 2010). Given that economic conditions vary from one country to another, the causes of poverty in different countries also differ. Pointers of poverty include unemployment, homelessness, famine, poor sanitation, high infant mortality rates and illiteracy (Gilder, 2012). With reference to developing countries, one of the key causes is the rapid increase in population. A good example of this is India, where the annual population increase for the last 45 years has been at an average of 2. 2%

(Karuna, 2012). This translates to an addition of 17 million people annually, which causes a strain on the available resources, making it difficult to sufficiently cater for their basic needs. Governments have theresponsibilityof ensuring that the livelihoods of their citizens are improved. However, vices, such as corruption, limit the possibility of attaining the poverty reduction objectives. According to (Johnston, 2009), corruption diverts, distorts and delays growth in economy. As a result of corruption, the elite or wealthy in the country continue progressing while the poor or less privileged plunge deeper into poverty. The poor are also denied access tohealth, educationand other social services that are needed to empower them to effectively contribute towards national building (Fisman & Miguel, 2008). Illiteracy also contributes towards an increase in poverty because it limits the capability of individuals to be innovative or entrepreneurial, resulting in an overdependence on natural resources or foreign aid (Teal, 2011). Other factors that contribute to the poverty statistics include unemployment, inflation, lack of capital to support entrepreneurship and a general lack effective policies that are meant to eliminate poverty.

Khan and Bashir (2012) argue that poverty is a complicated phenomenon, which makes it quite challenging to exhaustively explain its causes. Some of the theorists in this field, such as Furnham and Gunter (1984) are of the view that people who are prone to poverty are those who have little or no regard for the future. Instead, they use up their resources to “ live for the moment” (Andersen & Taylor, 2007). Other theorists argue that the poor have feelings of inferiority, hopelessness and powerlessness, which are passed on from generation to generation. As a result, it becomes difficult for their economic predicaments to be solved. Whilst these views are based on the notion that the poor have themselves to blame for their situations, other are of the view that among the poor, there are those who have the will to work hard if they are given the chance. However, they are limited by their inability to access education that is a prerequisite for obtaining well-paying jobs (Gilder, 2012).

Poverty Trends over the last 40 years

Even though it is challenging to get accurate statistics on the actual changes that have taken place in poverty statistics over the last ten decades, a general improvement has been recorded in poverty eradication efforts (World Bank, 2013). In a report by the UN that explored poverty trends between 1981 and 2005, the findings indicated that even though the developing world still has the highest poverty levels, there has been a significant reduction in the severity and depth of extreme poverty, 0. 5 billion less people living under the poverty line in 2005 than in 1981 (United Nations, 2010). This is arguably a positive move, given that these are the regions that record the highest levels of population growth. One of the factors that are responsible for these trends is expansion in the global economy, which has resulted in higher average per capita income levels, both in developing ad developed nations (Collier & Dollar, 2002). Comparing the current income with the 1960s, there has been an average growth in GDP levels at an average annual rate of 4. 1%, while the high and middle income countries have had their GDPs increase by averages of 3. 2% and 4. 2% per annum respectively. The chart below represents the global poverty trends between 1981 and 2005 (United Nations, 2010).

Despite the improvements indicated in Fig. 1 above, a projected increase in populations of developing countries points out the necessity of their governing bodies to ensure that they formulate appropriate policies that will ensure sustenance in economic growth (World Bank, 2012). This is a prerequisite for poverty eradication. Even though it is a general view of the majority that poverty affects developing countries, developed nations are also directly affected by it. For instance, the United States of America has a total population of 46 million living in poverty (Povertyusa. org, 2013). Unlike the general poverty line that is set for the global statistics, afamilyof four with an annual income of less than the set threshold of $23, 050 can be referred to as living in poverty (HHS, 2012). In the UK, the threshold is at ? 100 per week for an adult, ? 183 per week for a household with two adults and ? 268 for a household of four, which comprises of two adults and two children (Clay et al., 2012).

Poverty trends within the past few decades also indicate the notable differences in economic growth in different countries. For instance, between 1999 and 2005, there was a significant general decline in the population living on under $1. 25 a day (United Nations, 2010). However, the highest decline occurred in the Pacific and East Asia, which were then characterized by explosive growths in the economy and improved living standards, especially in China. The chart below represents the trends of people living under $1. 25 a day in different world regions (United Nations, 2010).

From the trends on the chart above, it is evident that while the overall number of people living below $1. 25 a day is reducing, Sub-Saharan African countries are among those facing challenges in attaining this poverty reduction goal. On the other hand, countries from East Asia and the Pacific are among those that have managed to register a significant reduction of the number of people living below this poverty line (United Nations, 2010). The Effects of Poverty on Business

There are several effects that poverty has on the businessenvironment. The most direct impact of poverty on business is that there is a minimal potential of growth. This is especially the case for businesses that deal in products or services that are not basic. The reason for this is that the majority of the target market lacks the disposable income to purchase products out of their basic needs. This explains the concentration of businesses in urban centres, where the average income is usually the highest. One of the main outcomes of poverty is crime, where the poor engage in different criminal activities to get themselves out of poverty. Some of the main crimes include robbery and corruption. According to kipo, any crime that results from poverty has a significantly adverse impact on business. For instance, violent robbery scares potential clients and a result, limits the levels sales. In addition to the potential reduction of business sales, businesses are also at a risk of losing their revenue to insecurity. From the findings presented in fig. 2 above that indicate a drop in the levels of poverty, it can be inferred that the consequences for the business environment is also positive. This is exhibited by the overall growth in the number of businesses across the world.

Challenges Arising from International Trade and Global Inequality

Asglobalizationgradually increases in the present-day business environment, there are different opportunities and challenges that are presented as a result of this (Bigman, 2002). Some of the opportunities that globalization has presented include elimination of national barriers to facilitate trade between nations and increased foreign direct investments in developing and emerging economies to capture the available market opportunities (Foskett & Maringe, 2010). This has also contributed to an overall increase in the average per-capita income across the world. However, with these opportunities come underlying challenges that mainly result from global inequalities and international trade (Apple, 2013). The implications that the international trade and global inequality have on business are discussed in this section.

Social Challenges

As the effects of globalization continue to be felt across the world, one of the key challenges that occur as a result of this is brain drain. Often referred to as capital flight, this is the movement orimmigrationor people with high levels of skills, knowledge and intelligence from a particular country to another (Agrawal et al., 2011). This mainly affects developing countries, where theiracademicelite immigrate to developing nations in pursuance of better opportunities. Even though it can be argued as a positive move for the individuals who are moving out, the cumulative impact on the home nation is adverse (Docquier & Rapoport, 2012). The World Bank estimates that by 1990, the human capital that had moved from Africa to other developed countries could be equated to 40% of its wealth (approximately $360 billion) (Ndulu, 2004). Developing countries are usually characterized by capital scarcity and therefore, further loss of this scarce resource to developed countries undermines the sustainability and development potentials of these developing nations. Professionals that move to developed countries could otherwise positively contribute towards the long-term improvement of the business and socio-economic statuses of these countries. However, their moves can be justified because of the limited opportunities presented in the developing countries (Agrawal et al., 2011). Another challenge lies in the diversity of cultures, religions and other social frameworks (Collier & Dollar, 2002). Globalization has been characterized by increased diversities that have brought about tensions in several business aspects, especially human resource management (Docquier & Rapoport, 2012). Currently, one of the most sensitive challenges in human resource management iscultural diversity. Thus, it is vital for human resource managers to ensure that the business environment is balanced enough to accommodate people from different economic backgrounds (Crane & Matten, 2004). Other social challenges include racialdiscrimination, human traffickingand threatening of family units as members move into other nations in search of better lives. Global inequality can also refer to the unequal distribution of professional or entrepreneurial skills across the globe. The effect of this on business is that it makes it difficult for businesses operating in some regions to get employees with the desired skills locally. As a result of this, companies spend moremoneyeither training employees or hiring expatriates from other countries.

Economic Challenges

The inequalities that exist in different nations also pose economic challenges on the countries, their citizens and companies that invest in those countries (Nolan & Whelan, 2010). One of the economic challenges is because of the different currencies that are used in different countries across the world. Fluctuations in these currency exchange rates have a wide range of repercussions on the company revenues (Bigman, 2002). Global trade has also resulted in the rise of new international powers, commonly referred to as emerging economies. These include Brazil, Russia, India and China (BRICS) (Collier & Dollar, 2002). Whilst this can be considered as a move in the right direction for these economies, the fact that they are recording faster economic growth rates that other economies has an effect on the international trade structures, the flow of human capital and natural resource-consumption patterns (Bigman, 2002).

Another economic challenge is brought about by the inequalities in income levels of different countries, which may cause multinationals to take advantage of this to pay workers in developing countries poorly and overwork them as they seek cheap labour (Collier & Dollar, 2002). An example of this was highlighted by (Chamberlain, 2011) that in South China, workers at Apple work for excessive hours to meet the international demands of the company’s products. Foxconn is also another example of companies that provide workers, especially in developing countries with draconian working conditions, which occasionally lead to employee suicides (Chamberlain, 2011).

Political Challenges

Political challenges that affect global trade comprise of those that are outside the control of governments and those perpetrated by the government or the political elite (Henry & Springborg, 2010). One of the challenges is created by governments is corruption, especially in developing countries. Countries that are known to be corrupt often have political leaders who require favours from companies in form of bribes or job positions before being allowed to operate smoothly (Reuters, 2013). One key disadvantage of this is that companies that stick to their ethical codes of conduct may either be denied investment opportunities or may have their operations disrupted by rogue government officials. This results into an imbalanced competitive environment in favour of corrupt businesses. Some of the most corrupt countries in the world are North Korea, Libya, Iraq, Syria and Somalia, which are all developing countries (Reuters, 2013). High tax tariffs and interest rates on loans are also political challenges that increase capital expenditures of investors and a result, reduce their profit margins (McGrew, 2000). Political challenges that are caused by factors out of the government’s influence include revolutions, wars, strikes andterrorism(Campante & Chor, 2012). One of the most recent events that paused challenges to businesses in Arab countries was the Arab spring that started in 2010, which affected many Arab countries in Northern Africa and the Middle East (Willis, 2012). Others include constant terrorism activities that take place, perpetrated by extremist movements. For instance, Nigeria is among the countries that, regardless of the rich oil reserves that they have, are accustomed to high levels of corruption, and terrorism. As a result if this, large oil companies like

Agip, Shell and Mobil have had challenges operating in the country (Shah, 2014).

Conclusion

There are several definitions of poverty that have been given by different researchers. However, as earlier presented in the paper, it is a complicated issue whose causes cannot be exhaustively established. This paper has provided an overview of the global poverty by providing an in-depth definition of absolute and relative poverty. It has also outlined some of the key causes of poverty across the globe. Global poverty trends over the past few decades have also been discussed in this paper. Even though the trend indicates a reasonable decline in global poverty levels, some countries have not managed to eliminate poverty as much as others. Some of the countries that have effectively managed to reduce poverty significantly include those in East Asia and the Pacific. On the other hand, poverty still remains a challenge in several countries in regions like Sub Sahara Africa. With a high anticipated population growth by 2050 that is likely to increase the strain on available resources, governments ought to implement strategies that will contribute towards economic growth so as to sustain these growing populations. Whereas globalization has provided several opportunities for global business, it has also posed several social, political and economic challenges, especially due to the existent global inequality. Some of these challenges have also been discussed in this paper. Aspects that should be addressed in future research include the possible future global trends of poverty.

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