

# A review of inequality and globalization case studies economics essay



**ASSIGN  
BUSTER**

Globalization is defined as the worldwide movement toward economic, financial, trade, and communications integration according to [www.businessdictionary.com](http://www.businessdictionary.com). Globalization has been evolving for thousands of years; countries have been buying and selling goods to each other from great distances since the Middle Ages. The recent trend of globalization has been motivated by policies that have opened economies both domestically and internationally. Technology has been another driving factor for globalization. Information Technology has given the world a means of pursuing economic opportunities.

There are multiple issues that have arisen due to the globalization of markets from around the world. International trade and transport are hindered by complicated, lengthy and frequently altered procedures and documentation, different requirements in different countries, duplicated inspections, high charges, the lack of effective interagency coordination and cooperation among ministries and agencies involved in trade and transport facilitation, overlapping and conflicting conventions for trade and transport facilitation and the absence of effective information and communication technology applications for trade and transport facilitation. These situations create high costs in trade transactions and delays in the cross border movement of goods and services.

Globalization has caused the conditions of inequality and discrimination to deteriorate. Women in society have seen a significant impact as a result of globalization. A demand for cheap labor, combined with a loss of jobs held by men which reduced the customary family income has led to an increase in the number of women in the labor market. Women who either cannot find

<https://assignbuster.com/a-review-of-inequality-and-globalization-case-studies-economics-essay/>

factory work or whose family situation prevents them from working in a factory, have had to seek work in the informal sector under some of the worse labor conditions in existence. This had lead to inferior quality labor opportunities and puts underemployment just as big a problem as open unemployment.

“ Labour market deregulation has been an important issue that has arisen. Formal regulations have been eroded or abandoned by legislative means; and implicit deregulation, whereby remaining regulations have been made less effective through inadequate implementation or systematic bypassing. Such deregulation has been based on the belief that excessive government intervention in labor markets – through such measures as public sector wage and employment policies, minimum wage fixing, employment security rules – is a serious impediment to adjustment and should therefore, be removed or relaxed. Deregulation might mean more employment for women, but the danger is that such employment would tend to be on less favorable terms. The question is whether the market can be left almost entirely to determine the price of female labor and the conditions of female employment” (Lin, 1999, p19-20).

However, the biggest issue arising from globalization appears to be in human rights violations. The enjoyment of fundamental aspects of the right to life, freedom from cruel, inhuman or degrading treatment, freedom from servitude, the right to equality and non-discrimination, the right to an adequate standard of living (including the right to adequate food, clothing and housing), and the right to work accompanied by the right to just and fair

conditions of labor, There is the concern that countries cannot fulfill their international human rights obligations.

## **U. S. Tariffs and Trade Barriers**

The U. S. government uses tariffs and nontariff barriers to protect industries from foreign competition. U. S. tariffs today peak at around 20% in comparison to 1933 when 33% of imported goods were subject to a tariff and that rate was at 60%. In 1947 the United States and 22 other countries entered into the General Agreement on Tariffs and Trade (GATT). In 1986 they entered into negotiations again and formed the World Trade Organization (WTO) in 1994. Since 2001 they have been focused on the Doha Development Program to open trade between developing countries and developed countries. The United States also became a party in the North American Free Trade Agreement (NAFTA) to open trade between the United States, Canada, and Mexico in 1994. Furthermore, in 1994, Asia-Pacific Economic Cooperation (APEC) led an agreement to open trade between China, all the economies of East Asia and the South Pacific, Chile, Peru, Mexico, and the United States. Tariffs are still used by the United States on goods like textiles and footwear. They face high tariffs of about 10%. Our textbook gave an example that if you bought a pair of blue jeans bought for \$30 you pay about \$7 more due to the tariff on that product (Parkin, 2008). Tariffs are a strong impulse due to the revenue they produce, and they allow the government to satisfy special interest groups and corporations who then make donations to their candidacy. Non tariff barriers include putting quotas on imports and voluntary export restraints.

## **Current Trade Issues and Integration**

On the economic side, there have been important changes in trade, macroeconomic, public sector, and regulatory policies. Reduction of trade barriers occurred multilaterally, pursuant to GATT/WTO negotiations; regionally, as a consequence of different trade agreements in the American continent; and unilaterally, depending on specific liberalization programs in several countries. Other economic changes, including liberalization of the current and capital accounts of the balance of payments, national treatment of foreign investments, markets deregulation, and privatization of public enterprises, led to larger capital flows and foreign direct investment in the Americas (Morley, Machado & Pettinato 1999). All those transformations opened opportunities for increased economic, political, social, and cultural exchanges in the Continent, and also generated further integration of Latin American countries in the world economy.

## **Impact of Globalization**

Since the '80s, the world economy has become increasingly connected and integrated. Trade, Foreign Direct Investment, capital flows and technology transfers have risen significantly. In most countries, the current wave of “globalization” has been accompanied by increasing concern about its impact in terms of employment and income distribution.

The current debate is characterized by a harsh dispute between advocates and critics of globalization. While this is true even as regards the employment and income distribution effects within the developed world, positions diverge even more sharply over the impact on Developing

Countries. For instance, the optimists underline the link between increasing <https://assignbuster.com/a-review-of-inequality-and-globalization-case-studies-economics-essay/>

trade and economic growth, and then they conclude that trade is good for growth and growth is good for the poor (both in terms of job creation and poverty alleviation). In contrast, the pessimists show that globalization is quite uneven in its impact and gives rise to negative counter-effects on the previously protected sectors, the marginalization of entire regions of the world economy and possible increases in within country income inequality. Another example of this kind of diversity of opinions is the debate about poverty indicators: supporters of globalization underline the fact that worldwide absolute poverty has decreased over the last two decades, while critics of globalization show that this result is almost entirely due to the fast growth of China.

Recent literature supports the conclusion that the employment impact of increasing trade is not necessarily positive for a developing country (Grossman & Helpman, 1991). The final employment impact of increasing trade depends on the interaction between productivity growth and output growth both in traded goods sectors and in non-traded sectors. Foreign Direct Investments generate positive employment impacts both directly and indirectly through job creation within suppliers and retailers.

According to the studies carried out before 1995 on the impact of globalization on employment, the level of employment before and after trade liberalization conclude that trade and FDI liberalization has been beneficial for labor except in the transition countries of Eastern Europe (Matusz & Tarr, 1999).

Shifting production from developed countries towards developing countries may imply increasing inequality both in the former and in the latter. For instance, outsourcing of production through FDI from the U. S. to Mexico implies that plants which were relatively intensive in unskilled labor in the U. S. would be relatively skill-intensive in Mexico (with a higher ratio of skilled/unskilled labor than domestic plants), thus raising relative wages and income inequality in both countries (Feenstra, 1997).

Most countries experienced a significant reduction in the proportion of their population living below the poverty line, including fast globalizing countries like China, India, and Vietnam. Conversely, many countries slow to move to globalization particularly in the Sub-Saharan Africa region registered an opposite trend. While the apologists of globalization support the view that current trends clearly indicate a decreasing global inequality (Sala-i-Martin, 2002), the critics show that this result mainly depends on the exceptional growth of China, while absolute poverty has increased in Sub-Saharan Africa and relative poverty has increased in the majority of countries (Reddy & Pogge, 2002).

“ Trade is good for growth, growth is good for the poor and so trade is good for the poor”. (Dollar & Kraay, 2001a & 2001b) classify countries into globalizers and non-globalizers according to their performance in raising their trade openness (export + import over GDP) and show that the former group has experienced higher growth rates during the period 1977-97. Then they show that the incomes of the poor, rise proportionally with average incomes and that globalization does not have any systematic effect on

domestic income distribution. They, therefore, conclude that growth is good for the poor.

Using data from 120 developing countries, the following has been shown: 1) trade openness helps reducing absolute poverty, measured as people living below the poverty lines; 2) Foreign direct investment flows and especially financial liberalization seems to be detrimental to poverty alleviation, although the relationship is only barely significant; and 3) There is no significant relationship between trade or foreign direct investments and relative poverty, measured as people below the 50% of the mean income (Santarelli & Figini, 2004).

From an internal perspective, globalization has had a major impact on the United States over the years. In 1960 the U. S. exported 3. 5% and imported 4% of the goods and services we bought. Compared to 2006 when the U. S. exported 10% and imported 15% of the goods and services (Parkin, 2008).

Trade is a necessity since without trade and country could only consume what it produces. However, with international trade countries are able to take advantage of a variety of goods and services at a much better price than they could produce on their own. We buy TV's and DVD players from Korea, machinery from Europe, and fashion goods from Hong Kong. In exchange we sell machinery, grain, lumber, airplanes, computers, and financial services (Parkin, 2008). However there are many goods that we both export and import at the same time. The best example of that would be automobiles.



I think the biggest impact of globalization is that free trade and free markets produce competition. In return competition leads to better products at better prices for the consumer. An example of this would be in the computer market. If you compare the cost of a computer 10 years ago to a computer today it is a much cheaper but also a much better product. The free market encourages competition and competition always leads to improvements. While there can be a downside to competition the positive far outweigh the negatives.

## **Case Study Review: Inequality and Globalization**

A case published by the Harvard Business School titled “ Inequality and Globalization” was reviewed and the following summarizes a few key points. Global inequality refers to the wealth and income differences that exist among individuals and groups within a society and among countries. The consensus among experts is that inequality has been an issue since the beginning of the twenty-first century and that while most experts agree that inequality has increased the causes are less agreeable.

The Gini index is utilized for measuring income inequality. Throughout the case, the Gini index is referenced for various countries. All indicators referenced in measuring inequality have determined that the United States (U. S.) has had a pronounced rise in inequality between the years of 1968-2003. Additionally, the United States is said to have two extremes in society. You are either rich or poor. The case also mentions that those at the high end of the income scale are getting richer, while those at the low end are making less money. However, the poverty rate has remained fairly constant between the years of 1968-2003. One explanation for this rise in inequality <https://assignbuster.com/a-review-of-inequality-and-globalization-case-studies-economics-essay/>

was identified as education. Those with college degrees or higher have had an increase in median income and those without a degree have experienced a decrease in median income since 1979.

Inequality has been on the rise in both developed and developing countries. Interesting point was the Gini index was actually higher in developing countries. China experienced very similar characteristics as the United States in that there are two extremes there as well the rich and the poor. The rich live in the cities and the poor are from rural areas. Contrarily, India has experienced a mild case of inequality, which began to rise around the 1990's when more aggressive reforms such as privatization, and trade liberalization were implemented.

Globally, the question was asked has inequality increased or decreased and economist found this hard to determine. There are several approaches to measuring inequality globally. One approach is to look at GDP. However, this seems to indicate that the richer countries experienced growth in GDP while those lower-income countries' GDP fell. Another approach is weight countries by population when measuring global inequality. However, results using this approach were inconclusive based on who did the study some researchers had inequality rising while others had it falling.

In summary, among experts involved in measuring inequality the consensus is there is no consensus on what causes it at the national or global level. However, most experts have concluded that there are three categories which most explanations fall into; globalization, technology and state policy and cultural norms. Maybe the question is, does inequality matter? According to

some, poverty is the real issue not inequality and that inequality must exist to motivate economic activity. To sum it up, the best comment in the case was, “ if everyone were guaranteed the same income, why would anyone work at all?” (Moss & Harrington, 2006, p11).

## **Inequality and Globalization Impacts to (Afghanistan and El Salvador)**

El Salvador's participation in globalization through trade and investment has been slower than elsewhere in Latin America. The primary method in which El Salvador participates in globalization is their migration and remittance of labor to the United States. It is estimated that approximately 15% of the Salvadorian population lives in the U. S. The monies received for this remittance of labor has become an influential component of the Salvadoran economy. However, the inconsistency in their trade and investment flows has led to the instability of their economic performance.

This globalization has increased El Salvador's inequality because only the more educated and higher income families are able to migrate so this furthers the wealth distribution issue and again like the examples for the U. S. and China, both rich and poor experience s wage increase but, those with higher income and higher skill levels see a greater increase. However, globalization has reduced the poverty level and improved the standard of living for low-income families in El Salvador despite the wealth distribution problems.

Afghanistan had been resistive to globalization thus the negative forces of globalization took over which lead to the events of 9/11. However, they have

come a long way since the events of September 11; the biggest change was the removal of the extremist Islam government, run by the Taliban. The economy of Afghanistan is recovering mostly due to international assistance, the growth in their service region and the recovery of their agricultural region. Despite the growth in these areas, Afghanistan is still riddled with criminality, insecurity and a government that is unable to expand rule of law to all parts of the country, therefore future growth will be a challenge. Afghanistan is extremely poor, and highly dependent on foreign aid (CIA, 2010). The living standard is among the lowest in the world. Based on its position today it may take until the end of the decade and continued financial support for them to see improvement in their economic position. However, recently stories have revealed that Afghanistan holds more than \$1 trillion in mineral resources and the U. S. Department of Defense is advising them on how to go about the bidding process for countries who want to mine the minerals (Risen, 2010).

To attempt to address inequality between all countries you'd need to understand how the inequalities came to be. If you looked at each country's average income or GDP per capita, the countries at the bottom all suffer from geographical or political impediments that are impossible (geography) or very difficult (political) to overcome.

Nepal has essentially no chance of improving its conditions due to its size, terrain, and remote location. On the other hand, corrupt and/or warring political structures in many African continent countries (Congo, Uganda, Rwanda, etc.) keep them in continuous poverty. India is enjoying the benefits

of globalization due to relative peace and government policies that make it profitable for companies to expand there.

## **Inequality and globalization at Bank of America**

Bank of America's (BAC) Information Technology (IT) organization, like most other large corporations, is an example of both globalization and inequality. BAC IT uses full-time employees and contract labor resources. These resources reside in both the United States and other countries. In India, they have two locations staffed with full-time IT employees and contractors. Throw in a large IT organization in the UK and other countries and BAC IT truly qualifies as globalized.

The internal hourly labor rate BAC IT charges its business organizations for services varies based on the resource assigned the project. The rate charged for a U. S. based BAC employee is around \$85/hour. The charge for a U. S. based contract resource is about \$65/hour, and the rate for an off-shore BAC employee is about \$35/hour. This gives a pretty good indication of the inequality that is present.

## **Recommendation to Reduce inequality and Increase Globalization at BAC**

The most effective resolution to the situation is probably to use more off-shore resources. This may sound counter-intuitive but you only need to look at the rate history. Not long ago the disparity in the hourly rates between U. S. and off-shore resources was even higher. Reduced demand for U. S. resources and increased demand for off-shore resources has been a major

contributing factor. As more resources are brought onboard off-shore these forces will continue to narrow the rate gap.