

The global economy and the unequal distribution of wealth essay examples

[Parts of the World](#), [Europe](#)



The Global Economy and the Unequal Distribution of Wealth

When it comes to discussing global economy and the unequal distribution of wealth, it is hard for me not to consider the advantages the developed, western countries have over developing and under-developed countries in other parts of the world. To begin with, I would like to trace the history of how the disparity came into being. Industrial Revolution took place in England before it spread to other parts of Europe. Between 1500 and 1850 Britain and Europe witnessed economic changes and growth, as many of the European countries began to trade with countries as far and wide as America and Asia. Britain, France, Spain and Portugal sought to expand their colonization, and to do so, used commerce as a screen to push forward this initiative. These countries, called the 'Atlantic Traders,' accumulated wealth through commerce, colonial plunder, slave trade, and de-farming. Colonial expansion and the unethical trade practices led to the downfall of many East European economies and countries in Asia. The title 'Atlantic traders' refers to Britain, France, the Netherlands, Portugal and Spain, and it was these countries that were directly involved in trade and colonialism with Eastern Europe and Asia. The Atlantic traders, because of their proximity to Atlantic, indulged in aggressive trade and expansionism in Eastern Europe and Asia. "The Rise of Europe between 1500 and 1850 is largely due to the Rise of Atlantic Europe," say Acemoglu et al (2003, p. 6).

Centuries later, the world economic order is clearly in the hands of Europe and the United states. The progress that these countries made in the subsequent centuries has given them a distinct advantage over other nation.

Today, The United States and the European Union are developed nations, while countries like China, India, Russia, Mexico, Brazil, and Vietnam, are the fastest growing developing countries. The developed countries, or otherwise known as the economic powers of the world, enjoy the luxury of having a strong economic base that is passed on to its people. Their currency is strong and therefore their buying power is high. These countries dictate what must be done and what shouldn't, and continue to enforce themselves on poorer countries. The World Bank (WB) and the International Monetary Fund (IMF) are the two major banks that fund countries in need of money for their economic growth and stability. These banks continue to be influenced by the Big Five; the United States, The UK, Germany, Japan, and China. China is a recent entrant into the group, thanks largely due to its economic reforms. These banks were founded with the intention of encouraging world trade by regulating currency exchange rates, and promote economic growth in developing and undeveloped countries. The growth of China can be considered as a classical case of the influence of Multinational Corporations on governments. China, till the late 1950s, was seen as a Communist nation that crushed democratic processes with an iron hand. There was nothing that the outside world knew of what was happening in China, till the communists understood that they had to open up to the world, if they wanted to survive. This came as a boon for the communists and the multinational corporations that chose to do business with the Chinese. After an initial probing phase, a large number of MNCs began to flood China with foreign direct investments (FDI). They set up industries, developed infrastructure, and provided ample job opportunities to the unemployed

youth of the country. Gradually, the Chinese economy picked up, and today, the county is among the powerful economic nations in the world. It wasn't because the MNCs sought to help China that they invested there. The rich wanted to become richer, and so, invested in a country that was willing to give them anything to lift them from their precarious economic doldrums. In recalling David Ricardo's (1817), law of comparative advantages, it can be said that the MNCs stood to gain considerably from this arrangement. They were provided land for constructing their production units, provided electricity at throw-away prices, promised non-stop supply of water, electricity and labor, and given special status to operate in the country. They were also provided with cheap raw materials and labor, which ultimately cut production costs that would have been much higher in developed countries. Ricardo's law of comparative advantages states that " absolute production costs are irrelevant, and for export-import, relative production costs are more important. A country should produce a commodity where it has the greatest comparative advantage or a commodity which has the least comparative disadvantage" (Ricardo, 2004, p. 201-13). This is precisely what the MNCs wanted; they were willing to invest in a third country, reap the riches through drastically reduced production costs, and import them back into their country and sell at higher price. MNCs are the ones that endorse or influence elected members of parliament or senate to pass policies that favour their interests. Many American, British and the European companies have established, or relocated their major operations to countries like China and India. Thus, one sees the influence these companies have on foreign policies and wealth accumulation. While globalization has attracted FDI in

China and India in a big way, it hasn't had the same effect on other developing or under-developed countries.

Export depends on many factors, the most important being price and affordability. A company that seeks an entry into a country will look at the possible options of ownership, location, and logistical advantages. On ownership, a company would prefer to do business in countries where they have strong ground for expansion and expertise. Location assumes significance in the context of a product's market potential, and risk. Should the risk be high, they would desist from making an entry. Internationalisation depends on the success a project has overseas. Should the project bring good returns and show considerable advantages for the future, the MNC would look to retain their know-how and control the business, rather than look to transfer the technology to the local business partners, should there be one. And when it comes to export, MNCs will ensure that they deal only with those countries that protect their interests from unstable foreign exchange, market fluctuations, and local government policies and so on. Disparities continue. Why doesn't the World Bank or the International Monetary Fund support infrastructural and industrial developments of countries that are not part of the developing nations? If countries like the U. S, for example, can influence the WB and IMF, why aren't they encouraging these banks to develop other countries that desperately need money to develop basic amenities in their country? The majority of nations in Africa are in total tatters. Millions of children die every year in this region due to the lack of basic drinking water and food. Malnutrition is a major concern and unless something is done to help these countries, their population will be

wiped out. Why don't MNCs develop their business in these countries? It's because, these countries can't offer anything in return for the money spent on them. The unequal distribution of wealth dictates where money should go, and where it shouldn't. The western world, that has the wealth, is run by corporations that tell them what to do and what not to do. Would any country risk doing business with a nation that hid behind the iron curtain of communism for decades? The U. S and other Western countries held the position that any nation found doing business with the communists were their enemies, and stood to face economic sanctions. This is not the case today, as most of the MNCs present in China and Vietnam are either American or British companies. The ones with wealth are the ones who drive the global economy.

An issue that has almost reached the boiling point is the issue of global warming. How does global warming occur? Ask the developed world, and they'll say unequivocally that it is because of the fast-paced industrialization in the developing world. The literature on the costs of climate change mitigation includes a number of important contributions, and the noteworthy contributions from Stern (2007) and World Bank (2009) state " a regime that favors static efficiency through uniform global prices can be inequitable and therefore recommends financial and technology transfers to alleviate the adverse effects on developing countries." This means that developing countries should stop industrialization processes to protect the world from CO2 emission that causes the destruction of the Ozone layer, and leads to global warming. It effectively states that, it is alright that the western world achieved industrial independence in the nineteenth century, but it was not

appropriate for other countries to achieve self-sufficiency. The developed nations was willing to compensate them with financial and technology transfer. This move can be seen as the World Bank's initiative to stop developing countries from becoming self-sufficient and developed, and continue to remain dependent on the developed nations for their needs. As expected, countries like China and India voted against such measures, stating that their levels of emissions was way below the global output. Here again, one sees the domination of the unequal distribution of wealth on the global economy.

Conclusion

The global economy and the unequal distribution of wealth hamper global economic development. The Western countries like Britain and America, and the western countries in Europe were fortunate enough to witness industrialization in the nineteenth century, and as countries like China and India surge toward economic supremacy, there is a growing demand for curbing industrial development in the name of global warming. Sadly, the unequal distribution of wealth has not been productive in the overall development of economies across the globe. It is time that the World Bank, and the International Monetary Fund worked independently, and away from the influence of the developed countries and multinational corporations to develop the existence of mankind.

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