

## Who is Globalization Good For?

The term globalization has acquired considerable emotive force. A concept derived from the extension of free market capitalism to the international sphere, some view it as a process that is beneficial – the key to future world economic development; inevitable and irreversible. Others regard it with hostility, even fear, believing that it increases inequality between nations, threatens employment and living standards, and thwarts social progress. Some see it as salvation, while others see it as damnation.

Globalization, in the economic sense, refers to the integration and interdependence of national economies through the flow of goods, services, capital and money between economies. This is generally seen through free trade agreements, foreign direct investment, migration and capital flows. Globalization, however, has various other branches to it, namely: political globalization, social globalization, amongst others. “Perfect globalization”, however, is a utopian concept which would only exist when all the national economies merge to form a single global economy, existing without barriers to all factors of production and consistent laws regarding labour protectionism and taxation. An underlying assumption of the essay is that this is a purely hypothetical scenario which cannot exist.

This essay serves to be a critical analysis of globalization, the claims and assumptions that surround it, along with the impact it has on various income classes of countries and societal groups within them. Specifically, the essay argues for reforms to globalization in developing economies through a three step framework outlined later.

### ***Does globalization actually cause economic growth?***

Globalization, in theory, leads to economic growth in a variety of direct and indirect capacities. This includes the expansion of trade, allowing nations to export goods to previously untouched markets, resulting in increased output—especially for goods in which a nation is specialized (for instance, Cuba with cigars)—thus enabling international specialization and leading to

higher efficiencies in the utilization of scarce global resources. This specialization leads to economies of scale for MNCs, allowing them to produce goods more efficiently and at lower costs, thereby increasing the availability of goods and services. Foreign direct investment allows investors external to the nation to employ monetary capital in economic infrastructure, increasing production potential and, thus, overall output. Technological and knowledge transference enables economies to take advantage of information and technology without incurring the associated research and time expenses, resulting in amplified productive efficiency and further bolstering output. This increase in output—assuming unused capacity in an economy—results, in theory, in a positive feedback loop of economic growth and employment, wherein higher output requires greater use of factors of production, specifically increased utilization of labour forces, which in turn leads to increased aggregate demand, further expediting economic growth.

However, markets do not ensure that all nations share the benefit of increased efficiency and economic growth. Although, an analysis featuring 122 countries based on World Bank income classification showed that high-income nations see a significant positive impact on GDP from globalization; high middle-income countries seeing positive impacts and low middle income countries seeing a negative impact; and low-income nations see a statistically insignificant impact—suggesting that as national income increases, so does the positive impact of globalization (Khorushun, Kumar). These uneven benefits reflect the higher infrastructural capacities, educated labor, and institutional stability developed countries possess, allowing them to effectively take advantage of globalization, and the market extension it brings.

Additionally, the impact of globalization on unemployment varied across studies. An analysis found that globalization, specifically trade liberalization, generally resulted in short-run increases in unemployment due to factors including, but not limited to, the decline of obsolete sectors and the reduced reliance on public sectors. However, in the long run, employment was observed to be a beneficiary of globalization, showing significant positive correlation (Rama). Moreover, it has been observed that globalization often leads to worsened and hampered working conditions, marked by inadequate labour protection, an increase in precarious work, and a general “race to the bottom” for minimum working requirements, which attract MNCs to host countries. These degrading working conditions may indirectly disincentivize workers

from actively participating in the labour force and may thus lead to a decrease in the potential production of an economy (Uwadinma).

The correlation between globalization and economic growth, along with subsequent employment is unclear at best. Most theoretical arguments stand true for high income nations but collapse whilst analyzing low-middle-income and low-income nations, suggesting that economic beneficiaries of globalizations are by and large developed economies.

### ***Does this potential economic growth by globalization benefit all people equally?***

It is very clear that economic growth is not the end goal in an equitable and developmental society, quality of life and human development is. Theoretically, the economic growth bolstered by globalization would correspond with improvements in living standards, by higher disposable income, improved healthcare, access to education, and increased accessibilities to higher qualities and varieties of products and services. However, does this stand true for countries across the income spectrum, and households across the socioeconomic scale?

The effect of economic globalization on income inequality is highly nuanced. Theoretically, as depicted by the Heckscher-Ohlin & Stolper-Samuelson Theorem, globalization should lead to increased utilization of factors of production which are relatively abundant to an economy. This, for developing nations, would mean that low skilled labour would be employed at a higher rate. However, due to skill biased technological changes and market inefficiencies, this often doesn't materialize. While capital and goods can flow freely across borders, labour is often rendered immobile as a result of policies and immigration laws. Due to this, labour in less developed countries aren't able to migrate to more developed nations where employment opportunities exist, exacerbating local unemployment and income disparities.

This is reinforced by an analysis showing that the inequality widening effect of globalization diminished with economic and financial stability; suggesting that less developed countries are more likely to be susceptible to the income inequality widening effects of globalization (Lee, Lian). Furthermore, the vehicle of globalization at large alters its effect on income distribution, wherein FDI and equity flows generally result in higher top income distribution, heeding a less

equitable outcome (Cabral, Diaz, Mollick). Thus, we can draw the conclusion that globalization generally affects developing, low income countries income inequalities with a lower degree of globalization and lower financial stability to a higher extent than that of more stable, developed economies. The theoretical “trickle down” effect suggests that the economic benefits of globalization should eventually reach low income groups and nations, yet, generally, limited diffusion to low income groups is seen, resulting in increased top concentration and thus increased income inequality.

Despite the increasing income disparities caused by globalization, it has generally been seen to benefit human quality of life, through medical and educational avenues. For example, the development of the oral polio vaccine within the USA, which was then distributed to Afghanistan, Nigeria, and other low-income countries, is an example of how globalization and international collaboration can save lives. However, globalization has also been seen to cause environmental degradation, specifically in developing nations, due to the exploitation of low-cost industrial materials by MNCs—most of which are generally non-renewable. To conclude, similar to the essay’s argument on income inequality, globalization perhaps impacts countries’ human development to a greater extent—outside of anomalous medical cases—after a certain income level, with an analysis stating, “a country's position in human development ranking is not related to globalization for developing countries at low or low-middle income groups. Globalization perhaps is important for human development only after a certain level of income growth.” This may be due to the lack of absorptive capacity, weak infrastructure, and immobile labour, in less these nations, thus failing to translate meaningful improvements in quality of life in their respective countries.

### ***The “dark side” of globalization***

An analysis of Eurozone economies revealed that in the long run, only economic globalization had a significant positive correlation, with social and political globalization having negative correlation (Radulovic, Costic). This suggests that social globalization, a pathway for cultural globalization to occur, is shown to be detrimental to long term economic growth.

A major concern of globalization is its potential effect on cultural erosion, which generally happens through the homogenization of consumer goods by MNCs as described by the McWorld effect, language shifts and international media domination. This is specifically prevalent in developing nations wherein globalization causes a pull between modernization and traditionalism, which generally results in adoption of western consumerism and values, causing indigenous traditions and beliefs to lose value, potentially weakening unique cultural capital, thus causing degradation in tourism and local industries.

This erosion of local cultures may result in skewed perceptions of their traditionalism, thus resulting in marginalization. As seen in an analysis, it was said that globalization “does not bode well for the development prospects of weakly institutionalized countries. In such settings, increasing trade openness is likely to exacerbate divisions between the ethnic insiders and outsiders,” suggesting that globalization in relatively underdeveloped economies may result in higher degrees of intergroup discrimination and marginalization, specifically ethnic outsiders (Bormann, Pengl). This can specifically be seen to have taken place in the Indian economy, wherein tribal and minority groups were forced to pay the price of globalization, through repeated displacement of tribal populations in India caused tribals and minorities to experience rapidly growing discrimination and violent crimes against them (Mahmood).

### ***Globalization – A revised approach***

“Rather than being diminished by the integration of international markets, the influence of government ideology will continue to play a key role in shaping the outcomes of globalization,” a statement highlighting that the ruthlessly capitalistic concept of globalization is only as negative to society as the overarching government bodies allow it to be (Ha). In other words, governments of developing economies must go against the typical laissez-faire model of globalization that is pushed upon them and instead follow the three-step framework described below to ensure economies can sustainably globalize.

Firstly, using government spending as a means of improving infrastructure and education within the economy, thereby increasing the absorptive capacity for investment. Singapore is a prime example of this—growing to a GDP per capita of \$88,000 a mere 60 years after

independence, with trade accounting for 300% of GDP and being the 4th highest country in terms of FDI—displaying hyper-globalization, partly made possible by its heavy investment in education and upskilling its workforce, making it one of the wealthiest countries in the world.

Secondly, the implementation of progressive fiscal policy, combined with labour protections, is necessary to prevent the exacerbation of income inequalities. Mexico—following NAFTA, when farmers were struggling due to low-cost maize imports from American competition—provided conditional cash offers, along with rural education, nutrition, and healthcare, to aid those who were displaced as a function of trade liberalization. This not only resolved structural unemployment in the short run but also created employment in the long run via education, thus making Mexico a long-term beneficiary of globalization.

Thirdly, governments must ensure the preservation of culture through active investment in national and global promotion. South Korea, through its active investment in soft power, has globalized Korean culture—not only maintaining it within Korea but sensationalizing it globally. Conversely, India has actively invested, through legal and promotional mechanisms, in preserving tangible cultural locations and promoting intangible cultural trademarks such as traditional dances and yoga.

Though developing and underdeveloped countries typically get the short end of the stick when it comes to economic and cultural globalization—as seen earlier in the essay through negligible effects on economic growth, standards of living, and widening impacts on income inequality—this three-step framework, which has already been enacted by various low-income and lower-middle-income countries that have successfully benefited from globalization, offers a potential path forward. In an imperfectly global market scenario, the only hope these nations have of potentially taking advantage of globalization—while omitting the negative effects it may bring—is through stringent government intervention, as analyzed in the three-step framework.

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