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The impact of globalisation on the gap between the world's rich and poor

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Abstract: *Globalisation on a large scale began in the nineteenth century and continues today, providing an important impetus to the development of the world economy. However, globalisation has also had a number of negative effects that cannot be ignored, such as rising unemployment and increased difficulties in environmental protection. Among them, the changes in the gap between the rich and the poor in the world brought about by economic globalisation are an important part. This paper examines and analyses the changes in the gap between rich and poor in developing and developed countries in the context of economic globalisation and the changes in the gap between rich and poor within countries, and concludes that the development of economic globalisation has widened the gap between rich and poor. It is also critically analysed that the change in the gap between rich and poor is not only a result of economic globalisation, but a combination of factors, including education, science and technology.*

Keywords: *Globalisation, Gap between rich and poor, Critical analysis Education*

1. Introduction

This paper is a presentation and explanation of the impact of economic globalisation on changes in the overall income gap in the world. By examining the income gap within developed and developing countries separately and between developed and developing countries in the context of globalisation, it is concluded that the two concepts are mutually influential and complex, and that they are changing, shifting and extending in line with the macro processes of the emergence, intensification and emergence of economic globalisation and reverse globalisation. This paper seeks to demonstrate how economic globalisation has changed the income gap within and between countries in terms of industrial distribution, skill premiums and trade facilitation. By placing economic globalisation in the context of current developments around the world, it explores the role of economic globalisation in increasing income inequality across the world, as well as other factors that contribute to income inequality.

2. Within the country

2.1 Developed countries

The gradual increase in the gap between rich and poor within the developed countries is largely due to the dramatic changes in the distribution and share of industries brought about by economic globalisation. Economic globalisation has achieved three main types of integration in its overall development: economic integration, market integration and the integration of the division of labour. Specifically, economic globalization has significantly lowered the threshold for the transfer of industries and resources. On the developed country side, the transfer of industries has resulted in the loss of jobs for former workers, and brings about low quality re-employment, thus widening the gap between rich and poor. The gap between the CEOs of the top 350 companies in the US and the average employee is so wide that, in terms of value in the form of compensation, benefits and stock options, the total compensation of the highest paid CEOs in the US has increased by 1007.5 per cent since 1978 to 2018. In contrast, the average employee's salary increased by only 11.9%, with the gap between rich and poor gradually widening (Gabaix & Landier, 2008)[1].

An example of this is the de-industrialisation that took place in the US after World War II. The decline of manufacturing was accompanied by the rapid rise of the information and financial industries, masking many of the problems caused by the decline of manufacturing (Gordon, 2016)[2].

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Firstly, the massive loss of manufacturing jobs is a key factor in the plight of lower and middle income groups in developed countries. As a result of the rapid development of the world division of labour brought about by economic globalisation, many labour-oriented industries have shifted and relocated from developed countries such as the US to countries with a large pool of cheap labour, such as China and India. Such a significant industrial shift will allow a large number of factories to benefit from the low-cost dividend of globalisation, but more traditional enterprises will be affected by the loss of industrial chains and the relocation of production lines. This has led to the inevitable decline of traditional manufacturing in the developed world. For example, before 1990, 60-70% of the US Fortune 500 companies on the list were traditional manufacturing industries, a proportion that declined rapidly after 1990. By 2021, only 44.2% of the US traditional manufacturing sector will be represented in the Fortune 500, a decline of 20% (Fortune Global 500, 2019)[3].

The globalisation of the economy also led to the rapid rise of the financial sector, and the overall financial regulation of the United States was relatively strict until 1980, when it began to loosen its financial controls and allow the free flow of resources to the market. And as a result of the tendency of a large number of traditional manufacturing industries to move out of the country, it became easy for large corporations to take out loans to invest in countries where costs were lower and profits were higher. The greater the financial activity, the greater the amount of lucrative capital in the market, and the greater the amount of such speculative short-term capital, which in disguise further promotes financial activity, but also exposes it to higher risks. Such behaviour, which was not subject to government control under loose financial policies, developed very rapidly, for example during this period, with the rise of a large number of international financial firms. Before 1980, the US financial sector accounted for 0 of the world's top 500 companies; in 2019, this share had jumped to 17.8%.

Finally, economic globalisation has likewise brought about the growth of the service sector. With a large number of traditional manufacturing jobs moving out to lower cost developing countries, a large number of people who were in manufacturing have moved to services that could not move out. But the substitution of manufacturing jobs by service jobs brings about a decline in individual incomes in general. It can be seen that the turnaround in the service sector curve also occurred around 1990, during which the share of US service sector companies in the Fortune 500 rose from around 3% to 15%.

There is an inextricable link between the runaway trade deficit, the decline in manufacturing, the shrinking middle class and the widening gap between the rich and the poor. The decline in the share of manufacturing and the imbalance in the balance of payments has meant that imports have increased significantly, displacing domestically produced goods. This, in turn, has further undermined manufacturing in developed countries and has had a major detrimental effect on the competitiveness of the economy, with, for example, the closure of a large number of manufacturing plants in the Great Lakes region, the manufacturing hub of the United States. Income inequality increased rapidly as manufacturing unemployment rose sharply, the number of middle-income households engaged in manufacturing fell sharply, and new service sector jobs struggled to match the lucrative manufacturing sector in terms of quantity and quality of employment. Prior to 1973, for example, the wages of US workers were largely in line with productivity gains, but the slope of growth between the two diverged rapidly after 1973. US real wage growth grew by just 12.4% from 1973-2017, well below the 77% growth in productivity and even less than the compound growth in financial assets. And the median real wage in the US has seen essentially no growth between 1979-2014. The income of the latter 50% of the US population, which saw a significant decline after 1980, accounted for only 12% of all population income by 2014 and continues to decline (Bivens et al. ,2014)[4]. From 1913 to 2014, the share of wealth held by the richest 1% of the US population has had an overall U-shape and the wealth gap has been larger than the income gap in any period. The wealth gap fluctuated widely between 1913 and 1930, declining rapidly since the start of the Great Depression, remaining low from the mid-1940s to the mid-1970s, and then rising sharply, to near pre-Great Depression levels in 2014. Today, the richest 10% of Americans own 70% of all capital, half of which is owned by the richest 1%, while the bottom 50%, own only 5% of all capital (World Inequality Database, 2021)[5].

Globalisation is one of the factors contributing to income inequality in developed countries, but it is far from the only one. Other important factors that have exacerbated inequality are technology, financial liberalisation and winner-takes-all markets. It is the technological factors behind globalisation that have driven the changes in the world.

Technological advances are one of the reasons that have produced the disproportionate gap between rich and poor in developed countries. The advancement of technology has led to the computerisation and machinisation of much of the formerly routine mental work and the potential for further reduction in employment opportunities for middle-income workers, leading to further polarisation of incomes.

Brynjolfsson and McAfee (2014) argue that machines in the first machine age replaced and multiplied human and animal manual work[6]. The second machine age machines will replace and multiply our intelligence and replace some of the related jobs. 19th century machines replaced artisans, benefiting unskilled workers. 20th century computers replaced middle-income jobs, creating a polarised job market. the Frey and Osborn study concludes that 47% of jobs in the US are at high risk of automation. Undoubtedly, this will lead to many workers losing their jobs to competition from machines, increasing income inequality.

At the same time education has a strong relationship with inequality. Europeans with higher education have an 80% employment rate, while those who have not completed secondary education have an employment rate of only 50%. Those with secondary education, but with poorer results, are most likely to suffer poverty. It is not just taxation that makes some of the Nordic countries better than their southern counterparts in terms of social equality, for example, but the fact that their citizens are better educated in terms of equality: the literacy and numeracy rates of 15-year-olds in the Nordics are higher than their counterparts in southern Europe. In Denmark, Finland and Sweden, 90 per cent of 25 to 34-year-olds have completed secondary and tertiary education - and 40 per cent will go on to study for a tertiary qualification. In Portugal, the corresponding figures are 43% and 19% respectively, while in Greece the figures are 57% and 25% (Whyte, 2010)[7].

On the other hand, there is a big difference between the skills that workers have and the skills that employers need; a problem brought about by the lack of education. A large part of reducing social inequality should be shaping an 'equal opportunity' society by strengthening public education. And because the link between skills, employment and growth is becoming stronger, it will be increasingly difficult for governments to tackle inequality through wealth redistribution", and more investment in pre-school, science and technology education and affordable higher education is needed.

2.2. Developing countries

In developing countries, regions with a geographic and financial advantage in attracting foreign investment and those with higher skills have also, to a large extent, rapidly increased their incomes and thus experienced greater income disparities with others. The role of globalisation in increasing skill premiums and wage inequalities cannot be ignored. China's greater participation in economic globalisation since 1978 has seen its Gini coefficient rise from 0.310 in 1978 to 0.474 in 2012.India, another country that has grown considerably in the conventional sense in the process of economic globalisation is another economy that has benefited from globalisation and between 2004 and 2012, the The Gini coefficient for the consumption expenditure gap rose from 0.384 to 0.395 and the Gini coefficient for the income gap rose from 0.536 to 0.543, again showing a marked increase in inequality.

Celik & Basdas (2010) argue that one of the main causes of global income inequality is foreign direct investment (FDI)[8]. FDI inflows create jobs in unskilled labour-intensive countries, but FDI outflows during economic downturns cause unemployment to increase and income inequality to worsen in developing countries. The impact of trade liberalisation and FDI on income distribution is different for developed, developing and specialised countries, with specialised countries showing a worsening trend in income distribution. The outflow of FDI is theoretically disruptive to income distribution, with unskilled labour threatened with unemployment.

3. Between countries

Economic globalisation can bring about inequalities in the price system of international markets. Under normal circumstances, a country's price system changes gradually with the level of economic development, and different stages of development should correspond to corresponding price systems. However, the current price system in the international market was created under the conditions of international relations dominated by the developed countries, so it is more adapted to the needs of productivity development in the developed countries, while its role in promoting the economies of developing countries is greatly limited. Due to the low level of productivity, it is difficult for the industrial structure of developing countries to adapt to such a strong external price system, because before it reaches a certain level of development, the excessive penetration of the price system in external markets can cause serious imbalances in the domestic price structure and the overall economic structure. For example, since the 1990s, in the United States, the new form of speculation in financial derivatives has expanded viciously; in 1990, global financial derivatives trading was US$5 trillion, in 1993 it was US$15 trillion and in 1994 it was US$45 trillion. In the face of a global financial crisis, developing countries with weak

institutions were inevitably the first to be hit, while at the same time, developed countries took advantage of the opportunity to benefit from the financial crisis and see their economies grow significantly. For example, in the first financial crisis in South East Asia, which affected developing countries on all continents, it is conservatively estimated that by November 1998, more than 50% of the economies of the Asian crisis countries and regions had been wiped out, while the US gained more than US$700 billion in 'revenue' from the crisis.

Melchior, et al. (2000) argue that the income of urban dwellers in China and India has increased significantly, an effect that has reduced the extent of the income gap between them and high-income countries and has helped to improve the world's inequality[9]. If China and India are excluded, global inequality may have been increasing because of the widening gap between most other low-income and rich countries. Therefore, according to the World Bank (2006), the high growth rates of the Chinese and Indian economies have had a significant impact on reducing income inequality between countries in the world in the long run. Melchior, et al. show that the international income gap measures show a small decline when China is included and an increase when it is excluded. This is due in large part to the fact that China's rapid economic growth since globalisation and its large internal market have raised the incomes of the world's formerly poor, thereby reducing the gap between rich and poor.

India has also done well in globalisation, and while the 1990s saw a manufacturing-led globalisation, the early 21st century has seen a service-led globalisation. China has dominated the manufacturing sector and is known as the 'factory of the world' or the 'workshop of the world'. India, on the other hand, has a huge potential for development in the service sector. In the last two years, many domestic and foreign scholars have also been bullish on the Indian economy. The economic development of both China and India has shown that the two most populous countries in the world have grown rapidly through economic globalisation and have largely bridged the income gap between developed and developing countries.

More countries of the South are actively participating in the international division of labour. China and India are not the only countries to have achieved rapid economic growth in the context of globalisation. 2019 saw the highest real economic growth of 7.6% in Armenia and more than 7% in Vietnam (Word Bank 2022)[10], where the main source of growth was manufacturing for international export markets. 2019 again saw manufacturing grow by more than 10%, making it the largest driver of growth. It has become the biggest driver of economic growth, with a total foreign trade volume twice as large as the GOP, and has reached FTAs with the EU, Japan and other countries. Developing countries have maintained solid economic growth both in comparison to past growth records and in comparison, to other high-income countries.

In terms of overall global economic development over the last two decades, developing countries have generally grown faster than developed countries in terms of GDP growth. For example, Japan, Taiwan, China, Hong Kong, China and then Southeast Asian countries such as China and India all imported traditional manufacturing industries from Europe and the US in the early stages of economic globalisation, providing a large amount of economic growth for the receiving developing countries. These countries that were more open and quickly found ways to adapt to the development process of economic globalisation have all benefited greatly from the economic globalisation.

In recent years, new types of globalisation organisations have emerged, such as the "One Belt, One Road", in which the rules of the game are set by the developing countries themselves to a large extent more adapted to the interests of developing countries, taking advantage of lower labour prices and land costs to attract direct investment and find suitable economic development models called a universal feature.

However, the degree of participation in the global allocation of resources and the different national conditions of each country also have a significant impact, just from the point of view of attracting foreign direct investment, in 2020 the global foreign investment fell by 42%, East Asia became the region that attracted the majority of foreign investment, other regions such as Latin America, Africa, the decline is relatively large (INVESTMENT TRENDS MONITOR, 2021)[5]. This may indicate the disintegration of the South. A few rich developing countries are moving towards the developed world, while some poor developing countries (e.g., those in sub-Saharan Africa) are deteriorating and are being marginalised by globalisation.

4. Conclusion

This paper argues that economic globalisation has, to a certain extent, increased income inequality

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within countries. For developed countries, economic globalisation has led to a massive industrial shift, resulting in a shrinkage of manufacturing and a rapid rise in financial services, which in turn has led to a massive loss of middle-class jobs in the service sector and an overall decline in wages and incomes. For developing countries, globalisation has led to a skills premium, which has widened the income gap between those with advanced skills and those at the bottom. However, income inequality within countries is also influenced by many other factors such as education and changes in information technology, and economic globalisation is not the only factor. At the same time, economic globalisation has also brought about income inequalities between developed and developing countries, mainly due to inequalities in the international price system. However, the rapid economic development of China and India, two countries that have traditionally benefited from economic globalisation, has to a large extent bridged the income inequality between developed and developing countries, as more and more less developed countries have actively participated in the international division of labour through economic globalisation.

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