



Globalization and Economic Inequality between Developed and Developing Economies: A Comparative Study

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Abstract. Globalization has transformed the global trade, investment and technology flows in the world. Globalization has affected the economies of developed and developing countries in different kinds of ways. The study attempts to find out whether globalization has decreased or increased inequality between two groups: developed and developing countries. The study uses literature review, descriptive statistics and case studies for analysis of globalization effects on income distribution. USA is taken as a representative developed country and India, Vietnam, Mexico, Brazil and China as case study developing countries. The results reveal that globalization has reduced poverty and increased income in some developing countries around the world. However, globalization has increased income inequality in both developed and developing countries. The paper concludes that globalization impact on inequality is shaped by national policies, labor mobility and ability to move up in global value chains. The paper concludes with policy recommendations to make globalization more inclusive.

Keywords: Globalization, Inequality, Developing Economics

1 Introduction

1.1 Background

In Background Globalization is one of the most important economic phenomena of the late twentieth and early twenty-first centuries. Since the 1990s, globalization has made the economies of the countries more closely connected through the increase in trade, investment, technology flows and labor mobility. The closeness of the economy has led to great economic growth in particular developing countries, and a rise in the global income. What is more, the global income has grown remarkably fast due to the increasingly interconnected global economy[1].

However, the gains from globalization have not been evenly distributed. While globalization has been associated with reduction of poverty and increased access to technology in some countries, it has also caused job losses, wage stalling and increased inequality in some other countries. For instance, in developed countries like the United States, certain industries like manufacturing have faced a lot of challenges as jobs have

been offshored to lower-cost countries[2]. These job losses have led to increased inequality in countries, with workers in these industries facing stagnant wages and less secure jobs, while workers in high skill industries like technology and finance have gained a lot[3].

Most of the research has concentrated on either inequality within a country or between countries, with few studies linking these two types of inequality. This has led to our limited understanding of how globalization affects domestic and international inequality. Globalization is not one force. It is affected by other factors like trade, technology and national policies, all of which play a key role in determining the impact of globalization on inequality order to understand the effects of globalization on inequality, we need to know how these factors affect globalization[4].

1.2 Research Questions, Methods, and Scope

This paper is concerned with three questions: “Has globalization increased/decreased inequality between developed and developing economies?”; “What are the channels/channels through which globalization affects inequality?”; “What policies can be made to ensure that globalization results in more equitable outcomes?”.

The above questions are answered using a mixed-methods approach. The first method is a thorough review of the literature on globalization and inequality. This method gives us an understanding of how other factors affect economic outcomes as well as how economic outcomes affect inequality. The second method is descriptive statistics, it involves a comparison of the economic performance of developed and developing economies in the context of globalization. The third method involves case studies of the United States, India, Vietnam, Mexico, Brazil and China. The study examines how each of the countries has been affected by globalization, what globalization has meant for each of the countries in terms of trade, technology transfer and international rules[4].

1.3 Aims and Significance

The aim of this study is to provide practical policy recommendations for both developed and developing economies. The central question for developing economies is: how to benefit from globalization to promote economic growth and reduce inequality. The central question for developed economies is: how to retain the benefits of open markets while protecting vulnerable sectors and workers from the impacts of globalization. Finally, how can international rules be designed to ensure globalization benefits all countries and reduces inequality within and between countries.

Through analysis of the six countries above via a combination of literature review, descriptive statistics and case studies, this research will give us a deeper understanding of globalization and inequality. The research findings of this project will aim to provide important references for policymakers who are constantly striving towards promoting globalization that is more inclusive and equitable.

2 Literature Review

2.1 Definition and Drivers of Globalization

Globalization can be described as the growing interconnectedness of the world economies. It is characterized by the expansion of trade, investment, technology and labor across national borders. This interconnectedness is mainly driven by technological improvements, that is, reduction in costs of doing business across countries through improved communication and transportation facilities[3]. The reduction of trade barriers and liberalization of markets globally has also played a major role in promoting globalization by ensuring international trade and flow of capital.

One of the major effects of globalization is the emergence of global value chains (GVCs) where different stages of production are located in different countries. Countries specialize in certain stages of production based on their comparative advantage which leads to greater efficiency and cost savings[5]. Unfortunately this specialization has led to uneven benefits across the globe with developed countries engaging in high skill tasks such as research, design and brand management while developing countries remain locked in low skill, low value added stages of production such as raw materials extraction and basic manufacturing[6].

2.2 Benefits to Developed Countries and Challenges for Developing Countries

In developed countries, globalization has driven major growth in the economy. This growth is seen in sectors such as technology, finance, and advanced manufacturing. These countries are in a position to capture high value in global production because of the quality of their infrastructure, education of their workforce, and strength of their institutions[6]. The benefits are most clear in high skill work. A company in tech that is able to reach a global market and earn a profit.

But globalization also creates problems. The offshoring of manufacturing jobs to countries with cheap labor has led to job losses and stagnant wages in some sectors of developed countries, especially sectors that are often considered low value such as textiles and electronics[2]. This has led to increased inequality within developed countries because the benefits of globalization have not been evenly distributed across regions or income levels.

Developing countries, on the other hand, face both opportunities and risks from globalization. It has allowed many to become rapidly prosperous by increasing exports and attracting foreign investment. An example of this is China and India, who have grown quickly from becoming more integrated into the global economy, with millions of people lifted out of poverty because of the influx of capital and technology[7]. They have increased number of jobs, especially in export driven industries, and wages as they too become integrated into the global production network

The benefits of globalization have been uneven within developing economies. Many still remain in the low value sectors of the economy, raw materials for example, and are therefore vulnerable to changes in prices. The lack of infrastructure, weak institutions, and limited access to education in some developing countries have prevented them from

fully exploiting globalization's potential[8]. This has increased inequality in several developing countries, especially between urban and rural areas.

2.3 Existing Debates on Globalization and Inequality

There has been much debate over the effect globalization has had on inequality. Some experts claim that it has made it worse both within and between countries. In developed economies, globalization has caused job losses in manufacturing sectors and increasing wage gaps as high skill work improves while low skill work stagnates[3]. In developing economies, the benefits of globalization have often been concentrated in certain regions, leaving rural areas or less developed sectors behind[9].

Some experts claim that globalization has reduced inequality, especially in developing countries. Through trade and foreign investment globalization has enabled rapid growth and poverty reduction in China and India for example[6]. They claim that globalization has allowed these countries to raise living standards for their citizens, create jobs, and increase access to technology, all of which contribute to reducing poverty and inequality. It is important to notice that the key to ensuring that globalization benefits the poor lies in investments in education, infrastructure, and strong institutions that allow workers to move out of low skill jobs[4].

But the financial aspects of globalization have contributed to increasing inequality. Financial globalization has often lead to wealth becoming concentrated among elites in both developed and developing economies. Without progressive taxation and wealth redistribution the rich will continue to benefit and the wealth gap within countries will increase[1]. So globalization may increase the wealth gap even though it encourages growth unless governments take action.

The study of globalization and inequality has returned mixed reports. On one hand, it has driven growth, reduced poverty and diffused technology. On the other, prosperity from globalization has been wanting. In developed countries, globalization has cost jobs in certain sectors and increased income inequality. In developing countries, globalization has created opportunities, but has also increased inequality within a society. In the end, how globalization impacts inequality is dependent on national policies, social protection systems and how well a country can adapt to globalization.

3 Comparison between Developed and Developing Countries

3.1 Descriptive Statistics

Globalization has reshaped the global economy with divergent outcomes across nations. According to the[1], global extreme poverty has dramatically decreased from over 35% in 1990 to around 9% by 2019, driven largely by rapid growth in developing Asian economies like China and India. However, deeper analysis of inequality metrics reveals persistent disparities: the global Gini coefficient saw only a modest drop from 0.7 to 0.67 during this period, while the Theil index increased by less than 0.05, indicating limited structural improvement in income distribution. The COVID-19 pandemic further exposed vulnerabilities: low-income countries experienced a 23% decline in FDI inflows, contributing to a 1.8% point rebound in poverty rates.

In developed economies, aggregate growth masked widening inequality. OECD data shows that real income growth for the bottom 50% of earners was just one-sixth of that for the top 1%. The US exemplifies this trend, where the wealth concentration index (top 1% share) surged from 23% in 1990 to 39% in 2020, while median growth (0.8% annually) lagged far behind productivity gains (1.5%). Regions reliant on manufacturing faced actual decline, with per capita FDI stocks in America's "Rust Belt" remaining below 45% of the average, which is a testament to uneven gains from globalization.

3.2 Country Cases

The United States is an archetypical 'liberal market economy' (LME). Economic coordination in liberal market economies rely on competitive markets, decentralized wage-setting, and shareholder-centered corporate governance. Institutional arrangements explain why these countries have been home to the world's radical innovation clusters such as Silicon Valley and flexible labor markets [10]. In other words, the US is a very typical developed country which can represent mostly.

Figuring out the overall impact of globalization on the United States is more difficult. While it has benefited some industries like technology or finance, globalization has also seen the offshoring of manufacturing jobs to places like China. As a result, jobs have been lost in large portions of the country, especially in the Rust Belt where industries closed down and tax revenues plummeted. While some trade adjustment programs were put into place, they were not nearly enough to counteract the impact of globalization on the American economy and the degree to which it was put into effect in areas affected by globalization [3].

Admittedly, the United States did struggle a bit during globalization, but it has also gained a lot more in comparison to developing countries. According to the model with heterogeneous firms, the U.S. economy exhibits the gains from trade. When globalization redistributed market share to promote more productive exporters, aggregate productivity in manufacturing sectors increased by 12-15% between 1992-2007. This 'selection effect' explains: 30-40% of real wage growth in tradable industries (e.g. chemicals, machinery) and 50% higher profits for U.S. multinationals with FDI activities (vs. domestic firms) [10].

India is a developing country which has lot of lands and lot of population, and it also has succeed through the globalization. India's experience with globalization has been better in some ways. When India liberalized its trade in the 1990s, trade grew tremendously in many information technology and services sectors. This growth has driven poverty down dramatically, especially in urban areas. But, as with all developing countries, the benefits of globalization have not been shared equally. Poor, infrastructure deficient, education poor, rural areas have suffered. Small businesses that were shielded from global competition are struggling to keep up [11].

However, for another small developing country Malawi in Africa, it is not the same. Malawi is an example of how globalization can destroy a small, agrarian economy mired in structural poverty. When the World Bank and IMF pressured Malawi into ending its agricultural subsidy programs in the 1990s as part of structural adjustment, maize production dried up. Farmers started producing tobacco for export markets, but global tobacco companies drove down prices through their monopsony power. By

2002, Malawi's per capita income had dropped to \$160, which was lower than it had been in 1960[12].

3.3 Lessons learned from the Case Studies

Impacts of globalization vary widely across countries depending on their economic characteristics, institutions, and bargaining power in global value chains. The U.S., a liberal market economy, increased the share of its high-value-added sectors through globalization[11]. As a result, the U.S. managed to gain 12-15% in manufacturing productivity despite the erosion of the Rust Belt. India was able to make use of its IT strengths, but its uneven development was due to structural inequalities[13]. In contrast, the agricultural sector in Malawi disintegrated under structural adjustment programs[12]. These three examples show that impacts of globalization vary depending on the degree of economic structural inequality, institutional adaptability, and bargaining power in global value chains. Developing countries should avoid ending up in low-end traps through appropriate industrial policies while being flexible with their policies[10].

4 Policy Recommendations and Outlook

Globalization has driven economic growth. However, its benefits are not evenly distributed, and inequality within countries has been rising both in developed and developing countries. In order to be sure that everyone can share the benefits of globalization, policies that promote inclusive growth and reduce inequality are indispensable. In this paper, I made some proposals to make globalization more global for all.

For developing countries, the focus should be on moving up into higher-value parts of GVCs. Many developing countries remain stuck in low-value activities such as extraction of raw materials and basic manufacturing and are thus unable to benefit from globalization [6]. Governments should invest in education, vocational training, and skills to enable workers to move into higher-value industries[4]. In addition, improving infrastructure, especially in rural areas, will help spread the benefits of globalization. Encouraging labor mobility will also help alleviate regional imbalances. Workers in less prosperous areas often face financial or informational constraints that prevent them from taking advantage of the opportunities offered by the expansion of the global economy [8].

In order to help workers adapt to changes in the economy, the development of strong social protection systems is an absolute necessity. Developing countries should strengthen social safety nets such as unemployment benefits, health care, and retraining programs in order to protect vulnerable workers who are displaced by global competition [3]. In addition, progressive taxation is an essential means to reduce inequality and finance the social programs needed for inclusive growth [1].

In developed countries, more responsive adjustment policies are desperately needed to help workers affected by globalization. Offshoring of manufacturing jobs has posed major challenges to workers in industries such as textiles, electronics, and steel[2]. It is important to strengthen retraining programs and implement wage insurance in order to facilitate entry into new industries. Regional development policies also play a crucial role in reviving communities that have experienced deindustrialization. For example,

investment in infrastructure and high-tech industries can help revitalize industrial regions [3].

Enforcement of progressive taxation should be more widespread in developed countries. Wealth from globalization flows to a narrow elite, often comprising the owners of high skill knowledge-based industries such as finance and technology [1]. Tax reforms are required to close loopholes and ensure that the richest individuals and companies pay their fair share towards public spending such as education and health as well as infrastructure to help reduce inequality of wealth.

At the international level, rules on trade should be seen as more inclusive. Rules-making bodies such as the WTO and UNCTAD should play a stronger role in developing rules that promote sustainable development, fair trade and the transfer of technology to developing countries. Collaborations on areas such as tax avoidance and environmental protection will also ensure that the benefits of globalization are more fairly distributed across countries[5]. Global tax coordination is important to ensure that multinationals pay a fair share of taxes and that developing countries get their fair share of revenues from global trade.

5 Conclusion

Globalization has contributed to economic growth and the reduction of poverty in many parts of the world. However, the benefits of globalization have not been evenly spread. In developed countries, globalization has contributed to growth in high-skill industries while low-skill workers have experienced job losses and wage stagnation. In developing countries, globalization has contributed to growth in the economy and poverty reduction, but it has also increased inequality between urban and rural areas. The way to ensure that the benefits of globalization are shared by all is through strong and inclusive national policies. Developing countries need to invest in education, infrastructure and social protection to ensure that the benefits of globalization extend to all regions and groups in their countries. Stronger adjustment policies are needed in developed countries to compensate for job losses and reduce inequality. At the international level, fairer trade rules and global cooperation are needed to make globalization a force for fair growth. Ultimately, the success of globalization depends on policies that give it a proactive and inclusive focus.

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