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How Globalization Increases Inequality: An Economic Analysis

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ABSTRACT

Globalization has generally increased inequality both between and within countries. Internationally, core developed countries benefit most from global trade, capital flows, and rule-making power, while developing countries remain disadvantaged through unequal trade, weak influence in global institutions, and greater exposure to financial risks. Domestically, globalization deepens class and gender inequality: workers in developed countries face unemployment and wage stagnation due to deindustrialization, while small farmers and women in developing countries are often exploited under the new international division of labour. Although globalization has reduced absolute poverty in some regions, its benefits have been distributed unevenly, widening the gap between rich and poor.

1. Introduction

Globalization has become one of the most widely discussed issues in the contemporary world. Despite its prominence, its definition remains contested, as different scholars emphasize different dimensions of the concept. Nnoli (2000) views globalization primarily as the inevitable worldwide expansion of capitalism and the diffusion of its associated values. By contrast, Alii (2006) defines it as a process of interaction and integration among people, corporations, and governments across national borders. Similarly, McGrew (1990) describes globalization as a "multiplicity of linkages and interconnections that transcend the nation-states … which make up the modern world system," highlighting how events, decisions, and activities in one part of the world can significantly affect individuals and communities in distant locations. In addition, international business is widely regarded as one of the most important manifestations of globalization (Kordos and Vojtovic, 2016). These definitions suggest that globalization is closely tied to economic development. At the same time, however, globalization has also made the problems of economic development more visible, particularly by widening the gap between regions and social groups. This report examines the relationship between globalization and inequality from an economic perspective, arguing that globalization tends to intensify inequality both between and within countries. It reaches three main conclusions: first, globalization has widened inequality between countries, particularly when viewed through world-systems theory and the lens of economic globalization; second, it has

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deepened inequality within countries, especially in relation to the new international division of labor; and finally, the report considers an opposing view, namely that globalization may also help reduce inequality.

2. Exacerbated the Gap between Countries

There is substantial evidence that the income gap between wealthy and poor countries widened from the Industrial Revolution through the end of the twentieth century. In the early nineteenth century, the richest countries earned roughly four times as much as the poorest ones, whereas by the late twentieth century the disparity had expanded to around thirty times (Walby, 2013). This section argues that globalization has contributed to the widening gap between countries, focusing on two perspectives: world-systems theory and economic globalization.

2.1 World-Systems Theory

Immanuel Wallerstein played a central role in the development of world-systems theory. He maintained that capitalism, rather than nation-states, shaped the global order, and that the world system could be understood as a relatively stable structure divided into three groups: core, semi-periphery, and periphery (Wallerstein, 1974). Core countries are wealthy and technologically advanced; peripheral countries are poorer, less technologically developed, and dependent on others; while semi-peripheral countries occupy an intermediate position and help stabilize the system (Kennedy and Cohen, 2013).

From this perspective, global inequality is embedded in the relationship between core and non-core regions. World-systems theory suggests that, under globalization, core countries benefit from an international division of labor that allows them to extract value from semi-peripheral and peripheral countries (Burhanuddin, 2016). As global trade becomes more integrated, this unequal structure becomes more pronounced.

Peripheral countries often lack advanced technology, educational resources, and stable social conditions, which limits them to exporting raw materials or minimally processed goods. Because these products generate relatively low returns, such countries exchange low-value exports for high-value manufactured goods from core economies, resulting in a transfer of wealth toward the core. Semi-peripheral countries, meanwhile, typically offer inexpensive labor and lower production costs. For this reason, multinational corporations headquartered in core countries frequently relocate labor-intensive manufacturing to these regions in order to reduce costs and maximize profits.

Although movement within the system is possible, upward mobility is uncommon. Japan's transition from the periphery to the core in the 1970s is often cited as an exception rather than the norm. Core countries retain their dominant status by controlling technology, capital, and market access. They are therefore able to purchase goods and services from poorer countries at low prices while selling higher-value products back at much higher prices, reinforcing existing hierarchies (Kennedy and Cohen, 2013). In this sense, development within the world system is not neutral; it is structured in ways that favor the core. Overall, the system is characterized by the concentration of wealth in core countries and the persistent flow of value from the periphery and semi-periphery toward them (Burhanuddin, 2016). As a result, globalization tends to enrich core countries while leaving countries outside the core in a weaker position.

2.2 Economic Globalization

Economic globalization refers to the growing interconnectedness of national economies through expanding cross-border trade, international capital movements, and the rapid diffusion of

technology (Gao, 2000). Although this process has accelerated significantly over the past three decades, it has also been accompanied by increasing inequality. While many countries have experienced nominal economic growth during this period, the distance between developed countries and developing or less developed countries has continued to widen in real terms.

One major reason is the unequal distribution of decision-making power in global governance. Developed countries hold a dominant position in shaping the rules of globalization (Wang, 2002), while developing and less developed countries often have limited influence within major international institutions. For example, although the IMF has introduced reforms to increase the voting share of emerging economies, these changes remain insufficient to ensure meaningful representation for developing countries as a whole. Similarly, within the WTO, sub-Saharan African countries, apart from South Africa, have had little participation in the dispute settlement system (Massa and Brambila-Macias, 2014). Because of this imbalance, poorer countries are frequently compelled to accept rules designed largely by advanced economies, which in turn allows developed countries to protect their own interests and further strengthen their economic advantages.

A second issue concerns the unequal benefits generated by international trade. As world-systems theory also implies, developing and less developed countries tend to specialize in primary commodities or low value-added products, whereas developed countries dominate the production of high-tech and high value-added goods. This unequal pattern of exchange reduces the trade gains available to poorer countries while increasing those of richer ones. Globalization can also weaken domestic industries in developing economies. Because established foreign firms from developed countries are highly competitive, they can quickly gain large market shares and even dominate local markets. In China, for instance, Coca-Cola held 70.2% of the carbonated beverage market in 2018 (Zaker Web, 2019), a position that likely constrained the growth of domestic producers. Similar patterns can be observed in many sectors, particularly in high-technology industries, where foreign dominance makes it harder for local firms in developing countries to grow and compete.

A final concern is that economic globalization exposes developing countries to significant financial risk. To integrate into global markets, these countries are often required to liberalize financial sectors that may still be underdeveloped and institutionally fragile (Duan and Liu, 2002). In such conditions, they are more vulnerable to external shocks and speculative capital flows originating from developed economies. The Asian financial crisis of 1997 illustrates how such vulnerability can trigger severe economic disruption. Crises of this kind impose heavy losses on developing countries, slow their growth, and further increase the gap between them and the developed world.

3. Exacerbated the Gap in Domestic

The new international division of labour (NIDL) emerged in the 1980s in response to the expansion of globalization. During the 1960s and 1970s, multinational corporations increasingly relocated labour-intensive stages of production to developing countries, while developed countries retained higher-value functions such as research and development. As a result, the global economy gradually reorganized around a new international division of labour (Frobel, Heinrichs and Kreye, 1980). Supporters of the NIDL perspective argue that, under globalization, neither developed nor developing countries are the principal beneficiaries; instead, multinational corporations are the main winners (Kennedy and Cohen, 2013). From this perspective, the following section examines

how globalization has widened wealth inequalities among different social groups within countries.

3.1 Workers in developed countries

Under globalization, many labour-intensive industries have been transferred to developing countries, causing serious job losses in deindustrialized economies. Between 1974 and 1983, around 8 million relatively well-paid manufacturing jobs disappeared (Peet, 1987). The consequences of this decline extended beyond reduced income and wealth for workers. The closure and relocation of factories also undermined social stability in former industrial regions, contributing to rising levels of suicide, homicide, divorce, and imprisonment (Kennedy and Cohen, 2013).

In addition, many displaced workers were forced to leave manufacturing and seek employment in other sectors. In some developed countries, such as the United States, the real wages of manual workers failed to increase for more than two decades, and some workers became dependent on part-time or temporary jobs in order to survive (Kennedy and Cohen, 2013). Overall, economic globalization has generated deep economic insecurity and social disruption in old industrial areas. These outcomes have further widened inequality within developed countries, as the working class has experienced a substantial decline in income and economic security.

3.2 Peasants in developing countries

From the perspective of the NIDL, globalization has also transformed agriculture in ways that disadvantage peasants in developing countries. As agricultural production becomes increasingly regulated and standardized, large multinational agribusinesses often place small farmers at a competitive disadvantage. First, agricultural subsidies provided by developed countries to their own farmers frequently damage the interests of peasants elsewhere. Imported subsidized agricultural goods can enter local markets at prices even lower than domestic products, thereby weakening local producers.

Second, in order to meet international production standards, peasants are often required to spend more on inputs such as pesticides and insecticides. Third, the expansion of supermarkets has directly affected the livelihoods of local retailers and small-scale farmers (Reddy, 2007). Together, these developments increase production costs for peasants while simultaneously exposing them to stronger competition from imported goods. As a result, farmers in developing countries face growing economic hardship under globalization.

3.3 Women

Sodano argues that the NIDL generated by globalization has also intensified gender inequality. In this system, wealth and power are distributed unevenly, and those at the bottom remain in subordinate positions. Women make up a disproportionate share of the world’s poor: men are said to control 98 percent of global wealth, while women hold only 2 percent, and women account for 80 percent of the world’s 2.5 billion poorest people (Sodano, 2011).

This exploitation can be understood in two main ways. First, within global commodity chains, women are often more likely to accept unequal employment contracts and lower wages because their labour is traditionally undervalued compared with that of men. Second, under the NIDL, men are more commonly associated with paid productive work, whereas women are often confined to unpaid reproductive labour within the household (Sodano, 2011). These inequalities are often even more pronounced in developing countries, where much of global manufacturing has been relocated and where gender discrimination may be more severe. In this sense, globalization has not only reinforced class inequality, but has also deepened the economic gap between men and

women.

4. Discussion of the challenges

Many scholars take the opposite view, arguing that globalization has narrowed both international and domestic inequality. First, the World Bank (2005) reports that the global Gini coefficient has fallen over the past three decades, suggesting that disparities in wealth have decreased. Second, as economic integration has deepened, the proportion of the world's population living in absolute poverty has dropped from 31% to 20% (Held and McGrew, 2016). Further support for this position can be seen in the economic rise of China and India. In particular, the rapid expansion of China's manufacturing sector stimulated demand for raw materials from Africa, Latin America, and other regions, thereby contributing to economic growth in those areas (Gilbert, 2014). There is also clear evidence that globalization has improved living standards for many people. For example, between 1981 and 2001, the share of the rural population living on less than one dollar a day fell from 79% to 27% in China, from 63% to 42% in India, and from 55% to 11% in Indonesia (Bardhan, 2006). At first glance, such figures appear to show that globalization has reduced poverty. However, they do not necessarily demonstrate that overall inequality has declined.

This study challenges these two arguments. First, some scholars question whether a decline in the Gini coefficient can be taken as evidence of a genuine reduction in inequality. Although the global Gini coefficient has fallen since the end of the twentieth century, it had been rising for a much longer period following the Second Industrial Revolution. In historical terms, the recent decline is therefore relatively brief. Moreover, this trend is often explained by rapid progress in Asia combined with slower growth in the West, with China being the main contributor (Milanovic, 2016). If these conditions change, the decline in global inequality could prove temporary rather than long-lasting. Milanovic (2016) also points out that the Gini coefficient does not adequately capture the incomes of the very richest groups, which limits its usefulness as a measure of inequality.

Second, although globalization has contributed to poverty reduction, it has also generated major differences in the pace of income growth across social groups. Between 2000 and 2018, average income growth in China was 263% for the bottom 40% of the population, but 518% for the top 1%. In India over the same period, income rose by only 58% for the bottom 40%, compared with 213% for the top 1%. A similar pattern can be observed in wealthy economies such as the United States and the United Kingdom. In the United States, between 1980 and 2017, average income growth for the bottom 40% was only 10.8%, whereas the top 1% experienced growth of 203.4%. In the United Kingdom during the same period, the bottom 40% saw income growth of 75.7%, compared with 136.8% for the top 1% (UNDP, 2019). These figures suggest that while incomes have increased across society, the gains have been distributed unevenly, with the wealthiest benefiting far more than the rest. As a result, overall inequality may in fact have widened rather than narrowed.

5. Conclusion

Under globalization, inequality has intensified and the gap between countries has widened, as some countries have benefited while others have become relatively more disadvantaged. On the one hand, in pursuit of maximum profit, capital allocates different stages of production across core, semi-peripheral, and peripheral countries. In essence, however, this process relies on the exploitation of the labour, natural resources, and productive capacity of semi-peripheral and peripheral countries, resulting in a transfer of wealth toward the core. At the same time, it remains

extremely difficult for countries in the semi-periphery and periphery to alter their structural position within the global system. On the other hand, the rules governing economic globalization are largely shaped by developed countries, particularly those in Europe and North America, whereas developing and less developed countries often have little influence in international decision-making. In addition, advanced economies are able to use their technological superiority to dominate foreign markets and weaken the growth of domestic enterprises in other countries. Globalization also exposes less developed economies to financial instability, as they are more vulnerable to crises triggered by external capital flows.

A similar pattern can be observed within countries, where the gap between different social groups has also widened. Workers in deindustrialized countries have experienced unemployment and economic insecurity as a result of the new international division of labour. Small farmers in developing countries have come under increasing pressure from powerful multinational agribusinesses. Women appear to be in an even more disadvantaged position, as they remain one of the groups most heavily exploited under global capitalism.

Finally, some evidence suggests that globalization has contributed to a reduction in global poverty. However, this does not necessarily mean that it has reduced inequality. While globalization may generate greater wealth for poorer people and poorer countries, it often creates even greater gains for richer people and richer countries. As a result, poverty may decline, but the gap between rich and poor can still continue to grow.

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Conflict of interests

The author has no conflicts of interest to report.