



Leveraging Globalization to Reduce Inequality in the Global South

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Key Messages

- Globalization has created jobs by transferring low skilled jobs in high-productivity sectors from advanced economies to developing and emerging economies and, consequently, penalizing workers in specific locations and jobs.
- The inequities of globalization will continue to prevail unless the international business enabling environment prioritizes inclusive and equitable growth, job creation, human capital, and decent work.
- International diffusion of technology to developing and underdeveloped countries will not be realised unless existing structural barriers are addressed by leading governments and firms.
- In the absence of coherent international trade policy that ensure stability and equity, reliance on foreign investment as a development strategy may be misguided as it puts nations at risk of increasing inequality.

Introduction and background

It's been observed that despite an extraordinary economic growth and widespread improvements in living standards currently seen globally as shown by Competitiveness Index 4.0 (GCI 4.0) the significant portions of populations in both the global North and South are confronted by growing inequalities (Klaus, 2018). Indeed, disparities and a lack of economic and social opportunities within country and across countries is creating a vicious cycle of inequality. The inequality challenge is intimately connected to pressing issues in the global business and trade environment. In many places, the growing tide of inequality is further swollen under the force of megatrends around globalisation and rapid technological innovation, among others. The extraordinary economic growth and widespread improvements and well-being observed over the last several decades have failed to close the deep divides. Inequality has increased in most developed countries and in some middle-income countries, since 1990s (United Nations, 2020).

Though the growing inequality has not been universal, the Gini coefficient of income inequality for instance, has declined in most developing countries including several African countries over the last two decades (United Nations, 2020). Yet globally, the share of income going to the richest 1 per cent of population increased in 59 out of 100 countries between 1990 and 2015 while, the poorest 40 per cent earned less than 25 per cent of income in 92 countries (United Nations, 2020).

Data collection methodology

The Global Competitiveness Report 2019 was based on integration of latest statistics from international organizations and a survey of executives in 141 economies globally. The administration of the Survey was supervised by the World Economic Forum and conducted at the national level by the Forum's network of Partner Institutes mainly universities, research organizations, business associations, competitiveness councils and some cases

survey companies. The sample frame based on the structure of the economy as proportion to the share of GDP in agriculture, manufacturing industry, nonmanufacturing industry, and services. The participated firms represented both large- (more than 250 employees) and small sized companies (250 employees or fewer) in each sector.

Findings

Globalization and market integration

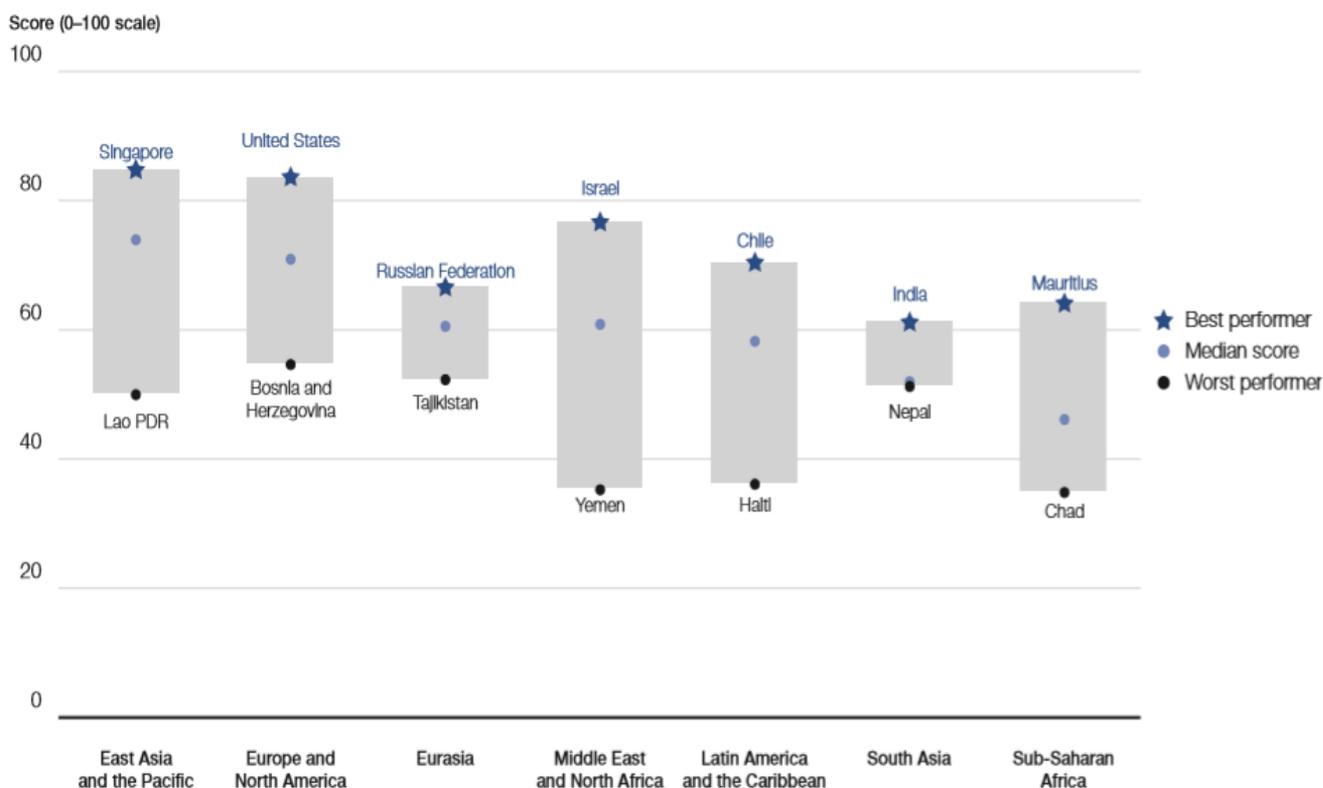
The findings show that the GCI scores at a regional level has a significant difference in both median competitiveness levels across regions as well as dispersion of performances within regions. Overall, the results show that East Asia and the Pacific achieved the highest median score (73.9) among all regions, followed closely by Europe and North America (70.9). The Sub-Saharan Africa has a lowest median regional average (46.3), where 17 of the 34 economies covered are among the bottom 20 globally (see figure 1 below). A review of literature on global competitiveness and inequality reveals that globalization has led to increasing integration of markets across countries through flows of goods, services, and factors (United Nations, 2020), (Klaus, 2019). It has created jobs by transferring low skilled jobs in high-productivity sectors from advanced economies to developing and emerging economies and, consequently, penalizing workers in specific locations and jobs.

Globalization has led to increased diffusion of technology and technical know-how. The use of digital connectivity, has improved the design process of flows, the businesses get the most of it out of their pool of international supplier

network using digital connectivity, as expertise can be offered remotely and in real-time this also exclude most of tasks that would have been handled by semiskilled labour and unskilled labour, indeed Sustained economic growth typically happens with structural shifts in the economy with employment and value added moving from agriculture to both manufacturing and services. The emergence and conditions of industrialization in developing countries is a very important and contested by social scientist. Some scholars though, think that industrialization in underdeveloped economies is unlikely because of dependence on natural resources in resource-rich countries, and exploitation by early industrialized countries. For instance, Klaus (2019) indicated that many international companies work in small clusters to increase the flow of ideas, which subsequently spread more widely using the cloud to increase business productivity and maximize business profit worldwide. Productivity, however, is one factor that drives for both economic growth and higher labour shares, although productivity growth has continued to benefit workers' pay, some factors have had only marginal effects on productivity but pushed wages down and other set of factors have at the same time contributed to increasing inequality and diminishing productivity, among the latter group of factors, market concentration, public and private productivity enhancing investment and inequality of opportunities stand out strongly and have contributed to competitiveness gap globally (Klaus, 2019)

Figure 1: Competitiveness gap within regions

Best, median and worst GCI 4.0 2019 scores, by region



Source: Global Competitiveness Report 2019

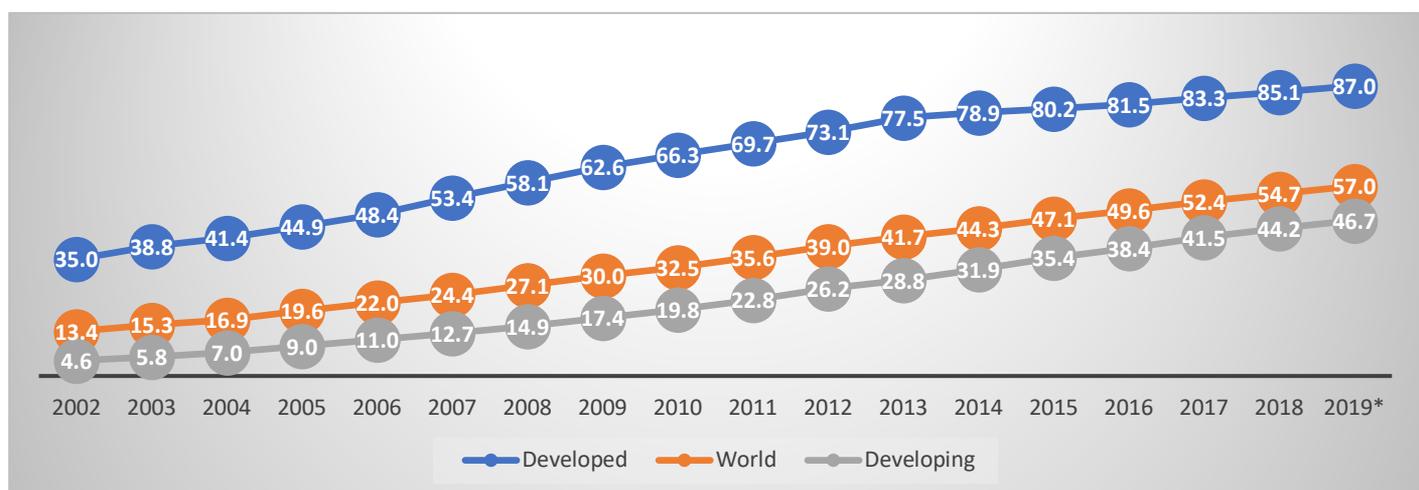
Technological change in competitiveness and inequality

The GCI results show that technology governance has not kept pace with innovation in most countries, including some of the largest and most innovative. Furthermore, countries have failed to improve talent adaptability; that is, enable the ability of their workforces to contribute to the creative destruction process and cope with its disruptions, as talent adaptability requires a well-functioning labour market that protects workers rather than jobs (Klaus, 2019). In fact, technologies are reinforcing various forms of inequality and creating new digital divides. For instance, close to 87 per cent of the population of developed countries have Internet access as compared to about 47 per cent in developing countries (United Nations, 2020). Thus, deployment of new technologies can exacerbate inequalities instead of reducing them, even in contexts of broad accessibility (See figure 2).

Despite the contribution of technology in enhancing productivity, technology has impacted inequality by reducing demand for low-skilled jobs and rewarding high-

skilled jobs disproportionately. Though new technologies have generated new jobs and tasks, including those necessary to use, test, supervise and market new products and services, the differences found across countries is related to how jobs are being redesigned and tasks regrouped into new or existing jobs. Indeed, regulations and institutions influencing the profitability of regrouping tasks into new jobs and the ability of workers to upgrade their skills to take on new responsibilities is important. So far, highly skilled workers are benefiting the most from new technologies. Job disruption - and, at times, destruction - is affecting mainly low-skilled and middle-skilled workers. This tends to intensify wage inequality, wherever new technologies are pushing wage and income inequality higher, they are doing so mainly through increasing workforce polarization and non-standard working arrangements that often lack the benefits and stability of regular jobs. For instance, digital innovation has opened opportunities in sectors such as education, health, and banking, with far-reaching implications for equality (United Nations, 2020). The use of the Internet and mobile phones for instance, is enabling more people in developing countries to access financial services, access education and health-care delivery.

Figure 2: Percentage of households with Internet access



Source: ITU Statistics (<http://www.itu.int/ict/statistics>)

Conclusions and Recommendations

Global productivity has not grown as fast as it used to be despite extremely rapid technological innovation ever seen in the last decade. This remains a paradox, as one would expect these new technologies resulting in higher productivity. However, several possible explanations can shed light. Innovations are simply not making us more productive, the major innovations associated with the first and second Industrial revolutions, such as the steam engine, the internal combustion engine and domestic machines dramatically changed the way goods were produced, in that the world became far more productive. So, while some of today's innovations useful, the productivity of others has been less difficult to materialise. In addition, some modern innovations have rendered some traditional jobs obsolete.

Nevertheless, low competition and increased inequality in the world, calls upon all developed, emerging, and developing nations to come together and call for collective action for sustainable development. The core plan should focus on economic development that addresses the needs of individuals and the welfare of society. The call will be successfully if all development stakeholders agree on a common solution - failure to do so may endanger current and future generations. Notwithstanding, a multi-stakeholder style, policy makers, business leaders and social organizations around the world must act collectively and take full responsibility for adopting policies, practices and behaviours that are in line with the common goal of achieving greater prosperity and sustainable development. Furthermore, the combination of growth, equality and sustainability is indeed achievable and must

be the urgent work of policymakers around the world over the next decade. Indeed, if disparities are then perceived of as legitimate and thus to an extent inevitable. It follows, nevertheless, that if competitiveness and inequality are human made, then they can be ameliorated, if not reduced to insignificant levels

Thus, five policy recommendations are made

First, promoting absorptive capacities of countries in the global south to promote transfer of not just the low wage labour intensive jobs, but also the high-end skill intensive jobs that attract higher wage margins. This could occur by investing and incentivizing stem subjects as well as upgrading existing vocational and technical education and training in low-income countries to create a capable critical mass.

Second, actively promote skill and knowledge transfers to allow indigenous firms the ability to learn and adapt to opportunities and challenges of foreign entrants in domestic markets.

Third, improve efficiency of taxation regime to ensure that taxes collected from relocated foreign firms go towards skills development.

Fourth, create heavy investment on connectivity infrastructure for universal access to new technologies and that all know how to use them, especially in historically marginalized communities.

Fifth, enforce international community to adopt more flexible approach on intellectual property rights that can provide adequate patent protection, while also enabling and facilitating access to technological enhancements within and among countries through technology transfer, access, adoption, and development.

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