

GLOBAL ECONOMICS

**CRITICAL ESSAY**

**Does Globalization Cause Inequity Among Rich and Poor Nations?**

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## Does Globalization Cause Inequity Among Rich and Poor Nations?

### Introduction

Globalization and international trade have been around for millennia. Over the most part of the past century, nations have increased the amount of trade that crosses international borders. As trade agreements are made between countries, one nation's resources become available to another nation's citizens. The resources in each country are limited and scarce. The differences and availability of the proportions of each nation's input factors of production is the catalyst for trade (Pugel, 2004). These factors include land, labor, capital, and enterprise.

Land is the real estate that is comprised within the country's border. It contains the natural resources that are limited in nature, such as oil, gold, silver, coal, etc. It also includes resources that can be grown on the land such as timber and agricultural products, which are limited by the size of the land that is available to grow such products and technology.

Labor includes the skill sets of a nation's people and is limited by the population size. Labor can be divided in to skilled and unskilled. In some countries, it may be typical to work a 40-hour week; in others thirty-five may be more of the average. The larger the population size, the more a country can produce and consume. The health of the citizens can also become a variable to the labor input factor.

Capital is the money invested into a business. As countries accumulate wealth from the profits of the land and labor, it is reinvested in facilities, inventories, machinery and technology, which help maximize the profits from land, as physical capital, and labor, as skilled workers.

Each nation sets policy to manage its resources to maximize the benefits of trade for its people. Governments decide the policies not only concerning trade with other nations, but also the degree to which the state is involved. The state must meet demand in the marketplace by also setting policy for production of goods and services within its own borders and the ease at which individual ownership of goods and services. Neoclassical economists have added enterprise as a fourth factor of production. It is the risk-taking, organization and the innovativeness of the entrepreneur who puts the factors together to create a product that is greater than the sum of its parts (Ruby, 2005). By reducing the amount of time and costs it takes for business start-ups, governments can help entrepreneurs.

International trade is more than the movement of goods and services across international borders. Globalization can be defined as the process of an increased relationship between national economies through international trade, foreign direct investments by multinational firms, and international financial investments (Pugel, 2004). As trade increases between nations, the allocation of these resources will redistribute goods and pricing in a process to find equilibrium in the marketplace. During this process, countries can experience transitional pains, such as, unemployment, lower prices for natural resources, and lower standard of living. Other countries can experience an increased demand for employment, inflation, and an increased standard of living. There will be gains and losses perceived for some input factors from the redistribution of wealth. Some people blame these inequities on globalization. It is their argument that poor countries are taken advantage of by the wealthier nations. At the other end of the spectrum, others will claim that globalization is the cure for poverty. The goal of this

paper is to examine the impact of trade on rich and poor nations and determine if globalization is to blame for the international inequality of wealth.

### International Inequality

Inequality must be defined and be able to be measured so that comparisons can be made between rich and poor countries. Once the causes are determined, the effects of globalization can be evaluated and be measured. The World Bank defines inequality as the disparity of income and standard of living among nations and their citizens (Birdsall, 2002). To compare inequality among nations, incomes and living standards of their citizens should be reviewed. The World Bank has determined that people living on \$1 per day in developing countries and people living on \$2 per day in medium economies are considered poor (Infoplease, 2005). In contrast to the \$1-\$2 per day standard, in the United States, Japan, Europe or other developed nations, a person trying to live on less than \$1,000 per year is unimaginable because the cost of living is many times this amount. The US Census Bureau defines poverty for a single, elderly person (over age 65) earning less than \$25 a day as poor (US Census, 2005). Younger workers and/or people living in multiple person families have a higher threshold than \$25 a day before they are considered poor.

The income gap that exists between rich and poor countries has become substantial. Although great strides have been made in improving income for poor nations, many regions of the world have 25% or more of their population living off less than \$1 per day (World Bank, 2005). Some people think that with the poor people having limited earning capacity, they also have limited access to the world's wealth. In 2003, the richest fifth of the world's population received 85% of the total world income, while the poorest fifth

received just 1.4% of the global income (Infoplease, 2005). When the GDP is compared between the richest and poorest nations over the past century, a wider income gap can be seen growing. Between 1900 and 2000, the richest quarter of the world's population saw its per capita GDP increase nearly six-fold during the century, while the poorest quarter experienced less than a three-fold increase (IMF, 2005). Income inequality has increased and has continued widening.

Income alone is not the only indicator to measure the wealth of a country's citizens. Besides income, there are quality of life characteristics that should also be considered. Sri Lanka has a low income, but has impressive social indicators such as life expectancy is the same as in developed nations, high literacy rates, low mortality rates and a declining population growth rate; results of a social welfare system put in place during the 1940s (IMF, 2005; Sri Lanka, 2005). Cuba is another such example where living conditions have improved, yet the incomes of the people have stagnated. Cuba has had limited trading opportunities with a US boycott in place and the cessation of Soviet support to the island-nation; yet its healthcare and education draw praise from the World Bank (Newsbatch, 2005). There are social benefits that a government can provide that will improve the quality of life and can be measured.

Poverty is measured by several different organizations, but many are similar to the UN measure for poverty. The UN's Human Poverty Index is a measurement of poverty that factors in illiteracy, malnutrition among children, early death, poor health care, poor access to safe water, vulnerability to famine or flooding, lack of sanitation, exposure to disease, a diet poor in nutrients, and the absence of education (Infoplease, 2005). These factors are as much the signs of poverty as material deprivation. The UN

considers nations that share in these characteristics to be in poverty. Countries with these conditions under control can limit the exposure that their people have to poverty.

The World Bank has 14 key indicators (Appendix 2) that measure poverty within a country. They are subdivided into four sections: growth and poverty reduction, governance and investment climate, infrastructure for development, and human development. A connection (Appendix 1) has been established that for each percentage point of economic growth, the average number of households existing on \$1 per day decreases by 2% (World Bank, 2005). Several factors can drive economic growth, including increases in education, life expectancy and economic policies - such as openness to trade.

The World Bank's measurement of poverty from the number of persons living on a dollar per day has decreased over the past decades, which would lead one to believe that poverty has decreased. However, when adjusted for inflation, the findings are that the income gap has widened and is well below the income levels of the leading industrialized countries in 1870; but the social conditions of today's poor countries far exceed the social conditions of the leading industrialized countries of 1870 (IMF, 2005). Incomes have risen for poor countries modestly, yet their social conditions have improved considerably due to increased aid packages. Richer nations have made advances in medical research and have given aid to poor countries for vaccines and expensive drugs that can improve the quality and length of life for the citizens in the poor country.

Inequality among rich and poor nations exists in terms of income and living conditions. Rich nations have tried to address this issue by distributing aid packages aimed at specific needs of each poor country. These aid packages ranged from literacy

programs to food handouts and health programs. Poor nations need more than aid packages; they need economic conditions that can sustain growth.

#### Trade verses Aid

Wealthy nations have not always been rich. They have needed to have years of a stable government and the ability to accumulate wealth. Establishing a fair and equitable system of distributing economic and political power creates stable governments. These nations have been able to develop relationships with trading partners beyond their own borders by lowering trade barriers and having a government seen as non-corrupt.

Wealthy nations have invested in infrastructure such as proper disposal of sewage, education for its children, healthcare, transportation systems, early immunization against childhood disease, and efficient drainage systems. When the society invests in these types of programs and infrastructure, all the citizens that live in the country reap the benefits. The nations where people live longer and healthier contribute more labor hours to the production of goods on a per person basis. As a nation is able to increase its productivity, it is able to trade with other nations. A nation's wealth is not limited by what it is able to produce domestically when that nation engages in trade beyond its own borders.

Nations that pursue international trade are able to increase their growth rate. During the 20th century nearly all nations encountered unparalleled economic growth as global per capita GDP increased almost five-fold with the strongest expansion in the second half of the century, a period of rapid growth accompanied by increase in trade (IMF, 2005). International trade has enabled economies to recover more quickly after war, natural disaster, and economic crisis. The developing countries of China, India and Mexico, which represent about 3 billion people, have adopted policies enabling their

citizens to take advantage of globalization and their economies are catching up with rich ones (Manzella, 2002). Many economists predict that China's economy will surpass the United States' in terms of GDP in a few decades (Johnson, 2005). International trade has had a beneficial impact on these countries due to their policy changes and willingness to open their society.

Nations that do not participate in international trade hinder their own growth. After World War I, the countries around the globe became very protectionists and began putting high tariffs on goods from abroad. This is argued by many economists to have been the reason for high unemployment during the global depression of the 1930s, with such legislation like the Smoot-Hawley Tariff Act that raised tariffs to historical highs (Newsbatch, 2005). Even today there are countries that do not want to allow trade with other nations. The incomes of the least globalized countries, including Iran, Pakistan and North Korea, have declined or remained static over the past several decades (Manzella, 2002). Countries that do not open up their society to international trade choose to limit their growth potential.

Examination of the per capita income between rich and poor countries verifies that poor nations have other factors working against them. Poverty in the developing African nations is not the result of slow growth since the per capita incomes of poor nations grew since 1960 as fast as, and perhaps faster than the per capita incomes of rich countries; it is the result of ineffective government spending such as the Kenyan International Airport, which is barely used (Becker, 2005). Aid is part of the problem that keeps corrupt politicians in power and keeps real economic development from happening.

In an interview with an African economist, James Shikwati discussing the best approach by Western nations to help the developing nations of Africa, as cited by Thielke (2005):

Huge bureaucracies are financed (with the aid money), corruption and complacency are promoted, Africans are taught to be beggars and not to be independent. In addition, development aid weakens the local markets everywhere and dampens the spirit of entrepreneurship that we so desperately need. As absurd as it may sound: Development aid is one of the reasons for Africa's problems. If the West were to cancel these payments, normal Africans wouldn't even notice. Only the functionaries would be hard hit. Which is why they maintain that the world would stop turning without this development aid.

Foreign aid to poor countries should be able to help the government develop the infrastructure and institutions to eventually become self-sufficient. Rich nations have been giving considerable amounts of aid, including low-interest rate loans to developing nations for the last half of the 20th century, yet many of these nations are still poor. This is done through direct foreign aid from a donor country and through international organizations like the World Bank. In many of these poor countries, the economic system is comparable to pre-capitalist conditions where the goods and services they produce are very limited in scope.

Even if a country chooses to accept aid to improve the conditions of its people, the people may not be able to benefit due to corrupt leadership and institutions. Many developing nations have corrupt leaders that do not invest in the social services or infrastructure needed for its people. They are more concerned with staying in power and

tend to reward people that will help them stay in power. The developing nations suffer from poverty not because of high debt burdens, but because inefficient governments redistribute the existing economic pie to privileged political elites rather than trying to make the pie grow larger through sound economic policies (Easterly, 2001). In their attempt to gain economic stability, they are in a constant search for more resources to generate wealth. African tribes war against one another to scramble for land. President Yoweri Museveni of Uganda, has continued to spend money on questionable military adventures in the Democratic Republic of the Congo; and other governments like Angola, Ethiopia, and Rwanda have also preferred a military route rather than engaging in economic trade with their neighbors (Easterly, 2001). These corrupt governments spend large amounts of their budgets on their military and pet projects that do not serve the people well. Another example is the government of North Korea that has spent its resources developing nuclear weapons while its people are starving. When government money is spent on the military and war, it is not spent on providing education, clean water, medicine, or the basic amenities that allow a country's people to move out of extreme poverty.

Many of the nations that receive aid packages are dictatorships and do not always spend the money where it will do the most good for the people. The World Bank financed the dictatorial socialist regime of Robert Mugabe in Zimbabwe until 2000, when the bank refused to give him any more money until he stopped his murdering rampage (Bovard, May 2003). There are countless examples of dictatorships misusing funds to support their own agenda without moving forward their own people out of poverty. Cited by Bovard, 2003, William Easterly, former senior World Bank economist, discussed the failure of

foreign aid, “When governments’ incentives are for political patronage rather than development, aid supports incompetent but politically connected schoolteachers, builds schools without textbooks, and roads that attract crooked contractors but little maintenance.” When donor nations see misuse of funds they become less likely to support poor nations and their governments. Scandinavian countries have recognized that corrupt governments are part of the problem and have started denying them aid (Lambsdorff, 1999). Financial aid packages are given with good intentions by the donors that the aid will be used to help the people that need it. Instead the people that need it are oppressed and do not have the political means to change their own situation. Once the people can have more control over their own political future, their economic future can improve.

Without trade, foreign aid is the alternative of choice to help the people move out of poverty. Yet many of the people continue to live in poverty year after year due to inefficient governments and distribution of resources. Transparency International, a non-governmental organization dedicated to stop corruption in governments, reported that nine out of ten developing nations are corrupt and inefficient (Lambsdorff, 2005). Even when aid is given, these nations are so corrupt that very little of the aid makes it to the people that it is suppose to help.

Without aid, people will depose inefficient governments and collect the political willpower to engage their problems and search for long-term solutions. Aid allows inept and corrupt governments to stay in power. A unilateral transfer payment in the form of aid is not a long-term solution. For a solution to become permanent, governments must be

stable and be perceived as non-corrupt and willing to spend on the proper infrastructure and encourage trade.

### Culture Clash

Not everyone believes international trade can benefit the poor, developing countries. People who are not in favor of expanding international trade and desire preservation of local culture and customs are referred to as anti-globalists. They are an assortment of several different groups with different issues; all motivated toward a common cause: to stop global trade (Wikipedia, 2005). They believe many trade agreements and multinational corporations can undermine the environment, labor rights, national sovereignty, and the third world.

The 20th century has seen international trade and the income gap between rich and poor nations increase. Some anti-globalists perceive that international trade and the widening of the income gap between rich and poor countries to be correlated. The *World Economic Outlook* studied 42 countries for which data was available for the entire 20th century and reached the conclusion that output per capita has risen but that the distribution of income among countries has become more unequal than at the beginning of the century (IMF, 2005). This conclusion has erroneously accused rich countries of getting richer by exploiting poorer countries.

Inequity does exist, but it is not because rich countries are taking advantage of poor countries. However, multinational corporations are taking advantage of market forces and introducing it to developing nations as a peaceful means to promote economic growth. Each nation uses its most abundant resources to a comparative advantage. This is true with land and the products it can produce; true when too much money is available to

invest in businesses; and, true when there is too much labor. Developing countries are labor abundant. When labor is abundant, there is a higher ratio of labor to other factors for the poor country than there are for its trading partners (Pugel, 2004). These market forces allow an efficient distribution of resources.

Population growth in poor nations is high and the people have little education, as it does not take much education to work on a farm. Cited by Birdsall, 2002, Dr. Wade, a professor of political economics at the London School of Economics, blames this rising inequality on differing rates of population growth between rich and poor countries and the pressures of technological change. Many of these poor countries still have an agrarian economy. Since the people cannot afford technology, like tractors to work the land or irrigation systems to increase productivity, human capital is employed. It is more advantageous for a family to have more children, so they can help work the farm. Many of the children will get sick and some die, due to lack of proper healthcare. In some countries like India, there is a growing industrialized sector. As these countries' economies become industrialized, the population, who is uneducated in everything but farming, begin to move to the cities as unskilled laborers if they are lucky enough to find work. Unfortunately, most people who move to the city will become part of the growing unemployed. These developing countries are abundant with unskilled labor due to high population growth and lack of education, especially among women, that make the country a source for inexpensive, unskilled labor in exchange for jobs. Its large population is a resource that makes another nation want to trade with it.

Many of these developing countries do not have continuing growth as part of their culture, which leads to the continuation of the stagnate economic conditions. Economic

growth needs to be examined to verify or disprove the widening inequity gap because poor nations are being exploited by rich nations. Economic growth is defined as the increase in the value of goods and services produced by an economy and can be measured as the percent rate of increase in real gross domestic product (Wikipedia, 2005). There are two types of economic growth a nation can undergo to move itself out of poverty: intensive and extensive. Intensive growth is due to an increase in the quality of a nation's factors of production, usually due to a change in technology or international trade; where as, extensive growth is growth due to an increase in the quantity of a nation's factors of production, usually increased by acquiring land via war and colonialism. Technology means change to a society, and many pre-capitalist societies were based on tradition and certainty, and change was uncertain, therefore discouraged (Berri, 2004). In order for pre-capitalist economies to grow they had to increase their factors of production. Land was limited and technology did not exist to yield more crops. Lack of technology also limited capital accumulation. Population increases labor, but still limited by the same technologies and quality, per-capita growth does not increase. Therefore in the absence of trade, economic growth in pre-capitalist societies is zero (Berri, 2004). Capitalist nations have been able to increase technology and embrace change to become the wealthier nations on the globe.

Many of these non-capitalists countries are still considered developing nations. Antiglobalists regard the extension of international markets and financial interests as the cause of increasing global inequality (and poverty) and declining levels of human welfare (Birdsall, 2002). The population of these poor countries is plentiful and willing to work at cheap wages, as they are labor abundant. Their own government is eager to oblige the

multinational corporation and in many cases, such as in Nigeria, the environmental laws are more relaxed than in their home countries. However, if the wages were not low or environmental regulation required more expensive technology to be employed, the corporation might choose to stay in their home country or choose to build in another country. The developing country's government needs the multinational corporation to provide investment and jobs for the people. Without these jobs, the government would spend money that it doesn't have to care for the people, still increasing its debt burden.

India is a good example of how efficient government policies open up a society to trade to improve the economic condition. Since its independence in 1947, India has been given more aid than any other nation. Yet for 40 years it had been grouped among the world's poorest countries and had a very slow growth rate. Around 1990, recessions in donor nations threatened foreign aid to India. Dr. Manoman Singh, a reform-minded economist, was brought in as finance minister. India implemented many of his basic economic reforms, which included decreasing very high tariffs and quotas, substantially reducing regulation of private domestic investments, encouraging foreign direct investment, and privatizing many government sectors. India's rate of economic growth increased, due to these reforms, to more than 6% per year, without increased foreign aid (Becker, 2005). India changed its policy without getting increased aid and was able to increase its growth rate and begin to alleviate poverty conditions in its country. Aid had handicapped economic growth for India. Only when India was able to participate in trade with other nations was it able to break its cycle of dependence on foreign aid.

Governments in developing countries have convinced their people that the aid and limits to international trade is necessary for their continued development. These

governments have limited their own growth by imposing tariffs and quotas on imports and claiming that international trade has kept their own countries from developing stable economies.

Many of the poor nations are forced to agree to economic reform before they are allowed to receive aid, and additionally, many of these nations are reluctant to accept foreign aid because they believe it will have a negative impact on their cultural identity. These economic reforms are seen as to favor the rich nations by allowing them more access to the poor nation's resources. The World Bank and International Monetary Fund (IMF) have lending policies that compel poor countries to adopt economic policy reforms, which are perceived to benefit only their wealthy trading partners and leave the emerging economy with an overwhelming debt burden (Newsbatch, 2005). Poor countries think international trade will destroy their culture and lifestyle. Many of these poor nations believe that if they participate in globalization, their culture will change and they will lose part of their identity (Tomlinson, 2003). Modern technology has actually led to the opposite being true. Globalization does not destroy local civilization and customs, but proliferates individual culture by using modern communication like the Internet and television satellite, so that a culture is not limited by location (Tomlinson, 2003). A person in their home country will go about their routine without giving any thought to their identity; however, when they travel to another country for employment or vacation, like the Mexican laborer in the US, they become more aware of their national identity. Globalization as a destroyer of cultural identity is a misconception that encourages poor countries to remain in the same cycle of poverty.

Poor nations remain in the same cycle of poverty because of their culture is not growth oriented, has high population growth, low-level of education and a distrust of wealthier nations placing conditions on their economic aid. By accepting economic policy reforms, many nations feel they no longer have control over their nation's economic affairs. Developing nations have a distrust of rich nations, which prevents them from taking advantage of market forces that will allow them to move toward peaceful economic growth.

### Trade Liberalization

Trade allows people to make individual decisions concerning their own well-being. This requires a different approach to the traditional beliefs that the governments are best qualified to distribute goods to its people. In the 1980s, the laissez-faire capitalist policies of Ronald Reagan and Margaret Thatcher broke down trade barriers and business regulations as privatization and trade liberalization was seen as a more favorable method to distribute benefits and resources to the public, resulting in a more weakened public sector (Wikipedia, 2005). Many antiglobalists would like to see governments take a more active role in this distribution process. As multinational corporations control more resources and the means to distribute them, they have more power when negotiating trading terms with poor countries.

The poorest of the least-developed countries' problem is not that they are being impoverished by globalization, but that they are in danger of being largely excluded from it. Of the impoverished countries, 0.4 % of these countries had declining trade with international partners in 1997, down by half from 1980. Their access to foreign private

investment remains negligible (PREM, 2000). These nations have limited the outside world's access to their nation, and in doing so, have limited their own growth.

There are four aspects of globalization that should help poorer countries become more self-sufficient. These include trade, capital movements, movements of people, spread of knowledge and technology (IMF, 2000). Trade allows individuals to exchange labor, goods, land and technology and is more efficient at putting these items into more peoples control rather than trying to control these from a single point like the government or aid organizations. In developing countries, as a whole, trade has increased from 19% in 1971 to 29% in 1999, but not all countries have benefited equally. Countries in Southeast Asia, China and India are on track to becoming economic powerhouses as they export primarily manufactured goods and have opened their society to allow international trade. Then there are others, mainly in Africa, who primarily exports raw materials and food, and trade has not fared as well (IMF, 2000). The agricultural subsidies of the rich countries inundate their markets with artificially low cost agricultural products, as a result ruining domestic agricultural industries (Newsbatch, 2005). Further observation has also shown that African countries are more dictatorial and aid packages have remained prevalent.

Capital movements are the movement of financial assets across international borders. Since the 1980s, trade has opened up, allowing business investment to replace foreign aid as the single most important category to help transition developing economies to market economies. The World Bank (Appendix 4) shows the net private flows to developing nations are at higher levels than net official flow consistently from 1992 through 2002, the period of the observed data. Not only did net private flows to

developing nations outpace official net flows, they did so by a significant amount. By the end of the 1990s, private investment exceeded net official assistance by seven times (World Bank, 2004). Private investment is investment that is made by private companies to developing countries that does not require direct repayments from the country itself. The government does not control private investment; but the government does benefit indirectly. Multinational corporations build factories and hire workers, and usually pay them above local wages, yet below the wages of their home country. Local governments can then collect more revenue from the increased tax base from the workers and the industry.

Workers will move to where the jobs are located. This means that unskilled workers will move to where more unskilled labor is required; or skilled workers moving to where more skilled labor is required. Wages communicate the demand for the labor that is required by each country. Most migration is between developing nations, but some migration does occur between developed nations and developing nations and in this process, skills can be transferred (IMF, 2000). If an unskilled, labor abundant nation wants to develop a more skilled work force; they should want to engage in trade with a country that is more abundant in skilled labor. Nations that participate in trade will have higher wages than those who do not. There is a direct relationship (Appendix 3) between the openness to trade and per capita income. In a more open society, companies compete against other companies, and provide better opportunities for qualified individuals, offering higher wages for the required labor. The poor nation will also benefit when workers go abroad and can earn higher wages in another country and send money back home, which will also pump money into the economy of the poor nation.

Technology is spread by business investment as new equipment and technology are installed in the developing nations. Knowledge is also shared regarding production methods, management techniques, export markets and economic policies. These are available at low cost, and it represents highly valuable resources for the developing countries (IMF, 2005). Technology is expensive and is developed by richer nations and then put in poorer nations for production. The poorer nation can benefit from the expensive technology as a rich nation generates the new technology, a multinational corporation invests in the production, and the unskilled labor of the poor country will have jobs that pay a better wage.

Nations that embrace these policies will benefit from trade with international markets. Countries, whose economies have flourished, have learned to let their people be responsible for their own economic welfare. These governments have privatized many of their industries allowing them movement in and out of countries as they search for economic benefits. In doing so, these companies are able to share capital, people and technology that can benefit both countries without engaging in direct unilateral gift exchanges, in the form of aid.

### Conclusion

This paper has demonstrated that inequality exists and that it is widening. When the rich nations get richer other factors are at work such as more efficient use of resources, which need stable, open governments and the infrastructure for improved social conditions. Many poor nations fail because the state fails, or with a large population growth rate, have difficulties managing the allocation of their resources. Rich nations have implemented policies and a capitalist approach to distribution of goods and services

that propagates long-term growth. Not all nations are endowed with an equal proportion of factor inputs; inequality will exist. By opening up trade, nations can share their factors more equitably and the total global pool of wealth will increase.

For most of the 20<sup>th</sup> century, rich nations gave aid to poor nations only to see it squandered. The people of the country must have the political will and capability to select leaders that choose a path of economic growth instead of cultural stagnation. Many of these countries are poor and have an unequal distribution within the country itself due to corrupt government leaders that view international aid as a source of personal income.

Several of the poorer nations do not want to open up to international trade due to fear of losing their own identity, when in fact they are losing an opportunity for its people to move out of poverty. Many of the poorer nations have an agrarian economy that is labor intensive, without technology. They are changing over to an industrial economy that is not as labor intensive. During this transition, they will provide cheap labor markets for multinational corporations, and wages for these people will increase.

Globalization, when there is free movement of goods and services, capital, people and technology, helps poorer nations. International trade allows each nation to maximize the benefits of its input factors where it has a comparative advantage. Control of these resources must be dispersed to individuals so that they are empowered to make decisions that will improve their economic condition.

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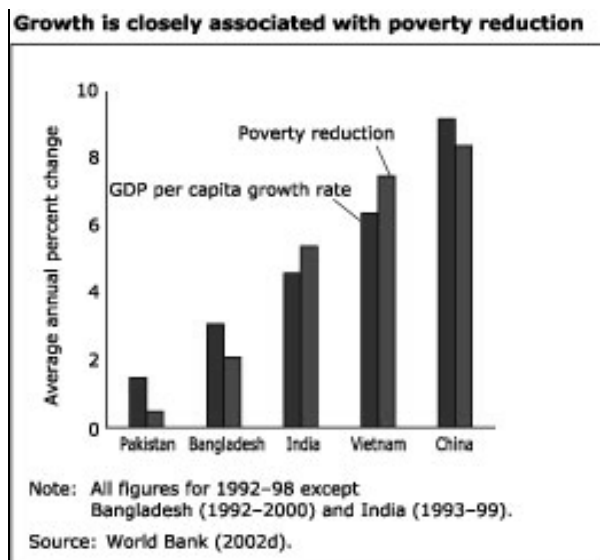
[http://www.worldbank.org/depweb/english/beyond/beyondco/beg\\_13.pdf#search='planned%20market%20economies%20transition%20foreign%20aid'](http://www.worldbank.org/depweb/english/beyond/beyondco/beg_13.pdf#search='planned%20market%20economies%20transition%20foreign%20aid')

## Appendix

1. Increase in economic growth results in poverty reduction.

(<http://ddp->

[ext.worldbank.org/ext/GMIS/gdmis.do?siteId=1&goalId=1&menuId=LNAV01LST1](http://ext.worldbank.org/ext/GMIS/gdmis.do?siteId=1&goalId=1&menuId=LNAV01LST1))



2. The 14 selected country outcome indicators are grouped accordingly into four categories, with the first two mainly reflecting the first pillar, and the rest reflecting the second pillar:

#### Growth and poverty reduction

1. GDP per capita (constant 2000 US\$)
2. Population below \$1 a day (%)

#### Governance and investment climate

1. Public financial management (number of HIPC benchmarks met)
2. Cost required for business start-up (% of GNI per capita)
3. Time required for business start-up (days)

#### Infrastructure for development

1. Access to an improved water source (% of population)
2. Fixed line and mobile phone subscribers (per 1,000 people)
3. Access to an all-season road (% of rural population)
4. Household electrification rate (% of households)

#### Human development

1. Under 5 mortality rate (per 1,000)
2. Prevalence of HIV, female (% ages 15-24)\*
3. Births attended by skilled health staff (% of total)

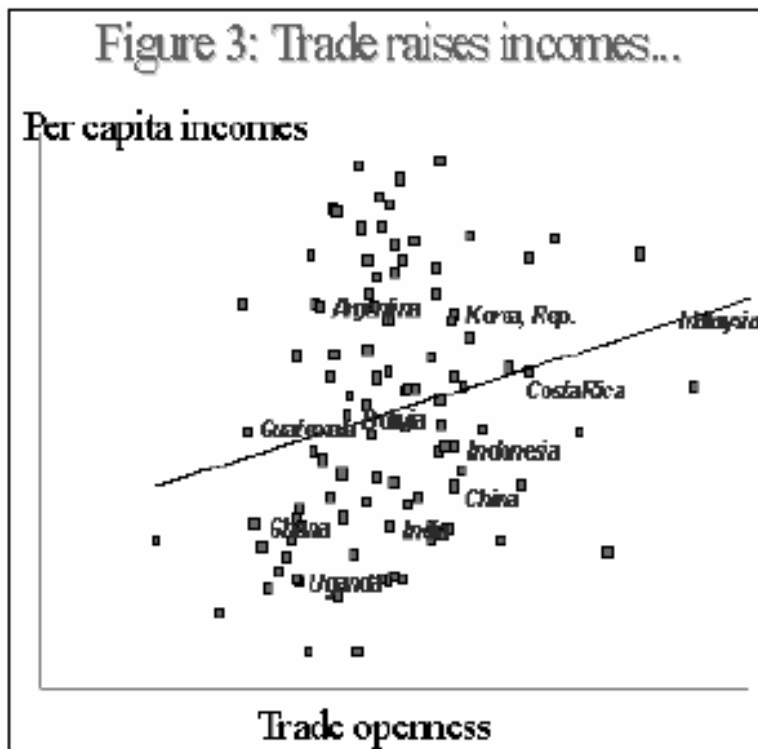
4. Primary completion rate, total (% of relevant age group)
5. Ratio of girls to boys in primary and secondary education (%)

\*Due to changes made by WHO/UNAIDS in reporting the original indicator Prevalence of HIV, female (% ages 15-24), an alternative indicator Prevalence of HIV, total (% of population aged 15-49) is used here to monitor progress made in HIV/AIDS.

(<http://ddp-ext.worldbank.org/ext/GMIS/gdmis.do?siteId=1&menuId=LNAV01>)

3. As a developing economy opens up to trade, per capita incomes rise.

<http://www1.worldbank.org/economicpolicy/globalization/documents/AssessingGlobalizationP2.pdf>



4. The spread between net official flows and net private flows to developing countries 1992-2002.

([http://www.worldbank.org/depweb/english/beyond/beyondco/beg\\_13.pdf#search='planned%20market%20economies%20transition%20foreign%20aid'](http://www.worldbank.org/depweb/english/beyond/beyondco/beg_13.pdf#search='planned%20market%20economies%20transition%20foreign%20aid'))

