

# Unequal opportunities and unequal benefits

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**G**lobalization, currently driven mainly by free market forces and commercial interests has failed to provide equal opportunities for growth and equal distribution of benefits to all the countries of the world. It has certainly provided opportunities and benefits to some countries - the developed and a few newly industrializing developing countries, but it has marginalized the majority of the developing countries. The biggest beneficiaries are the developed or industrial countries and the richest people who live in these countries, and the biggest casualties are the poorest developing countries and the most impoverished people living in them.

The fifth of the world's people living in the highest income industrial countries, for example, have the following:

86 per cent of the world gross domestic product (output or income).

82 per cent of the world export market.

68 per cent of world's foreign direct investment.

74 per cent of the world's telephone lines.

88 per cent of the users of the Internet.

The bottom fifth of the world's people, in the poorest developing countries have only one per cent in each sector - income, exports, foreign direct investment and telephones. World's research and development are also largely in the hands of developed countries. In 1993, just 10 developed countries accounted for 84 per cent of global research and development and controlled 95 per cent of the US patents of the past two decades.

Surprisingly, people in 85 countries, mainly developing, are worse off than they were a decade ago, despite globalization and per capita income in some 40 developing countries is still less than it was 20 or more years ago. The poorest 20 per cent of the world's people who live in developing countries suffered a reduction in their share of world income from 2.3 per cent in 1969 to 1.3 per cent in 1997. Africa, in particular has not benefited at all from globalization. Average African household consumption, actually, fell by 20 per cent in the last 25 years. In the decade, 1983-1993 alone, the proportion of malnourished children rose from 5 per cent to 25 per cent, while primary school enrolment fell from 79 per cent to 67 per cent.

## Unequal Trade, Investment and Growth

Unequal opportunities for growth has resulted in uneven economic growth; while some countries achieved high rates of growth, others

experienced low growth or negative growth. In the period 1980-1997 only 33 countries had 3 per cent and over growth in per capita GNP a year, 79 experienced average growth below 3 per cent and 59 mainly in Africa or over one-third of the countries suffered from declining growth of per capita GNP. In 1965-1996 GNP per capita grew at an average annual rate of 5.5 per cent in East Asia, 2.2 per cent in South Asia, 1.1 per cent in Latin America and declined at the rate of 0.2 per cent in sub-Saharan Africa. The share of agriculture in GDP fell in most developing countries with economic growth but increased in Sub-Saharan Africa between 1980 and 1996. Uneven economic growth resulted from uneven growth of trade and foreign investment.

Average annual growth of exports of goods and services in the period 1980-1996 exceeded 15 per cent only in 15 countries, was in the range of 5 per cent to 10 per cent in 43 countries and was below 5 per cent in 55 or around half the countries. Average annual export growth in the period 1965 to 1996 in East Asia is 8.8 per cent, South Asia 6.2 per cent, Latin America 5.2 per cent and Sub-Saharan Africa 2.1 per cent. Africa's share of world exports has fallen. Exports of developing countries, further, are concentrated in a few countries; about 80 per cent of the exports of developing countries in 1996 was by just 15 countries — and these are the ones who benefited most by globalization.

Like trade, foreign direct investment too is unevenly distributed. In 1997 for example, of the total world foreign direct investment of around \$400 billion, about \$150 billion or 37 per cent went to developing countries while about \$230 billion or 58 per cent went to developed countries. Foreign direct investment, like trade again, tended to concentrate in a few developing countries. Of the foreign direct investment received by developing countries and countries in transition in the 1990s, about 80 per cent was received by 20 countries, mainly China. Foreign direct investment has averaged less than \$100 million a year since 1990 for 100 countries and net flows have been negative for nine. In 1996 alone, 95 per cent of the foreign direct investment in developing countries, went to just 26 countries leaving the balance 5 per cent to be shared by 140 other developing countries. East Asia attracted most of the foreign capital while Africa received only a trickle. In fact, Africa's share of foreign direct investment rose from 0.4 per cent in 1990 to only 0.6 per cent in 1996 despite African countries signing 260 bilateral investment treaties offering various concessions to foreign capital and liberalizing their trade and investment regimes.

In 1997, Asia received 22 per cent of the world's foreign direct investment and Latin America 14 per cent while Africa received only

1 per cent. Some 94 per cent of the portfolio and other short-term capital flows to developing and transition economies went to just 20 of them in 1996. Today, only 25 developing countries have access to private markets for bonds, commercial bank loans and portfolio equity. The rest are shut out by their lack of credit rating.

South Asian countries have attracted relatively little foreign capital as compared to East Asia. In the eight years 1990-1997 foreign direct investment inflows were as follows: China \$200 billion, Malaysia \$40 billion, Indonesia \$26 billion and Thailand \$17 billion. In the same period, India received only \$9 billion and Sri Lanka \$0.8 billion. In 1997 foreign direct investment equalled 4.0 per cent of GDP in East Asia but only 0.7 per cent of GDP in South Asia; while the ratio was 4.9 per cent in China and 4.5 per cent in Malaysia, it was 0.7 per cent in India and 0.9 per cent in Sri Lanka.

## Average Annual Growth Rates 1965-1996 %

Region	Gross National Product		Gross Domestic Investment	Exports of Goods and Services	Foreign Direct Investment as % of GDP	
	Total	Per Capita			1968	1996
East Asia	7.4	5.5	9.4	8.8	0.4	4.0
South Asia	4.6	2.2	5.3	6.2	0.1	0.7
Latin America	3.3	1.1	2.0	5.2	0.8	2.1
Sub-Saharan Africa	2.7	-0.2	-1.1	2.1	0.0	1.1
All Developing Countries	3.8	1.6	..	..	0.2	2.2
World	3.1	1.2	3.1	5.8	0.6	1.1

Economic integration is thus dividing developing countries into those that are benefiting from global opportunities and those that are not.

## Decline in Commodity Prices

While the process of globalization provided market access and favourable prices for industrial exports of developing countries, it tended to restrict the market for primary commodities and depress their prices. Between 1980 and 1997, the real prices of commodities fell by 39 per cent: agricultural raw materials by 28 per cent, metals, minerals and beverages by 38 per cent, petrole-

um by 65 per cent, rice by 51 per cent, cotton by 43 per cent, copper by 30 per cent, palm oil by 27 per cent, iron ore by 31 per cent, rubber by 52 per cent, coconut oil by 35 per cent, cocoa by 29 per cent, coffee by 20 per cent and tea by 22 per cent. Most developing countries are exporters of primary commodities and they have been adversely affected by the declining prices. Global integration for primary commodity producers is actually a vulnerability to the whims of the primary commodity markets. In fact, one of the major causes for their low export and economic growth is the unfavourable prices for commodities. Price of petroleum has risen in recent weeks as a result of the decision of OPEC to restrict supplies, but this is expected to be temporary and commodity prices will decline further or at best remain flat.

The decline in commodity prices is caused partly by increasing supplies resulting from export-led growth strategies of globalization and from newcomers who had been prevented by war, civil conflict and other causes from maximizing their production in the past. Farmers also

tend to make up for lower prices by increasing the quantity produced; besides in most developing countries, in the absence of industries, there is no alternative but to produce and export more commodities for survival. On the demand side, advanced technologies have dematerialized production - or using less raw materials per unit of industrial production - substituted synthetics for natural materials like rubber, jute, wool and cotton and devised energy saving methods to economize in the use of petroleum products. Further, the expansion of the size and the reduction in the number of trans-national buyers have reduced

competition in commodity markets. All these tend to depress the demand for raw materials in the context of increasing supplies and exert downward pressure on prices.

## Inequality of Wealth and Income

Globalization has resulted in widening the gap between the developed/rich and developing/poor countries. The income gap between the richest one-fifth of the world people (in developed countries) measured by average national income per head, widened from 30 to 1 in 1969, to 74 to 1 in 1997. Per capita income of the least developed countries declined in real terms from \$272 to \$233 in the last 25 years. Average annual per capita private consumption growth in 1990-1996 was 1.4 per cent in high income countries while it was a negative rate of 1.0 per cent in sub-Saharan Africa. The three richest men in the world have assets that exceed the GDP combined of all the 48 least developed countries of the world containing 600 million people.

Polarization between the developed and developing countries has been accompanied by a polarization between the haves and have-nots and between the knows and know-nots. Widening disparity between countries is paralleled by increasing inequality of incomes within countries. The rich have grown richer and the poor poorer. In the last ten years the average income of the bottom 20 per cent of households in US rose by 8 per cent while that of the highest 20 per cent increased by 44 per cent and that of the highest 5 per cent rose by 60 per cent. The fortune of Bill Gates, the richest man in the US and the world is equal to the net worth of 106 million poorest Americans. In the United Kingdom between 1979 and 1988, the share of total income of the lowest 20 per cent of households fell from 5.8 per cent to 4.6 per cent whereas that of the highest 20 per cent rose from 39.5 per cent to 44.3 per cent.

The same process of income polarization operates in developing countries, which have been globalized and achieved high economic growth. In Brazil for instance, the share of income of the highest 20 per cent was 64.2 per cent in 1995 while that of the lowest 20 per cent was only 2.5 per cent; in Malaysia the highest 20 per cent had 53.7 per cent of the income while the lowest 20 per cent had only 4.6 per cent in 1989. South Asia which is less liberalized has a more egalitarian distribution of income. The share of income of the highest 20 per cent of the population was 39.3 per cent whereas that of the lowest 20 per cent was 9.2 per cent in 1997. The 200 richest people in the world more than doubled their worth in the four years to 1998 to \$1 trillion. Thus, the benefits of globalization have accrued to the rich more than the poor.