

The Impact and Adjustment of Globalization on Social Inequality under Cross-border Capital Flows

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Abstract. Globalization, as a significant feature of the current world economic development, has exerted extensive and complex influences on the issue of inequality on a global scale. This article aims to delve into the intrinsic connection between globalization and inequality, and to sort out the differentiated impacts that the process of globalization has brought about on income distribution, development opportunities, and educational skills among different countries and groups through mechanisms such as trade, capital flows, and technology transfer. Research findings reveal that globalization has dual impacts: on the one hand, through trade exchanges among countries and sharing of technological achievements, it can promote rapid economic growth; on the other hand, it also exacerbates inequality within and among some countries. Trade liberalization has led to employment shocks for low-skilled workers and widened the gap between the rich and the poor. Technology transfer, while enhancing production efficiency, also leads to the income disparity between high-skilled and low-skilled workers.

Keywords: Globalization, Inequality, Capital flows, Income gap, Education, Labor market

1. Introduction

In recent years, developing countries have benefited from globalization by attracting foreign investment and technology, resulting in remarkable economic growth during the process of globalization. For instance, in 2024, China's GDP growth rate was 5% [1]. In present world, globalization is accelerating and international economic interaction is becoming more and more frequent. The international trade, capital flows and the activities of multinational corporations are profoundly changing the world. However, this international economic interaction in the process of globalization has a complex and profound impact on social inequality. On the one hand, globalization has brought economic growth and development opportunities to many countries [2], promoted technology dissemination and knowledge sharing, and helped to reduce poverty and narrow the income gap among countries to a certain extent. But on the other, international economic interaction has also caused a series of problems, such as the free flow of capital leads to strong competition in the labour market of some countries [3], and the trade imbalance makes some countries at a disadvantage in the international economic system. The monopoly power of transnational corporations further intensifies the global polarization of the rich and the poor [4]. This paper aims to discuss the impact of international economic interaction on social inequality from the

aspects of income gap, educational opportunity, labour market, trade contacts and so on. The next paragraph discusses the main forms of international economic interaction. And in the third paragraph, data from the World Bank and the International Monetary Fund, as well as the Gini coefficient reflecting income inequality, are used to point out evidence of social inequality. Section 4 specifically discusses the impact of international economic interactions on social inequality. The fifth paragraph are policies to mitigate the negative impacts of international economic interactions on social inequality in the process of globalization. Exploring the impact of globalization on inequality can help us better understand economic phenomena. Understanding the situation of inequality under globalization can assist policymakers in identifying policy deficiencies and formulating more effective policies.

2. Theoretical framework

Globalization is a multi-dimensional phenomenon that involving many aspects. This chapter will discuss three main forms of globalization and their impact on inequality. First of all, economic globalization mainly refers to transnational trade, capital flows, global production chains and the expansion of multinational companies [5]. The following is its impact on inequality.

2.1. Economic globalization

The process of globalization leads to international economic interaction, which causes income inequality. The Gini coefficient reflects the disparity of wealth among different countries [6]. A number greater than 0.45 is called a high Gini coefficient. Countries with high Gini coefficients have unequal income distribution and a large gap between the rich and the poor. For instance, China's Gini coefficient is 0.47, and the United States' is 0.485. All of them belong to high Gini coefficient countries with significant income disparities. Low Gini coefficient countries include Sweden, Norway, Finland, Denmark, and Iceland. Their values are all less than 0.3, indicating relatively equal income distribution. Furthermore, the impact of globalization on inter-country inequality is double-faced. For instance, some developing countries with developed labor-intensive industries such as China and Vietnam have increased employment rates and workers' incomes by participating in globalization and accepting industrial transfer. This has promoted economic development and narrowed the gap with developed countries. However, within countries, enterprises can allocate resources and expand markets through globalization to obtain more profits. The income of capital owners and highly skilled workers has significantly increased, but the employment opportunities for low-skilled workers have decreased and their wages may decline. This has exacerbated domestic income inequality.

As for trade liberalization, it can strengthen economic connection between different countries and improved the economic growth rate of some countries [7]. However, there are also some problems such as declining wages of low-skilled workers and outsourcing of manufacturing jobs [8], which will exacerbate the domestic income gap. In terms of capital flows, capital inflows can increase investment [9]. Enterprises obtain funds to expand production and upgrade technology, which can enhance productivity, promote economic growth and improve industrial competitiveness. Lastly from the perspective of the global value chain [10], enterprises can integrate global resources, reduce production costs, improve product quality and production efficiency. Their products can enter more national and regional markets through the global value chain, expand sales scope, increase market share and earn more profits. Although participating in global value chains can raise the overall income level of developing countries, the benefits vary among different groups of people.

Skilled workers may gain more, but the income growth of low-skilled workers is slow, which may widen the income gap.

2.2. Technological globalization

The second form of globalization is technological globalization [11]. Technological innovation and the development of information technology will also have a profound impact on inequality. With the popularization of automation and artificial intelligence, new industries and high-skilled positions are increasing, and the income of high-skilled workers is growing rapidly. However, low-skilled workers face problems such as unemployment or difficulty in finding employment and a decline in income due to their difficulty in adapting to technological changes, which will lead to the widening of the gap between the rich and the poor. Then with the rapid development of emerging technologies such as the Internet, artificial intelligence and big data, the problem of regional development imbalance [12] has become increasingly prominent. These advanced technological resources tend to favor regions with higher economic development levels and superior innovation environments. For instance, in China's first-tier cities like Beijing, Shanghai and Shenzhen, due to their well-developed infrastructure, abundant scientific research resources and favorable policy support, they can quickly attract a large number of high-tech enterprises and top talents, thereby achieving rapid development through technological globalization. In contrast, some economically underdeveloped or geographically remote countries and regions encounter considerable difficulties in attracting technology investment and high-end talents. These regions have insufficient investment in scientific research and relatively low educational standards, which makes it difficult to form competitive technological industrial clusters and limits their ability to promote economic development by using new technologies.

2.3. Cultural globalization

The third major form of globalization is cultural globalization [13]. Cultural globalization affects the dissemination of education and knowledge. Developed countries have superior educational resources due to their cultural and economic advantages, attracting global high-end talents. However, developing countries face economic pressure and technical problems when introducing resources, causing lots of high-end talents from developing countries to developed countries. This leads to the problem of brain drain, widening the gap in global educational resource distribution. Besides, high-income groups have more resources and opportunities to participate in global consumption and enjoy various high-end imported goods and services. However, low-income groups may not be able to fully benefit due to their limited consumption capacity. In fact, they may even face unemployment when local enterprises are impacted. This may widen the lifestyle gap between different income groups.

3. Literature review

3.1. The impact of globalization on educational inequality

Globalization may lead to unequal distribution of educational resources. The book “A Simple Model of Globalization, Schooling and Acquisition” explores how the opening of international markets changes the structure of domestic labor force skills [14]. It discovers that the impact of globalization on educational behavior and the labor market will lead to income gaps among educational groups. Workers can choose to receive education, and their abilities are related to their educational

attainment. Education can promote workers to enhance their productive capacity and thereby become high-skilled workers. With the increase of international economic interaction in the process of globalization, more enterprises have an increasing demand for high-skilled workers and the wage increase of high-skilled workers may be greater than that of low-skilled workers, and low-skilled workers may even face employment difficulties. This widens the income gap. And regions with high educational levels and superior educational resources can cultivate more high-skilled workers, but workers trained in regions with scarce educational resources have relatively lower skills. Therefore, the unequal distribution of educational resources will exacerbate the income inequality among educational groups.

3.2. The impact of globalization on skills inequality

On the other hand, globalization will exacerbate the skills gap. Globalization enables highly skilled workers to gain an advantage in international market competition by virtue of their professional skills and innovative capabilities, allowing them to earn high salaries and generous benefits. However, low-skilled workers are at a disadvantage in the globalized market. Their wages grow slowly or they may even face the risk of unemployment. The widening income gap further affects the investment capacity of different skill groups in education and skills, intensifying the skills gap. For instance, from the 1990s to 2013, a large number of manufacturing enterprises in the United States moved their production processes to developing countries or regions with lower labor costs in pursuit of lower production costs and broader markets. Many jobs that originally required manual labor were replaced by machines and automated equipment, there has been a phenomenon where many manufacturing workers are facing unemployment and wage decline. Thus, it led to a reduction of manufacturing jobs domestically.

3.3. The influence of globalization on the labor market and employment inequality

Globalization leads to industrial outsourcing and industrial hollowing out. Many enterprises in developed countries outsource their production processes to countries with low labor costs while keeping their research and development processes in regions rich in technical talents. However, if there is poor connection during the industrial transfer process, it is easy to cause the hollowing out of traditional manufacturing industries and others. For instance, under the background of globalization, some American enterprises, in pursuit of lower costs, outsourced a large number of labor-intensive manufacturing industries to developing countries. The economic focus of the United States shifted to finance, technology and other fields, with a large amount of capital flowing into the virtual economy. Meanwhile, the investment in manufacturing gradually decreased. The Rust Belt and other manufacturing industries, due to market monopolies, lacked competitiveness and had slow growth in labor productivity. In the later stage, the Rust Belt and other manufacturing industries were gradually marginalized [15], resulting in a large number of factory closures and worker unemployment. In contrast, Vietnam has a large number of young laborers [16] and relatively low labor costs. This has attracted a large amount of investment in labor-intensive industries to build factories, providing more job opportunities for people and increasing their income.

3.4. The impact of globalization on immigrants

In addition, globalization will also affect the changes in the structure of immigration. Highly skilled immigrants can start businesses or promote industrial upgrading with their professional knowledge

and innovative capabilities, creating new job opportunities for local workers. For instance, many Indian tech talents have started businesses in Silicon Valley [17], USA, driving the development of related industries there and creating jobs in various fields such as technology, management, and marketing, which has greatly promoted economic growth. However, the increase in the immigration of low-skilled workers may lower the skill levels of local low-skilled workers. In some low-skilled job sectors, a large influx of low-skilled immigrants may increase the labor supply. Their competition with local low-skilled workers for jobs will lead to a reduction in employment opportunities or slow wage growth for some local workers. Therefore, this will impose employment pressure and living burden on local workers. For instance, in certain areas of the United States, a large number of Mexican immigrants engage in manual labor such as construction and agriculture [18]. This brings competitive pressure to local low-skilled workers and increases their living burdens.

4. Strategies for mitigating globalization-driven inequality

4.1. Global policy solutions

In recent years, the globalization of financial markets has made it easier for capital to flow globally. However, unregulated capital flows may exacerbate the gap between the rich and the poor. For instance, the 2008 financial crisis [19] had a significant impact on low-income groups. In response to such issues, it is possible to enhance the supervision of the financial market and improve the regulatory system. Establishing an international financial regulatory institution to manage and restrict high-risk speculative activities. At the same time, limiting the speculative activities of hedge funds and large financial institutions, and reduce the impact of financial crises on the low-income groups. Besides, In his book "Capital in the Twenty-First Century [20]", Thomas Piketty proposed the imposition of global wealth tax in 2014. He proposed for a progressive tax on personal wealth around the world to restrain the aggravation of wealth inequality. And he believes that implementing a higher tax rate for high-income individuals can effectively manage wealth distribution, narrow the income disparity between the rich and the poor, and make wealth allocation more equitable and rational. Additionally, this approach can enhance financial resources available for public services and social welfare programs.

4.2. Education and skills development

Firstly, the advancement of technology and globalization have led to the increase in income of highly skilled workers exceeding that of low-skilled laborers, which has exacerbated income inequality. In response to such problems, the government can increase investment in basic education and vocational education. Developing countries need to reduce the educational gap between urban and rural areas. They should narrow the educational gap between urban and rural areas as well as among different regions by building schools, providing teachers and educational subsidies, so that more students can enjoy high-quality educational resources. At the same time, government can encourage children from low-income families to learn high-demand skills such as programme and data analysis. This way can enable them to have more job opportunities and enhance their employment competitiveness. And their incomes will increase so that they can afford more products to satisfy their needs and wants. Thus it can improve their living standards.

4.3. Labor market policies

Globalization has led to the outsourcing of manufacturing and the prevalence of the Gig Economy, causing the jobs of low-skilled workers to be unstable. In response to this problems, government can raise the minimum wages. Organization for Economic Co-operation and Development [21] researches show that raising the minimum wage moderately can reduce the poverty risk of low-income workers. For example, the states of California and New York in the United States has raised the minimum wage to \$15 per hour [22]. This has raised the income of low-income groups and narrowed the wage gap. Low-income groups can afford more goods and improve their quality of life. Meanwhile, a higher minimum wage standard makes jobs more attractive and can encourage more people to participate in the labor market and increase the labor supply. This is of great significance for some labor-intensive industries or regions, which can alleviate the problem of labor shortage.

5. SWOT analysis

This section analyzes and summarizes the impact of globalization on inequality from the perspectives of strength, weakness, opportunities and threats.

5.1. Strength

Globalization has promoted trade liberalization and international investment, enabling many developing countries to achieve rapid industrialization and economic growth. Economic growth has made it possible to improve the living standards of the people, create a large number of jobs, especially in labor-intensive industries, absorbing a large number of low-skilled laborers and helping them escape poverty. To a certain extent, it has alleviated social inequality. And with the advancement of globalization, advanced technologies, management experiences and knowledge are spreading rapidly worldwide. Developing countries can introduce advanced technologies from developed countries to enhance their production efficiency and promote industrial upgrading. This provides opportunities for the workers in developing countries to improve their skills and income, narrowing the gap in technology and economic development levels between them and developed countries, and helping to alleviate social inequality on a global scale.

5.2. Weakness

Globalization has led to a significant disparity in the degree of benefit received by different industries and groups within some countries. In developed countries, capital-intensive and technology-intensive industries have reaped substantial profits from globalization, while traditional labor-intensive industries have suffered, resulting in job losses or wage cuts for workers and further widening the gap between the rich and the poor. In developing countries, workers in export-oriented industries may benefit from globalization, but workers in other industries and residents in rural areas may not have fully shared the fruits of globalization, leading to an expansion of the gap between urban and rural areas, regional disparities, and industry gaps. For instance, during the process of globalization, a large number of manufacturing industries in the United States have relocated abroad. As a result, the industrial workers in the Rust Belt have lost their jobs and their income has decreased significantly [15]. Meanwhile, the income of practitioners in industries such as finance and technology has continued to rise, leading to an increasingly widening gap between the rich and the poor in the country.

5.3. Opportunities

After realizing the increase in the demand for labor skills brought about by globalization, governments and societies of various countries have placed greater emphasis on education and vocational training. Increasing investment in education and providing more diversified educational and training opportunities can help enhance the skill levels of workers, enabling them to adapt to the industrial structure adjustment and employment market changes brought about by globalization. This provides upward mobility opportunities for workers and helps to narrow social inequality caused by skill differences. At the same time, the issue of social inequality brought about by globalization has drawn extensive attention from the international community and governments of various countries, prompting them to reflect on and adjust their social policies. By implementing tax reforms, improving social security systems and adjusting minimum wage standards, income distribution can be regulated and social inequality can be alleviated.

5.4. Threats

Globalization has made the economies of various countries closely interlinked, and fluctuations in the global economy are more likely to be transmitted among countries. During economic crises or recessions, developing countries often bear the brunt of the impact. Export volumes decrease, foreign capital withdraws, and economic growth slows down, leading to the closure of numerous enterprises, unemployment of workers, and exacerbation of social inequality. The low-income group is more severely affected in economic crises, with their income significantly dropping and their lives falling into difficulties. While high-income groups, with their diversified assets and stronger risk-resistance capabilities, are relatively less affected. After the outbreak of the global financial crisis in 2008 [23], many developing countries found their economies in a difficult situation. Unemployment rates rose sharply and poverty rates rebounded. The gap between the rich and the poor widened further.

6. Conclusion

Globalization has fundamentally reshaped the economic structure and social hierarchy system, exerting a dual impact on inequality. Although it has promoted economic growth and technological progress, providing opportunities for some developing countries to catch up with developed ones, it has also exacerbated the internal disparities within each country. Despite various policy efforts, resolving the inequality caused by globalization remains a challenge. The complexity of international economic interdependence makes it difficult to implement unified global policies. Moreover, the rapid development of automation and artificial intelligence is expected to exacerbate the existing inequality phenomenon. In the future, it is necessary to strengthen the mechanism for industrial transfer and coordinated development among regions. For instance, developed countries orderly transfer mature industries to developing countries, helping them improve their industrial systems. Meanwhile, developing countries strengthen infrastructure construction and talent cultivation, enhance their capacity to undertake industrial transfer, gradually narrow the economic and social development gap among regions, and promote global balanced development.

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