

The Effect Of Globalization On National Income Inequality

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Introduction

Globalization can alter national income inequality through trade, foreign direct investment, technology, migration, finance, and the bargaining power of workers and firms. The article by Margit Bussmann, John Oneal, and Indra de Soysa asks whether international economic integration—especially [accumulated foreign direct investment](#)—worsened the distribution of income within countries and harmed the poorest fifth of the population. Using data for seventy-two countries largely covering 1970–1990, the authors found little evidence that FDI systematically increased national inequality or reduced the income share of the poorest group.

The original review reports the article’s central conclusion but presents it too broadly. A failure to find a statistically significant average relationship in one historical dataset does not prove that globalization never increases inequality. The study concerns particular indicators, countries, years, and models. Later research shows that effects vary according to education, labor institutions, technology, market concentration, taxation, sector, gender, region, and a country’s position in global value chains.

Research Question

The article addresses a major claim in debates about globalization: multinational corporations and international trade may raise average output while concentrating gains among owners and skilled workers. If so, poor households could be marginalized even when national income grows.

The authors test two related outcomes. One is overall national income inequality, often represented through the Gini index. The other is the income share received by the lowest twenty percent. These outcomes are related but not identical. A stable Gini does not prove that every poor household gained, and a rising absolute income at the bottom can occur while its relative share falls.

Defining Globalization

Globalization is not one measurable variable. Trade openness, tariff policy, foreign assets, FDI inflows, accumulated FDI stock, migration, communication, and financial integration describe different mechanisms. The original article emphasizes FDI stock relative to GDP and also examines trade-

related measures.

This distinction matters because a foreign-owned manufacturing plant affects an economy differently from short-term portfolio flows, commodity exports, digital services, or imports of consumer goods. A conclusion about one dimension should not be generalized automatically to all globalization.

Foreign Direct Investment

FDI generally involves a lasting ownership interest and influence in a foreign enterprise. It can finance factories, infrastructure, services, acquisitions, or supply-chain facilities. Potential benefits include capital, technology, management, export access, tax revenue, and employment.

Potential harms include weak local linkages, profit shifting, environmental damage, displacement of domestic firms, pressure on wages, and political influence. The direction of the effect depends on policy and market structure, not merely on the presence of foreign ownership.

Theoretical Expectations

Several theories predict greater inequality. Skill-biased technology may raise demand for educated workers. Mobile capital may weaken labor bargaining or encourage tax competition. Export sectors may be geographically concentrated, and foreign firms may pay premiums to a limited group of workers.

Other mechanisms predict lower inequality. Export expansion can create employment for abundant lower-skilled labor, raise productivity, and increase government revenue. FDI can develop supplier networks and transfer knowledge. These competing pathways explain why the empirical relationship is conditional.

Research Design

Bussmann and colleagues use pooled cross-national time-series data. This design combines observations across countries and years and uses regression analysis to estimate associations while controlling for other variables. It allows broader comparison than a few case studies.

Cross-national models face difficult measurement problems. Inequality data vary in coverage, whether income or consumption is measured, whether figures are before or after taxes, and whether households or individuals are the unit. Missing observations are not random, especially in lower-capacity states.

The Main Finding

The study did not find robust evidence that FDI stock relative to GDP increased the Gini index or harmed the income share of the bottom fifth. Several model specifications produced no statistically significant adverse relationship. The authors therefore challenged categorical claims that multinational investment necessarily makes national income distribution worse.

“No robust evidence” is more accurate than “no effect.” Statistical insignificance can reflect a genuinely small average relationship, offsetting positive and negative country effects, measurement error, limited variation, or insufficient power.

Trade Openness

The article also considers measures such as trade relative to GDP and policy-based openness. Some specifications associated trade with inequality, but the results were not uniform enough to support a simple claim that openness marginalizes the poor.

Trade-to-GDP is influenced by country size and geography. Small countries often trade more because their domestic markets are limited. A high ratio is not equivalent to a liberal policy regime, and a tariff index does not describe logistics, standards, exchange rates, or export composition.

The Bottom Twenty Percent

Examining the poorest fifth is an important strength because average inequality measures can hide distributional patterns. The authors found that FDI was not consistently associated with a lower income share for this group.

A share measure remains incomplete. If national income grows rapidly, the bottom group’s absolute income can rise even if its share stays constant or declines slightly. Conversely, a stable share during recession may still involve severe material loss. Both absolute and relative outcomes should be reported.

The Kuznets Hypothesis

The Kuznets hypothesis proposes an inverted-U relationship in which inequality first rises and later falls as economies develop. Movement from agriculture to industry may initially create large productivity differences before education, political inclusion, and social policy spread gains.

The hypothesis is not a universal law. Historical trajectories differ, and policy can change the curve. The article finds limited support in cross-national estimates, but individual country time series do not

necessarily follow one pattern.

Socialist States and Growth

The original review says socialist states achieved equality only at the expense of growth. That statement is too broad and partly normative. Political and economic systems labeled socialist differed greatly, and outcomes depended on period, institutions, repression, education, industrial structure, and external conditions.

A fair analysis can note that some planned economies compressed wages while experiencing inefficiency or stagnation, but it should not treat equality and growth as inevitably opposed. Market economies also vary widely in both growth and distribution.

Historical Scope

The data largely end around 1990, before the full expansion of modern global value chains, widespread internet use, China's central role in world manufacturing, platform firms, and contemporary financial integration. The article is evidence about an earlier era.

Its logic remains useful, but the results should be retested. Globalization since the 1990s has included outsourcing, automation, intellectual-property concentration, digital services, and complex cross-border production that may affect labor differently.

National and Global Inequality

Within-country inequality and inequality among all people globally are distinct. Rapid growth in populous lower-income countries can reduce global inequality between countries while inequality rises inside some countries. A statement that globalization reduced "international inequality" must specify the population weighting and measure.

This distinction helps explain why opposing claims can both contain truth. Global convergence may occur while certain workers and regions in rich or poor countries lose relative position.

Global Value Chains

The World Bank's analysis of global value chains emphasizes that participation can raise productivity, create jobs, and reduce poverty when countries build skills, infrastructure, predictable policy, and social protection. Benefits are not automatic.

Capturing more value depends on moving beyond low-margin assembly, developing domestic

suppliers, improving logistics, and supporting learning. A country may export more while remaining dependent on imported technology and a narrow set of buyers.

Technology and Skills

Trade and FDI often arrive with technology that complements some skills and substitutes for routine tasks. Workers with education, language ability, digital access, or urban location may gain more. The resulting wage gap can be attributed incorrectly to globalization alone when technology and institutions interact.

Education policy matters, but telling workers merely to “gain skills” is inadequate when training is costly, jobs are geographically distant, or caregiving limits mobility. Adjustment policy must address real constraints.

Labor Institutions

Minimum wages, collective bargaining, employment protection, occupational safety, and enforcement shape how productivity gains reach workers. The same investment can produce different outcomes under different labor regimes.

Informal workers may be excluded from legal protection, while subcontracting can move risk away from large lead firms. Researchers should examine wages, benefits, hours, safety, and job stability across the supply chain.

Taxation and Public Spending

Globalization can enlarge the tax base through growth and also make taxation harder through profit shifting and competition for investment. Governments determine whether revenue supports education, healthcare, infrastructure, and social protection.

Post-tax inequality may therefore differ sharply from market-income inequality. Studies using only pre-tax measures miss a major mechanism through which globalization’s gains and losses are distributed.

Gender and Household Effects

Export industries may create paid employment for women, increasing income and bargaining power. They may also rely on low wages, insecure contracts, and unpaid care work. Household income statistics can hide who controls earnings and who performs additional labor.

Gender-disaggregated evidence is necessary because national averages do not show access to assets, safety, promotion, or time.

Regional Inequality

Investment often clusters near ports, major cities, skilled labor, and reliable infrastructure. National growth can therefore widen gaps between connected and excluded regions. Workers unable to migrate may experience declining opportunity.

Place-based infrastructure, schools, transport, and local enterprise support can broaden benefits. Regional evidence may reveal inequality that a national Gini obscures.

Commodity Dependence

FDI in oil or minerals differs from labor-intensive manufacturing. Extractive projects can generate large output with limited employment, volatile revenue, environmental costs, and political concentration.

Contracts, local-content rules, sovereign funds, transparency, and environmental safeguards influence whether resource investment supports development. Aggregating every form of FDI can conceal these differences.

Causal Inference

Countries attracting FDI may already have stronger growth, infrastructure, or institutions. Inequality may also influence policy and investment. This reverse causality complicates interpretation.

Modern research uses instruments, natural experiments, event studies, firm-level data, and difference-in-differences designs where appropriate. Each method has assumptions. No single technique removes the need for historical and institutional analysis.

Policy Implications

The study does not justify unregulated openness, nor does it support isolation. It suggests that claims about inevitable harm should be tested rather than assumed. Policy should focus on the channels through which investment and trade affect households.

Useful measures include labor enforcement, competition policy, progressive taxation, education, adjustment assistance, infrastructure, supplier development, transparency, environmental protection, and access to finance. The objective is not merely attracting investment but increasing broadly

shared value.

A Modern Research Agenda

A contemporary replication should use harmonized inequality data, distinguish greenfield investment from mergers, separate sectors, and examine pre- and post-tax income. It should analyze gender, region, employment quality, carbon impact, and domestic value added.

Researchers should also test distribution over time. Construction may create temporary jobs, while technology transfer or market concentration appears later. Country case studies can identify mechanisms hidden by averages.

Conclusion

Bussmann, Oneal, and de Soysa make an important contribution by testing rather than presuming that globalization worsens national inequality. Their 1970–1990 evidence does not show a robust average adverse effect of FDI on the Gini index or the income share of the poorest fifth. This finding challenges an absolute anti-globalization claim.

It does not establish that globalization is distributionally neutral in every place and period. Trade and investment interact with technology, skills, labor power, taxation, geography, gender, sector, and institutions. The most defensible conclusion is conditional: globalization can support growth and poverty reduction, but public policy determines whether opportunities spread, adjustment costs are protected, and economic integration translates into inclusive development.

Works Cited

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