2021

A Moral and Pragmatic Analysis of Debt and North–South Economic Inequality

George Atisa
The University of Texas Rio Grande Valley, george.atisa@utrgv.edu

Follow this and additional works at: https://scholarworks.utrgv.edu/pass_fac

Part of the Public Affairs, Public Policy and Public Administration Commons

Recommended Citation
Abstract

The North-South inequality hurts both high- and low-income countries in many respects, both directly and indirectly. At the same time, workers from low-income countries work just as hard as those from high-income countries but are often held in abject poverty by circumstances not of their own making. The question the study tries to find answers for is; why do hard-working individuals in both the North and the South bring home different levels of income, yielding big differences in per capita income globally and what can be done about it? Current pro-poor growth policies that include handouts, loans or relocating industries to the South cannot rid the world of inequality. The study argues that rich countries can and should prevent poor countries from sinking deeper into poverty if that does not call them to sacrifice anything of comparable moral importance. Data on DGP per capita and natural resources within countries is used to show, and explain two forms of inequality; income levels and natural resources and that every region has something valuable to offer towards maintaining the global economy. The South is endowed with surplus natural resources that the North needs and the North has high incomes that can be used to support development needs in the South. Institutional weaknesses aside, the most feasible framework to reducing global inequality is a pragmatic and moral approach to valuing the natural resources from the South on the same scale as financial development assistance from the North.

Introduction

This chapter examines global inequality through a moral and pragmatic lens. Moral and pragmatic values are a necessary consideration because global inequality in a globally interdependent world equally hurts both high- and low-income countries in many respects, both directly and indirectly. Following the moral compass while adopting a pragmatic approach means taking a broader view to finding feasible and durable solutions to global inequality. The interdependence can be explained using income and resource inequality. Countries in the North have very high incomes but great deficits in natural resources, while many countries in the South have high surpluses in natural resources but very low incomes. Therefore, no one country or region can claim to have everything that is required to support economic development within its borders. It is most likely
that global interdependence will continue to rise, and for this reason, reducing global inequality is a practical goal, as every country or region has great value in a globalizing world.

However, inequality also hurts low-income countries beyond mere material deprivation and touches on the core aspect of human values. Workers from low-income countries work hard but are often held in abject poverty by circumstances not of their own making (Atisa, 2020). Workers from high-income countries also work hard and are able to get ahead. Why do hard-working individuals in both the North and the South bring home different levels of income, yielding such different per capita income levels and what can be done about it? This is a difficult question to answer; if there were a direct answer, the problems leading to economic inequality between the North and the South would have already been solved.

The countries and people at the lower end of inequality face severe poverty, other social ills and crimes that are likely to continue unless poverty is eradicated; therefore, inequality should be seen as a moral issue and not just a business outcome. This study is about the inequality between a deprived society and a society that has more than enough prosperity. The World Bank (2016) argues that poverty eradication is one of the greatest challenges facing many countries, and the ways to eradicate poverty are clearly understood but very difficult to implement. Current approaches to reducing global economic inequality are grants, loans, trade and investments, which have been presented as the distribution of international resources beyond national boundaries (Schaffartzik et al. 2019) but have not brought about the desired outcomes. Since income seems to be the standard measure of development outcomes based on the flow of resources, the concentration of resources and incomes levels must be addressed if global inequality is to be reduced.

**Implications of economic inequality and natural resource consumption**

While global economic inequality is perceived as responsible for global poverty, its damage to humanity goes beyond the realm of poverty. Very low consumption of natural resources is strongly connected to low income and poverty. Wilkinson and Pickett (2014) offer a humbling perspective of inequality using the logic of animal dominance and subordination, superiority and inferiority as one of the ways that humans equate outward wealth with a person’s inner worth and how humans see and feel towards each other. Towards the end of the 20th century, there was a surge in the global consumption of natural resources that led to high inequality between countries (Schaffartzik et al., 2014). The countries with high per capita income and some of the emerging economies, such as China, consumed almost twice as much global resources as the other countries, while the countries with low per capita income subsisted on approximately one-fourth as much (Schaffartzik et al. 2019). The high consumption of natural resources by high-income countries is largely ignored in the inequality equation and needs to be part of the global inequality discussion.
Identification of the quantity of global resource appropriations that largely goes to high-income
countries to fill their resource biocapacity deficits and support their high per capita income demand
can show the extent to which low-income countries are disadvantaged in the global economy. Even
though higher efficiency is often touted as a way to reduce waste, high incomes that lead to higher
consumption are often accompanied by increased use of resources (Duro and Teixidó-Figueras 2013).
Moreover, GDP per capita as a measure of economic performance does not account for the
sources and depletion of global resources; rather, it merely hides the real use of resources that
brings about overall income levels (Duro and Teixidó-Figueras 2013). This means that high-
income countries are directly consuming natural resources from other countries with surpluses
without giving credit to such sources.

The contribution of this study is that it tries to connect high income with the unequal use of global
resources and makes this a moral justification for rich countries to help poor countries. High
incomes and, by extension, economic inequality are generated from the higher consumption of
global resources. The primary driver of income, in addition to domestic ingenuity, is the
availability of natural resources, which must be seen together; ingenuity on its own cannot bring
about the robust development seen in high-income countries. The next section provides a review
of the literature and then the methods. Findings are then provided, followed by discussions and
finally, conclusions.

Literature Review

Inequality and economic development
In the North-South nexus, the foundation for economic development is perceived to be
infrastructure development (World Bank 2016). Many poor countries in the South do not have
sufficient domestic revenue sources to build a network of transportation and communication
infrastructure (Fuss et al. 2016) to start to get their people out of poverty. The infrastructure
development approach that has been presented as helping the national development of a country
does not go far enough and is simply designed to facilitate material flows to the North (Biesebroeck
and Sturgeon 2010). Through these infrastructure networks, high-income countries are able to
access distant natural resources that are not available locally. The infrastructure development
mantra is presented as helping resource-rich countries, while in reality, providing access to
powerful countries to exploit natural resources in poor countries is morally not right. How then
can economic development that helps the resource-rich countries in the South be contextualized?
Answers to this question are explored below.

On the basis of moral values, Singer (1972) highlights one key principle that helps find answers to
the question raised above: if the rich countries “have the power to prevent something bad from
happening without sacrificing anything of comparable moral importance, they ought, morally, to
do it.” This principle is further explained as preventing something bad and not promoting what is
good. This study takes a different view on promoting what is good. In regard to the sharing of natural resources, the value that these resources bring to the North should be estimated and explained as materials of high value that the South contributes to the North so that the North can offer help to the South via financing on the same scale.

This argument is further strengthened by the view that if the opportunity costs of assisting poor countries do not hurt the North economically, providing such assistance is also morally the right thing to do. Working towards reducing global inequality would require pragmatic approaches that use moral values to move global cooperation away from strategies that advance instrumental ends and the exploitation of poor countries by rich countries. Therefore, in a globally interdependent world where some countries have per capita income more than 100 times greater than that of countries classified as languishing in severe poverty (Kaya and Keba 2011), it is only fair that development assistance be considered more holistically, beyond the business framework. From a global resources perspective, just as the South is supplying the North with much-needed resources to develop, it is also morally right for the North to help the South develop by providing financing. It is important to re-examine the existing development frameworks, such as loans with very high interest, that have continued to sink poor countries into debt and reduced the capacities of many poor countries to service their domestic programs.

There is also a false impression emerging from a situation where the North has relocated its manufacturing industries to the South, making countries in the South look like they have industrialized (Revenga and Dooley 2019). This has been one attempt to justify the idea that it is not necessary to do anything to address inequality because from an industrial lens, inequality has been narrowing (Arrighi et al. 2003). The industrialization and income gap between the developed North and the developing countries of the South send contradictory signals of success. The industrialization gap has been narrowing, but this has not translated into the narrowing of the income gap, which is essentially the aim of industrialization (Arrighi et al. 2003). The industrial gap has been closing in part because of the relocation of industrial enterprises from the North to the South, making it appear that the South is industrializing and catching up with the North. These relocated industries have created jobs in the South, and there is no doubt that the incomes of the residents have improved, but the growth is not at a rate that enables these countries to catch up with those in the North in terms of income. In addition, the motivation to relocate is not to industrialize the South but rather to move manufacturing firms closer to the source of primary resources, cheap labor and large markets.

Modernization theory and the North-South economic gap
Modernization is an American and Western European concept that was presented as a vehicle for less-developed countries to leave underdeveloped conditions and achieve economic growth (Berger 1994). Policies adopting various frameworks for state-to-state economic development to
implement shared growth and improve efficiency and equity have been proposed. Some of the key policies have concerned financing infrastructure development through loans and capital flows to the South. These policies have been implemented by various organizations to address functional problems (Mosley 2005). The challenge is that these policies are implemented and steered by private sector banking institutions that are outside the state-to-state or government-to-government frameworks and whose main motivation is not to achieve shared growth and therefore reduce global inequality but rather to accumulate wealth.

Most people believe that the foundation for economic development in any country is quality, efficiency and a good transport network and communication infrastructure. Domestic tax revenues often fall short of the expenditures required to develop public infrastructure in countries in the North as well as in the developing countries in the South. For example, in many countries, the national infrastructure costs exceed the national revenue: in Nigeria by a factor of 12, in Ethiopia by 20, and in the Democratic Republic of Congo by almost 26 (Fuss et al. 2016; World Bank, 2014). A study carried out by Kodongo and Ojah (2016) found that both spending and access to infrastructure influence economic growth and that the quality and quantity of support for economic growth are influenced by export diversification and cross-border capital flows. This study does not go far enough to compare how much exports from the South benefit the Southern countries in the form of returns and how much they benefit the importing countries in the North. Such a comparison is necessary, however, because the money used for developing infrastructure in the South is not free, and yet the said infrastructure is designed to provide companies from the North access to cheap labor and market share advantages.

The North-South economic gap is also a result of the fact that state-to-state shared economic rules are heavily influenced by developed countries and their private sector institutions. These rules, according to Mosley (2005), “tend to privilege efficiency over equity and provide more benefits to wealthy nations”. Other studies argue that even when countries in the South are influenced by domestic interests and strategic calculations, these may reflect financial sector priorities, which are again dominated by financial institutions from the North (Mosley 2005). The moral principle developed by Singer (1972) suggests that when the reasons for giving aid to poor countries go beyond providing assistance, it should be a moral duty to provide such aid. Classifying international assistance to poor countries as a moral duty means that nothing else, including interest on loans, should outweigh the aim to assist the poor countries (Kaya and Keba 2011), especially when the lenders also benefit through access to much-needed natural resources from the South.

The most economically powerful states have preferred an ad hoc arrangement on FDIs (Mosley 2005) and refused to follow formal, legal relations that support the needs of all parties (countries in the North and South). Many countries in the North have continued to relocate their manufacturing enterprises to the South mainly for purposes of using cheap labor and moving closer to the markets. I am not sure whether to describe this as smart or greedy, but the developed
countries of the North have kept their manufacturing advantage by providing a false impression that they are transferring capital to developing countries (Revenga and Dooley 2019). The ownership of all Western-owned manufacturing enterprises remains foreign and serves the interests of shareholders and the home country.

**Methods**

There is no question that in the free market and globalized economy, the material flow of resources has been more from the South to the North. This is because high levels of per capita income are accompanied by high levels of resource consumption (Schaffartzik et al. 2019), and by that standard, the North is consuming more material resources than it has. In contrast, the resource use of poor countries is so low that the most basic needs, such as food and shelter, often go unfulfilled (Schaffartzik et al. 2019; World Bank 2018). A study by the Ecological Footprint Network (2016) measuring the natural resources a given country requires to meet its domestic consumption has consistently found that all high per capita income countries have large natural resource deficits, while low-income countries have surpluses. It is therefore fair to argue that because of the global resource-use imbalance, high-income countries that consume higher levels of global resources should compensate low-income countries for making these resources available.

Table 1 shows countries from two regional economic blocks (the European Union - EU and the African Union - AU) that have a long history of trade and shared economic development interests. The top five and lowest five countries in terms of per capita income from each bloc are indicated to show the income inequality and natural resource inequality between individual countries. In detail, Luxembourg has the highest income per year in the EU, with US$ 116,640 per capita, and Botswana has the highest income in the AU, with US$8,259 per capita, a difference of US$ 108,381. On the other hand, the Netherlands has the lowest income in the top five from the EU, with US$ 53,024 per capita per year, and Burundi has the lowest income in the selection from the AU, with a mere US$ 272 per year, a difference of US$ 52,752. Biocapacity measures nature’s capacity to meet the human demand for natural resources. Countries whose consumption of natural resources exceeds the capacity of nature to meet the human demand are defined as having an ecological deficit (Global Footprint Network 2016). The FDI, grants, loans and other financial flows within and across countries in the EU and the AU are analyzed.

The biocapacity column shows how much the demands of an individual country are above or below the capacity of nature to meet those demands. For example, if everyone in the world lived like citizens of Luxembourg, we would all need approximately 7.922 Earths per year to meet the human demand for natural resources, a clear deficit of 6.922 Earths. At the other extreme, if everyone lived like citizens from Burundi, we would all need 0.404 Earths per year to meet the human demand for natural resources, leaving a surplus of 0.596 Earths. The amount of demand that citizens put on nature has a strong connection to the country’s level of income. High-income countries exert very high demand on natural resources, while low-income countries have very low
demand. The imbalance in natural resource use has not been factored into global economic inequality. Given the way the North values its technology and manufacturing, if it had a surplus of natural resources, it is possible that the South would be made to pay for them.

Table 1. GDP Per Capita Income (US$) and Biocapacity (Earths) Comparison

<table>
<thead>
<tr>
<th>Country</th>
<th>EU Countries</th>
<th>AU Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>116,639.9</td>
<td>7.922</td>
</tr>
<tr>
<td>Ireland</td>
<td>78,806.4</td>
<td>3.140</td>
</tr>
<tr>
<td>Denmark</td>
<td>61,350.3</td>
<td>4.175</td>
</tr>
<tr>
<td>Sweden</td>
<td>54,6608.0</td>
<td>3.962</td>
</tr>
<tr>
<td>Netherlands</td>
<td>53,024.1</td>
<td>2.965</td>
</tr>
<tr>
<td>Burundi</td>
<td></td>
<td>271.8</td>
</tr>
<tr>
<td>Somali</td>
<td></td>
<td>314.5</td>
</tr>
<tr>
<td>Malawi</td>
<td></td>
<td>389.4</td>
</tr>
<tr>
<td>Niger</td>
<td></td>
<td>414.0</td>
</tr>
<tr>
<td>Central African</td>
<td></td>
<td>475.7</td>
</tr>
<tr>
<td>Republic</td>
<td></td>
<td>0.747</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>12,301.2</td>
<td>1.898</td>
</tr>
<tr>
<td>Croatia</td>
<td>14,909.7</td>
<td>2.415</td>
</tr>
<tr>
<td>Poland</td>
<td>15,420.9</td>
<td>2.717</td>
</tr>
<tr>
<td>Latvia</td>
<td>17,860.6</td>
<td>3.901</td>
</tr>
<tr>
<td>Lithuania</td>
<td>19,153.4</td>
<td>3.416</td>
</tr>
<tr>
<td>Botswana</td>
<td></td>
<td>8,258.6</td>
</tr>
<tr>
<td>Gabon</td>
<td></td>
<td>7,952.5</td>
</tr>
<tr>
<td>Libya</td>
<td></td>
<td>7,241.7</td>
</tr>
<tr>
<td>South Africa</td>
<td></td>
<td>6,374.0</td>
</tr>
<tr>
<td>Namibia</td>
<td></td>
<td>5931.5</td>
</tr>
</tbody>
</table>


**Findings**

As shown in Table 1, many countries lack sufficient natural resources within their borders to meet their domestic needs. There is a need to work out a formula of sharing natural resources that takes into account the real contribution of those resources to a specific economy and estimate the opportunity costs of having no access to those resources. The estimate of opportunity costs could be then applied to various development assistance loans given to countries in the South. The sharing of resources should not be the only justification. Kaya and Keba (2011) and Wilkinson and Pickett (2014) argue that inequality should be rejected not because equality is more desirable but rather because global inequality subverts the fair functioning of public/private international institutions and governments, thus reducing the ability to see the need to integrate national poverty into global inequality.

**Debt and inequality - what does history show?**

The flow of FDI, loans and other grants between the EU and AU countries in table 1 was analyzed and is shown in figures 1 and 2. Countries with the lowest GDP per capita incomes also have the highest debt-to-GDP ratio, and their access to external borrowing is dictated by global economic performance. When the global economy is not doing well, countries in the South either stop
borrowing or simply cannot be lent loans and Foreign Direct Investments (FDI) flow stops. Global economic performance does not affect countries in the North; in fact, these countries obtain access to more loans when the global economy is not healthy. UN (2009) delegates to the second committee on economic and finance presented information on the impact of the economic crisis of 2007 – 2010 where “financial resources, Foreign Direct Investment (FDI), remittances from overseas workers, export earnings, and tourism revenue all dried up at the same time.” This statement is confirmed by IMF data shown in figures 1 and 2.

For example, except during the recession period between 2007 and 2014, the African countries with the lowest per capita income all had a debt-to-GDP ratio exceeding 50%. Between 2006 and 2014, the debt-to-GDP ratio of all these countries declined to just below 50%. On the other hand, among all sample countries in the EU, the debt-to-GDP ratio rose from 2006 through 2014 and remained at approximately 40%. When the poorest countries in Africa needed help most, during the recession, they did not receive help, while many countries in the EU saw their debt-to-GDP ratio increase. The period between 2006 and 2014 shows how the debt-to-GDP ratio declined for countries in the South, while the ratio rose and remained slightly higher than before the recession for most countries in the North. “The global stimulus package was felt most in the developed countries” (UN 2009).

In the AU, during the recession period from 2007 to 2014, Gabon, Burundi, Central African Republic, Malawi and Niger, the debt-to-GDP ratios dipped to below 50%. These are the countries with the lowest per capita income, and before the recession, their debt was over 100%. While a high debt-to-GDP ratio is not economically healthy, it is morally bad if the rate drops by hurting people through reduced access to basic needs. Countries borrow because they do not have enough savings from various income sources to finance public expenditure needs. While excessive debt can be an obstacle to economic growth and poverty reduction (Siddique et al. 2015) and while many studies have been concerned with the impact of debt on the economic growth of borrowing countries (Jayaraman and Lau 2009; Clements et al. 2003), this study addresses debt issues from a moral standpoint.

Figure 1. Government Debt AU
Approaches to managing inequality and debt
There have been four main paths pursued so far to reduce North-South inequality: (i) the transfer of wealth from more-developed to less-developed countries, (ii) political independence, (iii) the Washington Consensus, and (iv) the 2010 Seoul Development Consensus on Shared Growth by the G20 countries (Zondi 2013). These four approaches are grounded on the concept of global governance and use finance and technology as the vehicle to deliver development outcomes. The participation of the private sector in the global North in facilitating the way finance and capital flows to the global South is not organized on the principles of equality and fairness but rather on efficiency and “what is in it” for those private sector corporations. Therefore, these efforts continue to present mixed results regarding inequality.

These four approaches fail to represent tangible initiatives to reduce global inequality. The conceptions of economic development based on the location of industry as one way to transfer wealth to eliminate global inequality have been inadequate and costly to countries in the South. Attention to location without regard to ownership has been found to lead to a disproportionate percentage of income going to owners, who are mostly foreigners, and not to the local economy (Fowowe and Abidoye 2012). Such an outcome does not translate into industrialization and reduced inequality between individuals and between countries. Therefore, the conventional approach to reducing global inequality needs to be organized around real estimates of the unbalanced opportunity costs between financial surpluses/deficits and natural resource surpluses/deficits. This means developing relationships with foreign industries that exert positive effects on economic growth, such that the profits made by those foreign firms as a result of their locational “local” advantages are able to benefit the local economies as much the shareholders in the home countries.

The Washington Consensus, which was presented as a platform for inclusive, shared, and sustainable economic growth and development, has instead, as described by Zondi (2013), through capitalism turned the South into a source of cheap labor and capital for the North. Under the Washington Consensus, the South was turned into a “structural periphery in a growing and affluent global North through the dispossession of land and natural resources, the expropriation of profits and the exploitation of labor” (Zondi 2013). Unfortunately, many countries that fought for independence and obtained it have also been blind to this reality, as shown by the extent of the North’s control over these countries (Zondi 2013).

The free market model with unfair competition continues to be presented as the best vehicle for economic development. This can only be true in the private sector, where the sole mission is profit making. The challenge is that the private institutions in the global North and the governments in the South do not have the same capacity, resources and ingenuity to ensure a shared growth, such that the profit interests of the private sector overshadow all other intentions. Atisa et al. (2020) found that in places where there are conflicts regarding the use of natural resources for different purposes by different stakeholders, unequal competition emerges, and sometimes, dispossession results, carried out by international corporations with the money and power to manipulate the
decision-making sphere away from equity issues. Most studies argue that global inequality has been declining in the last 20 years (Revenga and Dooley 2019), but this is mainly because the industrial gap in the global South is being filled by the global North.

Inequality cannot decline in a global economy where wealth and natural resource benefits continue to accrue to a “few stakeholders”, leading to a deteriorating poverty and wealth distribution (Atisa et al. 2020). This has much to do with the ownership of capital. Many of the industrial firms in the South are owned by firms from the North that eventually repatriate much of the income and profit back to their home countries. Many of the foreign firms operating in developing economies are owned by private entrepreneurs from the North and retain the design, innovation and critical knowledge functions in the North. A study performed in the Philippines by Bonito et al. (2017) found that entrepreneurship had no significant impact on poverty reduction and income inequality. On the other hand, the same study found that GDP was a significant factor in determining income inequality, meaning that if firms are not contributing significantly to GDP, inequality cannot be expected to decline.

**The costs of modernization for countries of the South**

Lee et al. (2013 pp. 524) argue that a debt service to expenditure ratio of 5% is good, and approximately 10% is acceptable for the state governments in the United States of America. The growing debt of countries in the South, among other variables, contributes to North-South inequality. In countries whose domestic revenue margins are so thin, unlike those in the states in the USA, a high debt-to-GDP ratio leads to the diversion of scarce financial resources from funding domestic programs to servicing loan obligations (IMF 2019). In an IMF (2019) study of the debt-to-GDP ratio of low-income countries, an increasing interest rate burden as a result of the increasing volume of loans was found.

The labor-saving innovations continue to impact the labor demand for skilled and unskilled workers and, hence, the incomes in the South. Savings made from automation mainly go to the top skilled labor and owners of the enterprises, thus widening the income gap (IMF 2019). First, the evolving governance framework serves the narrow interests of investors coming from the North and not the states in the South that host the relocated industries. The voice of countries in the South is limited to the extent allowed by the private sector institutions from the North, leading to relations that are founded not on the allocation of value to address inequalities but rather on profits for foreign enterprises. Many countries have continued to experience economic growth, but the same growth has not translated into human progress and national prosperity (Zondi, 2013). Again, this is the reason why there is a narrowing gap in industrialization that does not translate into a narrowing gap in incomes.

The public needs notwithstanding, corruption and institutional weaknesses drive developing countries to seek more loans without much regard to their capacity to manage debt. Debt capacity refers to how countries are able to manage their expenditures and resources and governments’
ability and commitment to meet the debt requirements (Lee et al. 2013, pp 523). “High debts and deficits, along with the associated financing requirements, leave countries vulnerable to interest rate and fiscal risks and may be a drag on long-term growth” (IMF 2019).

Discussion

**What can the South do?**

Countries in the South know very well that they have not obtained the desired economic outcomes from the transfer of wealth, relocated industries and loans given by developed countries from the North and other international lenders. One of the challenges they face is making the North pay for the use of their surplus natural resources in exchange for development assistance of various forms. In the face of such difficulties, a pragmatic and morality-based framework remains the only viable and acceptable approach to negotiating shared growth agreements. International institutions may be able to help by developing a scale for evaluating North-South wealth and resources exchange mechanisms.

In a liberalized global market, participants do not take turns seizing opportunities. Entrepreneurs have been found to emerge from groups of people who feel they are deprived of opportunities in terms of access to financial resources or some type of welfare (Jenkins 1983). People with very few resources and minimal political and organizational experience have been found to create durable and impactful innovations. Entrepreneurs use what is known as episodic knowledge to generate value when markets present opportunities; they do not require ownership of resources but rather ideas that add context to uncertainty (Atisa 2020; Simpeh 2011; Knight, 1921). Clearly, this is what the North has been doing, taking advantage of natural resources from the South. Through an entrepreneurial approach, the South must find ways to take advantage of the financial resources of the North. Because both regions have entrepreneurial capacity and understand what they want from each other, the North-South economies will be forced to develop a shared growth model that will benefit them both and eventually lead to reduced inequality.

There has also been a push for free trade and open economies mainly from the North. In more open economies, there are fewer regulations constraining participation in the global business environment, which has become a winner-takes-all community. Looking at the extent to which competition has intensified, economic openness can be described as one of the avenues leading to global inequality. Simpeh (2011) explains opportunity-based theory, according to which entrepreneurs do not cause change but are able to exploit opportunities created by change itself. “Entrepreneurs have an eye for the possibilities created by change, not the problems” and are constantly looking for and responding to changes by exploiting them as opportunities. Jenkins (1993) asserts that entrepreneurship easily emerges among deprived groups and factionalized communities. These are the type of conditions currently existing in most communities in the South.
If the observation by Jenkins is correct, countries in the South must start to ask themselves why they are unable to develop the entrepreneurial skills necessary to start generating wealth and replace the need for imported development capital from the North. This could be done through developing economic policies that mitigate specific aspects of development assistance from the North that do not serve their interests. Moreover, efforts tackling economic problems in the South should move beyond the theoretical discussions about inequality to begin addressing the practical world of global competition, the firm grip of capitalism on the global economy and the global society of winner-take-all corporate policies that are here to stay. The only solution is a global society guided by a moral compass to address inequality as a moral problem and not as a business outcome or competition problem.

**What can the North do?**
One question the North should be asking is, given the current high deficits in biocapacity and natural resources, what would be the cost of obtaining the same resources from alternative sources (there are no known alternative sources)? Some advanced countries in the North are currently investing in technology to go as far as the planet Mars in a search for human habitable conditions. If there were habitable conditions, they could not be shared with planet Earth unless everyone from the North moved to Mars. There is nothing wrong in investing to expand the frontier of living conditions, but the reasons behind such investments and how the investments could serve the entire population of the region are worth examining. The question such efforts ignore is, what if these efforts and funds were invested in sustainable development initiatives in countries with surpluses in biocapacity to make sure there is a continued flow of resources to wherever they are needed? Answering this question would require prioritizing expenses and benefits so that countries can start to invest in a more equitable society and not in wealth, power and privileged development frameworks.

The free market economic framework that currently governs economic relations globally is not about fairness but is rather a justification for the rich, most powerful and most innovative to maximize the returns from the businesses they own against all other competitors. It is called fair competition, but from a philosophical lens, this conceptualization of fairness under the free market is responsible for global inequality. The free market framework does not care about losers; it is purely an expected outcome that there must be losers and winners. How the winners in a free market economy treat losers is something that has to be addressed by the market participants and not the market itself. This issue requires a cosmopolitan approach, especially for industrial firms that have relocated their operations to the South, to finding a balance between profit margins and the investment in local economies. To be a cosmopolitan is an inspirational ideal which, according to Nath (2011), “is to see oneself as a part of a global community comprising all of humanity, identifying as a member of one’s local community.”
This means that the private sector or the markets should not be allowed to dictate transnational help based on commerce but rather that assistance should be government led and based on community needs. Using the philosophy of John Rawls regarding global economic justice, Miller (2011) explains the conception of fair equality of opportunity dictated by political duties in support of “the lifetime expectations of income and wealth of the worst-off” participants in a project. The “worst-off” participants in this case are the businesses from the South and the governments that agree to host multinational corporations from the North with a hope of advancing towards industrialization. Legally, corporations are regarded as people, and therefore, they should have a feeling towards the communities in which they find themselves through regulations. Global corporations should identify with the local communities where they have relocated, accept being subjected to political duties in the host country and understand the material expectations and needs of the country.

Who else can take responsibility?
Inequality is not a problem to be left to governments and private sector initiatives. It needs to be defined broadly, and more players with an interest in serving the greater public good invited to take part in developing relations between governments and private sectors in the North and the South. The existing relationships leave the South at the mercy of powerful Northern interests. The decisions made in the North are more binding in the South, while decisions made in the South have no influence on the way Northern governments run their economies and business. There must be a third player with no vested interests on either side.

With regard to making regulatory rules on global financial flows and investments, the private sector has had greater influence than governments or public sector institutions over how decisions are made (Mosley 2005) in both the North and the South. Unfortunately, it is mainly the global corporations from the North that continue to present such great influence, with almost zero input from the industrial sector in the South. It is right, therefore, to assume that with the insignificant influence of the South, human values and the understanding of how economic arrangements affect communities in the South are not well understood globally.

Global relations should go beyond politics and economics to include human values with rising global connections and interdependence. This is because regardless of the direction of capital flows, those that invest more tend to gain more, and these actors should be concerned about giving back to the local communities where their investments are generating the greatest returns. Keohane and Nye (1971) raised important questions on the allocation of economic value, who benefits from international relations and how this impacts inequality between countries. Mosley (2005) hypothesized that private sector “institutions tend to serve the interests of powerful countries and powerful constituencies within those countries, thus limiting progress in equity.” For these reasons, countries from the South have no viable platform to voice their displeasure with the biased, predetermined decisions except through other international players.
I propose that international institutions, such as the UN, World Bank, IMF, and World Trade Organization, restructure their global policies and take a stronger role in the search for ways to reduce global inequality. For a long time, these international institutions have paid attention to the global distribution of wealth and power (Mosley 2005), but they have done so through the lens of the Northern private sector economic policy of free market capitalism. In a more globalized world, these institutions have continued to expand their role beyond economic and political relations into the realms of human rights and global security. Because the concept of human rights and global security has been narrowly defined, global inequality has not been perceived as a human rights and global security landmine. Many human rights abuses and global security problems have their origins in poverty, perceived unfair treatment by the wealthy and powerful, and global corporate greed. International institutions can facilitate the fair treatment of all countries on a global economic platform through the creation of rules where a percentage of profits from global investments can be channeled towards reducing global inequality.

Reconciling North-South development
The North-South inequality is not an abstract issue but a real challenge that is felt by communities in the South through real deprivation, dispossession and unfairness but seen by the North as a market opportunity to be exploited. Global inequality cannot be reduced by investing in the expansion of own industries and opening up branches in poor countries but rather by investing in reducing barriers to growth in the South. There are good and moral reasons to be troubled by the large economic inequalities between countries and between individuals globally. The character of human interaction and the ways of doing business should not solely be guided by the invisible hand of the market. Nath (2011) argues that “well-off citizens of the world have obligations to reduce global inequality”, and they can meet these obligations through adopting fair business practices.

The starting point would be reconciling policies that are designed to address corporate-centered needs and policies that address human-centered needs in this North-South inequality. Governments from the South are clearly struggling to make profit-centered private sector stakeholders from the North see the human-centered needs and support development in the South. The North and South lack a common focus on what is and should be a shared responsibility outside of their individual missions or core principles. There are no tools ready for the South to deploy in order to create a common focus among all stakeholders in this North-South relationship. This means examining the past and potential future relationship and exploring how to achieve a more equal relationship. The aim is to build a global society where the North and South can realistically influence each other, such that the North alone cannot shape the South, and the South alone cannot shape the North, different from the current framework of inequality.
The North has adopted FDI as the means for transferring capital to developing countries. This is merely a strategic effort designed to expand the market and lock in market share (Moran 2011, page 34). Rather than opening full-fledged production firms in the South, corporations from the North have opted for assembly lines to save on the shipping costs of completely assembled machinery. Moreover, in addition to providing access to cheap labor, this means allows corporations to set up plants behind trade barriers and become more competitive in expanded markets (Moran 2011). It is possible, although unproven, that the incomes paid to local laborers in these assembly firms represent a small percentage of the savings made relative to the case if these companies were to ship completely assembled machinery. By setting up assembly lines where local labor is only involved in putting parts together, there is no real technical knowledge transfer, as there would be if these companies actually built production centers. This approach can be expected to block any path towards industrialization and should be abandoned.

Another way to try to reconcile North-South development is to take natural resource use beyond environmental implications and try to determine the economic contribution towards specific global, regional and individual economies. Until global economies establish a clear linkage between material use and economic growth, reconciling North-South development will be difficult. Countries of the South are endowed with rich natural resources, while countries in the North boast high levels of technological development. In addition to having rich technological endowments, countries in the North are more advanced in economic terms than those in the South. The mutual importance of technology and environmental resources to each other has not been recognized. There needs to be a way to determine in terms of value how much natural resources from the South contribute to the technological advancement in the North and share the benefits of this contribution.

Lessons learned
Kakwani and Silber (2008), writing about human development in a special issue devoted to multidimensional poverty analysis, quoted Arthur Lewis (HDR, 1996, p. 46) and stated that “development means widening the range of human choices.” Looking at poverty from a development perspective, I like the conceptualization provided by Kakwani and Silber (2008) and would like to explore some lessons from this view to enrich the thinking on inequality. On the one hand, poverty can be defined “in absolute terms, where it refers to income levels that do not guarantee that basic physical needs are covered.” Poverty can also be defined in relative terms, as income levels that do not allow individuals to function properly in their social environment. Global inequality is defined broadly as the disparity in incomes. However, income disparity does not tell the full story; instead, inequality concerns the levels of income that cover basic needs and allow individuals to function properly in their social environment. These definitions suggest that people should be given opportunities under the shared growth framework to make their own incomes that cover basic needs and enable them to function properly in their social settings. In an open market
and a competitive world, this speaks to specific efforts and types of help that should be provided by rich countries from the North to enable the South to function properly.

More studies focus on how multinational corporations can tap into their full potential and gain maximum benefits in foreign markets (Ferdows 1997) than on how host countries can also benefit from foreign firms. Studies have found that before the local markets in the South started burgeoning, FDI was mainly intended for re-export back to the North (Johannes Van Biesebroeck and Timothy Sturgeon 2010). High-value functions, such as innovation and design (knowledge-intensive), remained in the North, while production activities migrated to the South. This, however, is not the case across countries in the North, where manufacturers do not place much importance on wages and market share but willingly and easily allow FDI flow, knowledge and productivity among each other. Ferdows (1997) found that when manufacturers do not move technology with complete design and knowledge-based functions, the host locations are provided with limited resources and a narrow strategic scope that are not beneficial. This is the reason we see many manufacturing firms from the North establishing assembly lines only in the South. In such a framework of industrialization that lacks the transfer of innovation, design and knowledge processes, economic inequality cannot be solved.

The model using development loans and grants to develop infrastructure in the South cannot guarantee the reduction of inequality. This is because public infrastructure spending can have positive effects on economic growth only under very specific circumstances, when there is strong complementary spending from private capital, in the South (Easterly and Serven 2003). The North therefore needs to invest in private sector partnerships in the South and create a sector that supports local infrastructure development needs. The grants, handouts or emergency assistance that the North has been providing will not change the status quo until there are ways to start investments that target the development of individual and productive sector capacity and reduce the vulnerability to expectations of handouts or loans. Pro-poor growth policies that can rid the world of inequality cannot come from handouts, loans or relocating manufacturing in the absence of clear and tangible efforts to address the underlying capacity challenges in the South.

There are many potential and untested ways to try to eradicate global economic inequality. First, national governments in the North have given power to the private sector to make business sector rules, and these businesses seem to exercise this power globally. Governments from the South seem too willing to be bound by private sector rules originating in the North. The current market-oriented framework cannot be trusted to reduce global inequality. On a planet where humanity is clearly facing shared problems, such as the ongoing COVID-19 pandemic, climate change and terrorism-related threats, the call to reduce global inequality has never been more urgent. The steps each country and region take to address these shared problems can add to or subtract from the global outcomes and the global effort. Every country on earth should have the capacity to face
these global threats. This is only possible in a global order where political institutions are able to mandate economic institutions to balance profits with service to the poor (Nath 2011).

Development needs of countries from the South were not prioritized during the financial crisis of 2007-2010. The global economy, in the year 2020 is again going through another financial crisis brought about by COVID-19, an infectious disease that has spread to the entire globe. The global economy has been shut down in order to stop the spread of this infectious disease. There is no doubt, if the approach to recovery once this crisis comes to an end follows the same framework like the 2007-2010 financial crisis, the countries from the South are likely to sink deeper into poverty, more than they did in the period after the last global crisis. The recovery was much slower and the FDI to South declined by big margins as shown in figures 1 and 2. This current crisis is hurting all countries more than the previous one and how long the global recovery will take is difficult to predict. It is likely to leave the South more isolated economically than before. Based on the moral principles and the current incomes/resources, deficits/surpluses, the AU, together with the international development institutions should work out a new framework to ensure a fast, steady and broader recovery for countries in the South once this crisis is over.

**Conclusions**

North-South inequality has been found to aggravate poverty and is a moral, political and economic issue in a globalizing world that needs attention (Kacowicz 2001). The real indicators of narrowing global inequality are the differences in the labor income between individuals in the North and the South and the strength of the linkage between the per capita income in Northern countries and the biocapacity levels in the South. At present, the inequality between individuals in the North and in the South has continuously been rising (Arrighi et al. 2003), and this is not merely a contradiction of the literature but rather the global reality.

The current framework of wealth distribution is guided by power and privilege, making it very difficult to reduce global inequality. Wealth does not come in the form of money alone but can be seen in other forms, such as natural resources; likewise, inequality can also be classified into various forms, and all those forms need to be considered on the same scale. There is no justification for global inequality when every region has something to offer that makes the entire world a better place. It should be a moral aspiration of the North to work towards equity as long as such efforts do not pose economic costs. Globalization, if left unchecked, can be detrimental to the global distribution of resources, bringing about greater inequality rather than reducing it. This is clearly displayed by the differences in per capita income and biocapacity between the countries in the North and South. It is right to conclude that as long as the private sector from the North continues to have a free hand in the rule-making regarding international finance, global inequality will continue to increase rather than shrink.
Investments by the North (high per capita countries) in the South (low per capita countries), which have long been presented as enabling development, are in reality an extension of the resource consumption possibilities frontier that has little to do with development in the South (Schaffartzik 2019). High-income countries lack sufficient natural resources within their national borders, as has been estimated by the Global Footprint Network (2016), and have to rely on the resources in the South. This provides a moral and pragmatic justification for the North to assist the South in getting out of poverty.

There are many legitimate international organizations designed to influence global affairs for a just society, such as the UN, the IMF, the World Bank and the WTO. The small extent to which these have been able to influence the powerful and rich countries and their private sector is worrisome. These international institutions, which should provide solutions to functional problems regarding distributional and economic benefits between countries, have failed to take a middle ground strategy to guarantee equitable relationships. For example, as trade and financial interdependence have expanded between the North and the South, the preferences of the North have also gained greater influence over decisions that affect both regions (Mosely 2005). Historically, rather than adjudicating fair international relationships, the existing international institutions have provided a way for the rich countries to impose their preferences regarding global economic challenges (Mosley 2005; Drezner 2003; Simmons 2001), and this must tangibly change.

References


Berger M. T. (1994) The end of the 'third world'? Internationalisation and the History of 'Development'

19


