

Opinion **Globalisation**

## The globalisation elephant has left the room

The latest data indicates a clear link between trade integration and falling global inequality

**CHRIS GILES**



Lower-income urban Chinese households, who came close to the bottom of the global distribution in 1988, now enjoy living standards above the global median © Luo Yunfei/China News Service/Getty Images

**Chris Giles** YESTERDAY

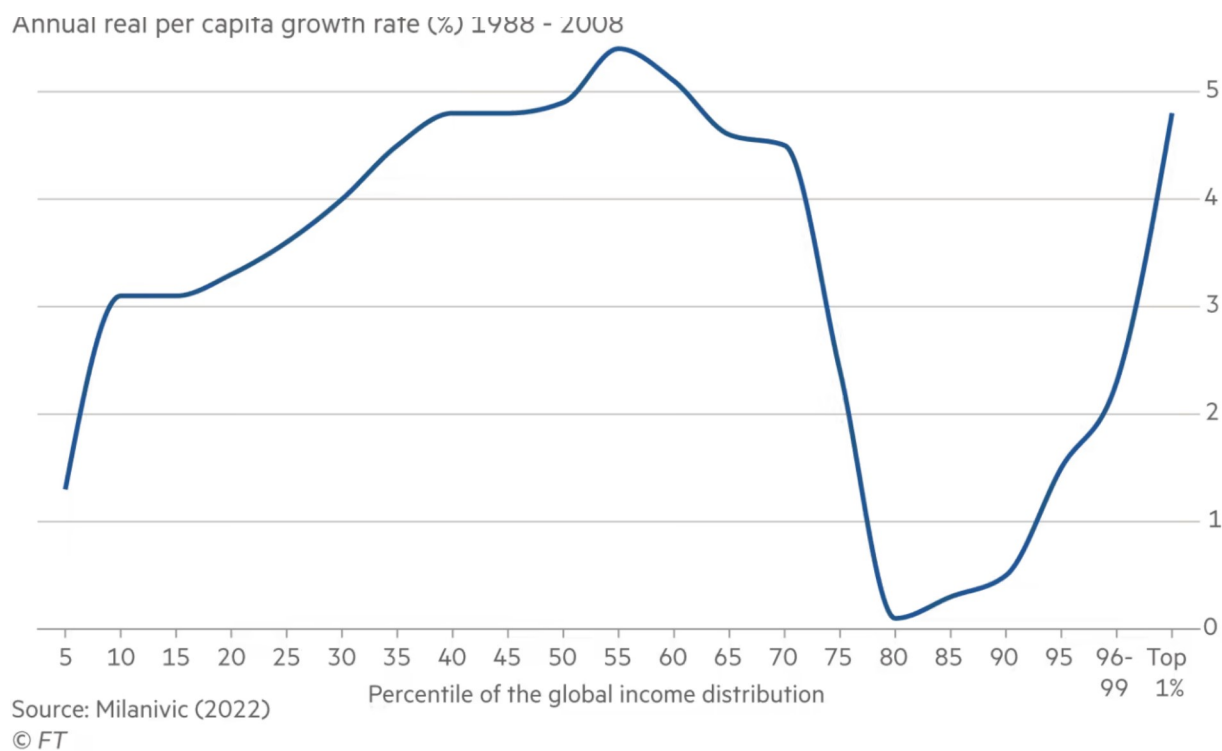
Almost a decade ago, the globalisation elephant entered the room. At a time when advanced western economies were still suffering from the 2008 financial crisis, a 2013 World Bank [working paper](#) contained a chart that appeared to explain everything.

The chart, produced by researchers Christoph Lakner and Branko Milanovic, resembled an elephant. It showed growth in living standards at different parts of the global income distribution in the 20-year period of peak globalisation ending in 2008. That encompassed the fall of the Soviet Union and China's accession to the World Trade Organization.

The most common way to interpret the chart was to view the tail of the elephant as representing the global poor — mostly in sub-Saharan Africa, which enjoyed precious little benefit from trade integration. Higher up the income distribution, the main body of the beast showed huge growth in real incomes at over 5 per cent a year largely going to Chinese households and the new Asian middle classes.

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The elephant chart appeared to explain the effects of trade integration on global incomes



Sliding down the elephant's trunk were the middle classes of rich countries, suffering from no growth at all in their incomes. But immune from this stagnation were those in the world's top 1 per cent, represented by the trunk's tip pointing upwards. This elite were in charge of the globalised world and creamed off the proceeds.

This interpretation of the chart was never correct because it took no account of how people moved up and down world income distribution over time. But it has polluted the discourse over the effects of globalisation ever since. The good news is that Milanovic's new research, updating his results to 2018, has removed the elephant from the room.

Since the 2008 financial crisis, the incomes of the poorest families have risen the fastest, with annual real income growth of the poorest tenth of the world's population at about 7 per cent. That falls to 6 per cent for households with middle incomes and under 2 per cent a year for the global elite.

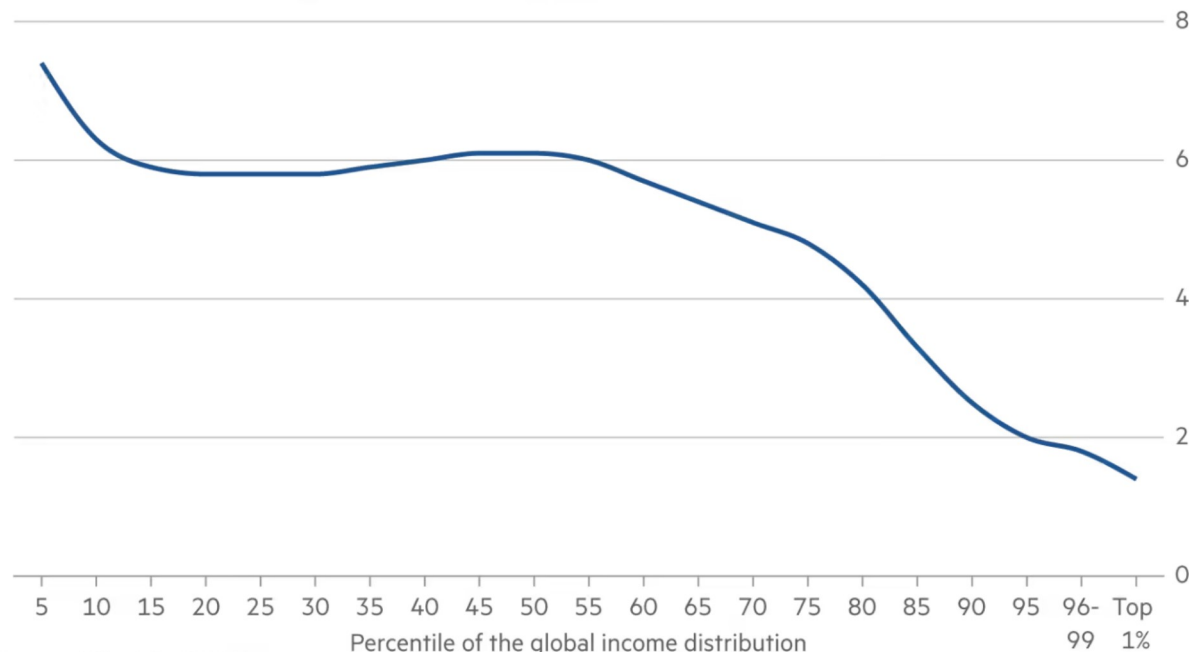
There is no doubt that this data shows a large reduction in global inequality over the past decade. But nevertheless it again requires careful interpretation because, as Milanovic says, over the past 30 years there has been "the greatest reshuffle of individual income positions since the Industrial Revolution". Lower-income urban Chinese households, who came close to the bottom of the global distribution in 1988, now enjoy living standards above the global median.

With China having vacated many of the slots at the bottom of the distribution, those

are filled mostly by poorer Indian households who now have lower living standards than their Chinese counterparts.

### In recent years living standards have risen fastest at the bottom of the global income distribution

Annual real per capita growth rate (%) 2008-2018



Source: Milanivic (2022)

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A reshuffle of living standards is also happening further up. The poorest Italian families were in the top 30 per cent of the world's income distribution in 1988, but now only just make it into the top half. Importantly, the middle classes in all rich countries have not slipped down the global rankings. The top of the rankings has shown great stability, with G7 households accounting for roughly two-thirds of the global top 5 per cent both in 2008 and 2018.

This new research requires us to modify our thinking about globalisation. With Chinese and East Asian incomes now above the world median, further improvements in average living standards will increase global inequality rather than reduce it unless there are also income gains in rural India and Africa — a much harder ask given the past economic performance of these areas.

Globalisation might therefore not be nearly as successful in reducing world inequalities over the next few decades as it has been over the past 10 years. But we should welcome the fact that the globalisation elephant has left the room. The truth is, it was never really there.

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