Globalization And Marginalization Of Least Developed Economies

The economic dependency and integration of the world economy has seen tremendous growth in recent years and has been a powerful catalyst to growth. This has been driven by increasing international trade where the world economies have opened their borders to allow movement of goods between domestic and global regions. The extent to which international trade has benefited the poor regions can be questioned as the least-developed economies (LDCs) are seen lagging behind.

The concern for this essay is to address the marginalisation of poor economies as disparities between the North and the South persist. The North-South divide is a socio-economic and political categorisation of countries where the North includes the USA, Europe, and Australia while the South includes Africa Latin America and developing Asia. The poorest economies, particularly in Africa have not shared in the prosperity of international trade. I will put forward some reasons why this is the case and talk about what is embraced by international institutions to allow the North to be winners in trade at the expense of the South. Focusing on LDCs will allow me to conclude whether global efficiency or global prosperity has been achieved.

The share of trade for LDCs remains significantly low at below 1% for both merchandise and world trade (World Trade Statistical Review 2017, 2017). In comparison, developed regions are more influential in global trade. Before the industrial revolution, the income gap between the rich and poor countries was 3:1 and this increased to 44:1 in 1973 when international trade had already begun (Murshed, 2002). At a time where globalisation is growing, we can question why LDCs have not benefited as much as other nations.

Available literature on this topic claims that marginalisation can be credited for this issue. This refers to various disadvantages due to which some nations cannot benefit from international trade. For LDCs, a lack of progressive policy regimes and favourable governance means that they are losers in the ‘game’ of trade. Adverse international freight costs and transport problems has led to the relative decline of exports for countries in Sub-Saharan Africa. On average, developing countries, especially in Africa and Oceania, pay 40 to 70% more for international transport on their imports (Unctad.org, 2014). Inferior connectivity with their counterparts in terms of poor infrastructure endowments and inadequate technology means that freight rates are higher.

Prices set by companies in the shipping industry have a strong influence on the degree of integration by a region into the global network. It is important for regulating bodies to manage competitiveness in this industry and be aware of any potential collusions which hinder competition and thus lead to high freight rates. Similarly, the volume of trade by developing countries has an influence on transport costs. As shown below, external economies of scale means there is a negative correlation between volume of trade and transport costs. LDCs have the lowest volume of trade with any other regions in the world, which explains the high costs.

The lack of product diversification is another reason for the marginalisation of trade in LDCs. Increasing the total crop productivity in terms of quality and quantity of products will add value

and yield greater returns in the global markets. Sub-Saharan Africa has a comparative advantage in manufacturing and agriculture but due to exogenous factors such as soil fertility and rainfall, it may be difficult to diversify the portfolio of crops. Also, limited technology-related factors such as irrigation technologies also means that farmers are constrained in terms of productive efficiency which affects their competitiveness against other economies with better inputs of production. These economies are unable to produce at lower costs like their international competitors.

Protectionism by the North towards goods that the South has a comparative advantage exists and further marginalises LDCs. This is done to protect their domestic firms against competition allowing them to maintain their global market share. High tariffs and non-tariff barriers (NTBs) imposed significantly raise prices of products imported from LDCs. This reduces the potential for competitiveness of their goods on the global market because consumers will choose their domestic goods or source cheaper products elsewhere. Tariffs in Sub-Saharan average 26.8%, more than three times of the fast-growing exporters, and more than four times the OECD average (YEATS et al., 1996). This greatly diminishes the potential exporters' ability to compete in foreign markets. Institutions such as WTO must work in favour of LDCs and put in place price ceilings which cap the amount that the Northern economies can put on imports from LDCs.

Further negative implications are realised from NTBs, countries may choose to control the volume of goods exported to LDCs by fixing a maximum volume for Sub-Saharan Africa. This means that developing economies cannot benefit from better efficiency by foreign producers as much as the North. Increasing Northern protectionism on goods diminishes the benefits LDCs can get from opening borders to trade. This hegemonistic nature of trade means that LDCs suffer whilst more developed economies push for free trade rather than fair trade in order to promote their own markets.

Stiglitz (2002) supports the conjecture that developed economies are favoured in trade more than LDCs. The response by the IMF following the financial crisis was to save larger economies from failing more than developing countries. Albeit helpful to creditors in developed economies, raising interest rates made matters worse for developing countries.

Finally, regional policies in developing countries are also a factor to their marginalisation. A lack of subsidies means that local businesses incur all costs such as freight costs. If governments subsidise freight costs, it lifts the burden and allows businesses to maintain their market share on the global platform. This will eradicate some of the barriers to entry making more businesses willing to enter the market to compete internationally.

As highlighted throughout the essay, the governances in international trade are fundamentally unfair to LDCs, they allow the big players such as the USA with greater international influence to win. The idea that protectionism does not only yield good results is emphasised by French economist, Frédéric Bastiat. He says, "Protection concentrates at a single point the good that is does, while the harm inflicted is diffused over a wide area. The good is apparent to the outer eye; the harm reveals itself only to the inner eye of the mind". The good that international trade has birthed is more evident in the North. Advanced economies have seen rapid growth because they have good management of the resources available to them and international institutions' governance favours their environment more than that of poorer regions. Poor regions remain stagnant with little change to their standards of living as they lack the resources and knowledge

that allows them to participate and compete globally.

For globalisation to benefit all, there needs to be a reform of institutions such as WTO, World Bank and IMF, which govern the matters of global trade. The rules of trade by these institutions need to be reviewed such that they are more considerate of the poorest regions to enable them to share in the prosperity of trade that the North indulges in. For instance, deregulation of international shipping services will allow greater competition and lower transport costs.

We can question that causal relationship between international trade and growth in LDCs. The marginalisation of the poor regions may not be due to the rules embraced in trade but due to low GDP. Budgetary constraints mean that these countries have limited factor inputs which limits the extent to which they can participate globally compared to other players in trade. High GDP countries in the North perform significantly better so we can say reverse causation where growth leads to better trade exists.

Globalisation through international trade should have helped the chronically poor and bridged the gap between the North and South but empirical evidence shows that disparities still exist. Policy regimes by institutions have not led to the convergence of economies to their stable states and poverty alleviation has not yet been achieved. Neither global efficiency nor global prosperity have been achieved through international trade. Encouraging giant economies such as the USA and China to work with international institutions to revise the policies embraced in trade would be a step forward in ensuring a fairer and a more level playing field for the economies lagging behind. Increased transparency by regulating bodies will also encourage democracy in terms of the rules passed and embraced.

Overall, the clear winners in trade are the North while the South remains idle.

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