

# Globalization of Economy: Strengthening of Inequalities between Countries and the Possibility of Reducing Them

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**Abstract** Through the globalized economy that essentially leans on the liberalization of commercial exchange between the different countries all over the world, it seems like some countries and even entire continents like Africa are in isolation from the prosperity resulting from free exchanges. This contribution aims at examining the several ways which effectively use the results of trade liberation in amplifying the developing countries' potential of achieving development. It was concluded that this liberalization includes many developing countries, but unequally leading to deeper poverty and impairment, furthermore, it is important that the developing countries become aware of the depth of liberalization mechanisms and create bases to benefit from it to achieving a structural changes which would eventually enable these countries to overcome poverty and impairment.

**Keywords:** trade liberalization, development, poverty, productive activities segmentation

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## 1. Introduction

National economies of every country belong to one economy, distinguished by a global trading market, investments and capitals, but these countries do not participate nor benefit from it as they should due to economic and developing qualifications that limit their ability to effectively participate in this market, what led to a global economy with a disproportionate structure as different its own components from a perspective of technological advancement or impairment, having natural resources or lack of them and that's what divides the world to three major groups forming the global economy, developed, developing and underdeveloped countries, characterized by the liberalization of their economies' function which would make it a hard mission for developing countries to flourish economically, scientifically as well as technologically.

So if reality imposes that the developing countries deal within this globalized economy based solely on liberalization, it also forces them to find ways to take advantage of it by concentrating scientific and practical efforts to surpass obstacles of poverty and impairment.

So based on the aforementioned data, and focusing on the prominent economical model which focuses on reinforcing the existing contrast between world countries, this paper tends to answer the following main question: "What are the standards which could increase the possibilities of taking advantage of trade liberalization and

of the production globalization in eradicating poverty and widening development opportunities?".

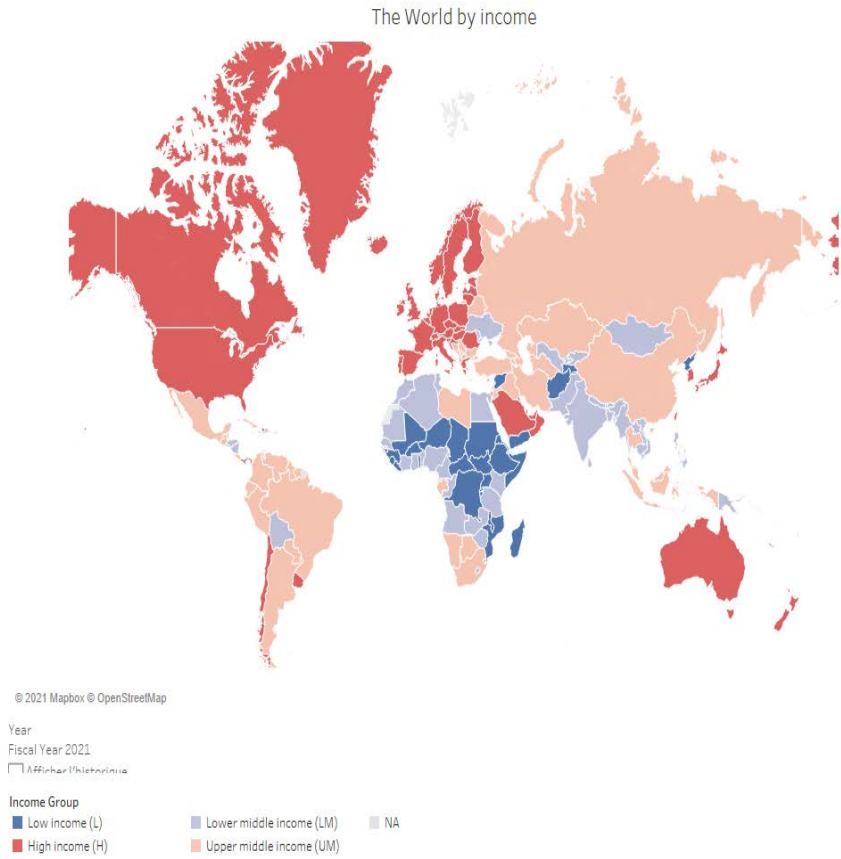
Based on the above proposition, we can pose the main question of the study as follows: "How does stakeholders' opinion mediate tax planning activities?". In order to address this problem and take actions on the aspects that make up the themes of this subject, we have divided it according to the following axes:

- The dominant economic model and developing countries;
- Trade liberalization and development and overcoming the differences potentials;
- Determinants of national localisation and their role in trade liberalization;

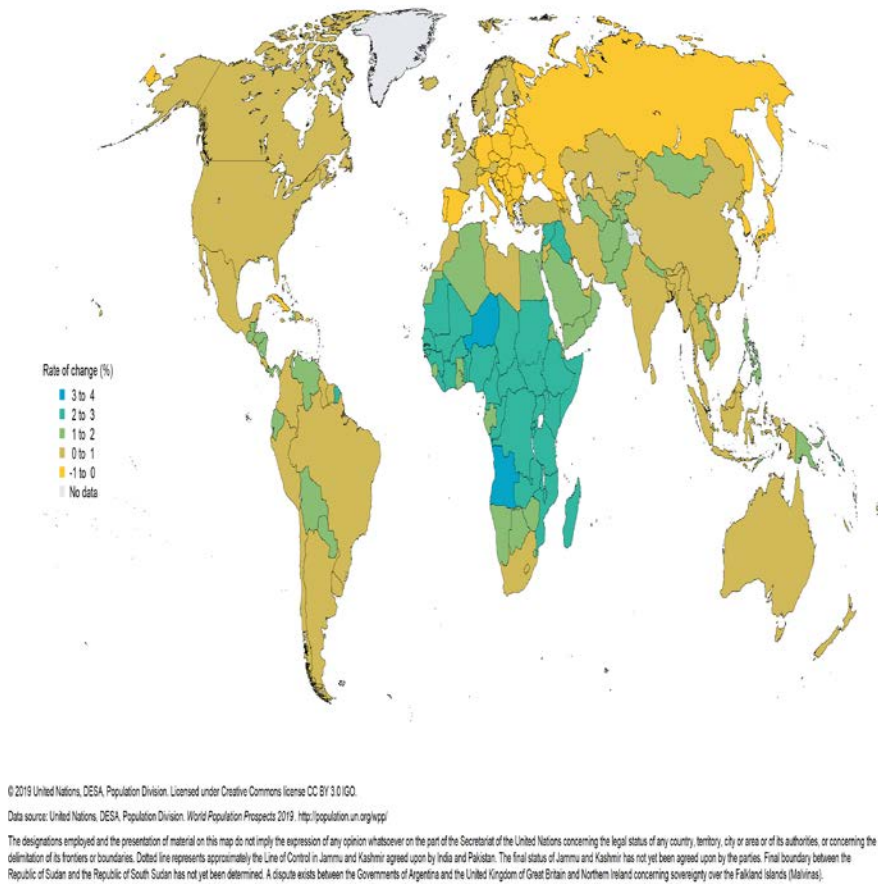
## 2. The Dominant Economic Model and Developing Countries

The developing countries are distributed on various spots on the map, but the majority along with the poorest are situated in Africa as illustrated underneath, where people live on less than 300 dollars as a yearly income [1].

These economically challenged countries are facing the problem of overpopulation, one quarter of the world's population is in Africa, which requires the need for some important resources which are being exported, mainly to satisfy Europe, Russia and China's needs. The last is aggravating the climatic situation as well.



**Figure 1.** The world by income and region  
Average annual rate of population change (%), 2025-2030 (medium-variant projection)



**Figure 2.** Average annual rate of population change (%), 2025-2030 (medium-variant projection).

The poorest countries are distinguished by the largest population growth as shown above yet these countries are obliged to face the global economy which is embodied in "The Washington coincidence" [2], one of its most important principles implies that internal and external trade liberalization are vital factors for economic growth and international financial institutions, especially FME, emphasizing that trading policies are important to achieving convergence and economic development. However, at the end of the nineties, with the failure of the structural adjustment programs and the emergence of poverty in many parts of the world along with the huge differences between countries. Especially emerging countries well qualified to succeed and economic triumph like China and India, while a large group of developing countries, mostly African countries got trapped by poverty, the globalized liberalization was obstructed that lead to reconsidering the link between trade and development and what was interpreted by Bretton woods enterprises through the new development policies which focus on narrowing the gap of poverty and deepening the understanding of the mechanisms leading to that and possible contribution of trade in achieving development.

Since the dawn of the millennium developing countries was more integrated in the global economy after switching from import substitution policies to a model based on exports. The developing countries used many forms toward trade liberalization:

- Imposed liberalization in compliance with structural adjustment programs which were a condition to receive financing and recycling debts schedules. It was distinguished by the lack of maneuverability and submission to owners of capital.

- Multi-party liberalization: since it was founded and by the end of Uruguay's round, it did not affect the developing countries, whether due to not being GAT's members or not signing any treaties. After the foundation of the WTO and relying on 1994 individual commitment, developing countries were forced to liberate their trade at a slower pace compared to developed countries.

- Regional liberalization: it is generated by deals and treaties between developing countries and industrial ones or between developing countries themselves.

Since the end of the nineties and on a span of twenty years, these commitments led to tariff dismantlement especially countries with high protective tariff systems; it decreased to half between the eighties and the end of the nineties. The dominant capitalist economic model which is imposed on developing countries made them a part of it with an unfair share of efforts and benefits, what could push developed countries to surpass security, poverty and pollution problems alongside developing countries through reconsidering the market capitalism dividing work according to a pyramid rule [1], that account for the privacy of poor countries, especially the African ones by founding what's known as social business, facilitating productive foreign investors with no beneficial intents at first instead of receiving international aid requiring , a more effective role from states or governments in capitalism through creating and assuring markets by trade unions and bounding strong alliances to face security issues obstructing investments.

### 3. Trade Liberalization and Development and Overcoming the Differences Potentials

The definition of growth and development knew a continued evolution, in theoretical references, early hypothesis and according to the classic theory, growth is due to external sources, mainly the accumulation of productivity factors as theories have confirmed the basic role of capital, saving averages and external aid illustrating the importance of the economical growth by building models around investment as a direct cause of development. The cascading theories related growth to other factors with the ability to double its like in the case of innovation, which is an individual effort motivated by profit, according to (Schumpeter), and economies level rapprochement caused by the spread of technology according to 1956 Solow model [3]. The liberal theory endorses this model to affirm economical openness as a development strategy to reinforce local and foreign investment to raise capital accumulation. Therefore, economical openness has the same effect to uprise local saving average because it allows the rise of capitalism and individual income .Capitals, goods, and services exchange with the rest of the world help achieving higher balance and leading to higher levels of luxury, whereas closeness and restraint on capitals weaken the development of countries, in addition, openness eases technological advancement spread. So, in the beginning, theories looked at development as external but later, new classic theories hypothesized that research, development and investment have no effect on growth in the long term since capital's effectiveness is always decreasing. As a result, increasing investment will lead to the less efficiency of capital, and growth augmentation then is just temporary.

The modern theories leaned toward the role of intrusive policies in growth and society luxuries, and it the internal growth theory helped build a positive relationship between international trade and long term economic growth and development [4]. Its focus is on how to overcome trade obstacles and accelerate development growth averages through accommodating advanced technologies at a faster pace by developed countries, and profiting from research and development realizing scale economies, decreasing prices, derivation. All these lead to better management by using local resources throughout different economy's sectors fulfilling an upraise of medium income and introducing new products, yet the Solow model focused on technologies as the main source of development without explaining how to reach technological advancement and development. Solow regarded technology as an external factor increasing at a constant level, what led to the idea of economies convergence where developed countries are close to the balance point which makes lesser chances of growth average is low whereas developing countries are way far from that point. Therefore the growth average is higher that it might allow them to catch up with developed countries in the long term.

What can be deduced is the importance of technology in the local growth through the process of transforming resources to products, so innovation and renovation

improve the economy's circumstances [5], and it was illustrated in the mid eighties by the internal growth theories where P. Romer (1986) concentrated on the importance of research and development, Lucas (1988) on the human capital whereas Barro (1990) focused on infrastructure and government spending. These theories seemed to be aligned with the idea of a positive link between trade and development over the long term. The theoretical frame, explaining the external trade, evolved from the classic explanation based on static effects of improved and specialized resources for dynamic effects serving as a base for modern trade analysis, which has taken in regard the external surplus and the ability to prevent all countries in external trade equally.

#### **4. Determinants of National Localisation and Their Role in Trade Liberalization**

The global economical activity is distinguished by the partition of the production process that is dividing the process between an activity sector at the source (upstream) in a state or a country and another sector at the outlet (downstream) in a different country. These industrial sector partitions exist with different scales, increasing economies in relation to the companies because the cost of transportation and communication of medium goods defines the importance of financial savings. The new balance relation between concentrated forces of industrial activities and powers of diffusion to include the developing countries in the perimeter which are limited by industries dependence on medium goods, production sector density upstream and downstream. The decrease in final goods transportation cost variation and where they will be consumed is an important determinant. If final goods cost is low to a certain level, then producing them in less developed countries will rise because it is more lucrative to the final goods producing companies in developed countries to export medium goods to developing countries and import final goods [6] comparing to producing both medium and final goods in developed countries, lowering the final products cost will lower the importation expenses. Therefore, increasing the competition between final goods producers in developing countries and cut some of the producers benefits. But in case of low demand for final goods, and to enable the direction of medium goods from developing countries to developed countries, then re-importing the final goods, the difference in wages between countries must be significant [7]. The transportation costs need to be cheap and the Geo-location must be close in order to ease the access for both sides and to increase the production's partition. The result could be an increase in the export level developed and developing countries, at the levels of production that are easily distinguished, and it exists in sectors that are marked by intensity of labour in medium goods comparing to final goods in sectors where the demand is low in developing countries or countries with low income.

As an observation, the industrial goods export from developing countries must grow at a higher speed compared to developed countries, but these exports grow faster than the value added to the sector. On the other side, the production's structure is determined by the interaction

between countries and industry specifications; it is also affected by the market volume, the Geo-distance from a relatively advanced market, countries density with industrial sectors and the dependence on medium goods, that define the industrial structure on both sides [8]. The different economies specifications make it hard to build a unified frame to analyze countries industrial structure as it is based on external powers, which affect the relative importance, on forces pushing toward concentration and others toward dispersion, knowing that dispersion's most important the activities are summarized in the difference of relative possession of immobile production's factors, the cost of the transformation process between the countries and the demand's intensity on final goods away from the industrial centers [7].

The difference between concentration and dispersion powers could be made by lowering the transportation and communication costs and increasing medium goods exchange creating the possibility to production process operations partition leading to the shift in the industrial activities locations from advanced countries to developing countries as studies have shown. Trade liberalization and regional integration had a clear effect on that shifting since it lowered medium and final goods movement between countries, worth to notice that these activities flowing to the developing countries are contracted investments closing the gap between the need to fund productive activities and the necessity to create them.

Those foreign investments have a key role in economical growth and development, it improve the host country's economical potential by increasing its ability to access markets and transferring technology. Other factors influencing the decision making of investing in new locations could be marketed accessibility, environment protection, production expenses, tax pressure, social effects on productivity (union activities, strikes, legal work shifts), local and regional infrastructure's quality, improvements made to motivate direct foreign investments and the important role of the human capital because it allows reproducing capitals involved in the cycle of production and determining the nature and the quality of direct investments coming inside the country.

#### **5. Conclusion**

Throughout this paper we wondered about the fact that global economy tends to cover the gap between countries, yet it is so important to know the abilities' limitations that could obstruct the maximal benefiting from trade liberalization and productivity globalization, which help eradicating poverty and grow potential development, so here are some conclusions:

- Poverty is inherent to impairment, impairment is inherent to non-manufacturing, and manufacturing at the current economy and global market surpasses by far the potential of developing countries which are isolated or repellent.
- In theory, development, external trade and some states' experiences point to a possibility of overcoming impairment especially poverty and achieving an economic development. Therefore, the increase in local income could enlarge the capital as

well the individual income, yet keeping in mind that the development dilemma is primarily tied on a national level to the national development project's limitation where subjective reasons emerge to ensure internal factors as priorities, from classic point of view, development is an internal affair and with fading free trade's protection or in other words, lifting any restriction except the market's should be enough to chase away unqualified prices and qualities, of if liberating trade is not a part of the development it becomes an obstacle.

- These countries have neither decisive authority nor the ability to deal with the capitalism's logic, yet they are unequivocally part of it due to their need to export raw materials and import other basics what widens the gap between the two parties, therefore market capitalism must be faced with state capitalism through effective intervention to overcome the obstacles in their way of profiting from the system with many methods such:
  - Activating regional trading unions between developing countries in the shape of free trade zones;
  - Creating influential markets able to attract direct foreign investments;
  - Putting in motion the transfer of productive activities to the developing countries;
  - Taking advantage of the production process partition which requires a minimum liaison at the national economic level, by assuring the existence of essential factors to pursue foreign investments to stabilize and last longer.

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