THE COLLOQUIUM -A Multi disciplinary Thematic Policy Journal
www.ccsonlinejournals.com
Volume 8 , Number 1 , 2020 Pages 182-187
CC-BY-NC-SA 4.0 International Print ISSN : 2971-6624 eISSN: 2971-6632

TRADE LIBERALIZATION AND THIRD WORLD COUNTRIES

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Abstract
Trade liberalization is the removal or reduction of restrictions of barriers on the free exchange of goods between nations. Integration into the world economy has proven a powerful means for countries to promote economic growth, development and poverty reduction. This paper examines the impact of trade liberalization on third world countries. The major advantages and disadvantages of trade liberalization are discussed. Third world countries and their major characteristics are also highlighted in this paper. The paper suggested among other things: the provision of proper framework for establishing prices of raw materials and primary products so as to stabilize export income earnings of the third world countries.

Keyword: *Economic, Growth, Liberalizations, Tariffs, Third World Countries, Trade, Trade Barriers.*

Introduction
Trade liberalization is the removal or reduction of restrictions on the free exchange of goods between nations. These barriers include tariffs, such as duties and surcharges and non-tariff barriers such as licensing rules and quotas. (Bhagwati, 2001). The last decades have witnessed tremendous pressure on poor developing countries like Taiwan to liberalize their trade. The free trade mantra preached by developed countries and major international development organizations like Canada, United State, World Trade Organization (WTO) and North American Free Trade Agreement (NAFTA) have become like religion, holding out the promise that if poor countries adopt the faith, they will somehow be "saved" (IMF & World Bank, 2010). Trade liberalization is a process that tries to enhance free trade by removing trade barriers and allowing goods and services to shift more freely across borders. Free trade can be simply defined as a system of trade where products, capital, labour power can shift freely across borders without any barriers which could hold back this flow and shift. Many countries and nations have free trade agreement with each other. The main idea of free trade is that it provides lower prices for many goods and services by enhancing competition. Companies that produces goods and offer services domestically will not be able to rely on government assistance such as quotas which force citizens to buy their needs of goods and services from domestic producers and providers (World Bank, 2010). Foreign companies can take advantages of this function especially when these barriers to enter the markets are lifted from them. Under free trade system, price really reflects supply and demand of goods and services. Free trade differs from other forms of trade policy where the allocation of goods and services among artificial prices that may or may not reflect the nature of supply and demands. These artificial prices are the result of protectionist trade policies whereby government interventions can increases as well as decrease the cost

of goods and service to both consumers and producers (Aghion et al., 2003). Features of Free Trade are many however, one of the most effective one is that trade of goods without taxes of other trade barriers and access to move markets and having market information. Furthermore, inability of firms to distort markets through government imposed monopoly or oligopoly power and the free movement of both labour and capital between countries.

Trade liberalization is a cardinal principle of the World Trade Organization (WTO), though its origin could be traced to the structural adjustment programmes of the international financial institutions (the World Bank and the IMF) in their attempts to incorporate developing countries into the capitalist development paradigm. In order to hasten this process of incorporation, countries, especially from the developing world, were mandated to liberalize their economies, including their trade relation to the rest of the world. Thus, every member country of the world trade body, while acceding to the document that embodies the WTO agreement, undertakes to liberalize its trade, especially trade in agriculture. Developing countries in particular are being encouraged to liberalize their agricultural trade in order to maximize abundant food and foreign exchange earnings for their ever growing population.

The idea of trade liberalization was first brought to light back in 1776 by Adam Smith saying "it is the maximum of every prudent master of family, never to attempt to make at home what it will cost him to make, than to buy if foreign country can supply us with a commodity cheaper than ourselves can make it, better buy it if then with some part of the produce of our own industry, employed in a way in which we have some advantages (Abache et al., 2004).
To explain the idea of trade liberalization in a more easy matter, we can bring the case of an individual using the idea of free trade without noticing or thinking twice. For examples many of us take their laundry to a professional shop to get their clothes changed and ironed; no one complained that we can do laundry cheaper at house. Another example is if a manager can type better than his secretary, would this manager fire his secretary and just do both typing and managing the company. The answer is No.

To take a more realistic and clear example, China, Bangladesh and many other countries manufacture clothes less expensive than its produced in Bahrain and offer it sale these clothing product to use. So the question here is should we buy less expensive Chinese clothes or stick to more expensive Bahrain made clothing? The answers that make sense to buy Chinese merchandise since they specialize in manufacturing clothing and they can perform this operation more efficiently than we do (World Bank, 2010).
The argument here is what if a country can make everything cheaper than we can? Bahrainian workers will find themselves unable to compete with, let's say – lower Chinese wages.The sure thing that Chinese might have a cost advantage in producing clothing over Bahrain, due to many factors like materials and labour, on the other hand, Bahrain can refine oil and produce petrochemical products much cheaper than China. In this case Chinese can produce clothing and Bahrain should stick to producing and refining oil and both countries can trade products. The two countries taken together will get both products cheaper then if each produced them at home to meet all of its domestic needs, and what is also important, workers in both countries will lower jobs. (Chang, 2012). Policies that make an economy often to trade and investment with the rest of the world are needed to sustain economic growth. The evidence on this is clear. No country in recent decades has achieved economic success in terms of sustained increase in living standards for its people, without being open to the rest of the world. In contrast, trade opening along with opening to foreign direct investment) has been an important element in the economic success of east Asia,

Volume 8 , Number 1 , 2020 Pages 182-187
CC-BY-NC-SA 4.0 International Print ISSN : 2971-6624 eISSN: 2971-6632
where the average import tariff has fallen from 30 percent to 10 percent over the past 20 years (Doller, 2017).
Opening up their economies to the global economy has been essential in enabling many developing countries to develop competitive advantages in the manufacturing tertiary products. In this countries, defined by the World Bank as the “new globalizers, the member of people in absolute growth declined by over 120 million (60 percent) between 1992 and 1998 (World Bank, 2000).
There is considerable evidence that more outward-oriented countries tend consistently to grow faster than ones that are inward-oriented. Indeed, one finding is that the benefits of trade liberalization can exceed the cost by more than a factor of 10. Countries that have opened their economies in recent years, including India, Vietnan and Uganda have experienced faster growth and more poverty reduction. On average, those developing countries that lowered tariffs sharply in the 1980s grow more quickly in the 1990s than those that did not (Agenor & Aizenman, 1996).
Freeing trade frequently benefits the poor especially, developing countries can ill afford the large inherit subsidies often channeled to narrow privileged interest that trade protection provides. Moreover, the increase growth that results from free trade itself tends to increase the incomes of the poor in roughly the same proportion as those of the population as a whole. New jobs are created for unskilled workers, raising them into the middle class. Overall, inequality among countries has been on the decline, since 1990, reflecting more rapid economic growth in developing countries in part, the result of trade liberalization (Agenor & Aizenman, 2010).
Trade liberalization promotes free trade, which allows countries to trade goods without regulatory barriers or their associated costs. The reduced regulation decreases costs for countries that trade with other nations and may ultimately result in lower consumer prices because imports are subjected to lower fees and competition is likely to increase. Increase competition from abroad as a result of trade liberalization creates an incentive for greater efficiently and cheaper production by domestic forms.
This competition might also spear a country to shift resources to induction in which it may have a competitive advantage.

Advantages of Trade Liberalization

- Trade liberalization allows counties to specialize in producing the goods and service where they have comparative advantages (produce at lowest opportunity cost) this enables a net gain in economic welfare.
- Trade liberalization leads to removal of tariff barriers and the market price will fall from P2 to P1. This leads to significant increase in consumer supplies of 1 + 2 + 3 + 4 (Edwards, 2012).
- The removal of tariff barriers can lead to lower prices for consumers. Removing food tariffs in West Agric, world help reduce the global price of agricultural commodities, this would be particularly a benefit for countries who are importers of food Trade liberalization means firms will face greater competition from abroad. This should act as a spur to increase efficiency and cut costs or it may act as an incentive for an economy to shift resources into new industries where they can maintain a competitive advantages.
- Trade liberalization enables greater specialization. Economics concentrate on producing particular goods. This can enable big efficiency servings from economic of sellers.
- If a country liberalizes its trade, it will make the country more attractive for inward involvement. (IMF & World Bank, 2010).

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Problems of trade liberalization

- Trade liberalization often leads to a shift in the balance of an economy. Some industry grow, some decline, therefore, there may often be structural unemployment from certain industries closing. Trade liberalization can often be painful in the short run, as some industries and some workers suffer from the decline in uncompetitive firms. Though net-economic welfare improves it can be difficult to compensate those workers who lose out to international competition.
- Trade liberalization could lead to greater exploitation of the environment, e.g greater production of raw materials, trading toxic waste to countries with lower environmental laws.
- Trade liberalization may be damaging for developing economics who cannot compete against free trade. The important industry argument suggest that trade protection is justified to help developing economics diverting and develop new industries. Most economics had a period of trade protectionism.
- It is unfair to insist that developing economics context use some tariff protectionism because of this argument, some arguer that trade liberalization often benefits developed countries more than developing countries. (World Bank, 2010).

What is the Third World Country?

What is the definition of a third world country? In many countries, when people hear the phrase "third world country", visions of impoverished countries struggling to meet basic human needs are the first to pop up. This might be true in today's society, but the original definition of a third world country referred to the nations that lacked an alliance with either the U.S. or the former Soviet Union during the Cold War. In recent years, the term has come to define countries that have high poverty rates, economic instability and lack basic human necessities like access to water, shelter or food for its citizens. These countries are often underdeveloped, and in addition to widespread poverty, they also have high mortality rates (Esfahani, 2010).

Definition of a Third World Country Underlying Meaning

In terms of the "worlds" system, they are ranked from first world to third world. The first world refers to the countries that are more developed and industrialized societies; in other words, capitalist societies that aligned with the U.S. and NATO during the Cold War. This includes North America, Japan, Western Europe and Australia. Second world countries refer to the countries that lean more toward a socialist society, and generally were allied with the Soviet Union during the Cold War. These countries include Russia, Poland, China and some Turk States.

Third world countries are all the other countries that did not pick a side. This includes most of Africa, Asia, and Latin America. However, this definition includes countries that are economically stable, which does not fit the currently accepted definition of a third world country.

As a society, the term "third world country" refers to countries with high mortality rates, especially infant mortality rates. They also have an unstable and inconsistent economy. These are countries that contain massive amounts of poverty and in some cases have fewer natural resources than other nations throughout the world. These countries often have to rely on more industrialized countries to aid them and help stabilize their economy.

These countries usually lack economic stability because of the lack of a functioning system. Usually, the country will have an upper class and a lower class. Without a middle class to fill the gap, there is almost no way for a person to escape poverty because there is no next step for them on the economic ladder. This also allows the wealthy to control all the money in the country. This is detrimental to the economy of the

country, and both increases and helps to sustain the poverty running rampant throughout the country while allowing the upper class to keep their wealth to themselves (Feder, 1983). These countries often accrue a copious amount of debt from foreign countries because of the constant aid they need from other countries to keep their economy afloat and provide some financial stability to the citizens of the country.
The definition of a third world country has evolved from the political meaning during the Cold War to the economic meaning of today. Today's meaning refers to countries that are in financial trouble and need help from other countries to keep their economy sustainable, at least for a short time.

Indicators that are used to classify the Third World countries

1. **Low Gross National Income (GNI):** Third World countries experience low economic development and high rates of poverty. For the 2015 fiscal year, low - income economies such as those in Tanzania, Haiti and Cambodia are defined as those with GNI per capita of less than $1,045 in 2013. The GNI for high – income economies such as the United States is $12,746 per capita.
2. **Economic Dependence on Other Countries:** Developing Third World countries, as a result of the state of the economies, rely heavily on more economically and technologically advanced countries. And Third World countries' economies – which for the most part lack modernity and independence – are typically geared towards serving and controlled by more economically developed countries. The imbalance of control and dependence widens the gap between the wealthy countries, such as the United States and low – income economies such as Cameroon.
3. **Low Human Development Index (HDI):** The Human Development Index (HDI), published annually by the United Nations, measures three basic dimensions of human life: knowledge, a long and healthy life and a decent standard of living. The U.S. is ranked fifth on the HDI scale, while a developing country such as the Democratic Republic of Congo is ranked 186th.
4. **Lack of Political Rights and Civil Liberties:** Most of the World's poorest countries are also the countries for which there is a severe lack of political rights and civil liberties. Developing countries such as Sudan are war – torn and civil liberties and rights almost non – existent inthe wake of the violence and war crimes. Citizens of the U.S. experience a life that is on the complete opposite end of the spectrum, with basic rights such as the right to an education strongly in place.

There are other indicators when it comes to categorizing a country as "third world", and certainly not every developing country shares each of the above characteristics. But one thing is clear: millions of people around the world are citizens of the country in which daily life is excruciatingly difficult. If wealthier nations stepped in and did more to assist third world countries, surely the term would dissipate, following the alleviation of the effects of extreme poverty.

The Economic Problems of the Developing World or Third World Countries

1. Corruption
2. Poor infrastructure
3. Lack of skilled labor
4. Political instability
5. Weak protection of Intellectual rights and the possibility of contacts being cancelled in a whim.

Recommendations

The following measures aimed at improving the terms of trade of less developed countries (LDCs) and to remove their chronic trade deficits.

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i. Establishment of LDC sovereignty over natural and especially mineral resources for export.
ii. Promoting the processing of raw material for exports.
iii. Increase in the relative prices of the export LDC through integrated program for commodities, compensatory financing, establishment of international buffer stocks and creation of a common fund to finance stocks, and formation of producers association.
iv. Providing proper frame work for establishing prices of raw materials and primary products so as to stabilize export income earnings
v. Indexation of LDC export prices to rising import prices of manufactured goods to developed countries.
vi. Increase in the production of manufactured goods.
vii. Improved access to markets in developed countries through progressive removal of high tariffs and non-tariff barriers and restrictive trade practices. (Dollar 2010)

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Cite this article as
Egbo, M. (2020). **Trade Liberalization And Third World Countries. *THE COLLOQUIUM*, 8(1), 182-187**