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**Evolving Global
Order and
Geo- economics:
Implications for
Less Developed
Countries**

WAHIDUDDIN MAHMUD

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BANGLADESH INSTITUTE OF DEVELOPMENT STUDIES (BIDS)

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Evolving Global Order and Geo-economics: Implications for Less Developed Countries

WAHIDUDDIN MAHMUD*

Introduction

First, a few words about the title of my lecture: we know that global arrangements are passing through an extraordinary period of political and economic turbulence. The disruptions caused by the Covid pandemic and then by the economic sanctions imposed on Russia by the West in the wake of the Russia-Ukraine war are well-known. Even before that, global tensions had been brewing with the US-initiated trade against China, with China contending to be another superpower challenging the US. The term geo-economics may be taken to refer to the economic effect of many geographical factors like a country's location in a region of high or low economic growth, or in respect of its climate or access to the sea, and so on, the impact of each of which on economic development is well researched. Here, I shall rather define geo-economics from quite a different angle, that is, as the economic counterpart of what is known as geokpolitics. In other words, we look at how the contests in global power politics are being played out by applying economic means of trade, investment, etc., and how it effects the rest of the global economy (Roberts, Moraes, & Ferguson, 2019; Findlay & O'Rourke, 2007). And by using the term "less developed countries," I mainly refer to the numerous developing countries that are less advanced in relation to, say, the five existing BRICS countries.

*Former Professor of Economics, University of Dhaka. Public lecture delivered at the Annual BIDS Conference on Development, Dhaka, December 7-9, 2023.

Evolving Trade Arrangements and Challenges in Accessing Trade Preferences

In the past few decades, since the mid-1980s, the trade negotiations under WTO were aimed at promoting economic globalisation, which had the potential for benefitting both developed and developing countries. Although the distribution of those benefits is alleged to have been tilted in favour of the developed countries, the rule-based arrangements had the advantage of not requiring negotiating skills on the part of individual countries; many of which in the developing world lack such skills. There seems to be now very little chance of further progress in WTO negotiations; rather, the evolving global order is being shaped by the power struggle between the US and China, along with the formation of many regional partnerships that are aimed at promoting economic cooperation as well as addressing many divergent political and security concerns.

The scenario has become more complicated by the recent tilt towards nationalist trade policies in the industrialised countries, especially in the US, resulting mainly from the resentment against the alleged impact of trade openness on labour displacement within those countries. Many economists, however, argue that the blame should be put on the lack of appropriate compensating measures within the domestic economies of those countries and not on the liberalisation of imports from developing countries. It is ironic that this rise of economic nationalism is taking place in the industrialised West in spite of the fact that the trade rules negotiated under the WTO were largely in favour of the industrialised countries vis-a-vis the developing world.

The rise of economic nationalism in the US in particular is reflected in its lack of enthusiasm even for any multilateral economic agreements. In 2017, Donald Trump withdrew from the Trans-Pacific Partnership (TPP), the negotiations for which were initiated under the Obama administration in 2009 for a comprehensive trade agreement with several countries in the Asia-Pacific region with the declared objective of promoting US priorities and values. The present Biden administration is showing only a lukewarm response to the proposal for a much less comprehensive Asia-Pacific trade deal called the Indo-Pacific Economic Framework (IPEF). Instead, American policy in Asia is now focused on limited bilateral deals that support President Biden's industrial policy, which seeks to boost domestic manufacturing. For example, Indonesia has initiated a trade deal with the US called "minerals for batteries" (Indonesia accounts for almost half the nickel that was mined globally last year). And the government of the Philippines is pushing for a similar agreement. Very recently, the US has moved towards closer bilateral economic relations with Vietnam in an attempt to pull it away from strong economic links with China. At the same time as America is withdrawing from multilateral deals, China is throwing its hat into the ring. The Regional Comprehensive Economic Partnership, a 14-member trade deal that came into effect last year under China's initiative, will bind Asian economies more tightly to China. All this means that each developing country is increasingly left to itself to negotiate and explore its global economic opportunities.

Even within rule-based trade arrangements, there is a need for individual countries, especially the less developed ones, to be careful in safeguarding their trade interests. In spite of its

least developed country (LDC) status, Bangladesh was denied duty-free excess for its main export item, namely, readymade garments, in the US market. Following the Rana Plaza disaster in 2013, the US withdrew its generalised system of preferences (GSP) facility for exports from Bangladesh on the grounds of inadequate compliance with internationally recognised worker rights. This was a noteworthy punitive measure on the part of the US, given that this facility of non-reciprocal duty-free access has been provided by the US since 1974 to a large number of developing countries, nearly 90 of them, in addition to the LDCs. At the time, this withdrawal of the GSP facility did not draw much attention since it affected only some minor non-garment exports from Bangladesh (garment exports already being denied duty-free access) such as home textiles, handicrafts, leather products, etc.; less noticed, however, was the potential negative impact of the measure on the future prospects of diversification of Bangladesh's export in the US market.

The GSP was, in fact, first introduced by the EU in 1971, which was then followed by most industrialised economies as a policy of unilateral trade preferences to promote sustainable development in the developing world. The degree of trade preferences under the EU's GSP varied according to the degree of the beneficiary country's level of development; compared to the general GSP, the LDCs were given the most generous preferences, and there is a category in between called GSP+ given to the countries graduating from the LDC status or countries at similar level of development. The eligibility for both the general GSP and GSP+ is contingent on implementing the core human rights, labour standards, governance, and other sustainable development conventions, which will then be reviewed periodically. Pakistan, for example, has recently

qualified for GSP+ only after ratifying a number of international conventions. Clearly, for countries graduating from the LDC status, such as Bangladesh, it will be a challenge to meet these stringent criteria.

The Impact of Using Economic Tools in Global Power Politics

The fallout of the West's economic sanctions against Russia in the wake of the ongoing Ukraine-Russia war has been all too visible. It has demonstrated how much disruptive the impact of such use of economic tools in large-scale conflicts can be for the entire global economy. In the developing world, poor people have been particularly hard hit by domestic inflation transmitted through global price spikes, especially in fuel prices. The lesson for these countries is to make contingency plans for meeting such global market crises, such as by building adequate foreign reserves (NguyenHuu & Örsal, 2023).

Compared to the immediate impact of the Russia-Ukraine war, that of the US-initiated trade war with China may be less visible; but it has the potential to be far-reaching and long-lasting for the entire global economy. The escalating confrontation, in the form of investment restrictions, export controls, and tariffs, has direct short-run adverse effects on the exports and gross domestic product (GDP) of these two largest economies of the world, but other countries are hit indirectly through weaker demand for their own exports, either through supply chains or in response to weaker global economic growth. It is noteworthy that the US and China, despite the trade war, remain the largest trading partners of each other. It is also true that some developing countries may take advantage of the diversion of US trade and investment away from China, provided there are enough skills and a favourable investment climate.

Vietnam, for example, seems to be in a better position in this respect than, say, Bangladesh (Dhar et al., 2023). Studies show that in the wake of the US-China trade war that began in mid-2018, US imports from Vietnam increased sharply with respect to the Chinese goods targeted by higher US tariffs. Other South and Southeast Asian countries also benefited to various extents from this trade diversion depending on the types of goods and their technology-intensity of production. All this also shows that the global economy is much more interdependent now than at the time of the Cold War and that, in spite of the more complex geo-economics, there is now much more scope for the less developed countries to benefit from the global trade and supply chains through appropriate trade strategies.

The unfolding nature of the newly-formed 5-country group called BRICS (Brazil, Russia, India, China, and South Africa) is another example of the complex interplay of geopolitics with geo-economic interests. Compared to G7, which is an exclusive club of industrialised countries, and G20, which is an extension of G7 where the emerging economies from the developing world meet the industrialised ones, BRICS has been formed to advance the cause of the Global South for a fairer and more representative global governance system. China, however, has an additional agenda, namely, to use this platform to challenge the power of the US-led West – an agenda in which India, Brazil, and South Africa have little interest. This tension within BRICS came to the surface at the last BRICS summit in 2003, where China was in favour of a large expansion of membership for what it called “like-minded” developing countries; but in the end, new membership was offered only to five countries out of twenty applicants. Bangladesh was one of the applicant countries that were denied membership.

China has other multilateral programmes aimed at enlisting the support of the “global south” to amplify Beijing’s voice on the world stage (Cai, 2020). Its so-called Belt and Road initiative is intended to be an economic tool to expand its sphere of influence among developing countries. This represents China’s policy of “loans for votes,” that is, loans in exchange for UN votes in favour of China. The objective is two-fold: to ensure that a broad swath of the developing world remains open to Chinese trade and investment and to use the voting power of developing countries at the UN and in other forums to project China as a global power. With its huge accumulated funds from trade surpluses, China has the capability for using its largesse to purchase foreign policy favours. Indeed, countries with hefty debts to China, including Pakistan, Cambodia, Ethiopia, Sri Lanka, Zimbabwe, and many others in Asia and Africa, have been found to align with China in voting in the UN General Assembly and other UN specialised agencies. On the economic front, by 2023, China’s exports to the US, EU, and Japan combined will have been exceeded by its exports to the Belt and Road Initiative countries.

Balancing Economic Partnership with China vis-à-vis the Industrialised West

As the second-largest economy in the world and the largest trading country worldwide, China’s global importance cannot be underestimated. What makes China unique as a trade partner is its huge capability of producing efficiently a whole array of commodities ranging from labour-intensive manufacturing to high-tech products. Compared to the rich industrialised countries, its per capita income and wage levels are still much lower, so that it can export labour-intensive

goods to those countries. At the same time, it can export technology-intensive commodities to developing countries at a cheaper price compared to the industrialised West. This pattern of export also dictates China's import needs; it imports from other developing countries mainly minerals, fuels, agricultural primary goods, and other raw materials to run its industries. From the industrialised countries China mainly imports high-tech items for which it still lacks enough skills and technological expertise. The versatility of China's industrial capability also enables it to be deeply integrated into the global supply chains of various commodities.

China has thus huge asymmetries in its trade partnerships. It has a very large trade surplus with its largest trade partner, the US, which is a source of imbalance and tension not only for the two countries but also for the entire global economy (Klein & Pettis, 2020). Among the industrialised countries, China has a trade deficit only with its immediate neighbours, namely Japan, South Korea, and the territories of Taiwan and Hong Kong. But, more important for our discussion here is the asymmetry in the pattern of its trade with other developing countries.

China is hardly a destination for labour-intensive manufacturing exports from developing countries; rather, it competes with them in exporting such products to industrialised countries. On the other hand, developing countries depend on China to import various kinds of manufacturing items such as machinery, electronic products, chemicals, and technical apparatus at competitive prices. Thus, while China is an important trade partner for developing countries as a source of import, the resulting pattern of trade is hugely imbalanced against the latter. Even India, the other

Asian economic giant, currently exports to China less than 13 per cent of what it imports from China (US\$15 billion and US\$118 billion, respectively, in 2022). The only exceptions are some mineral-exporting African countries that have more balanced trade with China.

The trade dependence of the developing countries on the industrialised West is in respect of the destination of their labour-intensive manufacturing exports. This dependence is more crucial for the resource-poor countries with abundant labour, since such resource endowment dictates that these countries have to rely mainly on labour-intensive manufacturing exports for foreign exchange earnings. It is not easy for such a country to diversify either its export bundle or export destination. Bangladesh typically exemplifies this contrast in its trade relationship with the industrialised West vis-à-vis that with China. While China is the largest source of its imports (neighbouring India being the second), its exports predominantly consist of readymade garments mainly produced for the markets in the industrialised West.

The Challenges

Navigating external economic policies in an increasingly complex global order will not be easy for the less developed countries. A major challenge is how to conduct economic diplomacy to have an appropriate balance between the industrialised West and the emerging China bloc, which now includes Russia. The rise of regional powers further complicates the scenario. For example, the two Asian giants, China and India, which are adversaries to each other, compete in promoting their economic interests in neighbouring Bangladesh (and some other South Asian countries), thus putting

Bangladesh in a difficult balancing position. Another imperative for the energy-deficit countries is to maintain appropriate relationships with the oil-exporting Middle East, which is itself caught up in intricate geopolitics.

China's loans, mostly in the form of suppliers' credit, can be important for funding badly needed infrastructure projects in less developed countries. But, easy access to such commercial loans entails the risk of becoming overindebted. As mentioned above, China would expect the indebted countries to support its stand in international forums, which may be contrary to the principled stand of those countries. It was with the support of those countries that China has recently been able not only to outvote the West-led motion at the UN condemning China's repression of the minority Muslims but also actually to pass another motion praising its human rights record. On the ideological front, China is trying to offer a development model to the developing world, which is a mix of market liberalisation and state control and gives priority to economic growth over the Western concept of democratic values. This China model may appear attractive to developing countries with authoritarian regimes, particularly those with soured relationships with the US and other Western democracies.

It remains that most of the less developed countries, particularly those striving to diversify and technologically upgrade their economies, have high stakes in their relationships with the industrialised democracies. The advantages of this relationship are manifold: ranging from trade preferences offered to their labour-intensive manufacturing exports to receiving foreign aid and concessional loans bilaterally or through the international financial institutions (IFIs), and to

hosting Western multinationals which bring modern technology along with foreign direct investment (FDI). To reap the full benefits from such relationships, these countries need to improve their governance system and investment environment and fulfil the criteria of global conventions, such as regarding human rights and labour standards. The Western powers may apply these criteria discriminately to suit their geopolitical and security interests, but this does not diminish the value of fulfilling these criteria, since democratic values and human freedoms are important on their own rights.

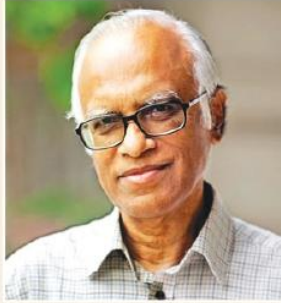
The challenge for the less developed countries is how to align the political interests of their ruling regimes with upholding these global humanitarian values and also with a strategy of securing maximum global economic benefits for the country. The more a regime has legitimacy in the eyes of its own people through popular mandate, perhaps the more its capacity to achieve such alignment of the country's interests with those of the ruling regime itself. Concomitantly, an authoritarian and repressive regime will feel more constrained to do so. For example, a government with poor human rights records may try to retain or gain trade preferences only by succumbing to the pressures of foreign governments and the multinational companies backed by them to accept exploitative economic deals. In order to compensate for its democratic deficits, such a politically weak government may also be tempted to showcase prestige infrastructure projects by over-borrowing from foreign financing sources.

A second challenge is to do with the quality of economic management and performance. Once a developing country is able to raise the efficiency of its industries across both export-

oriented and import-substituting ones, it can afford to go for trade agreements with reciprocal tariff concessions rather than seeking one-sided trade preferences. Vietnam, for example, has forged numerous bilateral trade and investment protection agreements with numerous countries, including Japan, the UK, the EU, and most recently, the US. The Western powers, particularly the US, could ignore the human rights issues of communist Vietnam since they were not offering any no-reciprocal trade preferences and also because of the geopolitical strategy of neutralising the deep trade relations of Vietnam with China. Moreover, the recently signed US-Vietnam partnership agreement will allow Vietnam to access technologies related to artificial intelligence (AI), microchips and semiconductors, in which countries like Malaysia and India are also interested. These are all important lessons particularly for a country like Bangladesh, which is poised to graduate from the LDC status and, in a few years, will no longer be able to claim trade preferences on the basis of such status.

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