The Effects of Trade Liberalization on Consumers in Developing Countries: In Terms of Information Flow, Choice Alternatives and Redress

Little attention has been given to the effects of trade liberalization on the consumers of developing nations. It is argued that trade policies and consumer welfare are closely linked and in developing countries, initially, trade liberalization may weaken consumer welfare if protectionistic measures are not in place.

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Trade liberalization is altering the world economic landscape. The share of trade in the GDP of developing countries has risen from about 33% in the mid-1980's to 43% today and could exceed 50% in the next decade (Qureshi, 1996). As a result, the World Trade Organization estimates that real world income could increase by $510 billion annually, of which some $116 billion would accrue to developing and transition countries (Harmsen, 1995). The extent of trade liberalization has been well documented, however, the effects on consumer welfare have not. When three-fourths of the world population is living in LDC's, one may wonder why. Consumers in these countries are exposed to higher risks by unsafe or inappropriate products, inappropriate or inadequate information, and inadequate redress systems.

Consumers in LDC's can easily be put into a situation where the majority of goods available become unfamiliar. As a result, they are ignorant of their quality and the competence of the dealers is mediocre as well. This increases the risk of product safety issues, as well as violates the right to information and education. When consumer rights are violated, then it becomes important to address public policies. If the consumers are at a stage where their power in influencing such measures is limited, then it is the responsibility of the country and international organizations as well as the social responsibility of the manufacturer to protect these consumers.

When economists discuss trade policy issues in developing countries, they generally pay little attention to the effects of such policies on the consumers of those countries. The purpose of this paper is to argue that such neglect is a mistake, that the trade policies of developing countries and consumer welfare are closely linked. It argues that trade liberalization in developing counties may weaken consumer welfare in its beginning stages if proper protectionistic measures are not in place. The point we are working toward is consumers will gain with deregulated trade practices but only with regulated business practices.

Related Literature

Effects of Trade Liberalization on LDC's Consumers

The proliferation of goods and services in developing markets has brought an urgent need for the protection of consumers. Since consumerism has remained in its infancy in developing countries, governments are under continuous pressure from the International Organization of Consumers Unions (IOCU) to protect the interests of consumers, especially protection from fraudulent claims or unsafe products.

In LDC's, the marketplace has historically been a seller's market where consumers have little or no protection, education, or information about the market (Thorelli, 1990). Thus, Thorelli (1988) has suggested that priorities for consumer policy for LDC's, i.e., consumer protection, education, and information, should be exactly the reverse of those in MDC's, i.e., consumer information, education, and protection. These issues must be addressed before trade can be mutually beneficial. If not, the consumer can stand to lose much more than they gain.

With trade liberalization, consumers in developing countries may gain with increased consumption possibilities, cost savings, innovation and greater choice alternatives. Consumers may suffer from trade restrictions by increased prices of foreign goods, decreased supply of foreign goods and more limited choice alternatives. Gains and/or losses can be associated with trade. Thus, the effects on consumers must be assessed in order to distinguish the total impact of liberalization. The following discussion is based on the exemplary work by Michael R. Reich (1988), in an attempt to highlight the problems associated with trade and consumer welfare, which is used to guide the discussion toward the ultimate conclusion, the need for the simultaneous implementation of protection and liberalization in LDC's.

Information Flow. Consumers in developing countries frequently have inadequate, inappropriate, or incorrect information. Typically, the flow of products from rich to poor countries precedes the flow of information. International trade can create situations which provide little incentive to invest in specific information for local consumers, especially when competition is limited. Foreign companies may have less interest in providing information, reflecting a lower level of commitment to the market or different views on corporate social responsibilities.

In addition, a large proportion of consumers in developing countries are illiterate. Much of the information they receive is by word-of-mouth and may be more apt to improper dissemination. Thus, inappropriate products confer harm instead of benefits. Lack of adequate information is a major constraint on consumer choice necessary for a consumer to make an informed decision.

Choice Alternatives. Consumer choice is limited by constraints by corporate and government policies. Consumer choice is shaped by the information provided by firms through advertising. It biases consumer choice toward the product and shifts consumption patterns to mirror the foreign firm's country. In addition, individual choice can be limited by government policy. It may be used to achieve social objectives deemed more important than consumer choice. Governments and corporations exercise substantial influence in structuring individual choice in poor countries. But, they may not benefit the broader interests of consumers.

Redress. Despite widespread trade malpractices in developing countries consumer complaints are remarkably few (Rachagan, 1992). The lack of consumer rights coupled with law, the lack of awareness of rights, and the absence of proper redress mechanisms are important reasons for this. In instances where the media and, if existing, consumer organizations expose unfair practices, faulty products, etc., the government could comply, but without appropriate laws, the wrongs cannot be made right. It is law that serves the primary function of distinguishing between what is allowed and what is not, and no law means no consumer protection. Consequently, exploitation is inevitable.

Conclusions

It seems quite clear that gains can be derived from trade liberalization, but typically articles focus on the country gains of the developing world over a longer term (e.g., increased purchasing power), but what about consumer welfare in the short term? Without a higher standard of living, consumers lack the ability to obtain the education, the information, the legal system and the institutions that would allow them to make better choices. For example, most developing countries are importing technical products, which are in fact more costly to the consumer, since more harm can result from a faulty product of this nature. These consumers are not purveyed with accessibility of redress mechanisms when it does occur. Although trade liberalization provides wider options for these consumers, they need to be protected with appropriate information regarding product usage, and have access to redress if needed. Then and only then will welfare gains be directed to the consumer.

The importance of consumer groups in poor countries and international consumer organizations is apparent. Several have emerged, but the role of consumer groups in developing countries deserves attention.

This paper is only an intuitive exercise. Beyond this, it is hoped that it will help alert researchers that the effects of deregulation on consumers must be examined before trade liberalization should take place.

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