



HOW THE GLOBAL NORTH UNDERDEVELOPS THE GLOBAL SOUTH: THE PERSPECTIVE OF INTERNATIONAL MONETARY SYSTEM, JOURNAL ARTICLE

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Abstract: The study examined the effect of the transactions of the Global North and the Global South in the international monetary system. This was to examine the ability of the central banks of the Global South to maintain foreign reserves that could put them in a position to compete on equal grounds in the global political economy. The research also assessed how these transactions work to the detriment of the peripheral countries in the global political economy.

The literature indicates that most periphery countries are vulnerable to crisis financially and debt default by most of the countries because of the excessive foreign debt obligation which is high in core country currencies. It further revealed that if Global South needs assistance in the form of foreign capital, this will be pegged to the rich country's currencies (Bordo & Flandreau, 2001). It concludes that the international monetary system favored the Global North because they have huge reserves that do not affect the value of their currencies.

Keywords: Development, Global South and North, exchange rate, financial stability, Underdevelopment.

Introduction

Governmental and developmental organizations introduced the terms global south and global north that explain the groupings of states according to the political and socio-economic behaviors of these countries. Global North refers to the advanced world, countries which are far advanced in terms of development. The Western world represents the Global North. Countries that are part of the Global North are richer, developed well, technologically advanced, and well-endowed in manufacturing industries. The Global South is made up of developing countries with low Gross Domestic Product (GDP). States in this category have institutions that are young. These countries mostly rely on primary sector exports (Therien, 2010).

In other to help each other, countries in the southern hemisphere collaborate politically, economically, socially, environmentally, and technically. The collaboration is geared towards pursuing economic changes that benefit the southern countries, and foster solidarity among them in the world economic system. This gave birth to the South-South Cooperation which is aimed to assist the periphery countries in social, political, and economic development, and also radically change the world system to serve the interest of the poor countries (Gray et al., 2016).

The principles of the South-South Cooperation are guided by respect for national sovereignty, national ownership, independence, equality, non-conditionality, non-interference in domestic affairs, and mutual benefits (United Nations, 2012). South-South Cooperation among countries is mutually beneficial relationship that teaches knowledge, skills, expertise which addresses the challenges of development (Gray et al., 2016).

The politics of money has influenced both the Global South and the Global North. In times of financial crisis, devaluation leads to a debt crisis. The periphery countries (Global South) are forced to adopt super hard fixed exchange rates because they had not developed the financial maturity

International Monetary System (IMS) is an entity that controls the valuations and exchange of monetary transactions across all countries. The cross-border payments, exchange rates, and mobility of capital are all governed by the international Monetary System. The system applies the rules that controls international trade. It also gives clarification to the means of payment on international trade. Largely, the international monetary system was established to boost international trade and investment among all countries (Hill, 2010). Among other functions, international monetary system helps in computing the exchange rate and terms of international payments. Thus, capital is being mobilized by the system from one nation to another through facilitation of trade. Multinational Corporations (MNC's), Investors, Financial Institutions are all participants in the International Monetary System (Kuma 2014).

Countries use different currencies in their transactions. Currencies that are used and accepted in one country or state may be rejected by another country. The cedi which is accepted in Ghana may not be accepted as a medium of exchange in the United States of America. That means that the use of different currencies does not help in international business transactions. In this case, international business men are obliged to use currencies that are legally accepted in foreign countries.

The international monetary system has gone through a lot of transformations. Many items were used as currencies in the past. Cowries, gold and bronze were used as a medium of exchange in the

past. The evolution of the international monetary system is not a product of negotiations but a product of the Bretton Woods Institutions Conference. The emergence of the system is historical. The system has gone through a lot of reforms that were necessitated by global economic challenges.

The project, therefore, seeks to ascertain how the Global North has the advantage over the Global South (periphery) in the monetary system in the global political economy. This project will evaluate the stages of the transformations of the international monetary system. This will assess the bimetalism era, the gold standard era, the gold exchange standard era, and finally, the flexible exchange era or regimes. The project will also discuss theoretical perspectives on the understanding of the international monetary system in the global political economy. The last section will be the findings and conclusions.

LITERATURE REVIEW

Global Monetary System: An Overview

The current international monetary system is described as a hybrid system because of the absence of a well-coordinated set of exchange policies among important countries. It is deficient in adjustment to large shocks. It is challenged in integrating China into the global economy accounting for unsustainable current account imbalances, for example, the 2007-2009 financial crisis, the Covid-19 financial crisis, and the slow recovery of the global economy (Santor & Schembri, 2011).

The international monetary system has gone through various stages of development. Transactions between and among the Global South (periphery) and Global North (core) have yielded mixed results, favoring the core.

The History of the Global Monetary System

Bimetallism Era

The bimetalism era was the stage where two precious metals were used as currencies or monetary standards or systems. The two precious metals were gold and silver. In the 19th century, fixed quantities of gold and silver were used to define a country's monetary unit by law. This established the rate of exchange between gold and silver. The bimetallic system guaranteed a free and unlimited market for bimetalism. It did not also have restrictions on the use and coinage of the two metals and this made all money in circulation redeemable in silver and gold. The challenge of this bimetalism was that each state could set its own exchange rate independently between gold and silver. Therefore, rates differed widely from one state to another (Krugman, Obstfeld & Melitz 2018).

In 1865 France, Italy, Switzerland, and Belgium established the Latin Monetary Union aimed at setting up the bimetallic system on international scale. Mint was established by the union between gold and silver and this made it possible for the use of the same standard units and its issuance of coins in international transactions. Italy and Greece undermined the system by their monetary manipulations. The system collapsed during the Franco-German War between 1870-1871. In 1867 in Paris, delegates voted for the gold standard resulting in the collapse of the bimetallic era (Krugman, Obstfeld & Melitz 2018).

Proponents of bimetalism argue that combining the two metals enhances more monetary reserves. Secondly, bimetalism has good price stability that results from a wider monetary base. Thirdly,

bimetalism is more flexible in determining and stabilizing exchange rates among states with the use of gold and silver (Krugman, Obstfeld & Melitz 2018).

Critics of bimetalism argue that it is not pragmatic for a single nation to use bimetallic standard without cooperating internationally. They further argue that bimetalism is costly and has a lot of waste of resources in the mining, handling, and coinage of two metals. Also, the system cannot guarantee price stability because price stability depends on more than the type of monetary base. The ratio of prices of the two metals is frozen because it disregards their demand and supply conditions. In this circumstances, double standard cannot be maintained (Krugman, Obstfeld & Melitz 2018).

The Gold Era or Standard

The transactions of the gold era were between 1875 and 1914. The era saw the use of only gold in transactions. The convertibility was two-way between national currencies and gold at a ratio of stability. In the export and import of gold, there were no restrictions in place. Gold content was used to determine the exchange rate between the two currencies (Ravenhill, 2017).

Initially, countries were reluctant to adopt the gold standard. However, almost all countries decided to embrace the system. Within this period, billions of gold and coins were useful within the international system. It was as a result of these transactions that the fixed exchange rate emerged with fluctuations being minimal. The fixed exchange rate boosted international trade at that time. The gold standard made almost every country abide by the strict monetary policy. Gold Standard also made all countries of the world abide by strict monetary policy. The gold standard was important because it corrected the trade imbalances among countries (O'Brien and Williams, 2016).

Gold Exchange Standard

The gold standard failed because, during the First World War, almost every country printed money to finance the war. Countries lost trust and confidence in the gold money because excessive printing of money made countries exceed their gold reserves in the international system.

The gold exchange system adopted an exchange standard that consisted of both gold and foreign exchanges. A par value in relation to the US dollar was established by each country, and it was pegged to gold at \$35 per ounce (Gilpin 2001).

After World War II, the Bretton Woods System was established after World War II, when 44 countries met in Bretton Woods and designed a post-war international monetary system.

The gold exchange standard collapsed in the 1970s because:

- (i). the US faced deficits and challenges
- (ii) the development of Euromarkets
- (iii) Huge outflow of dollar

Flexible Exchange Rate Era or Regime

The flexible exchange rate came into being as a result of the ratification of the Jamaican agreement by IMF members in 1976.

In the absence of any international monetary order, the US emerging from the war as dominant economically took the opportunity to establish a new international monetary regime in its

favor. The US policymakers began to plan for the monetary and financial order in the early 1940s (Ravenhill, 2017).

Central banks that were supposed to intervene in the exchange markets to control unnecessary fluctuations were stipulated by the agreement. Countries decided to abandon gold officially as an international reserve asset.

Types of Flexible Exchange Rate

A number of exchange rate systems have existed within the international monetary system. These include the free-floating, managed-floating, and fixed-pegged arrangement.

Free-floating arrangement is an exchange rate system whose determination is by the market, with foreign exchange intervention. The intervention occurs only to prevent unnecessary fluctuations. Countries that have free-floating currencies include the United Kingdom, the United States of America, Japan, and Australia.

Managed-floating system is where the central monetary authority of a country can influence the movement of the exchange rate. The influence is effected through active intervention in the forex market. In these circumstances, there will be no preannounced path for the exchange rate. These countries include China, India, Russia, and Singapore.

Fixed-pegged exchange rate is where a country can peg its currency at a fixed rate to a basket of currencies or a major currency. The US dollar is being pegged by the United Arab Emirates and Saudi Arabia.

In essence, if a country's is lower in value, its imports are going to be very expensive and its exports in the international market will be cheaper.

Prior to Ghana's Independence, the unit of currency in the then Gold Coast was the West African Pound which was replaced by the Ghana Pound in 1958. Ghana replaced the Ghana Pound with the cedi in July 1965 (Baiden 2011).

Empirical Literature Review

The study of Christopher Ethinomen (1916) concentrated on the connections linking exchange rate and economic growth from 1978 to 2014. He used the Ordinary Least Square (OLS) method to analyze the data in Nigeria. The study revealed that exchange rates positively influence economic growth and economic growth also influences exchange rates.

The project found the non-spuriousness of regression in relation to the stationary residuals. He employed a cointegration technique which showed the long-run equilibrium in the midst of the series he used. He was able to establish a short-run directional relation between economic growth and exchange rates using pairwise granger causality tests. The diagnostic tests of their findings showed its robustness. Therefore, the study made it clear that economic growth and exchange rates influence each other. Therefore, to stabilize the economy of a country, exchange rates must be stable. This study failed to assess the effect of the transactions between the Global North and the Global South. This research will fill this gap.

Flavio Vieira and Márcio Holland (2014) contribute clearly to the knowledge of informed traders. Their work tries to analyze the behaviour of traders in the foreign exchange limit market in relation to anonymous identities of traders. They use a cross-

sectional multivariate method to find traders with high price impact using six indicators. The research revealed that traders' trades which use medium-sized orders turn to have volume of trade in large quantities. These are located in the financial center, trade early in the business and it is sometimes widespread, and it is thin when the order is booked (Holland, et al 2014). This research did not touch so much on currency and international monetary system.

Monzur Hossain (2008) examines the literature on deciding on exchange rate arrangements. In his analysis, he recognized issues such as the choice based on fundamentals, shocks, financial structure, and political ideology. Secondly, he also recognized the bipolar view, hollowing out hypothesis and its validity. Similarly, he identified regime choice in emerging economies; the discrepancy between declared and actual regimes, and its influence on currency regime choice. It is seen that a substantial number of countries diverge from their de jure regime without declaration, which needs to be taken into account for drawing a valid conclusion on the choice of a regime. In trying to draw a conclusion, it should be noted that a good number of states have moved away from the de jure regime without a declaration. The study concluded that we cannot see any clear regularities with respect to the choice of a currency regime now (Hossain 2008). He, however, did not link this knowledge to exchange rate policy and underdevelopment.

McDonald (2000) also studied the flexible exchange rates where he emphasized one key feature. He explained that flexible exchange rates are highly volatile and the nature of its volatility is affecting growth through the channels of investment and trade. The scholar concluded that the current exchange rate regime for the euro-zone area may stimulate growth (McDonald, 2000).

Also, the relationship between exchange rate and economic growth is discussed by McPherson and Rakovskipaper (2000). They used the data in Kenya, from 1970 to 1996, to show that there is no statistical relationship between nominal exchange rate and real exchange rates.

The literature concentrates on the exchange rate and other growth factors. Throughout the literature, no study has linked the development or underdevelopment of the Global South, or the Global North to the operational structures of the international monetary system. This research examines how the transactions between the Global North and Global South affect the development of the latter through the international monetary system.

Theoretical Perspective

The study employed dependency theory to explain how the Global North exploits the Global South in the international monetary system. The researcher followed Theotonio Dos Santos's idea of dependency theory in the 1970s. Dependency theory argues that the development of developed countries works to the detriment of the underdeveloped countries. He explained that the economy of the periphery countries is influenced by the expansion and development of the core country's economy. The transactions between or among them are interdependence in the economies. This interdependence extends to the world trade which takes the form of dependence when the developed countries can expand and sustain their development. However, the periphery countries will do this only as a reflection of the development of the core country. This may have either have negative or positive effect on their economies (Dos Santos, 1970).

Power involved in analyzing dependency is asymmetrical between the developed and the developing countries in which the underdeveloped countries have little ability to develop because of constant exploitation by the developed country. The unequal relationship is traceable to the colonial period. The structure of colonialism during that era limited the development opportunities of the southern countries.

In this perspective, the Global South depends on the Global North in the operational structure of the international monetary system. This relationship affects the South negatively.

Development of the Global South and International Monetary System

Using the secondary data from different periphery countries, the research revealed that the exchange rate is an effective variable for the growth of a country economically. The central bank makes decisions for a country in relation to its foreign exchange. This decision can influence the foreign exchange market of a different country. An increase in the value of the dollar affects Ghana. The foreign exchange liabilities of Ghana are higher in terms of its receivables in foreign exchange, and the percentage of savings is meager. Attaining growth means the percentage of investments in the national revenue should be widened. If interest rates are increased along with foreign exchange, it will affect unemployment and growth variables. In other words, there will be an increase in unemployment and a decrease in growth, if it becomes continuous (Korkmaz, 2013).

Scholars of the international monetary system argue that foreign-denominated debt is a big issue for development because unstable exchange rates cause volatility in short-term debt if both currencies do not share a similar peg. In corporate debt, financial deregulation and powerless central banks foster its spike until the bubble burst. Therefore, governments will use their foreign reserves to bail out big corporations in order to defrost their national economy to decrease the debt. The adjustment will then lead the economy towards recession.

Secondly, there is inequality bias in the operational structure of the international monetary system. The Global South (periphery) is increasing its foreign exchange reserves, mainly in the form of assets issued by the Global North (developed countries) such as the US. These foreign exchange reserves act as a shield against the financial crisis and are built under fear of another Asian Financial Despair or Latin American Debt Crisis. The inequality bias and the result of global financial deregulation contribute to greater instability of the international monetary system (Ocampo, 2010).

Dependency theorists argue that colonial masters and the countries they colonized are within the global economy on unequal terms and serve as a hinterland for the extraction of resources. These undeveloped countries export primary commodities whose prices are low while they turn to import finished value-added goods from the developed countries in a continuous balance of payment deficits. In order to maintain trade, the underdeveloped countries finally import capital at exorbitant costs from the rich countries, and this enhances their debt trap (Fathimath, 2022).

Following Weber's assertion that a country's initial productive capabilities have a bearing on its current performance. He and his co-authors explained that the underdeveloped countries began as raw material exporters and are likely to continue as low productive

capabilities. They maintain that it is difficult for them to catch up as high-value exporters (Weber, 2021).

The operational structure of an international monetary system that sees the way countries pay their debts to one another affects the development of the poor countries. The effect of these transactions on the outcome of development got recognition in the 1970s and 1980s. At a conference in Arusha, Tanzania, the poor countries expressed their disagreement with the North in 1980. Also, in the 1970s, the IMF assistance to Jamaica to address its external debt crisis worsened Jamaica's economic difficulties. Similarly, President Nyerere of Tanzania refused the International Monetary Fund conditionality in 1979 because that condition was going to take the determination of policies from their independent countries (Nyerere, 1980).

Global North such as the G7 and European Union still controls the affairs of key global governing institutions where the distribution of the monetary system privileged the interests and currencies of the global northern economies, such as the US, UK, Germany, France, etc.

Again, during the COVID-19 recovery era, the International Monetary Fund distributed US\$650 billion of SDR. Eichengreen observed that only 3% was given to low-income countries, middle-income countries got 30%, and high-income countries were given 60%. Out of this percentage, 17% went to the United States of America (Eichengreen, 2021).

According to United Nations 2022 Report, in recovering from the COVID crisis, the developed countries borrowed very high sums at very low-interest rates to finance the recovery from the pandemic. The poor nations were not given the same opportunity. Instead, the poor states spent a lot of money on paying their debt. Also, they paid 14% of the revenue for the interest on their debt (United Nations, 2022).

Today, Ghana, Sri Lanka, Egypt, Pakistan, and Tunisia to mention just a few have negotiated with the International Monetary Fund for a bailout.

Conclusion

The aim of this paper is to examine how the global north undermines the development of the global south through the structure and transactions of the international monetary system.

The findings of the study confirmed that the operational structure of the international monetary system does not privilege countries of the south. This buttresses the assertion of dependency theory that the core countries benefit to the detriment of the periphery. Therefore, the international monetary needs to be reformed taking into cognizance the plight of the poor countries.

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