



**BEALU Morgane**

**- 21602380 -**

**Essay:**

**"Are we entering a winner-takes-all economy? Why and what can we do about it?"**

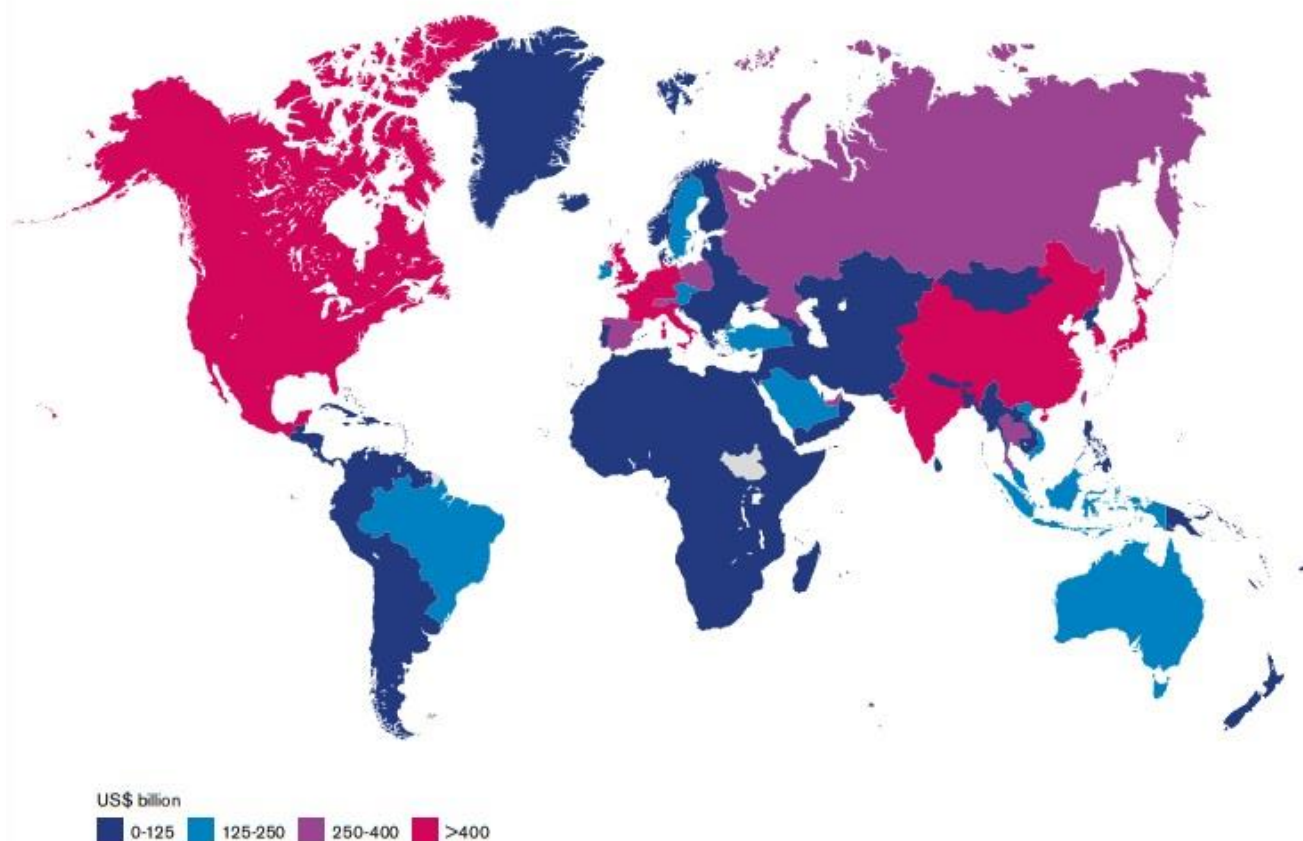
Since worldwide companies started trading stocks on the global financial market, there has been major changes in the global economy, and in the respective economies of many countries around the world. Transactions of companies' shares have been determining these companies' values for years, helping them or dooming them. The economic system has grown more and more complex and the creation of new technologies, coupled with globalization, allowed for a deeper division of knowledge, as well as wealth. Economic complexity has been making key resources highly concentrated, and competition between companies has become the driving force of the economy. Consequently, this division of knowledge has let inequalities appear. It has created a hierarchy between the winners, who get to capture the largest number of rewards, and the losers, who are left with very little. Therefore, I believe that we are entering a winner-takes-all economy where very few people take hold of most of the resources. Let me explain why I think that we are in this situation; and moreover, as there might be some things that can be done about it to prevent inequalities to grow even wider but avoid stifling economic growth, let me develop what solutions I think could be worth considering.

First of all, I will explain why I am considering that we are entering a winner-takes-all economy.

Looking at how the world's economy works nowadays, I noticed that international exchanges shaped the successes and failures of the actors of these exchanges (nations, companies, and people). When I saw how the global trade increased, especially since the creation of the World Trade Agreement in 1994 (that aimed at facilitating and regulating international trade), it became clear that trade between nations had become a key element to their development. However, this development has not occurred everywhere to the same extent. Let me show you a map from the 2019 statistical review released by the World Trade Organization, where are compared the levels of merchandise trade per country in 2018. This map reveals huge inequalities between the different nations:

## Global trade: World maps

### Economies by size of merchandise trade, 2018



Source: WTO-UNCTAD estimates.

Note: Includes significant re-exports or imports for re-export.

US\$  
**19.09**  
trillion

Merchandise exports  
of WTO members  
totalled US\$ 19.09  
trillion in 2018.

**52%**

The top ten traders  
in merchandise trade  
accounted for a little  
over half of the world's  
total trade in 2018.

**44%**

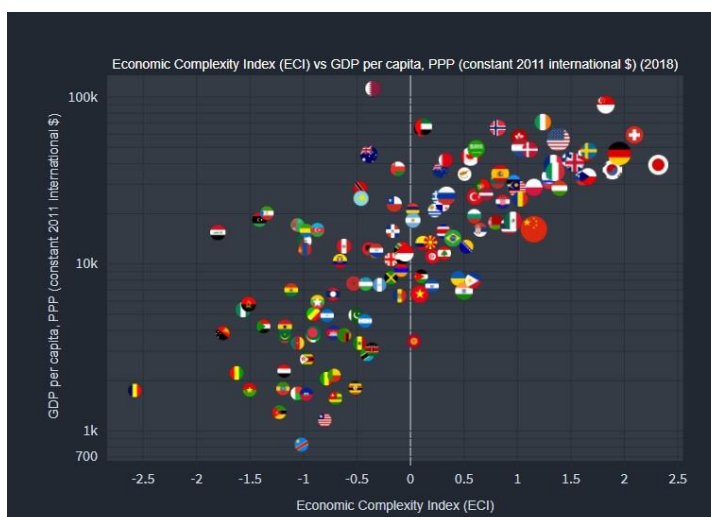
Developing  
economies had a  
44% share in world  
merchandise trade  
in 2018.

Therefore, I would like to emphasize some points in this map. Indeed, some countries (such as South-American or African countries) traded relatively few merchandises in 2018 (0 to 125 billion dollars) compared to developed countries such as the United-States, some European countries, Japan, and the emerging countries (more than 400 billion dollars) for example. Not only that, but “52% of the top ten traders in merchandise trade accounted for a little over half of the world’s total trade in 2018.”. To my mind, this is an accurate representation of one of the applications of a “winner-takes-all economy”, as it is obvious that, in this globalized world, countries which have successfully expanded internationally at the expense of others concentrate most of the monetary exchanges, resources, and power.

These powerful countries have even been exploiting the less-developed countries’ resources for their own profits for centuries. I do not think that it is exaggerating to say that these “winner” countries have been pillaging the “loser” countries (the ones that we now call the “Less Developed Countries”) through colonialism for example, but also through using the internal unstable factors of these countries at their advantage, manipulating politicians, for instance. These economically grown countries tend to “take” a lot to those who are less developed. Consequently, I believe that this is a manifestation of the “winner-takes-all economy” we are entering.

As a matter of fact, this economic theory appears to be the subject of many economic studies. For example, Campbell D. and Hulme R. emphasized in their 2001 article: “The winner-takes-all economy”, how competition between firms has intensified the “dynamic in which 5 to 10 percent of the companies in a given industry create all of the shareholder value”. Their theory is that the new “winners” dominate or even “atomize” the companies that are not performant enough, and consequently, provoke the decline of these companies’ value.

Another aspect of the winner-takes-all economy that I would like to talk about is the one that concerns the disparities in the economic complexity of different countries. Higher economic complexity drives economic development, because it means that the country has diversified its knowhow. The more knowledge there is accumulated in the population, the higher the growth prospects are. In the website of the Observatory of Economic Complexity, the ranking of the countries according to their Economic Complexity Index reveal some interesting things. Let me show you this ranking:



Indeed, the most complex economy of the world is the Japanese one (with an Economic Complexity index of 2.17 in 2018) and a high GDP per capita. Japan is followed by Chinese Taipei, Switzerland and Germany. It means that these countries have found a way to diversify their knowhow and build a competitive advantage to prevail in an international frame. Their GDP per capita is also high, meaning their inhabitants have good revenues, and most certainly, a relatively high standard of living. Not surprisingly, these countries are part of the world's most developed ones. Therefore, my analysis is that having a complex economy is a decisive element to be counted among the winners of this "winner-takes-it-all" economic context.

Finally, in my opinion, the increasing use of Internet over the last decades has driven this gap between "winners" and "losers" even more and made the situation appear very hard to change. To my mind, reversing the current trend seems particularly complicated.

Yet, there are also cases where countries and companies don't try to "atomize" each other, but on the contrary, support each other and unify their forces. For instance, organizations such as the European Union, the NAFTA, the Mercosur, were created to help member countries to exchange merchandises more easily and less costly. In parallel, the United Nations (UN) namely aims to maintain international peace and security and achieve cooperation between nations. Consequently, there might be some hope for a fairer future, where the "winner-takes-all economy" issue is partly addressed to, and exchanges between nations, organizations, companies, and people are more balanced.

When countries unify their forces, they grow stronger and can become more visible and powerful on the international scenery. The European Union is an excellent example of an agreement that gave balance to inequalities between countries and let the member countries grow stronger, even though, of course, there are still debates about whether or not it is still advantageous for some countries to stay in the EU (The United Kingdom left it recently for example). Another interesting example is the Economic Community of West African States (ECOWAS) which serves as a political, economic and peacekeeping union of several countries in West Africa, and allowed the member States (which are among the Less-Developed countries) to develop their GDP, their economic exchanges, and valorize their assets. However, it did not necessarily make them more visible internationally. Let me mention that the situation in African Regional Trade Agreements (RTAs) is a bit specific compared to other RTAs. Even though many African countries are involved in regional agreements, they are not active members of the World Trade Organization, but, as Sarah Ellis Barnekow and Kishore G. Kulkarni stated in their research article "Why Regionalism? A Look at the Costs and Benefits of Regional Trade Agreements in Africa": "there could be enormous potential benefits to them that exist outside of the trade realm". There are benefits to being a member of an RTA for African countries, and improving

these Regional agreements might bring more balance to counter the “winner-takes-all economy” and allow these countries to develop.

Finally, I previously talked about Economic complexity and how a concentration of knowledge brought economic growth, well then, this means that an educated population drives economic growth too. Because the population can bring knowledge to the country’s organizations and companies.

Indeed, it seems that countries which offer high-level education and try to make it accessible to more people end up more developed. However, the “accessible” part is true to a certain extent. even in these developed countries, there are still many that didn’t make higher education really accessible, and propose it at a very expensive cost: it is the case of the United States where student have to get knee-deep into debt for countless years of their future active life to afford going to college. To my mind, this kind of educational system severely lacks equality and follows the logic of a “winner-takes-all economy”, where the poor stay poor and the rich stay rich and keep their privileges and opportunities to themselves. Yet, in other countries, education is more accessible (there is not one perfectly equal system in the world at the moment and there is still a lot of work to do to give access to higher education to everyone but some countries are better examples than others in terms of equality). I could take the example of France where education is, to a relatively large extent, accessible to everyone who wants to pursue higher educational goals: every French student is given access to scholarships based on social criteria to support them (pay their accommodation, food and tuition fees) throughout their studies. Therefore, they can pursue their studies in most institutions of higher education (and are even encouraged to go overseas for academic exchanges with additional scholarships) at extremely low costs compared to other countries.

Consequently, I believe that giving the population access to a good education is the key to a fairer system and to a growing economy, without yielding to the “winner-takes-all economy”.

To conclude, I think that we are entering a winner-takes-all economy where a small part of the world’s “winners” takes hold of most of the resources, exchanges, and money. The biggest amount of knowledge is concentrated in a few powerful countries, companies, organizations, and helps them develop at the expense of others. However, a better distribution of knowledge and more cooperation between firms or nations could help reduce this gap between winners and losers and build a fairer economic system.

### Bibliography

- Campbell, D. Hulme, R. "The winner-takes-all economy". *The McKinsey Quarterly*, N°1, 82-93. New-York. 2001.
- Economic Complexity Rankings (2018). Website: *The Observatory of Economic Complexity*. Accessible online: <https://oec.world/en/rankings/eci/hs4/hs12>
- World Trade Organization. World Trade Statistical Review (2019). Accessible online: [https://www.wto.org/english/res\\_e/statistics\\_e/wts2019\\_e/wts2019\\_e.pdf](https://www.wto.org/english/res_e/statistics_e/wts2019_e/wts2019_e.pdf)
- Barnekow S. Kulkarni K. "Why Regionalism? A Look at the Costs and Benefits of Regional Trade Agreements in Africa". *Global Business Review*, volume 18. 2017.