What are the main features of international trade?

No country can provide everything that its inhabitants want or need. To provide these needs, a country has to **trade** with other countries. It buys goods and services that it is either short of, or which it can obtain more cheaply from elsewhere. These are referred to as **imports**. To pay for these goods, a country must sell things of which it has a surplus, or which it can produce more cheaply than other countries. These are known as **exports**. The imports and exports of a country are likely to include raw materials, energy resources and manufactured goods.

Ideally a country hopes to have a **trade surplus**. This means that it will earn more money from the goods that it exports than it needs to spend on imports. A country with a trade surplus will become richer and, if the extra money is used sensibly, it can help to provide services and to improve the standard of living and quality of life of its inhabitants. Unfortunately not every country has a trade surplus. A country that has to spend more on imports than it earns from exports has a **trade deficit**. As a result it is likely to remain poor, will have insufficient money to develop new industries or improve services, and is likely to fall into debt.

Countries that trade with other countries are said to be **interdependent**.

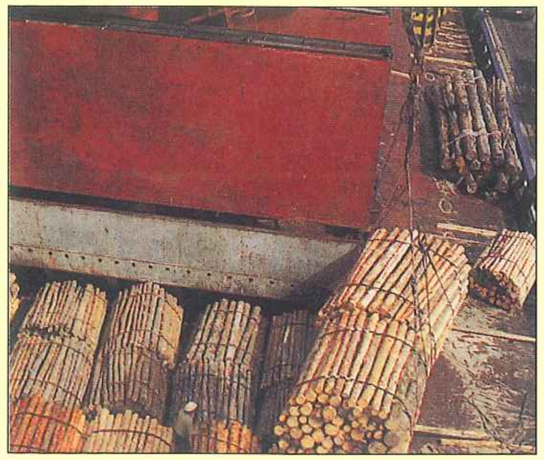
Patterns of world trade

A

Less economically developed countries (LEDCs)
Many were colonies in the nineteenth century

EXPORTS 'Cheap' foodstuffs (tea, coffee) and raw materials (rubber, cotton, timber).

IMPORTS Very few



More economically developed countries (MEDCs)
Many were colonial powers in the nineteenth century

IMPORTS 'Cheap' foodstuffs and raw materials which it processes into manufactured goods.

EXPORTS 'Expensive' manufactured goods (cars, machinery, computers).

Most trade is between the 'rich' MEDCs – 80% of the world's total

Relatively little trade between the 'poor' LEDCs – 20% of world's total

There is, however, a wide imbalance in the trade between the LEDCs (the less economically developed countries) and the MEDCs (the more economically developed countries). As diagram **A** shows, this is mainly because:

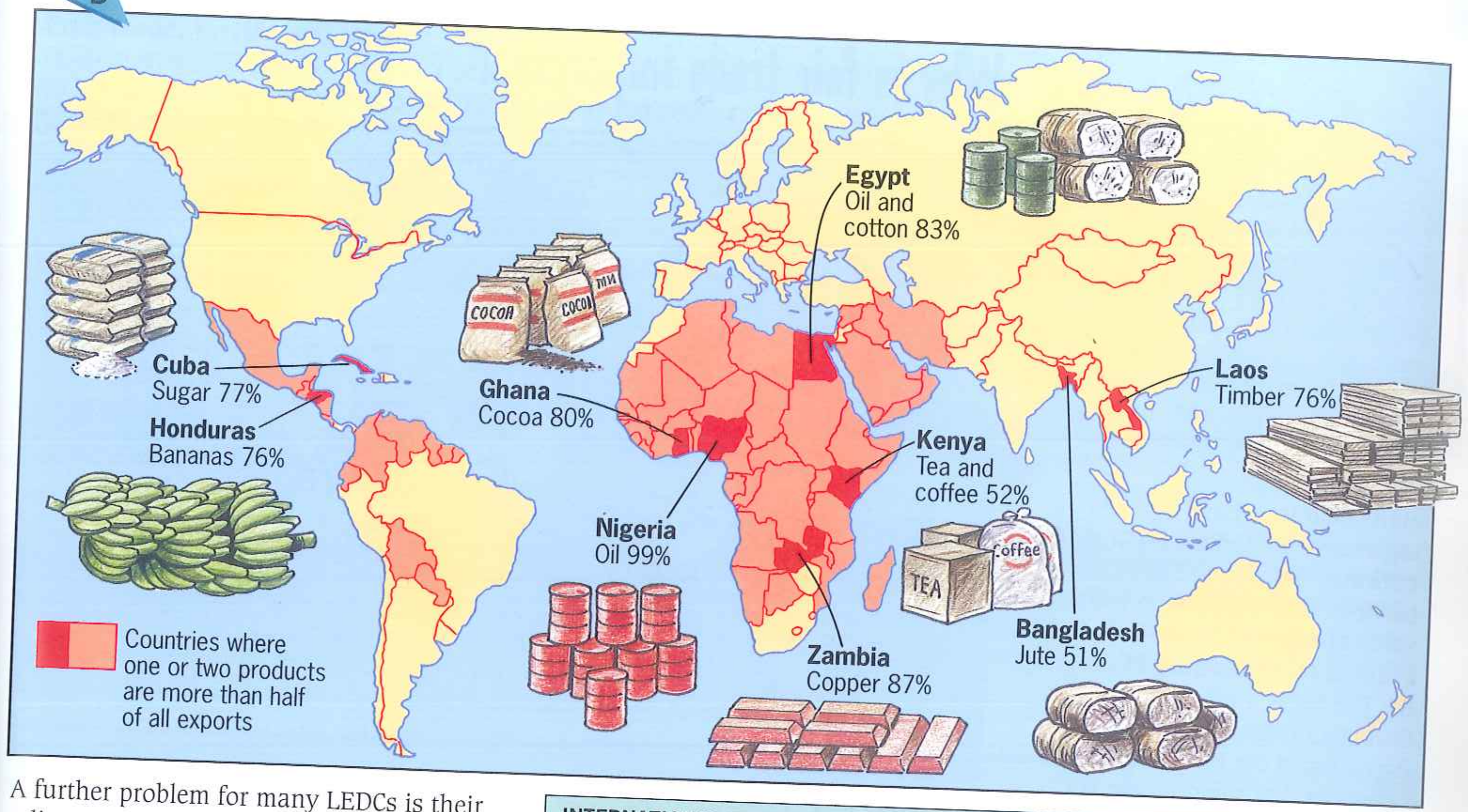
- the LEDCs provide **primary goods**, such as foodstuffs and raw materials, which they sell to the MEDCs – primary goods are usually sold at a low and often fluctuating price
- the MEDCs process primary goods, either bought from LEDCs or available within their own country, into **manufactured goods** – these are sold at a high and usually a steady price (see graph **D**).

The result has been:

- a trade deficit for many LEDCs and a trade surplus for most MEDCs
- an increase in the share of world trade by the MEDCs and a decrease by the LEDCs.

Over a period of time, the trade imbalance between the richer countries of the 'North' and the poorer countries of the 'South' has widened (map **B** page 266).

B



A further problem for many LEDCs is their reliance upon a limited range of primary products that they are able to export. Map **B** shows that many LEDCs, especially those in Africa, rely heavily on just one or two commodities. The economy of a developing country can be seriously affected if there is:

- a crop failure, which may follow a natural disaster, or a mineral is used up
- there is a decline in demand for the product, especially during a global economic recession
- competition from a rival producer which may sell goods more cheaply.

C

INTERNATIONAL TRADE

	Advantages	*Disadvantages*
Richer countries (MEDCs)		
Socio-economic	Cheap imports of foodstuffs and raw materials. Expensive exports of manufactured goods. Trade surplus.	Often obtainable from considerable distances: high transport costs.
Environmental	Limited mining and deforestation. Money to improve environment.	Manufacturing goods can create air, water, noise and visual pollution.
Political	Can exert pressure on LEDCs.	–
Poorer countries (LEDCs)		
Socio-economic	Raw materials have a ready market in MEDCs. Source of work.	Limited range of exports. Trade deficit as imports cost more than exports.
Environmental	–	Problems created by mining, deforestation and overgrazing.
Political	May be able to obtain overseas aid.	Often tied to/dominated by MEDCs.

Activities

1 a) What is the difference between:
- *imports* and *exports*
- *a trade surplus* and *a trade deficit*?

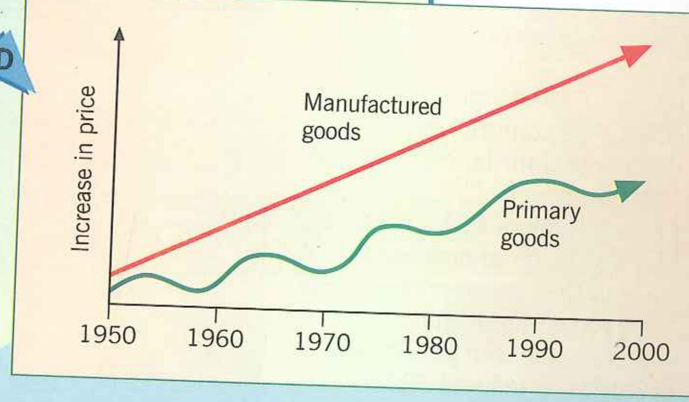
b) What types of goods are exported by countries in:
- the 'South' (LEDCs)
- the 'North' (MEDCs)?

c) How does graph **D** help to explain why the gap between the rich and poor countries is getting wider?

2 a) Name six countries that rely heavily upon the export of one or two commodities (map **B**).

b) Why do these countries:
- usually have a trade deficit
- find it difficult to improve their standard of living and quality of life?

D



Summary

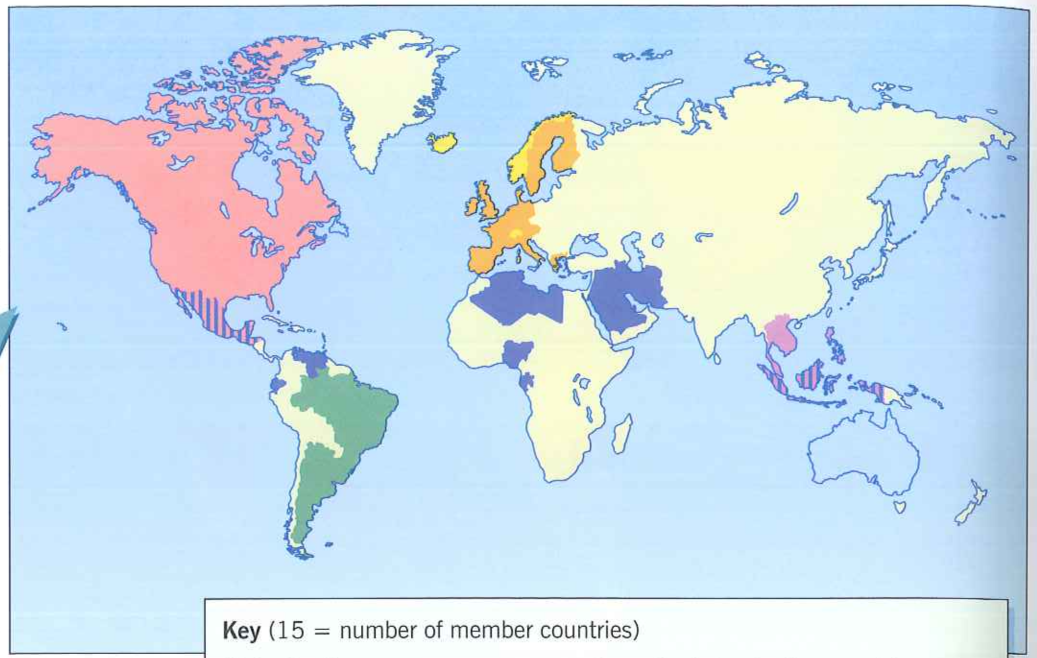
Countries trade in order to share out resources and to earn money. Countries that rely upon the export of raw materials do not develop economically as quickly as those that export manufactured goods.

Why is fair trade important?

Trade between countries has become increasingly complex and competitive. All countries strive to improve their volume of trade and value of exports and to reduce their dependency upon imports. Trade is seen as a major way for a country to improve its standard of living and, as a result, the quality of life of its inhabitants.

Many countries have grouped together to try to improve their **trade balance**. This is the difference between the cost of imports and the value of exports. By joining together, countries form **trading blocs** (map **A**). The UK is a member of the European Union (EU). One of the first aims of the EU (or EEC as it was known at that time) was to try to improve trading links between its members. This was achieved by eliminating customs duties previously paid on goods that were moved between member countries. This lowered the prices of goods, making them cheaper and more competitive against goods from non-EU countries. Also, as the number of EU member countries has grown, so too has its internal market. The larger the internal market, the greater the number of potential customers. This is even more important when, as in the case of the EU, many of these potential customers are wealthy and able to purchase a greater number of higher-value goods.

A



Key (15 = number of member countries)

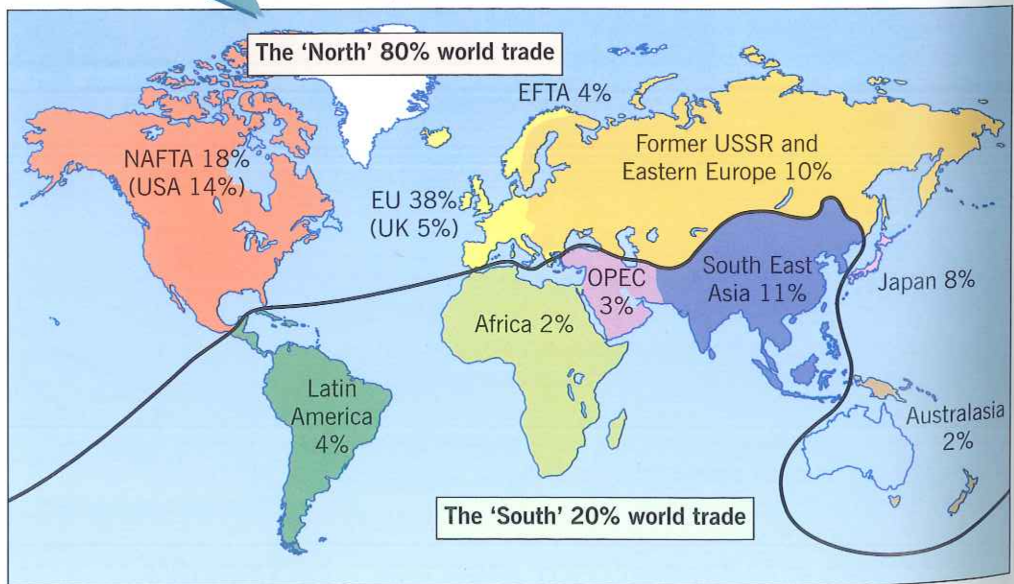
Major trading groups		**Important developing countries groups**	
EU	European Union (15)	Mercosur	(4)
NAFTA	North American Free Trade Association (3)	ASEAN/AFTA	Association of South-East Asian Nations (7)
Other developed countries group		OPEC	Organisation of Petroleum Exporting Countries (12)
EFTA	European Free Trade Association (5)		

Two points should be noted:

1 World trade is not shared out equally between countries. Whereas, for example, the EU and the USA are responsible for 52 per cent of the world trade total and Japan a further 8 per cent, the developing countries between them only contribute 20 per cent (map **B**).

2 As trading blocs such as the EU and NAFTA try to increase the trade of their member countries, the trade of non-members, especially those in developing countries, is reduced. This apparent unfairness is a cause of the widening gap between the rich countries of the 'North' and the poor countries of the 'South'.

B World trade, 2000



Free trade, tariffs and quotas

In an ideal world there should be 'free trade' between all countries (diagram **C**). In the real world this rarely happens. Virtually all governments, especially those of the MEDCs, have tried to regulate overseas trade. They have achieved this by creating trade barriers which governments hope will protect jobs and industries within their own country. The most common methods of affecting the levels and patterns of international trade are through **tariffs** and import **quotas** (diagram **C**). Tariffs can either reduce the cost of imports (helping the trade balance) or protect home-made products. Quotas tend to be restricted to primary goods and so work against LEDCs.

Free trade is when governments neither restrict nor encourage the movement of goods.

Tariffs are taxes or customs duties paid on imports. The exporter has to pay a percentage of the value of the goods to the importer. Importers may add tariffs just to raise money, but usually the idea is to put up the price of imported goods in order to make them more expensive and therefore harder to sell.

Quotas limit the amount of goods that can be imported. They tend to be restricted to primary goods and so work against the LEDCs.

C

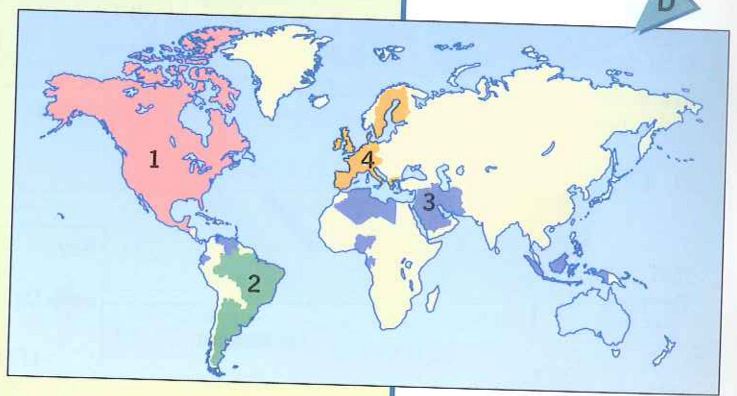
The World Trade Organisation (WTO)

Attempts began in 1986 to try to replace the various protectionist blocs and self-interest groups with one large global free trade area. A breakthrough occurred in 1994 when the major trading countries agreed to reduce tariffs on many industrial products. This decision benefited the newly industrialised countries (page 226) and, as it increased competition and lowered prices, consumers. However, farm subsidies and tariffs on agricultural goods were only to be reduced over a period of time. This delay, caused by strong agricultural pressure groups in the EU and the USA, was to the detriment of the many LEDCs that rely upon the export of agricultural products.

Activities

1 **a)** Map **D** shows four trading blocs. For each trading bloc:
i) give its initials
ii) find out the names of three member countries.
b) Give two reasons why countries group together to form trading blocs.

D



2 Diagram **E** shows the volume of trade between the EU, the USA and Japan.
a) What percentage of world trade is shared by these three?
b) Of the three, which has:
i) a trade surplus with the other two
ii) a trade deficit with the other two
iii) a trade surplus with one and a trade deficit with the other?

E

USA to Japan 48.6	EU to Japan 28.9	Japan to EU 53.9
USA to EU 98.1	EU to USA 97.4	Japan to USA 90.0

Exports in US$ billion (1993)

F

3 Study figure **F**.
a) What are: i) *tariffs* ii) *quotas*?
b) How do tariffs and quotas work in favour of rich countries and against poorer countries?

Summary

Governments have tried to influence patterns of international trade by grouping together to form trading blocs or by imposing tariffs and quotas.

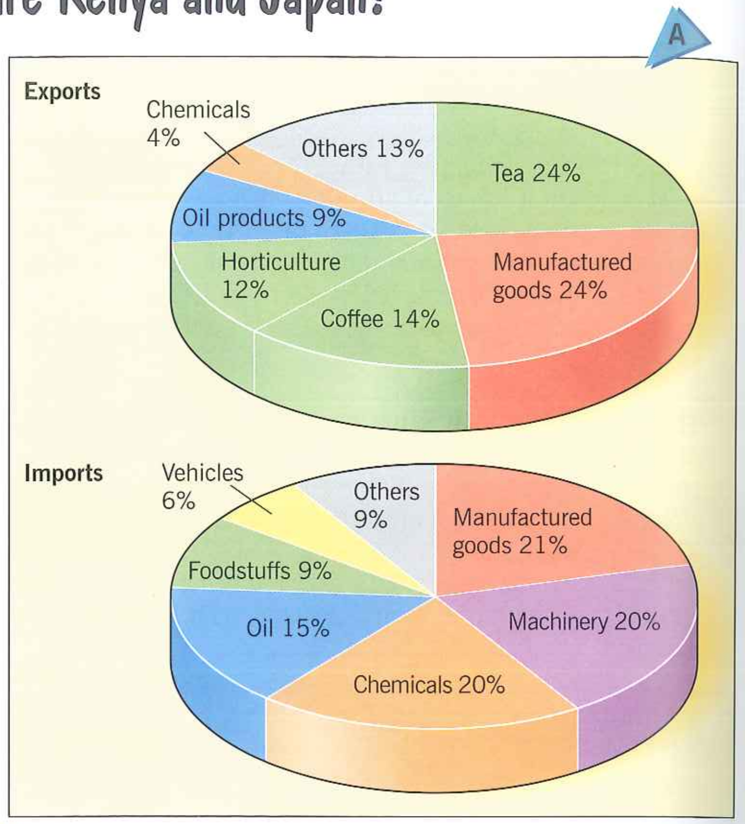
How interdependent are Kenya and Japan?

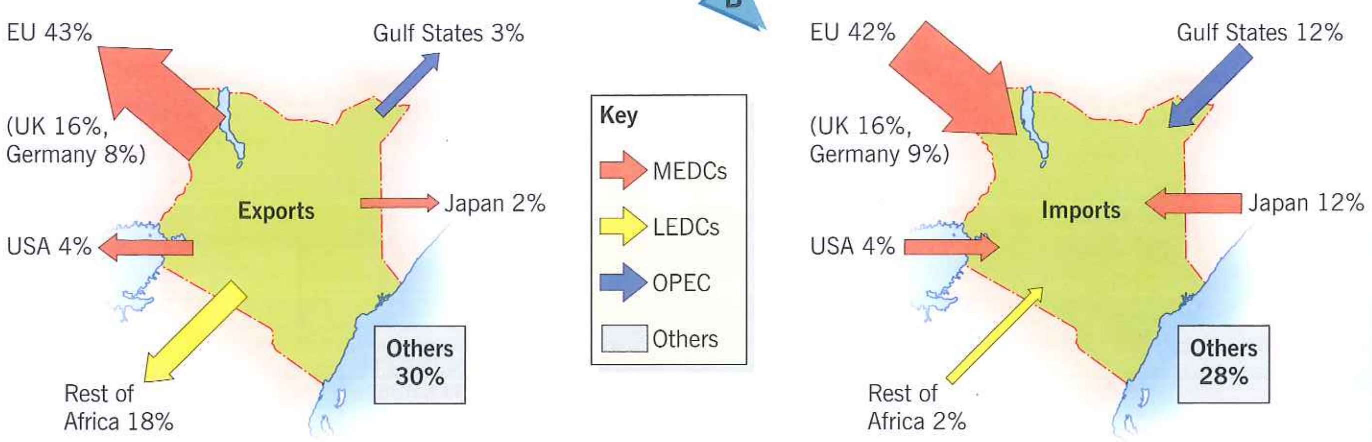
Kenya

As diagram **A** shows, Kenya's trade is typical of most LEDCs. Exactly half of the country's exports consist of three relatively low-value agricultural products: tea, coffee, and horticultural crops (mainly peas, beans and flowers). Although **manufactured goods** appear to be significant, most of these are made from either low-value or **recycled** raw materials (page 229). These products, many of which need only limited technology, tend to be sold to surrounding and equally poor African countries. In contrast, Kenya's imports are dominated by high-value manufactured goods and oil. The result is that Kenya has:

- a large **trade deficit** – over US$ 1100 in the late 1990s
- a low amount of trade per person – US$ 110
- to borrow money from more wealthy countries.

Kenya's most important trading partner is the UK (diagram **B**). This is because Kenya was once a British colony and, although independent since 1963, it still provides raw materials for its former colonial power. Kenya also now provides raw materials for other EU countries as well as receiving manufactured goods from Japan and oil from the Gulf States. Although Kenya has joined the Preferential Trade Area for Eastern and Southern Africa, the value of trade between it and fellow members is small (diagram **B**).





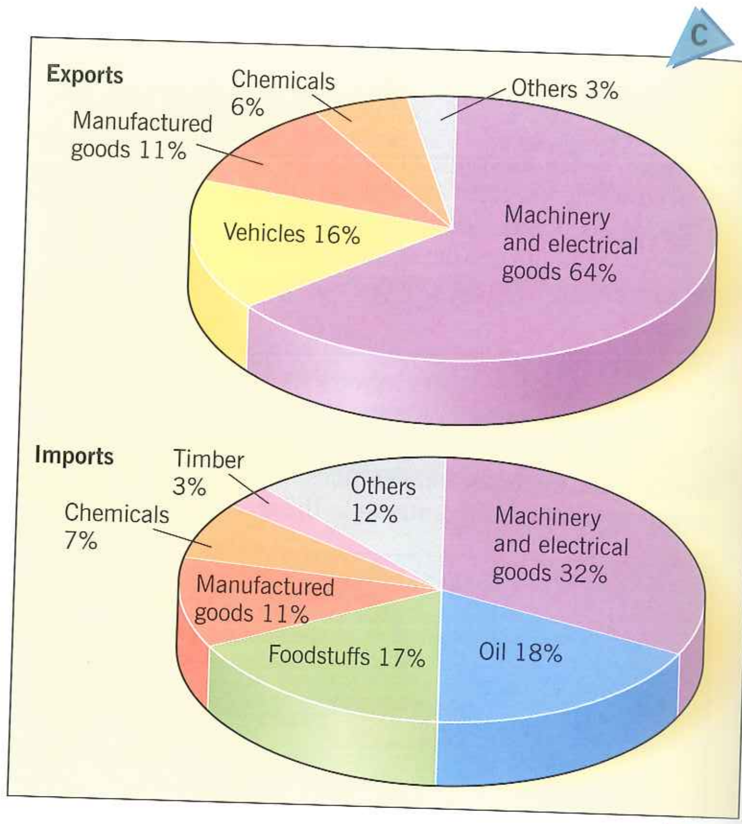
Japan

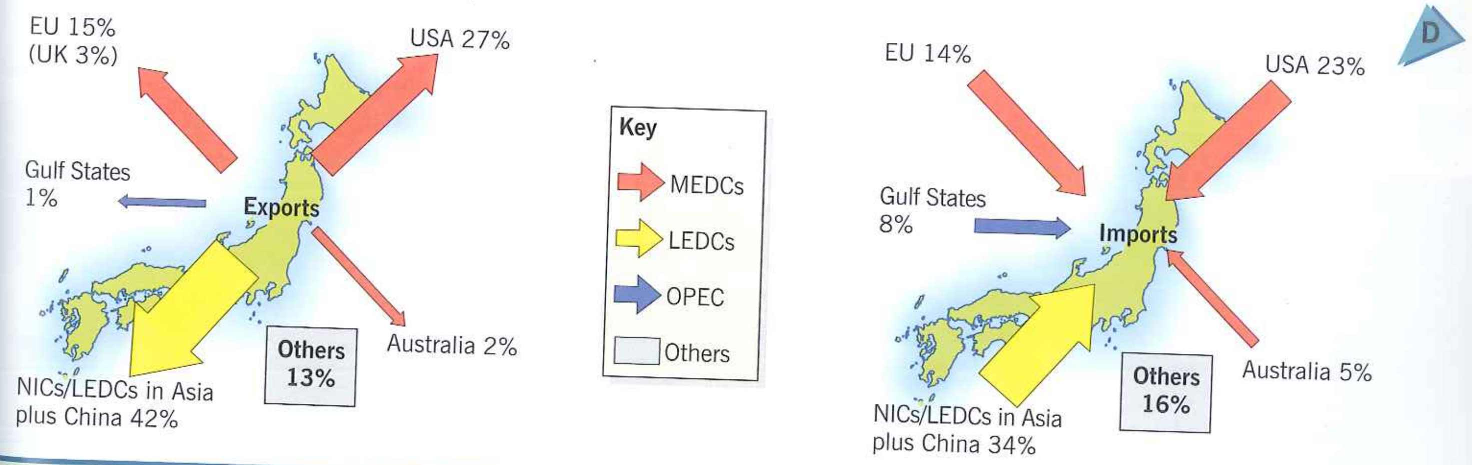
As diagram **C** shows, Japan's trade is typical of most MEDCs. Japan exports large amounts of high-value manufactured goods such as electrical goods, cars and high-technology products. The Japanese have achieved this by working long hours, introducing modern machinery, developing high levels of technology and producing high-quality, reliable goods. Japan, which has few natural resources, limited flat land and a big population, has to import large amounts of raw materials, foodstuffs and energy resources. With the exception of oil, most of these imports are relatively cheap in value. Having become a wealthy nation, Japan can also afford to import expensive manufactured goods from other MEDCs. The result is that Japan has:

- a large trade surplus – over US$ 110 000 in the late 1990s (although the country has since then experienced its first economic recession)
- a large amount of trade per person – US$ 4849.

It is the world's second largest trading country after the USA, and has been able to give economic aid to less wealthy countries (page 264).

Unlike all other MEDCs, Japan has not grouped itself with any major world trading bloc. However, its need to import raw materials and its desire to export large volumes of manufactured goods, makes it as interdependent as any other country in the world (diagram **D**).



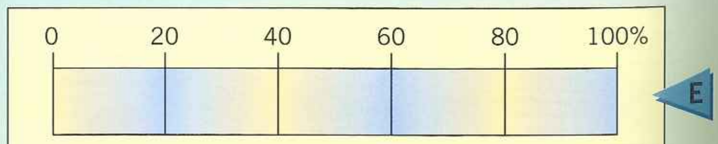


Activities

1 a) Draw four bar graphs like those in diagram **E**, then complete:
- the first to show Kenya's exports
- the second to show Kenya's imports
- the third to show Japan's exports
- the fourth to show Japan's imports.

b) On each graph, colour raw materials (minerals, fuel resources and foodstuffs) in *green* and manufactured goods in *red*.

c) Suggest how your completed graphs account for:
- Kenya's trade deficit
- Japan's trade surplus.



F

Rank order	*Exports to*	*Imports from*
1		
2		
3		
4		

2 a) Make two copies of table **F**, the first for Kenya and the second for Japan.

b) Complete the two tables by ranking in order:
- the places to which most exports are sent
- the places from which most goods are imported.

3 If Japan can buy one tree from a developing country for £2 and then sells a table, made from that tree, back to the developing country for £20, what effect will that have on the trade balance and standard of living in:
- Japan
- the developing country?

Summary

Countries need to be interdependent if they are to share in the world's resources. Countries like Kenya which export primary goods do not develop as quickly economically as those like Japan which export manufactured goods.

Why is aid needed?

Aid is the giving of resources by one country, or an organisation, to another country. The resources may be in the form of:

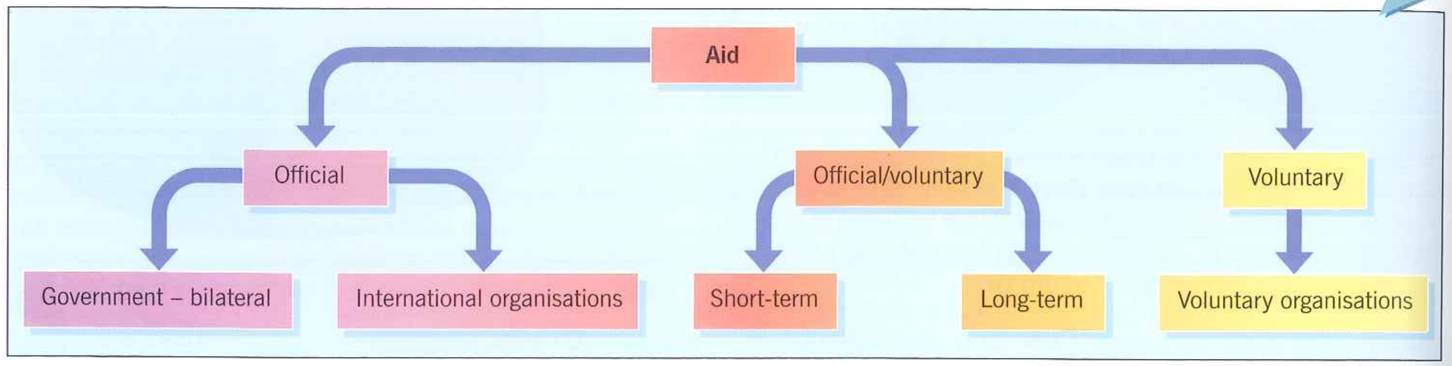
- money, often as grants or loans that have to be repaid even if interest rates are low
- goods, food, machinery and technology
- people who have skills and knowledge as, for example, teachers, nurses and engineers.

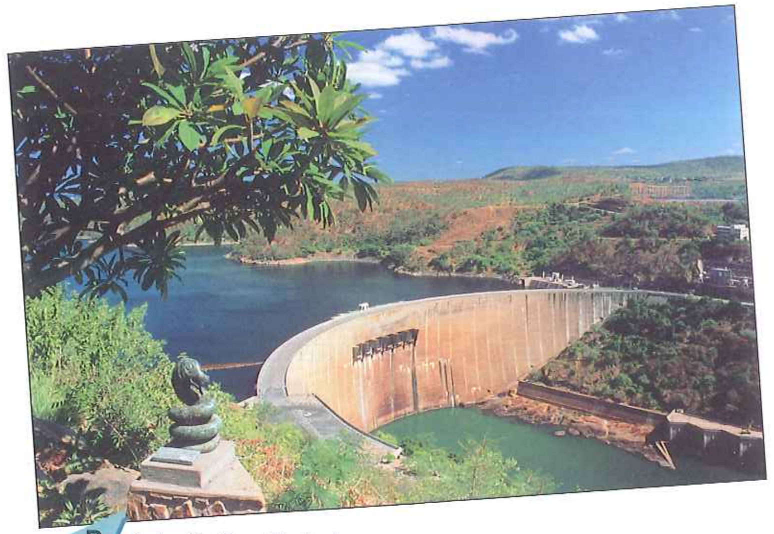
The basic aim in giving aid should be to help poorer countries to develop their economy and services in order to improve their standard of living and quality of life. Aid can be given in a variety of ways (diagram **A**). Table **D** defines five of these methods and describes how each may have advantages and disadvantages to the receiving country.

Aid is needed by many LEDCs:

- because there is an imbalance in trade giving a trade deficit
- because differences in development have led to global inequalities
- because there is a need to improve their basic amenities (water supply, electricity) and infrastructure (new roads, schools and hospitals)
- to encourage and promote self-help schemes and sustainable development
- to combat the effects of environmental hazards such as earthquakes, tropical storms or drought
- following human-created disasters such as civil war.

A





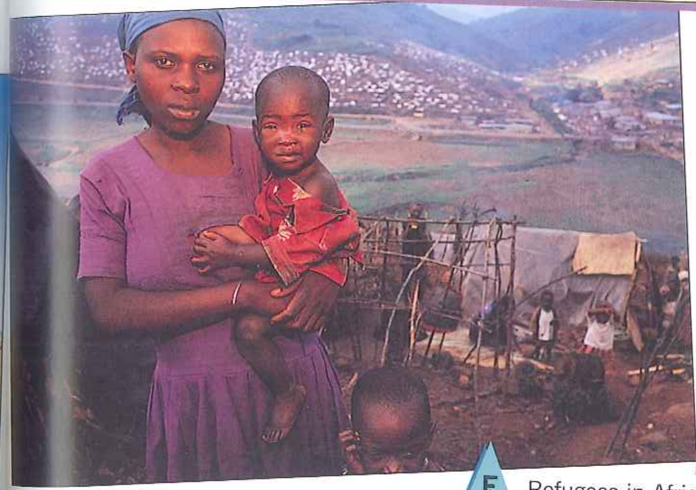
B Lake Kariba, Zimbabwe

C Emergency aid being given following an earthquake

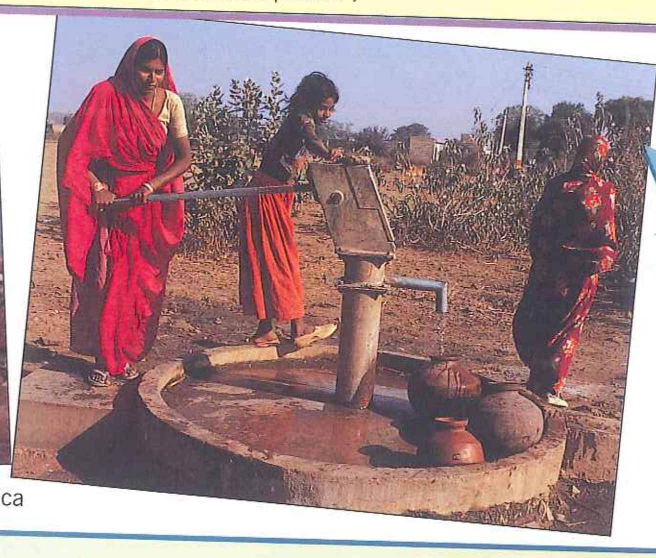
Unfortunately foreign aid does not always reach the places or people that are most in need. It can be directed into over-ambitious schemes or end up in the pockets of politicians and corrupt officials. There are also strong arguments as to whether aid should be given at all. Some people think that aid discourages the development of LEDCs and makes them dependent upon rich donor countries and organisations. Others believe that as we all live in the same world we must help each other and try to improve the quality of life for everyone – this is the concept of **global citizenship**.

Type of aid	Definition	Disadvantages and advantages
Government (bilateral)	Given directly by a richer country (donor) to a poorer country – often **tied** with 'strings attached'	• 'Tied' meaning LEDC has to buy goods from donor, e.g. arms, manufactured goods • Money often has to be spent on prestigious schemes such as dams (photo **B**) and international airports • Large schemes take up land belonging to local people • Aid often encourages corruption – money rarely reaches poorer people living in more remote areas • LEDC unable to repay money – gets further into debt • LEDC becomes increasingly dependent on donor country • Can provide grants for students to study in MEDCs
International organisations (multilateral)	Given by organisations such as the World Bank and the IMF (International Monetary Fund)	• Not meant to be tied, but less likely to be given to countries with unfavourable economic and political systems • Encourages farming and industry but products are sent to MEDCs rather than consumed in LEDCs • LEDCs become increasingly dependent on aid, and often fall increasingly into debt • Helps LEDCs to develop new crops, raw materials and industry
Voluntary	Organisations such as Oxfam and ActionAid which collect money and receive gifts for people in LEDCs	• Not tied • Deals with emergencies • Encourages low-cost self-help schemes • Money more likely to reach poorer people in more remote areas • Dependent on charity's ability to collect money • Annual amounts uncertain – requires longer-term planning
Short-term/ Emergency	Needed to cope with the effects of environmental hazards such as earthquakes and tropical storms	• Immediate help – provides food, clothes, medical supplies and shelter (photo **C**) • Goes to places and people most in need • Not tied, and less chance of corruption • Also helps refugees (photo **E**)
Long-term/ Sustainable	Organisations such as Intermediate Technology that help people in LEDCs to support themselves	• Encourages development of local skills and use of local raw materials • Trains local people to be teachers, nurses, health workers • Helps equip schools and development of local agriculture and small-scale industry • LEDCs do not fall into debt (see photo **F**)

D



E Refugees in Africa



F A village well helps people to help themselves

Activities

1 a) What is *aid*? Why is it needed by many LEDCs?
  b) What is the difference between:
  - *official aid* and *voluntary aid*
  - *short-term aid* and *long-term aid*?

2 a) With the help of table **D**, list:
  - five advantages of receiving aid
  - five disadvantages of receiving aid.
  b) Which of the five types of aid do you consider to be best for an LEDC? Give reasons for your answer.

Summary

Aid can bring many benefits but it can also create problems in receiving countries. Global citizenship is when countries and people try to help each other.