World trade and interdependence

No country is self-sufficient in the full range of raw materials (food, minerals and energy) and manufactured goods that are needed by its inhabitants. To try to achieve this, countries must **trade** with one another. Trade is the flow of commodities from producers to consumers, and it is important in the development of a country. Countries that trade with other countries are said to be **interdependent**.

Raw materials, goods and services bought by a country are called **imports**, and those sold by a country are **exports**. The difference between a country's imports and exports is known as its **trade balance**. One way for a country to improve its standard of living and to grow more wealthy is to sell more goods than it buys. Unfortunately, if several countries export more than they import, then other countries will have to import more than they export. The result is that some countries will have a **trade surplus**, allowing them to become richer, while others will have a **trade deficit**, making them poorer and likely to fall into debt.

Trade of less economically developed countries	Trade of more economically developed countries
A legacy of former colonial economies where a mineral once mined, or a crop once grown is exported in its 'raw state'. Most exports are primary products.	Mainly manufactured goods are traded, as these countries have become industrialised. Cereals also exported.
Often only two or three items are exported.	A wide range of items are exported.
Prices of, and demand for, these products fluctuate annually. Prices rise less quickly than for manufactured goods.	Prices of, and demand for, these products tend to be steady. Prices have risen considerably in comparison with raw materials.
The total trade of these countries is small.	The total trade of these countries is large.
Most exports come from transnational companies which tend to send profits back to the parent company.	Profits are retained by the exporting country.
Trade is hindered by poor internal transport networks.	Trade is helped by good internal transport networks.
Trade is severely hit at times of world economic recession.	Trade is badly affected at times of world economic recession.

Figure 11.10
Differences between trade of LEDCs and MEDCs

Patterns of world trade

There is a wide imbalance of trade between the LEDCs (the less economically developed countries) and the MEDCs (the more economically developed countries). This is mainly because:

- the LEDCs provide **primary goods** such as foodstuffs and raw materials – primary goods are usually sold to the MEDCs at low and often fluctuating prices
- the MEDCs process primary goods, which they either possess themselves or obtain from LEDCs, into **secondary** (or **manufactured**) **goods** – secondary goods are sold at high and usually steady prices.

Although the prices of primary goods have increased over the years, the prices of secondary goods have increased far more rapidly. This means (Figure 11.10):

- The MEDCs that export manufactured goods earn increasingly more than the LEDCs which have only primary goods to sell. The result is (with the exception of the NICs – Figure 11.11 and page 147) a widening trade gap between the MEDCs and the LEDCs.
- Although only 14 per cent of the world's population lived in the MEDCs in 2008 (page 11), those countries still contributed 58 per cent of the world's trade.

Figure 11.12 gives some of the socio-economic, environmental and political advantages and disadvantages of this pattern of world trade to LEDCs and MEDCs.

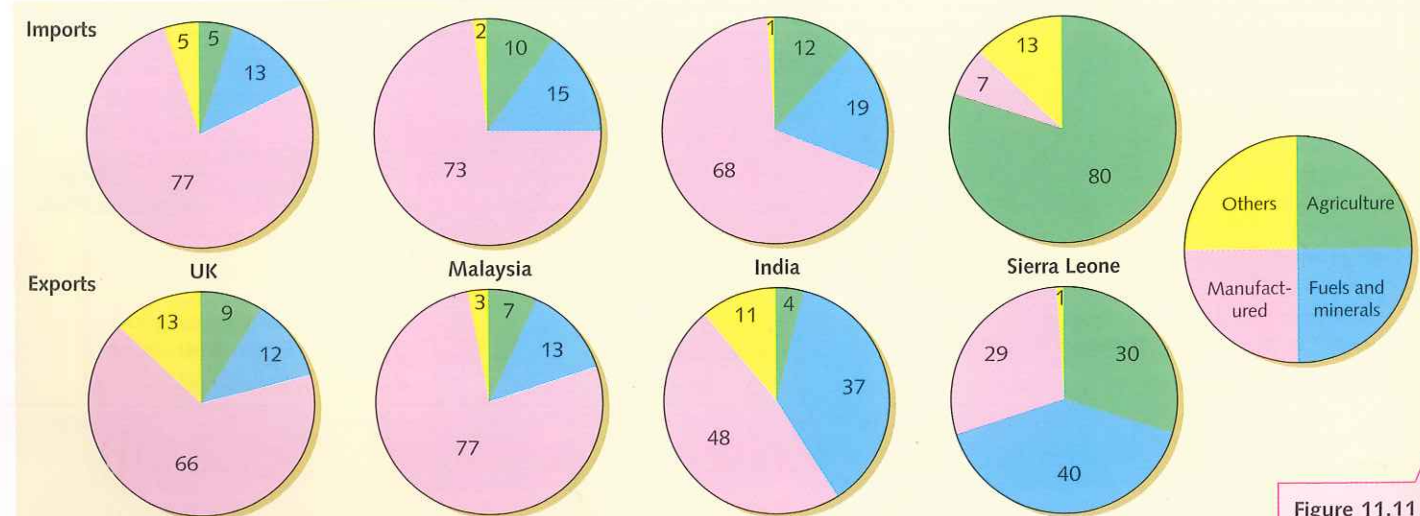


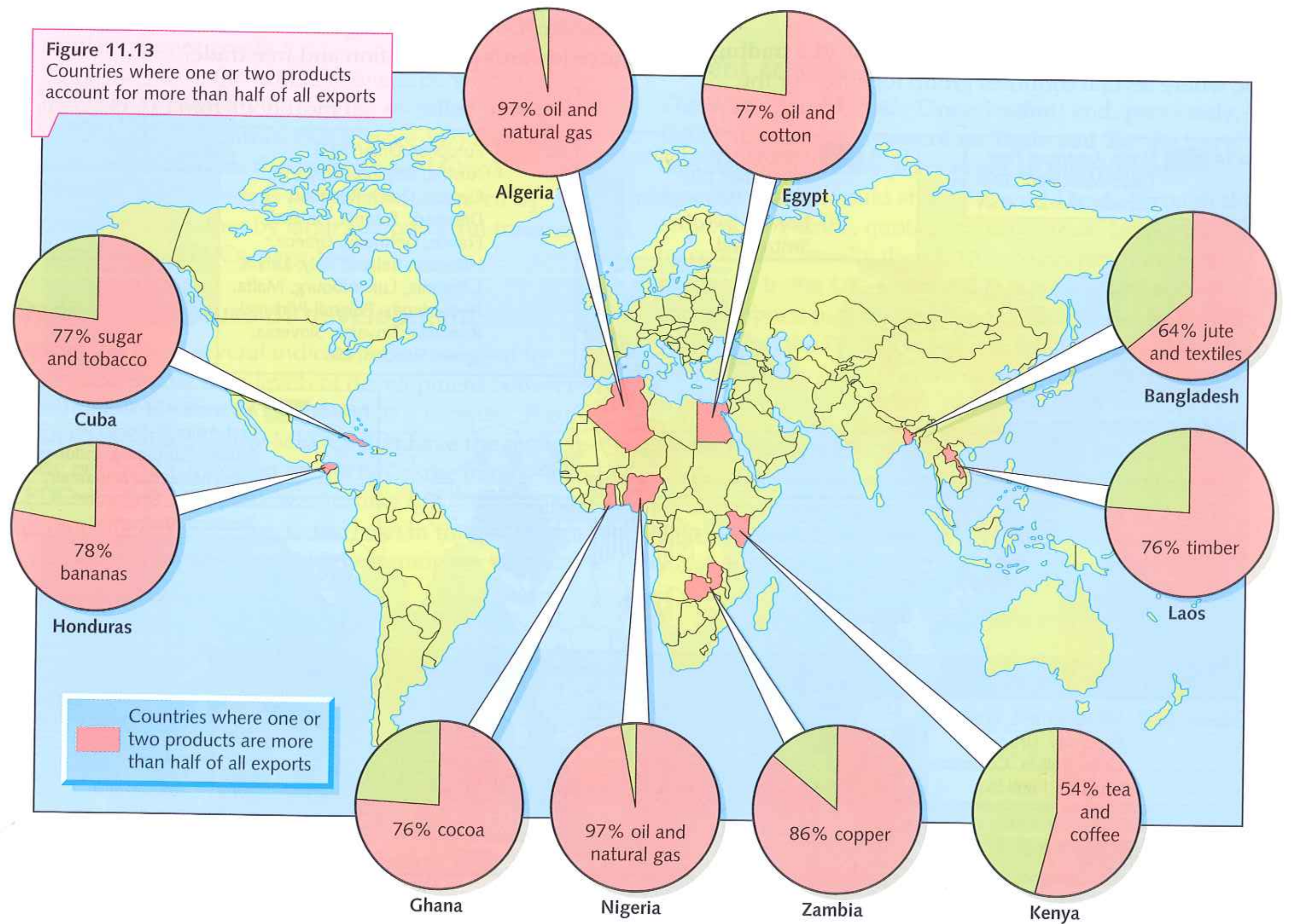
Figure 11.11
Types of trade

Figure 11.12
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.

A further problem for many LEDCs, and especially those in Africa, is that they rely on just one or two major commodities for export (Figure 11.13). The price paid for these commodities is often fixed by the MEDCs. If there is a world recession, an overproduction of a crop or mineral, a change or a fall in the demand for a product, a crop failure, or the exhaustion of a mineral, then the economy of the producing country can be seriously affected. The MEDCs also try to depress the price of products that they have to buy from the LEDCs. They may also, in order to protect their own manufacturing industries, limit the import of processed goods. In many cases, it is large transnational corporations (page 144) that finance and organise the growing of crops, the mining of minerals and the processing of the raw materials. As the headquarters of these corporations are usually located in MEDCs, profits are therefore sent overseas and the LEDCs supplying the commodities do not get their fair share of the wealth.

Figure 11.13
Countries where one or two products account for more than half of all exports



Free trade, tariffs and quotas

In an ideal world there should be **free trade** between all countries. Free trade is when governments neither restrict nor encourage trade. In the real world this rarely happens. Virtually all governments, and especially those of the MEDCs, have tried to regulate and control overseas trade. They have tried to achieve this by creating **trade barriers** which they hope will protect jobs and industries within their own country. There are two common ways of affecting the levels and patterns of international trade:

1 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 increase the price of imported goods in order to make them more expensive, and less competitive, in comparison with home-produced goods. Tariffs, therefore, can either increase the cost of imports (helping the trade balance) or protect home-made products.

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

Trading groups

The European Union (EU) is one example of a **trading bloc** where several countries group together for the purpose of trying to increase the volume and value of their trade (Figure 11.14). The EU and NAFTA, each with about 500 million people in 2008, form the world's two largest internal markets. By eliminating customs duties (tariffs), the EU was able to reduce the cost of products sold between member countries. This meant, for example, that Germany could sell cars to the UK at a cheaper price than could Japan. Although this made the EU more competitive against its major rivals (the USA and Japan), it also created restrictions (trade barriers) which protected goods made in the EU from those produced in, and imported from, the LEDCs. This meant that developing countries found it even harder to sell their products in the world market, increasing the trade gap between themselves and the MEDCs.

As the number of EU members has grown (from the original six of 1957 to the present twenty-seven), so too has the size of its internal market. The larger the internal market, the greater the number of potential customers. This is even more important when, as in the EU, many of these potential customers are wealthy and can afford to buy numerous high-valued goods. The size of the EU, which has recently accepted new members from the former eastern Europe, and NAFTA, which is considering admitting countries from Latin America, poses the question: 'Do super-trading blocs increase or hinder the move towards globalisation and free trade?'

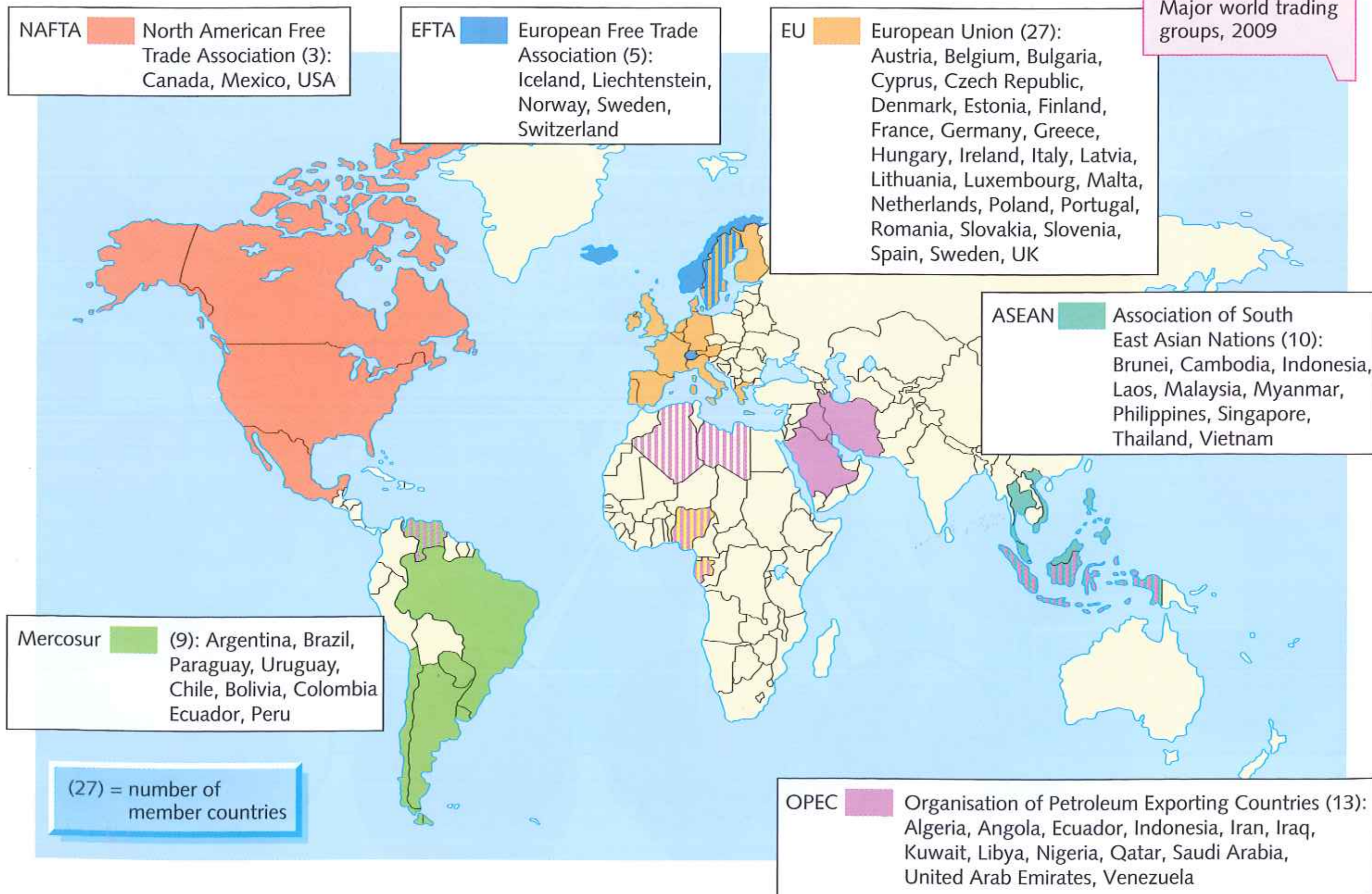


Figure 11.14 Major world trading groups, 2009

Direction of world trade

- Despite the growing number of trading groups, the world's trade is still dominated by MEDCs (Figure 11.15) in North America and the EU together with Japan – the so-called advanced market economies. However, their share of this trade fell from 72 per cent in 1990 to 68 per cent in 1998 and 58 per cent in 2008.
- Most countries tend to trade with one or more of their closest neighbours, e.g. Canada with the USA, South Korea with Japan and the UK with countries in north-west Europe.
- The advanced market economies trade mainly between themselves and have relatively little contact with developing countries. Where they do, they generally import low-value raw materials and export high-value manufactured goods.
- There is relatively little trade between the developing countries themselves, partly due to their low rates of economic development and partly their production of similar types of goods.
- Since the 1970s, the MEDCs have experienced increasing competition from the so-called newly industrialised countries (NICs, page 147) and, even more recently, from the emergence of China.
- Even so, world trade is no longer dominated by countries but rather by large and powerful transnational corporations (TNCs, page 144).

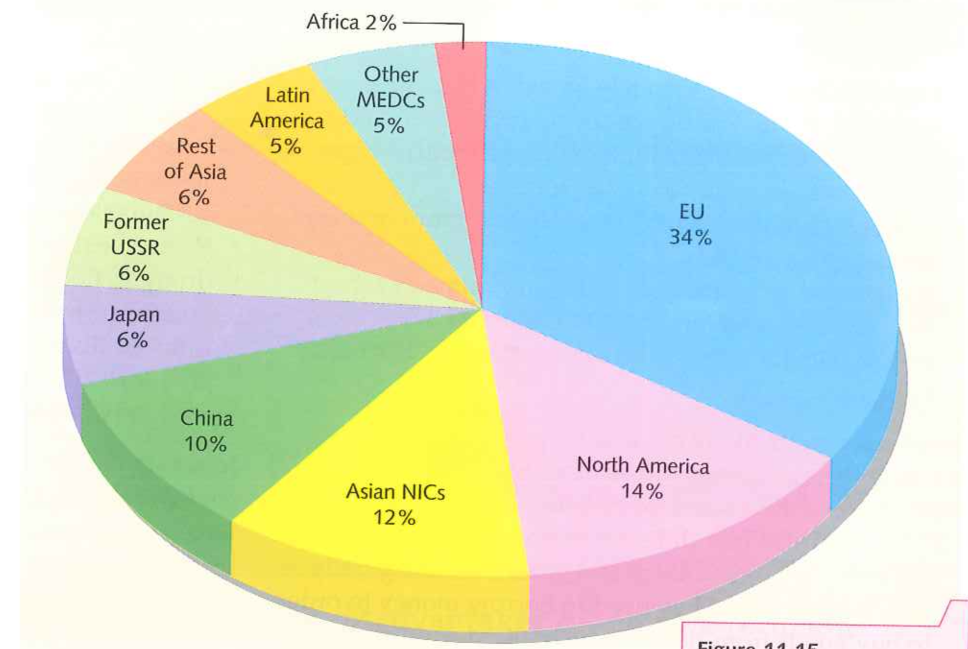


Figure 11.15 Share of world trade, 2008

A further exception is the OPEC countries where those located in the Middle East have an extremely high trade per capita, whereas it is often very low for countries located elsewhere.

Trade – a measure of development

Figure 11.3 gives several indicators that are used to measure differences in levels of development between countries. Trade can also be added as a measure. Figure 11.16 shows that it is the MEDCs that have the highest trade per capita, followed by the NICs, the middle-income LEDCs and, finally, the lower-income LEDCs. Singapore is an anomaly (an exception to the rule) in that, although it is an NIC, it has the world's highest trade per capita.

Recent trends

The **WTO (World Trade Organization)** and, previously, **GATT (General Agreement on Trade and Tariffs)** have been trying for many years to get an international agreement that would stimulate world trade through the reduction of tariffs, quotas and other trade barriers set up by countries, usually the MEDCs, to protect their own products. In the UK, for example, we complain about cheap imports (e.g. textiles) that close factories in Britain, yet without the LEDCs being able to sell goods to the UK, how can they earn sufficient money to buy British goods?

During the 2000s, beginning with the slow-down in the North American economy, the trade of many MEDCs slowly declined whereas, in contrast, that of emerging countries and many of the LEDCs was barely affected. That was until 2008 when all economies were affected by the global recession.

Figure 11.16 Trade per capita (US$) for selected countries

MEDCs		NICs		Middle income		Emerging		OPEC		Low income	
Germany	26 400	Singapore	124 769	Chile	5 402	Brazil	1 234	UAE	39 288	Kenya	275
UK	21 389	Taiwan	19 399	Mexico	4 643	China	1 207	Qatar	38 276	Bangladesh	177
Australia	14 890	South Korea	17 608	Argentina	2 091	India	307	Kuwait	28 096	Nepal	141
USA	10 864	Malaysia	11 603					Angola	1 747	Sierra Leone	127
Japan	10 112	Thailand	4 053					Nigeria	447	Ethiopia	89

Aid

Many LEDCs have come to rely on aid. **Aid** is the giving of resources by one country, or by an organisation (known as the **donor**) to another country (the **recipient**) – Figure 11.18. The resource may be in the form of:

- money, although this may be given as a grant or a loan that has to be repaid
- goods, food, machinery or technology aimed at short-term relief or long-term benefit (Figure 11.17)
- people who have skills and knowledge, e.g. teachers, nurses and engineers.

The basic aim in giving aid is to help poorer countries develop their economy and services in order that they may improve their standard of living and quality of life. LEDCs require aid for different reasons:

- Because they have a large and often increasing trade deficit (page 186). They need to borrow money in order to buy goods from richer, industrialised countries. Unfortunately, by borrowing money, the LEDCs fall further into debt (Figure 11.18). This aid is often long-term.
- To try to improve their basic amenities (water supply, electricity) and infrastructure (transport, schools and hospitals).
- To encourage self-help schemes and to promote sustainable development.
- Because either they are prone to natural disasters (e.g. drought, flooding, tropical storms, earthquakes or volcanic eruptions) or they suffer as a result of human-induced disasters (e.g. desertification, page 256, and civil war). This aid is often needed in an emergency and may only be short-term.

In reality, the giving of aid is often complex and controversial as it does not always benefit the country to which it is given. Figure 11.17 describes five different ways by which aid may be given and gives the advantages and disadvantages of each to the recipient country. Figure 11.19 describes how the traditional and often unsatisfactory trade–aid cycle may be improved.

Figure 11.17 Advantages and disadvantages of aid

Type of aid	Definition	• Disadvantage • Advantage
Government (bilateral)	Given directly by a richer country (donor) to a poorer country (recipient) – often **tied** 'with strings attached'	• 'Tied', meaning LEDC has to buy goods from the donor, e.g. arms, manufactured goods • Money often has to be spent on prestigious schemes such as dams (Figure 8.12) 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 (page 113)
Voluntary	Non-governmental organisations such as Oxfam and ActionAid which collect money and receive gifts for people in LEDCs	• Not tied • Deals with emergencies (page 272) • Encourages low-cost self-help schemes (pages 127, 151 and 185) • 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 • Goes to places and people most in need • Not tied, and less chance of corruption • Also helps refugees (Figure 2.5)
Long-term/sustainable	Organisations such as Practical Action which help people in LEDCs to support themselves	• Encourages development of local skills and use of local raw materials (page 151) • 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

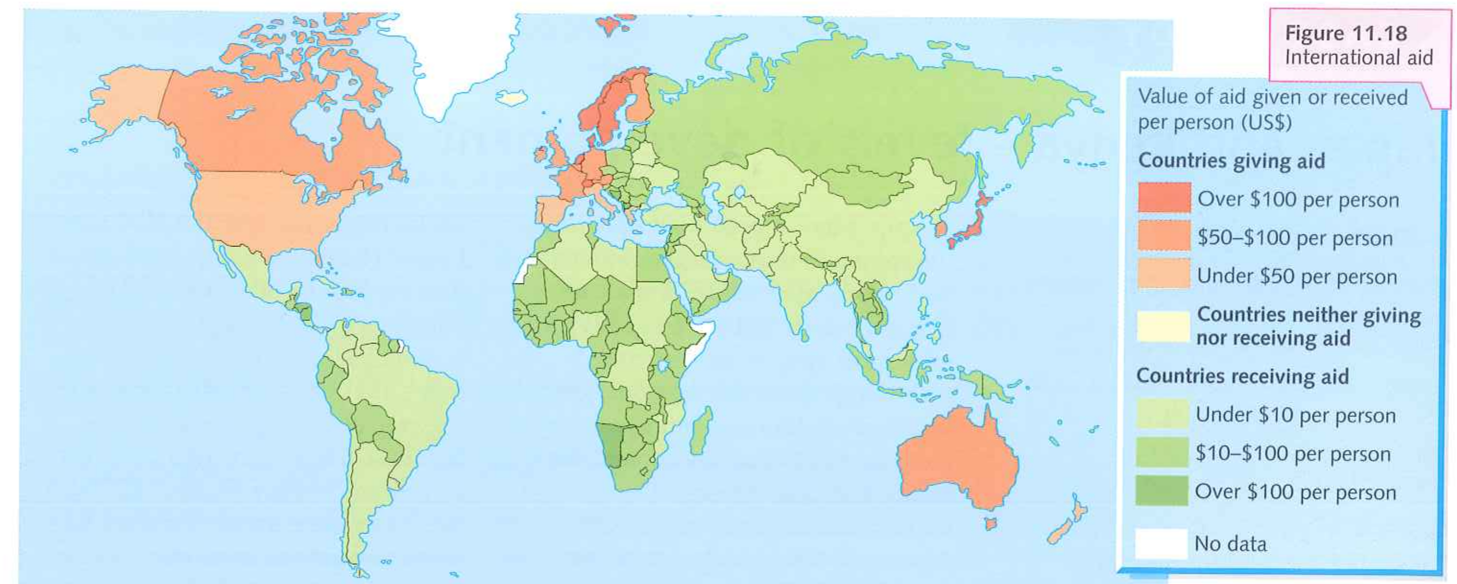


Figure 11.18 International aid

The advantages of aid to a recipient country

Short-term aid can include food, clothing, shelter and medical supplies needed after a natural disaster or civil war. Long-term aid should try to encourage poorer countries to become increasingly self-sufficient and independent. This might be achieved through improving education and health standards, growing higher-yielding crops for their own use rather than for export, developing small-scale sustainable industries using appropriate technology, and encouraging the MEDCs to buy more products rather than setting up tariffs. Many people 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 – the concept of **global citizenship**.

The disadvantages of aid to a recipient country

Aid rarely reaches the poorest people, who tend to live in rural areas. Inefficient and corrupt officials direct it to themselves and the urban areas where most of them live. Aid can force countries to produce materials for the MEDCs rather than growing food or developing industries for themselves. In time, the poorest countries come to rely upon aid which, if it comes in the form of loans on which interest in payable, makes the LEDCs even poorer. Many people question whether aid should even be given, as they believe it discourages development within LEDCs and makes them dependent on richer countries and organisations (Figure 11.20).

Figure 11.19 The trade–aid cycle

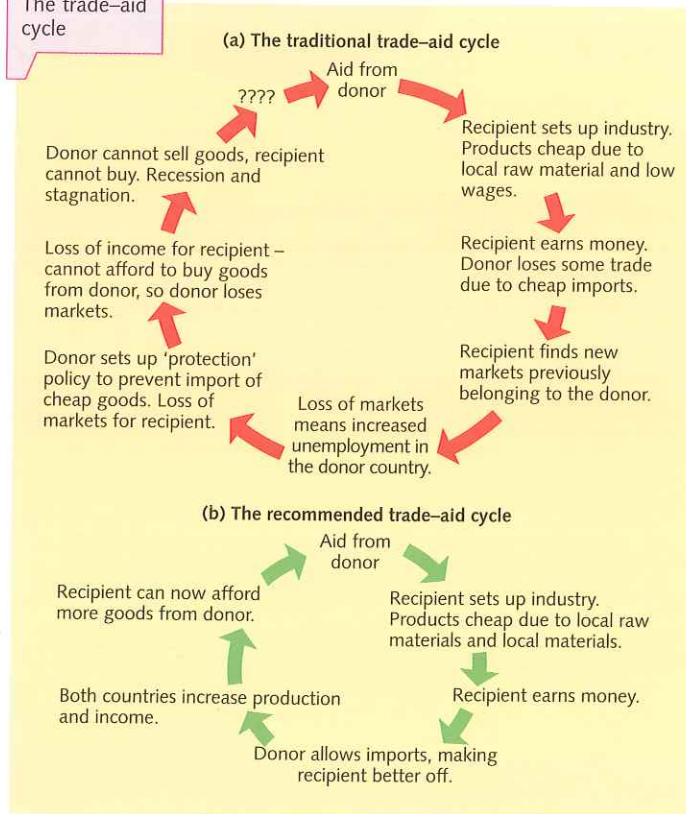


Figure 11.20 The aid/debt relationship

There might have been some justification for the steady increases from year to year in external aid if there was evidence that the battle against poverty was being won. All the evidence, however, clearly demonstrates that the poor are getting poorer.

The reason why there is little effect on poverty is that most aid is spent on heavily capitalised infrastructure projects such as railways, bridges and roads. These may have some indirect effect on the lives of the poor people, but what people really want is better health and education services, improvements in village roads rather than highways, and access to proper credit facilities to help them improve agriculture and raise their incomes. Although there are some enlightened donors, most big Western governments and UN agencies find these types of project too small-scale and difficult to measure and administer; they would rather give money for power stations and fertiliser plants since such things can be seen and their performance measured. They also look impressive in glossy magazines telling the tax-payers back home how the government is spending their money.

Charity statement

THE CUMULATIVE effect of the way in which the developing world is portrayed by charitable organisations and the media is grossly misleading. And it results in deeply held public misconceptions that are ultimately damaging to the understanding they seek to promote.

Ninety per cent of people's knowledge and impressions of the developing world come from two sources: the news media and fund-raising agencies. Both are responsible for distorting the public's perception of the developing world – the one because it is in the business of reporting the exceptional; the other because it is in the business of raising money.

One of the worst examples of a distorted message came during the massive campaign mounted in response to the African emergency in the mid-eighties. The public in the industrialised world donated roughly half a billion dollars in one 12-month period – one of the greatest fund-raising responses of all time. At the same time, the industrialised world's governments gave $2bn in extra emergency aid to Africa. However, almost three times that sum was paid to the industrialised world by Africa in debt and interest repayments. The net flow of finance in that year was therefore *out* of Africa. This year the outflow is at least $10bn in interest repayments alone – more than Africa spends on its health and education services. *UNESCO*

Japan and Kenya – levels of development

Japan

Economic wealth and employment structures

If development is based on wealth (page 180), then Japan, with a GDP per capita of US$33 600, is the third richest country in the world after Luxembourg and Switzerland.

Japan's employment structure is typical of a more economically developed country (Figure 11.21 and page 94). There is only a relatively small proportion of the working population in the primary sector. This is because most young people prefer to live and work in urban areas rather than on farms; farming itself is highly mechanised; Japan has few minerals and so there is very little mining; and there is little forestry, as most domestic forests are protected. Japan, like other developed countries, has a high proportion of its workforce engaged in the secondary sector. Despite a lack of raw materials, it has the capital to set up large, modern and highly mechanised industries (e.g. high-tech and car assembly); an education system that provides technological knowledge and creates a skilled workforce; a large, wealthy local market to buy goods; and the ability and ports to export manufactured goods (page 146). Japan also has, mainly due to its wealth, a high proportion employed in the tertiary sector, in health, education, commerce, transport and recreation.

Social measures and the HDI

Figure 11.22 shows how population data for Japan corresponds closely with that expected in a more economically developed country (page 181). This is particularly true in the case of life expectancy, as the Japanese live longer than people in any other country. Figure 11.22 also lists other measures often used to show a country's level of development. In 2008, Japan had an HDI of 0.953, making it eighth in the world rankings (second equal in 1995) – a ranking lower than that based on its GDP per capita (page 182).

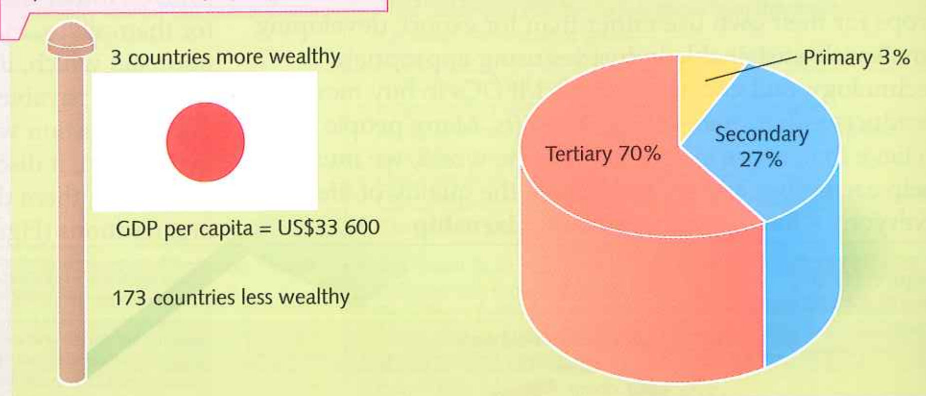
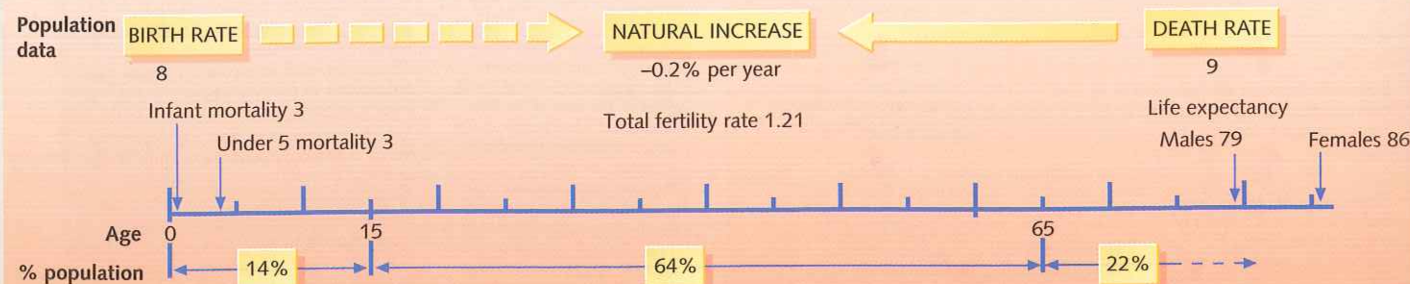


Figure 11.21
Japan's GDP and employment structure



Education		
School life expectancy	Males 15 years	Females 15 years
Adult literacy	Males 99%	Females 99%
Urban population	76%	
HDI	0.953	

Energy consumption	4.04 barrels of oil equivalent per person per year
Diet	3010 calories per person per day
Transport	
Roads	3172 km² per 1000 km²
Railways	58 km² per 1000 km²

Figure 11.22
Japan – facts and figures

Kenya

Economic wealth and employment structures

If development is based purely on wealth (page 180), then Kenya, with a GDP per capita of US$1240 (giving it ranking of 159 out 177), is one of the world's poorest and least economically developed countries.

Kenya's employment structure is typical of a less economically developed country (Figure 11.23 and page 94). There is a high proportion of the working population in the primary sector. Most of these people are engaged in farming, which is labour-intensive and often at a subsistence level (Places, page 104). Smaller numbers are employed in mining, forestry and fishing. Kenya, like other developing countries, has a low proportion engaged in the secondary sector. This is mainly due to a lack of capital, energy supplies and technical knowledge to establish industry; a limited education system leaving a less skilled workforce; the export of raw materials and agricultural produce; and a relatively small local market unable to afford to buy manufactured goods. Mainly due to its lack of wealth, Kenya has a relatively small proportion employed in the tertiary sector with limitations in its health, education, commerce and transport services. The exception is tourism (page 170), which is the country's main money earner. It should also be remembered that large numbers are employed in the informal sector (page 148).

Social measures and the HDI

Figure 11.24 shows how population data for Kenya corresponds closely with that expected in a less economically developed country (page 181). This is particularly true in the case of natural increase, especially during the early 1990s, when Kenya had the highest natural increase in the world. Figure 11.24 also lists other measures often used to show a country's level of development. In 2008, Kenya had an HDI of 0.521. Although this was a low world ranking of 148 (it was 151 in 1995), it was, nevertheless, higher than that based on its GDP per capita (page 182).

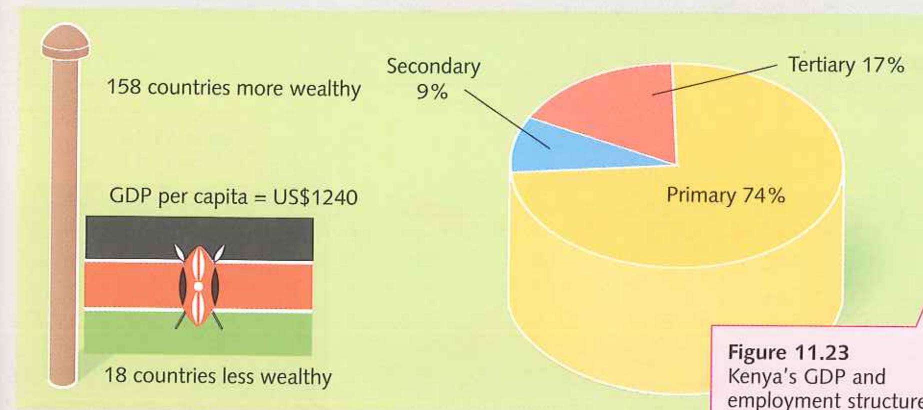
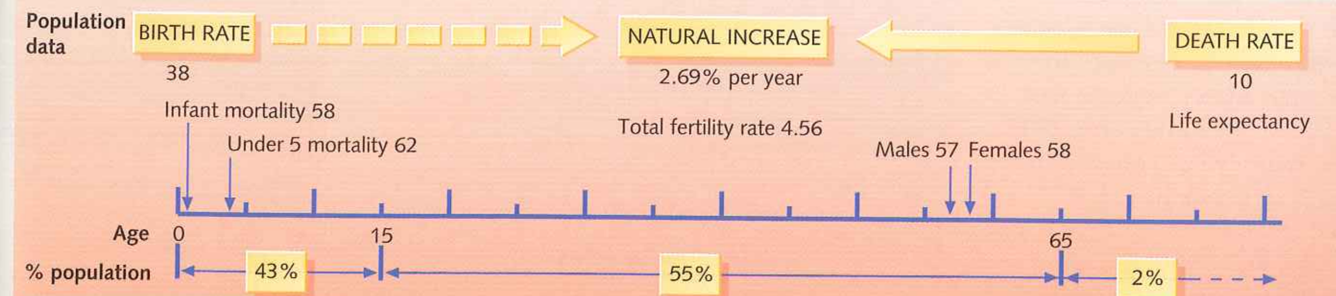


Figure 11.23
Kenya's GDP and employment structure



Education		
School life expectancy	Males 10 years	Females 8 years
Adult literacy	Males 90%	Females 79%
Urban population	22%	
HDI	0.521	

Energy consumption	0.48 barrels of oil equivalent per person per year
Diet	2150 calories per person per day
Transport	
Roads	118 km² per 1000 km²
Railways	4 km² per 1000 km²

Figure 11.24
Kenya – facts and figures

Japan and Kenya – trade and interdependence

Japan

Japan has a large population, limited amounts of flat land and few natural resources of its own (page 146). It has, therefore, to import:

- virtually all of its energy supplies (e.g. oil and coal), which are expensive, as well as various raw materials (e.g. timber) and minerals (e.g. iron ore) needed by its industries (Figure 11.25)
- considerable amounts of foodstuffs because although Japanese farming is intensive and highly mechanised, there is insufficient space to grow enough for the country to be self-sufficient.

On the other hand, by working long hours, introducing modern machinery and developing high levels of technology, the Japanese are able to produce and export across the world a range of goods noted for their high quality and reliability (e.g. electrical goods, cars and high-tech products).

This has resulted in Japan becoming the world's fourth largest trader after the USA, the EU and, recently, China (Figure 11.26). Before the 1980s, most of Japan's trade was with the advanced market economies in North America and the EU, but since then there has been a large increase first with the Asian NICs and, since 2000, China. For many years between the 1980s and 2000, Japan had the world's largest trade surplus, a position it no longer holds. This healthy trade surplus was due to Japan:

- reducing its previously high energy bill by changing from expensive imports of oil to the more controversial use of nuclear power
- importing relatively cheap raw materials (often from poorer, developing countries) and exporting expensive processed goods (usually to richer, developed countries)
- protecting – until the 1990s – its domestic industries by imposing tariffs on imported goods, and gaining foreign markets by overseas investment and building new factories abroad (e.g. Nissan, Toyota and Honda in the UK)
- financing scientific research projects and building projects in developing countries in return for their often non-renewable resources (e.g. Japanese logging companies are responsible for much deforestation in South-east Asia in order to protect Japan's own forests).

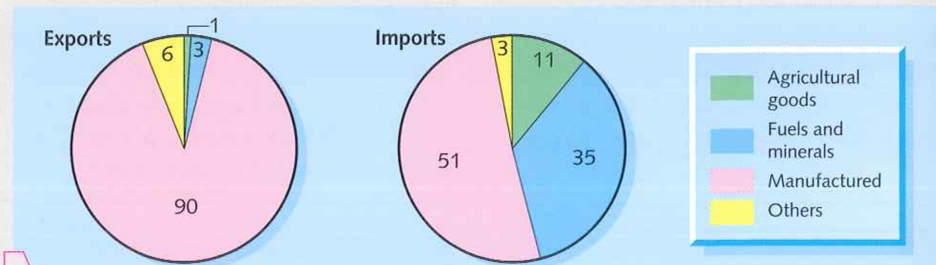


Figure 11.25
Types of trade (%)

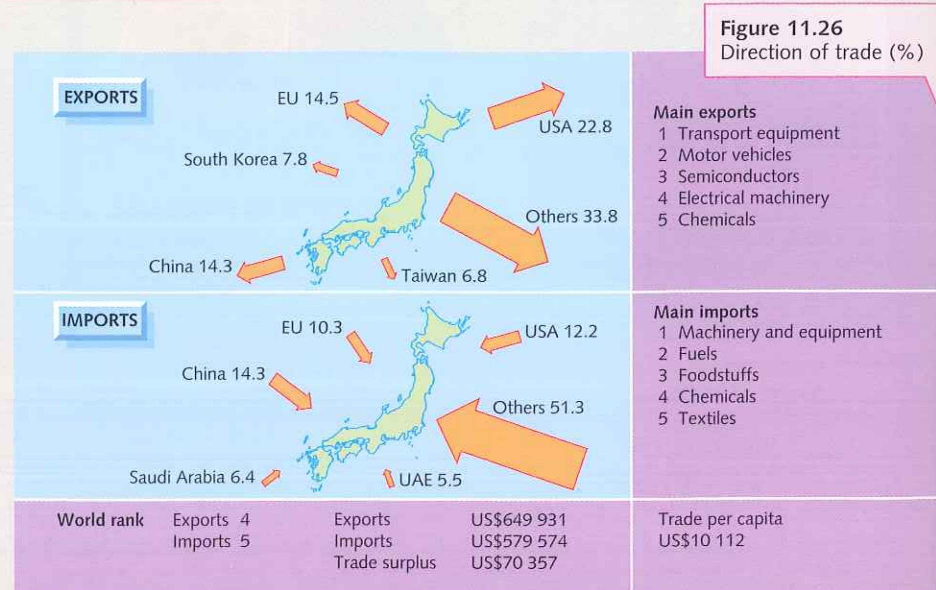


Figure 11.26
Direction of trade (%)

Figure 11.27
The busy port of Tokyo

Kenya

Although parts of northern Kenya are desert, many areas to the south are well suited to agriculture. Where the climate and soil are more favourable, subsistence farmers can, in a normal year, grow sufficient crops to be self-supporting. Where rainfall is abundant and the volcanic soils are fertile, crops such as tea, coffee and fruit can be grown commercially for export. Unfortunately, foodstuffs, and raw materials such as soda ash, are low in value and do not earn the country much money. In contrast, Kenya has little formal industry or energy reserves and so it has to import most of the manufactured goods, machinery, cars and oil it needs – all of them expensive to buy (Figure 11.28). The result is that Kenya has a large trade deficit.

Over 25 per cent of Kenya's trade is with the EU (Figure 11.29) and the UK remains, as in colonial times, both the most important single market for Kenyan exports and the country's main supplier. In both cases, however, the proportion of trade has declined. Four significant changes have occurred during and since the 1990s.

- Japan became Kenya's largest overseas investor, which has meant that, in return, Kenya has had to buy more Japanese goods ('Bilateral aid', page 190).
- Kenya has developed a trade surplus within Africa, exporting mainly cement and refined oil to neighbouring countries such as Uganda and Tanzania (Figure 11.29). Although Kenya earns four times more through exports to African countries than it pays out in imports, the volume of trade is too small to reduce significantly its balance of trade deficit (compare the amount of activity in the ports of Mombasa and Tokyo, Figures 11.27 and 11.30).
- Air freight is used to export perishable goods to Europe. Places near to Nairobi airport can cut flowers (e.g. carnations and roses, page 104) and pick vegetables (e.g. peas and beans) one day and have them sold in Europe (e.g. in London and Amsterdam) the next morning.
- Kenya has a large trade deficit with several Middle East countries from which it imports oil but a small trade surplus with neighbouring African states to which it sells refined oil.

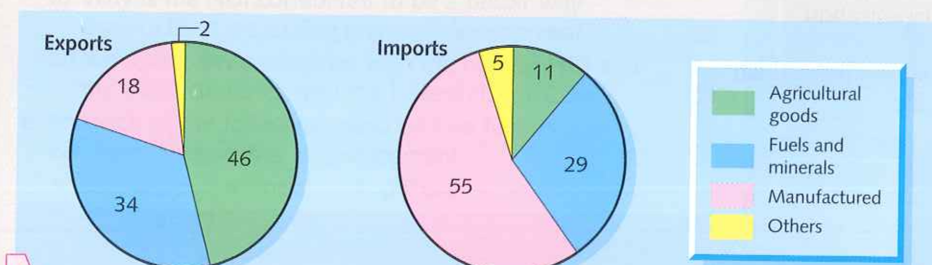


Figure 11.28
Types of trade (%)

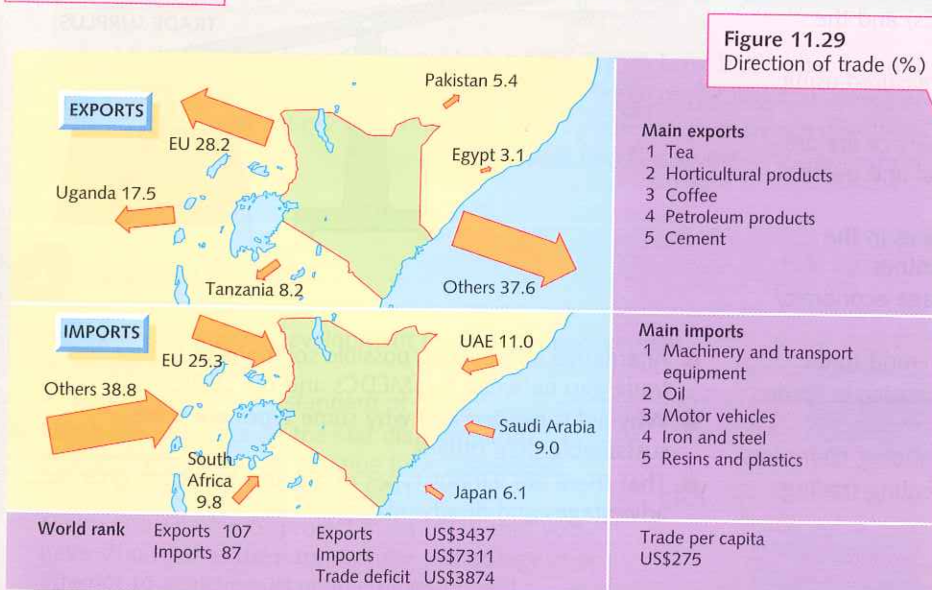


Figure 11.29
Direction of trade (%)

Figure 11.30
The quieter port of Mombasa