International trade and access to markets
3.2.1.3 Global systems and global governance

What you need to know
Trading characteristics of highly developed, emerging and less developed economies
Global trade patterns and relationships in terms of features, trends, volume and investment patterns
How access to markets and trade agreements can affect the economic and social well-being of societies

Introduction

Trade is the movement of goods and services from producers to consumers. It spans many different **sectors** of industry.

- Physical trade takes place in **primary** products (food, energy and raw materials) and also **secondary** goods (manufactured products ranging from processed food to electronics).
- The **tertiary** sector is a highly diverse range of service products and includes trade in legal, educational and other professional services; people also consume digital services such as online games and on-demand TV.

Particular national economies may specialise in the provision of particular goods or services globally. The basis for the specialisation which often takes place can be explained by the theory of **comparative advantage** as follows:

- Free trade benefits all parties, in theory, because it allows countries to maximise trade with other countries in those activities which they are relatively more efficient and skilled at producing.
- Each country has its own particular trade strengths. Germany is highly regarded in engineering while the UK is said to excel in financial services, for instance.
- Trade agreements which provide states with free access to one another's markets and break down "protectionism" ought, in theory, to maximise trade and wealth creation for all participating countries.

In practice there are many political and economic obstacles to free trade taking place globally, despite the work done by financial institutions (such as WTO, the World Trade Organisation) to encourage it. However, many successful regional trade agreements exist, such as NAFTA (North America Free Trade Agreement) and various European agreements.

Trading characteristics of highly developed, emerging and less developed economies

A wide development spectrum exists globally. Three important categories of countries can be identified, each of which has different trading characteristics:

International trade and access to markets
3.2.1.3 Global systems and global governance

Category	Development characteristics	Trading characteristics
Developed economies/ countries	Around 80 countries are classified by the World Bank as having high average incomes (GNI per capita) of US$12,736 or above (2015 values). Life expectancy is typically in the 75-85 years range and Human Development Index (HDI) scores for these states are high.	Office work has over-taken factory employment. Almost four-fifths of the UK's GDP is derived from trade is services. However, trade in "hi-tech" manufacturing (as opposed to mass production of basic items) remains important for some countries, notably Germany
Emerging economies (EEs)	EEs correspond with the World Bank's 'middle-income' group of countries. The number of EEs has increased rapidly in recent decades: this is linked with the spread of globalisation. Their transport infrastructure is improving rapidly and they are attracting investment from the world's transnational corporations. 80 countries belong loosely to this category. EEs are home to a growing "middle class" of consumers who earn US$10 a day of more and who may expect to live to the age of 65-75. The BRIC and MINT group members are classified as EEs (see below).	These countries have begun to experience high rates of economic growth, often due to rapid factory expansion and industrialisation. As a result, their share of world trade has grown enormously in recent decades. There is great variation, however, in their goods and services specialisations. China and Bangladesh are "workshops of the world" (specialising in manufacturing). India and the Philippines are important global hubs for call centre services. Thailand and Indonesia play an important role in both agricultural and manufacturing trade.
Less developed economies/ countries (LDCs)	This group of around 30 countries is classified by the World Bank as having low average incomes (GNI per capita) of US$1,045 or below (2015 values). Life expectancy is still low (50-60 yrs.) in some sub-Saharan countries. Several LDCs suffer severely from conflict and weak governance. These so-called "failed states" deter FDI and are essentially "switched off" to many global flows. Many are in Africa.	Agricultural and raw material trade still plays a very important role in the economy of many LDCs. However, food prices fluctuate from year to year due to climatic factors and market forces. This has promoted some countries to try to diversify their trade. Rwanda has attempted to develop its own tourist industry by encouraging wealthy safari tourists to see its mountain gorillas.

Global trade patterns and relationships

Overall, world trade is dominated by developed countries and several large emerging economies (EEs). Two important groups of EEs to be aware of are:

- **The BRIC group:** The four large economies of Brazil, Russia, India and China are key players in world trade. China is the world's number one exporter of goods (valued at US$2 trillion in 2013). All have an extensive land area, are mineral-rich and have a large potential home-market in terms of population numbers.
- **The MINT group:** The four fast-growing economies of Mexico, Indonesia, Nigeria and Turkey are all important manufacturing hubs. Nigeria is additionally a major exporter of oil and also trades globally in low-budget films (the "Nollywood" film industry).

International trade and access to markets
3.2.1.3 Global systems and global governance

The following points provide an overview of global trade patterns:

- Just ten nations, including China, the USA, Germany and Japan, account for more than half of all global trade
- The value of world trade and global GDP has risen by around 2 per cent annually since 1945 with the exception of 2008-09 when the Global Financial Crisis (GFC) led to a brief fall in activity
- More than half of all trade originating in developed countries takes place with other developed countries. This is because of the large numbers of affluent consumers and markets found in the world's wealthiest countries.
- The importance of China's rise as both a major exporter and importer of goods cannot be overstated. Since the early 1980s, China has emerged as the dominant influence on world trade. Indeed, a slowdown in the rate of Chinese growth since 2010 has been responsible for a "cooling off" of the global economy as a whole. In particular, falling Chinese demand for imports of natural resources and oil has been financially harmful for many African exporters selling raw materials to China.

In addition to patterns of trade, other important global economic relationships can be mapped by geographers and these include:

- **Patterns of out-sourcing**: Outsourcing is obtaining key products from alternative, cheaper locations - often abroad - than original home-sources. In the past, out-sourcing took place to wherever the least cost supplier was located. Sainsbury's sources charcoal for barbeques all the way from South Africa, for instance. Recently, more TNCs are opting strategically to use suppliers closer to home due to the risks and costs of supply chain disruption incurred by natural hazards (the Japanese tsunami of 2011) and conflict in North Africa and the Middle East. This new trend is called "near-sourcing".

- **Patterns of foreign direct investment:** Sometimes, facilities are built wherever labour and land costs are lowest, irrespective of distance from markets. At other times neighbour countries are preferred due to shared membership of regional trade blocs and agreements. For instance, US company Fender makes guitars in neighbouring Mexico. Not only is labour cheaper, but the NAFTA agreement means there are no import taxes to pay when the guitars are brought back to the USA.

- **Trends in mergers and acquisitions:** an acquisition is when a TNC launches a takeover of a company in another country. In 2010, the UK's Cadbury was subjected to a hostile takeover by US food giant Kraft. The UK has few restrictions on foreign takeovers. In contrast, the Committee on Foreign Investment in the USA closely scrutinises inbound foreign takeovers. In mergers, two firms in different countries join forces - usually voluntarily - to create a single corporate entity. Royal Dutch Shell is an Anglo-Dutch merger with two headquarters: in the UK and the Netherlands.

How access to markets and trade agreements can affect the well-being of societies

The grid below summarises some of the most important characteristics of global economic trade and investment relationships that give rise to interdependency between countries at varying levels of development. These trade and production agreements can affect the well-

being of different societies in different ways, notably in relation to poverty, unemployment and health.

Market relationship	***How trade takes place***	***How it affects well-being***
Trade between EEs and developed countries	• Large volumes of Apple's iPhones are manufactured in Shenzhen, China and exported to markets in developed countries around the world. • Trade operates both ways. Asian EEs are important markets for western media companies like Disney • Adding further complexity, Chinese and Indian companies are now buying and setting up their own businesses in developed countries. Tata, an Indian company, owns the Jaguar factory in Coventry. This strategy is helping TNCs from EEs to increase their share of world trade.	• Skilled Chinese workers earn around US$600 a month producing increasingly sophisticated devices for developed country consumers. These kinds of jobs have allowed China's people to develop rapidly. • Apple shareholders in the USA also benefit greatly from sales of goods made in China. • Increasingly, the well-being of "blue collar" workers in developed countries depends on investment from China and India. The well-being of 30,000 workers in Port Talbot in Wales was threatened when India's Tata announced closure of the steel works.
Trade between developed countries and LDCs	• TNCs based in developed countries, such as Tesco and Marks and Spencer, source many of their food and raw materials from LDCs. Supermarkets use cheap suppliers of fruit and flowers based in many of the world's poorest countries • Global agribusinesses like Cargill buy large areas of land in LDCs and employ local people to work in vast agricultural estates but often for low pay.	• Quality of life can be poor for LDC farmers because agricultural trade is very competitive; when too many countries produce the same commodity, like coffee, prices tumble due to over-supply. • Also, many developed countries tax agricultural imports in order to protect their own farmers. This impacts negatively on the well-being of LDC farmers. The EU imposes trade tariffs on imports of much produce that can also be grown within the EU, making it hard for LDC farmers to sell here.
Trade between EEs and LDCs	• Some Chinese manufacturing companies have moved their factories to Ethiopia because Chinese workers have become more expensive to hire. This means that Ethiopia is now trading merchandise and not just raw materials.	• Ethiopia's GDP is increasing as a result of Sovereign Wealth Fund (SWF) investment from, and trade with, China. • Alongside trade, China is increasingly lending SWF money to LDCs which helps build health and education infrastructure.

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