

World trade and its impacts on people's lives

3.2.1.3 Global systems and global governance

What you need to know
World trade in food commodities and manufactured goods
The impact of global trade and uneven market access on people's lives in the UK
The impact of global trade and uneven market access on other world societies

Introduction

As we have already learned, **free trade** benefits all parties, in theory. This is because it allows countries to maximise trade with other countries in those activities where they have a **comparative advantage**. In reality, however, overproduction of some commodities - such as coffee or bananas - has lowered market value to the point where independent farmers must sometimes sell their produce to markets at very low prices.

Ethical trading schemes - such as Fairtrade - aim to help farmers by offering them a financial lifeline. This takes the form of a guaranteed price paid for what they produce, even though the real market value is fluctuating. Examples of Fairtrade produce include coffee, chocolate, bananas, wine and even clothing items such as jeans.

World trade in food commodities and manufacturing product

The AQA Specification requires a detailed case study of *either* one food commodity *or* one manufactured product. Possible choices for students include coffee, cocoa, bananas, wheat, meat and seafood (aquaculture commodities), cars or mobile phones. Whichever case study you use, there are several key issues to consider. These are shown in the table below.

Key issues to consider when investigating world trade in a food commodity	Key issues to consider when investigating world trade in a manufacturing product
<ul style="list-style-type: none">• <i>Where are the main producer regions?</i> One third of all cocoa is produced in Ivory Coast, for example. This a very poor African country whose HDI score is ranked 163rd.• <i>Where are the main consumer regions (markets)?</i> Global consumer markets have expanded enormously with the rise of emerging economies and growing spending power amongst their citizens. Middle-class diets are characterised by greater consumption of meat and dairy (higher protein). China's annual meat consumption per capita rose from 4 to 52 kg and Brazil's from 28 to 82 kg between 1990 and 2010.	<ul style="list-style-type: none">• <i>Where are the main producer and consumer regions (markets)?</i> Since 2000, the UK's output of cars has generally exceeded one million units per year, for instance (although most car production in the UK is now under foreign ownership). This delivered an average annual export value of more than £25 billion between 2005 and 2010. The UK automotive sector exports to over 100 markets worldwide.• <i>Which TNCs dominate world trade in this product?</i> In addition to finding this out, we can also investigate the kinds of global production network they operate, and any major mergers and acquisitions which have taken place.

World trade and its impacts on people's lives

3.2.1.3 Global systems and global governance

<ul style="list-style-type: none">• <i>Is the case study focus a large TNC or independently owned farms?</i> Global agribusinesses, such as Cargill, hire hundreds of thousands of workers in developing countries. However, production can also take place in smallholder farms owned by individual farmers.• <i>Do poor producer regions have free access to markets in rich consumer regions?</i> They may not do if trade restrictions (such as quotas and tariffs) have been introduced. High levels of government financial support allow British farmers to produce meat and vegetables cheaply. As a result, African farmers must offer to sell their own produce at even lower prices to firms like Tesco if they want to trade.	<ul style="list-style-type: none">• <i>Is the case study focus a commodity which is sold in most countries? Or are markets found mainly in high income countries?</i> Both smartphones and less sophisticated mobiles are increasingly priced within the reach of the poorer end of the global middle class. 70 per cent of people living in Africa have access to a mobile phone; in India, there are over one billion subscriptions. A range of consumer goods like laptops, TVs and fridges are sold in increasing numbers in EEs.• <i>Do producer regions have free access to markets in other places or have trade restrictions (such as quotas and tariffs) been put in place?</i> The USA has sometimes imposed import taxes on foreign steel, for instance.
--	--

The impact of global trade and uneven market access on people's lives in the UK

Free trade within trade areas such as the EU has, in theory, been beneficial for some UK citizens.

- In a tariff-free European Union, cars made in the UK have been exported for sale in mainland Europe for decades now, with few additional costs incurred (other than transport). Since 1993, non-European TNCs have viewed the UK as a manufacturing base for sales not just in Britain but in the entire EU - a region which is home to nearly half a billion people, most of them in car-owning households. As a result, many UK citizens have found work in car factories owned by Nissan or BMW.
- Over time, the price paid per car has often fallen in real terms due to **economies of scale** (as the scale of output increases, the production price per unit falls, according to economic theory). As a result, prices per unit are lowered in a beneficial way for UK (and EU) customers.
- With the prospect of the UK leaving the EU there is major debate whether it should remain part of the existing EU single-market in which goods move between member countries tariff-free. It is argued that if the UK wishes to maintain the free movement of goods it will have to accept free movement of people, and contribute payments to the EU. Should it not agree to these conditions, it is likely the UK will leave the single market and goods produced in the UK will have an import tax placed on them as they cross into the EU, making them more expensive, and the likelihood of a fall in sales.

There are other positive impacts of world trade for UK citizens too:

World trade and its impacts on people's lives

3.2.1.3 Global systems and global governance

- Cheap imported products from China and other EEs have benefited the typical UK high street consumer. The price of many electronic goods such as TVs and laptops has fallen markedly since the early 1990s as they have been increasingly produced in lower-cost locations.
- In the UK, farmers' incomes are protected. One estimate suggests that the world's richest countries, including the UK, spend around £150 billion each year subsidising their own farmers. Every cow raised in the EU currently receives a large subsidy each year. This has the knock-on effect of reducing the price UK supermarkets are prepared to pay to farmers in other countries for their meat and vegetables. As a result, UK consumers are able to buy extremely cheap food imported from a wide range of countries.
- Although Fairtrade is more expensive to buy, many UK shoppers choose to embrace it. Buying Fairtrade goods lets shoppers know that what they spend is finding its way into the wages of poor workers in developing countries. Becoming part of an ethical value chain is important for a growing number of UK citizens who care about world issues.

The impact of global trade and uneven market access on other world societies

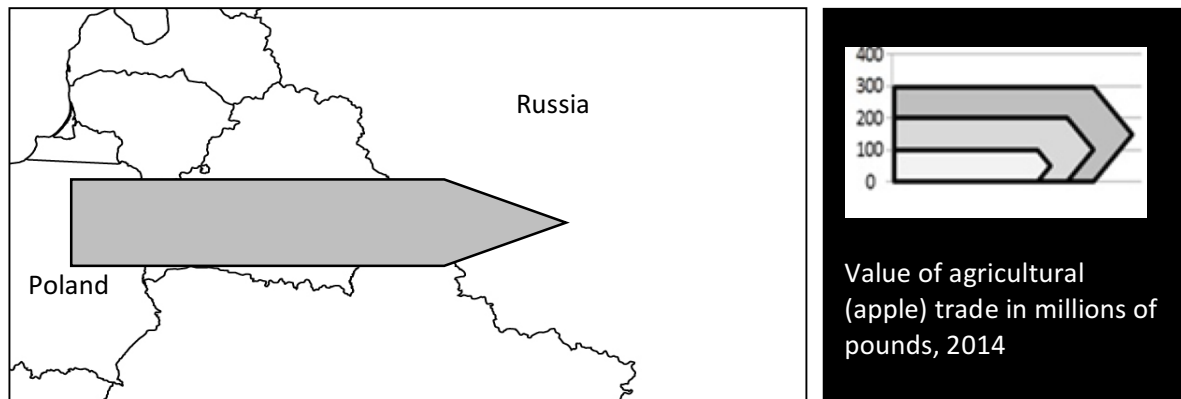
The table shows some of the ways in which global trade and uneven market access affect the lives of people who are part of agricultural and manufacturing supply chains in developing countries:

	Agricultural producer nations	Manufacturing producer nations
Positive impacts	<ul style="list-style-type: none"> • Strong economic growth has been seen in some countries with a well-developed agricultural sector, notably Brazil. • Kenya is another EE which achieved average annual economic growth of 6 per cent over the period 2008-13. One-third of Kenya's GDP is derived from agriculture. 	<ul style="list-style-type: none"> • Value is added to raw materials by the manufacturing process. Countries which have moved successfully into the manufacturing sector have often achieved high rates of economic growth over time. They include Japan, China and Asia's original "tiger economies" (South Korea, Singapore and Taiwan).
Negative impacts	<ul style="list-style-type: none"> • Many aquaculture labourers in Indonesia endure a terrible quality of life. Living in wooden shacks on coastal mudflats, workers maintain prawn ponds (large water-filled hollows dug into the mud). • Farm workers may become exposed to dangerous pesticides. • During past periods of over-production, such as 1995-2000, coffee farmers in Uganda suffered a 75 per cent fall in their income. 	<ul style="list-style-type: none"> • The collapse of the Rana Plaza factory building in Dhaka, Bangladesh in 2013 led to the deaths of 1,100 textile workers. • It is hard to monitor the working conditions/pay for the workforce of every single supplier that large manufacturing TNCs source from. • The complexity of global trade networks means that many people are producing manufactured goods or parts in poorly-regulated factories and workshops.

World trade and its impacts on people's lives

3.2.1.3 Global systems and global governance

The significance of trade impacts for different countries and societies can be gauged by investigating the size of value of particular trade flows



The map extract above shows the value of apple exports from Poland to Russia in 2014 in millions of pounds. Global trade flows of agricultural produce (apples) are often represented in this way using **proportional arrows** (the width of the arrow is proportional to the size or value of the flow).

In 2015, however, Russia banned food imports from EU countries (this action relates to the on-going political dispute over Russia's annexation of Crimea from the Ukraine). This has impacted negatively on Polish apple farmers, many of whom are going out of business as a result.