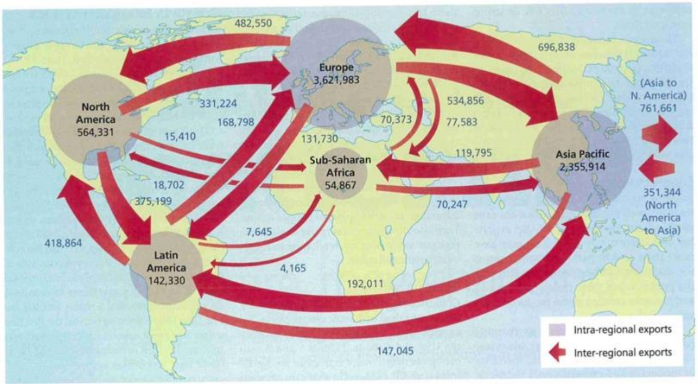
3.2.1 Global Systems and Global Governance

Booklet 7 – INTERNATIONAL TRADE AND MARKETS:

Trading Relationships and Patterns between Highly Developed Economies, Emerging Major Economies and Less Developed Economies.



Source: United Nations (2017) *International Trade Statistics Yearbook*
Figure 2 Patterns in inter-regional and intra-regional world trade, 2016 (US$ millions)

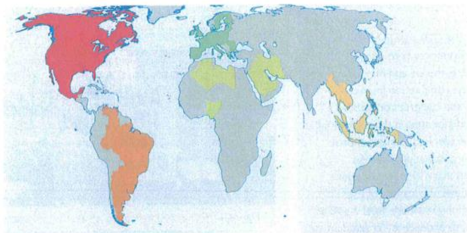


Figure 1 *Main trade blocs of the world*


Figure 2 *In the 2016 UK referendum, more than 17.4 million people voted to leave the EU and 16.1 million voted to remain. Facebook 'remain' friends shared this image following the referendum.*

Learning Objectives:

- Students can discuss trading **relationships** and patterns between:
  - large, **highly developed economies (HDE)** such as the United States, the European Union, **emerging major economies (EME)** such as China and India and smaller, **less developed economies (LDE)** such as those in sub-Saharan Africa, southern Asia and Latin America.
- Students can recognise the unequal nature of world trade and dominance of a few countries, e.g. the role of Trade Blocs and other multilateral agreements in offering unfair advantages to the few.
- The role of China in world trade – research China in Africa – a growing trade relationship offering opportunities for some regions to improve their terms of trade.
- LDEs are increasing their role in global trade, forming their own trade blocs (e.g. MERCOSUR in South America).

INTERNATIONAL TRADE AND ACCESS TO MARKETS

KEY WORDS:

Terms of trade

Trade Bloc

Multi-lateral agreement

Bilateral agreement

Transatlantic Trade and Investment Partnership (TTIP)

Trans Pacific Partnership (TPP)

Anti globalisation

1. Trading Relationships and Patterns: HDE, EME and LDE

1.1 Trading Relationships: HDEs, EMEs, LDEs

Trading relationships and patterns between large, **highly developed countries** (e.g. USA and EU), **emerging major economies (**e.g. China and India) and smaller, **less developed economies** (Latin America and southern Asia) have been determined over the last 70 years by a series of **trade agreements and principles**.

- **Who are the main trading entities?**

New players have risen to prominence in world trade - developing countries **(LDEs)** and rapidly industrialising Asian economies (**EMEs**)– two important groups - BRICS and MINT.

Region / country	% share of world exports 1980	% share of world exports 2011
Developing economies	34	47
HICs	66	5
China	1	11

In 2013, China became the world's biggest trader in goods. Import and exports totalled $4,159 billion. In 2015, China overtook the USA as the largest economy in the world.
Developing economies continue to grow their trade with HDEs and EMEs, but this is slow.

- Patterns of trade vary – in Europe and Asia Pacific intra-regional trade is high, whereas in Latin America and sub-Saharan Africa most trade goes outside the region
- Trade relationships between HDEs, EMEs and LDEs, are changing – as Western countries pull back from global trade it is increasingly conducted between Asia Pacific, Latin America and sub-Saharan Africa.

- **Trade has become more regionalised since 1990, particularly in Europe and Asia.. What might be the reasons for this?**

1.3 Trading Agreements and Principles

- Trade is drawing in an increasing number of countries – the WTO had 124 members when it started in 1995, and it has grown to 164 members today.
- Expansion of the WTO membership and world trade has been accompanied by the formation of regional trade 'blocs' like the EU, which support free trade between member countries without incurring tariffs or charges.
- The groupings of emerging nations are becoming increasingly important, e.g. ASEAN and APEC
- Countries outside the trade bloc have to pay an additional tariff to trade within the trade bloc.

TASK:

1. **What are the benefits of being in a trade bloc?**

2. HDEs – USA and EU

2.1 USA

Traditionally a ‘protectionist’ economy, lagging behind entering any formal trade agreements.

7.5 The Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP) includes 12 countries in Asia and the Americas, including the USA and Japan but not yet China or South Korea. It is the biggest multilateral trade deal in 20 years.

What is the deal?

The TPP will apply to 40% of the world's economy. For exporters, 18000 individual tariffs will be reduced to zero. However, tariffs in the region were not that high to begin with. More important is the TPP's effort to free trade in services. The TPP promises greater access to markets for more service providers, which over time should provide a boost to productivity.

Several of the TPP's 30 chapters are devoted to protections for workers and environmental safeguards. There are clauses that attempt to slow deforestation and overfishing. All parties will also be compelled to follow the International Labour Organization's basic principles on workers' rights. They will be required to set a minimum wage and regulate working hours.

The TPP also attempts to limit the extent to which governments can favour state-owned enterprises. It could boost the world economy by $223 billion by 2025. The greatest impact will be felt not by the USA but by less developed members. The study estimates that Vietnamese GDP could rise by as much as an additional 10% over the same period.

In the long run, the partnership's impact will depend on whether or not its membership expands. Many commentators believe the USA pushed the TPP forward in order to increase its influence in Asia and reduce China's.

- Trump withdrew the US from TPP (Trans-Pacific Partnership) negotiations with countries around the Pacific. The other countries involved have since restarted the negotiations without US involvement.
- The TTIP (Transatlantic Trade and Investment Partnership) negotiations collapsed in 2016; attempts were made by the US to resurrect a similar deal in 2018 but US demands for access to EU markets and industries were too much for many EU countries to accept. Negotiations were finally declared closed by the EU in 2019.
- The NAFTA free trade agreement with Canada and Mexico was renegotiated to form the United States-Mexico-Canada Agreement (USMCA).
- Trump aimed to pursue bilateral trade deals with individual countries. The US has twenty separate free trade agreements, including some with countries in the TPP group; others are mainly with central American or Middle East nations; South Korea is the only one in the Asia-Pacific region.

2.2 EU

As a customs union, the EU is protectionist in its own way. Though its 27 members trade freely with each other, there is an external tariff barrier for countries outside of the Union (with the exception of those in EFTA such as Norway and Iceland). This also means that the EU negotiates trade deals as a bloc representing all member states, so any agreements reached apply to all members- 65 per cent of the trade in the EU is intra-regional.

- The EU has negotiated trade deals bilaterally with countries in different parts of the world.
- One of the most recent deals was the Canada-EU deal, approved by the EU Parliament in 2017.
- In 2019, the EU agreed a trade deal with Mercosur, the South American trading bloc, which has still to be ratified by all member states.
- Anti-free trade movements have gained popularity in the EU over recent years. They started with successful campaigns to stop trade negotiations with the US, and also put the Mercosur agreement in doubt:
- Farmers in countries such as Belgium, France and the Netherlands are concerned that imports of cheap beef and sugar will lead to unfair competition. Environmental groups suggest that Brazilian and Argentinian cattle are injected with chemicals and that Mercosur countries do not meet EU standards in working conditions, food production or environmental protection. They also object to Brazilian President Bolsonaro's attitude towards the commercial development of the Amazon rainforest.

- With such opposition to cheap imports and differing food production and quality standards, it is difficult to foresee any trade agreement between the EU and the USA.
- The loss of the UK from the EU is potentially detrimental as the UK was a maior contributor to EU funds, it attracted investment in manufacturing and provided a sizeable market. During the 2020 Brexit transition period, the UK negotiated a new free trade deal with the EU. It was important for many UK firms that a good deal was agreed as decades of integration mean that they have built up supply networks across the EU.

Growing anti-globalisation results in threats to larger trade deals such as the Doha Round, Trans-Pacific Partnership (TPP) and even Brexit – countries want to protect their growth.

Huge changes are taking place: trade involving EMEs has grown rapidly, so much so that trade within regions is more important than trade with HDEs.

TASK - Explain what **trade deficits means:**

fuelled some of the anti-globalisation views that have intensified since 2016.

Anti-globalisation trends

The current US administration believes its large trade deficit is the result of 'unfair' trade. US manufacturing exports dominated global trade in the 1960s and 1970s. Now east and southeast Asia have become major exporters of commodity goods like electronics, and both the USA and certain European countries import more electronics than they export. In the 1980s, as production shifted from Western countries to east and southeast Asia and South America, the manufacturing industry in 'developed' countries hit a crisis.

When Western countries dominated manufacturing, workers in those countries could depend on factory jobs that paid good wages. But as firms moved their plants offshore wages stagnated. Statistics provided by the Pew Research Center show that, after adjusting for inflation, real wages of US manufacturing workers are not that different today from 40 years ago. Farmers too have not had an easy time. Farm incomes in the USA and European countries have dropped in the past 5 years. Stagnation of real wages helps to explain the backlash against globalisation that we are seeing now, in the Brexit vote and the election of Trump.

Industrial decline

The backlash may also be traced to the decline of certain industries in areas which used to form the manufacturing backbone of countries in North America and Europe. China now exports four times as much steel as the USA, and twice as much steel as Germany. This was not the case 15 years ago. US manufacturing companies that use steel as an input turned to imported steel because it was cheaper. At its peak, the US steel industry hired more than 100,000 American workers. Employment in the industry has now fallen to 81,000 and is still declining. Together, these changes have fuelled anti-globalisation sentiments in America's industrial heartland in the Midwest.

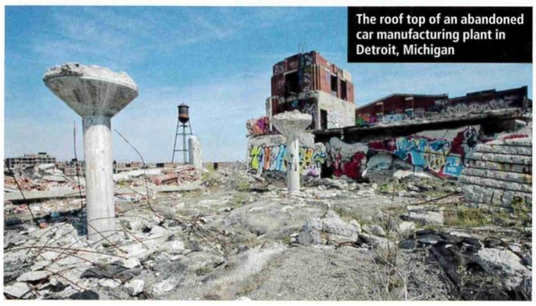
The impact on trade blocs

The backlash against international trade has contributed to the stalling of trade bloc development that we have seen with Brexit and the failure of the Trans-Pacific Partnership. Brexit is of course also about other issues, including perceived problems associated with migration. But the impacts on trade are complex.

Several decades of EU integration mean that firms have built infrastructure and supply networks across Europe to support international trade. It is not so easy for Rolls-Royce to pull out from Poland — relocating factories is costly. When Rolls-Royce imports parts, it is in effect managing its European and global supply chain. This involves buying parts from its subsidiaries and facilities in other countries and using them in the final assembly of its luxury cars. It is no longer so easy to distinguish what is 'made in England' or 'made in America' when production relies on such complex global networks.

Conclusion

There are two opposing trends in the geography of contemporary trade. An increasing number of countries are becoming involved in global trade, but some developed countries are withdrawing from trade pacts. Rising anti-globalisation sentiments in the West could be damaging for a region like sub-Saharan Africa which depends on Western markets. It is not surprising that such countries are diversifying their trade relations away from Europe and North America to Asia Pacific. It is important to note that trade is increasingly conducted between Asia Pacific, Latin America



The roof top of an abandoned car manufacturing plant in Detroit, Michigan

What has happened to the steel industry in developed economies? Explain how this may have led to a feeling of anti-globalism.

3 EMEs – India and China

China's phenomenal economic growth rate in the last 30 years has been based on the expansion of manufacturing of consumer goods for richer countries.
In the last few years:

- China has emerged as the world's major trading power, responsible for nearly 20 per cent of all global exports and around 15 per cent of all global imports there has been a clear pattern of importing mainly raw materials from developing countries, primarily from Latin America and Sub-Saharan Africa, and exporting processed metals such as steel and manufactured electronic consumer goods to developed countries, particularly those in Europe and North America
- The export of cheaply produced, state-subsidised steel onto the world market has triggered a trade war with the USA, which has escalated to include imposition of high tariffs on traded goods between the two countries; some analysts argue that this is the main cause of current static growth of world trade.

China is an emerging economy that has economically benefitted from international trade. The role of China in world trade is displayed in the table:

How are China's trading patterns and relationships changing? What are the key patterns?

China's relationship with:	What does China trade with this country / these countries?	How the trade deals with this country/countries affect China:	How the trade deals with China affect this country/countries:
USA	Fruit, seeds, vehicles, electrical machinery and other machinery, furniture, toys, footwear and clothing.	China has improved its economy by trading with high-income countries such as the USA.	The USA imports a lot of its clothing goods from China. This is because manufacturing costs are generally cheaper in China. This has meant a surge in outsourcing to China from US clothing-based retailers.
EU	Machinery, aircraft, chemicals, footwear and clothing.	In 2013, the EU and China set up an investment agreement. This was to provide both countries with long-term access to each other's markets and to ensure both sides obtain a fair trade deal.	Trading with China has led to the EU having a trade deficit with the country. This is where the cost of imports is more than the value of exports.
Lower-income countries	China has strong economic and trade relationships with LICs in Africa. LICs in Africa get imports from China such as electronic goods such as mobile phones, televisions and radios, and other goods such as plastic toys, cutlery and crockery, and cheap clothes.	China imports raw materials such as wood and oil from Africa. This has helped China to develop and improve its economy.	Cheap commodities are useful to the development of LICs, especially budget mobile phones, which help improve communications.

India - has enjoyed sustained and rapid industrial growth over the past 25 years. Arguably, India has a more diverse economy with a more globally integrated commercial and services sector. India has a demographic dividend of a large, young workforce that has attracted investment for industrial development.
India has traditionally been more westward looking in terms of trading partners and this is still largely the case, possibly as a result of a high proficiency of English language amongst its population. However, trade with emerging markets in Asia and the Middle East has expanded significantly, giving India the following trade pattern in 2018:

- Top exports are refined petroleum, chemicals, gold and diamonds, rice, cars and textiles.
- Top imports are crude oil (for refining and exporting), coal briquettes and gas.
- Main export destinations are the EU (mainly Germany and the UK), the USA, the UAE, China, Hong Kong and Singapore.
- Imports come mainly from China, the USA, Saudi Arabia and the UAE.
- India's imports have expanded faster than its exports, so balance of payments problems make the economy vulnerable. In 2018, there was a deficit of US $166 billion.

TASK:

The following tables show the main trading partners for China and India.

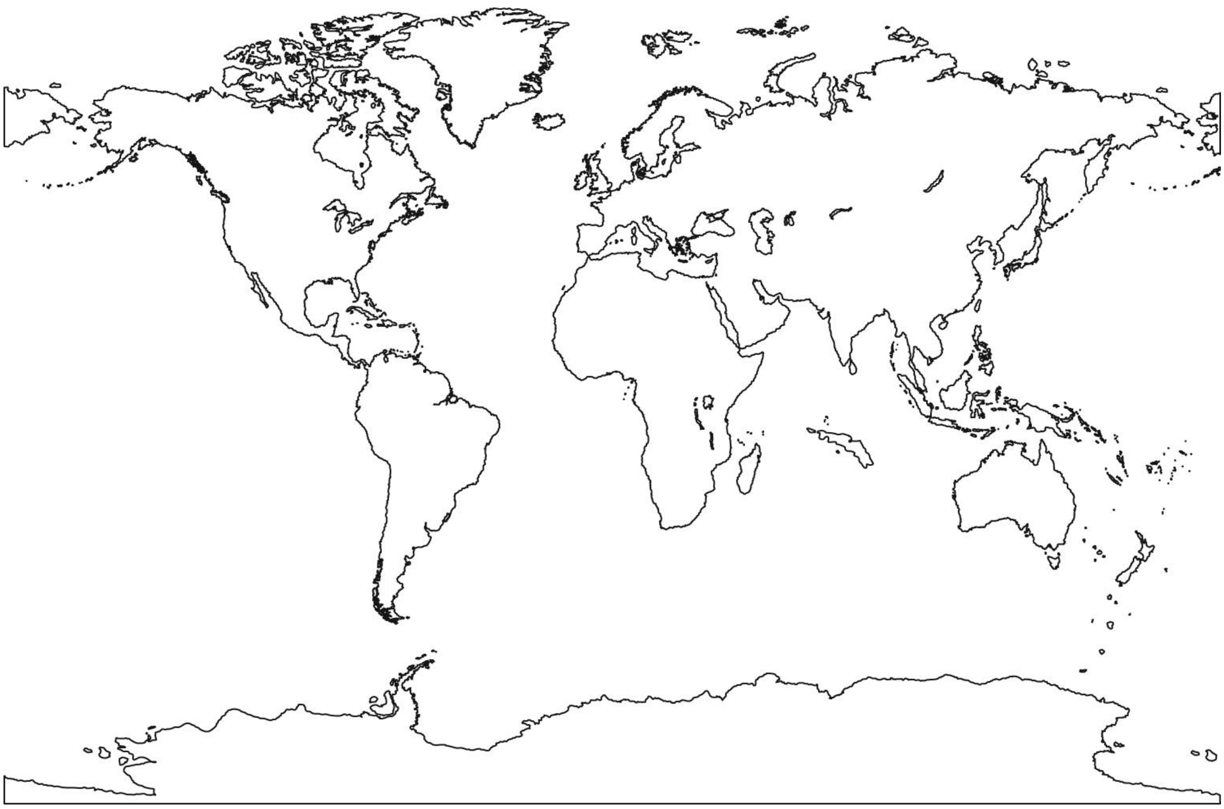
Using the blank outline map of the world and an atlas, plot the main export destination and origin of imports for China and India. Use a key to distinguish import origin from export destination for China and for India:

China

Main export destination	% of total	Main origin of imports	% of total
USA	17.2	Japan	9.8
Hong Kong	15.8	South Korea	9.2
Japan	7.4	Taiwan	7.3
South Korea	4.3	USA	7.1
EU 27	16.4	EU27	10.4

India

Main export destination	% of total	Main origin of imports	% of total
UAE	12.2	China	10.7
USA	12.0	UAE	7.8
China	5.0	Saudi Arabia	6.8
Singapore	4.9	Switzerland	6.2



1 Compare the destinations of exports from China and India.

2 Comment on the main origins of imports for China and India.

4 The role of China in Africa: EME

China – Africa relations

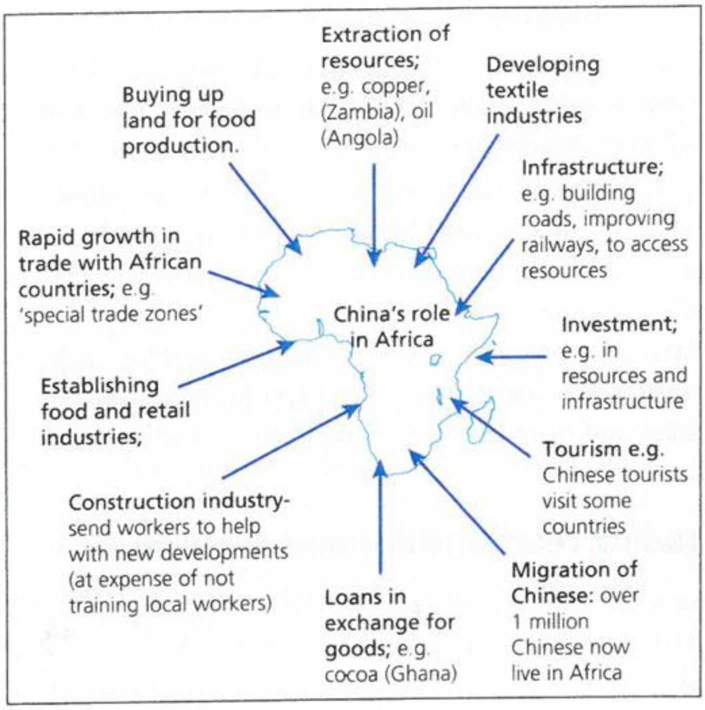
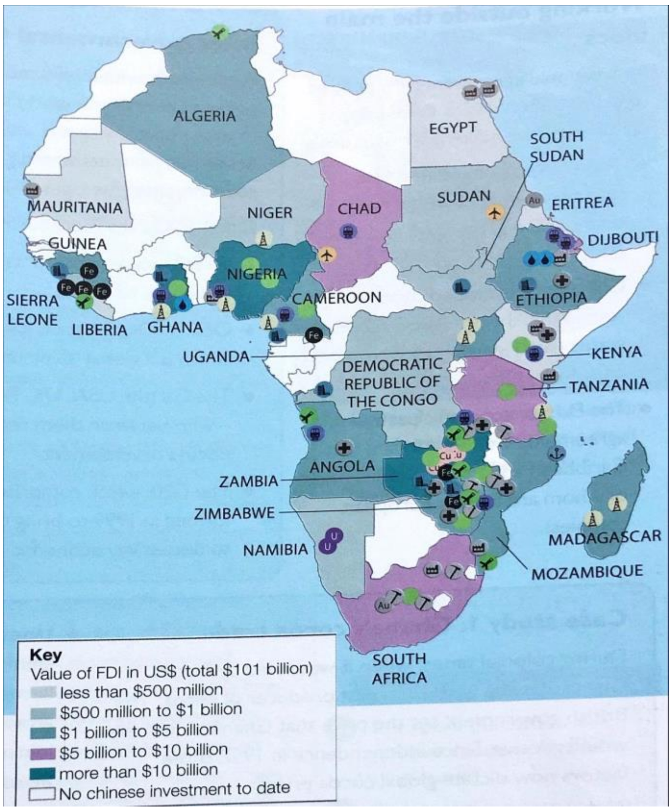


Figure 7.23 Chinese interests in Africa

Chinese interest turns to Africa, as it becomes the world's largest economy. The rapid industrialisation of China has offered opportunities for some regions, particularly Africa, to improve terms of trade but this is not an equal power relationship.
https://www.newsweek.com/china-us-wants-world-itself-thats-why-cant-accept-beijing-role-africa-861019
Video clips:
https://www.youtube.com/watch?v=d4EkznawTXg

China-Africa Relations: Deepening ties focus on partnerships for economic development - YouTube

FDI flows from China to Africa



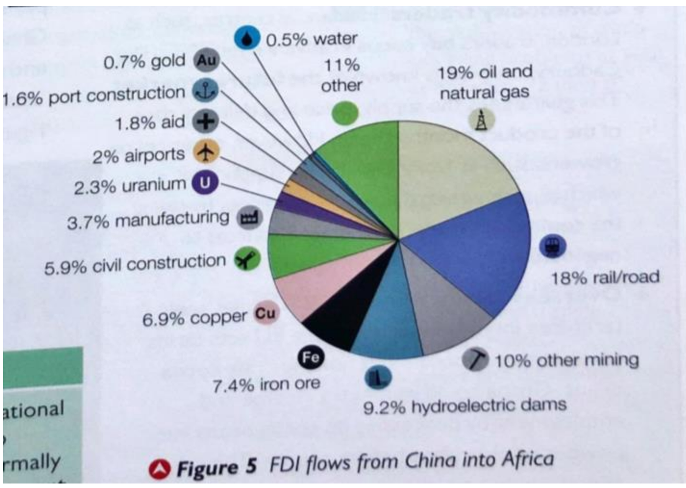


Figure 5 FDI flows from China into Africa

Analyse the data on the map and the pie chart to show patterns of FDI flows from China to Africa

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Impacts of metal extraction

In the last 20 years, there has been a dramatic increase in demand for metal from the emerging economies of east Asia, particularly China (Figure **3**). To meet this growth in demand, metal supplies that were previously uneconomic to exploit have been developed. In short, the frontiers of metal exploitation have shifted from north to south – from the advanced markets and developed economies to those that are emerging and developing. This global shift, despite political risks, is particularly apparent in Africa.

Supporting industrial expansion in China

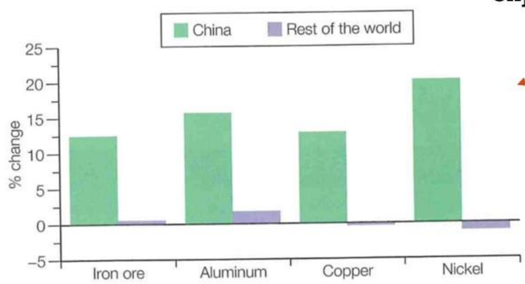

Figure 3 *Percentage growth in China's consumption of metals (2002–14)*

New mines in Africa result in more investment and jobs and, in turn, increased government revenues. New trade routes have been established and the geopolitical implications of increased African–Asian cooperation are also significant. China in particular argues that its economic policies offer a 'no strings attached' route to development. However, critics point to unfulfilled Chinese promises of development assistance, flooding of cheap Chinese manufactured goods into African local markets and to working practices that are unsafe and unethical.

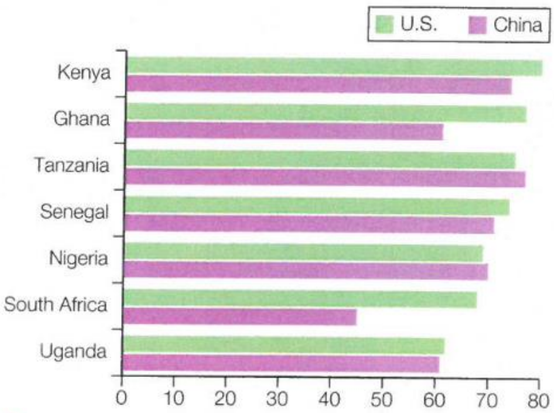

Figure 5 *Attitudes towards Chinese and US investment in sub-Saharan Africa; surveys of seven African countries and the percentage of their population that has a favourable view of USA and China*

The West has held back from investing in parts of Africa, including signing trade agreements, where doubt exists over governance (such as fears of corruption and abuse of human rights). Following trade and aid agreements with these same African governments, should China be seen as a saviour or a sinner? For example, many millions of Africans have been lifted out of poverty while others accuse China as acting like yet another colonial power (see Figure **5**, 1.18) The annual Global Attitudes survey may help to structure and to inform your argument (www.pewglobal.org – search for 'China in Africa').

5 Less Developed Economies and World Trade

Latin America's relations with other trading entities will be important in the future. Latin America has two distinct trading blocs - Mercosur and the Pacific Alliance - each with different approaches to developing their trading links (Figure 7.22). Mercosur: Formed in 1991, it is the larger of the two groups in terms of GDP (US $3.4 trillion) and comprises Brazil, Argentina, Uruguay and Paraguay. Venezuela was suspended indefinitely in 2016 as it failed to comply with many of the group's trade regulations.

Figure 7.22 Mercosur and the Pacific Alliance in Latin America

- Mercosur is a single market and customs union and tries to emulate the EU. It is called the 'Common Market of the South' and allows the free movement of labour between member states.
- The most exported products are raw materials, energy, mineral and food resources, which enable Mercosur to trade globally, but mean it is vulnerable to fluctuating global trade prices.
- With the exception of mineral exports to China, Mercosur tends to view the EU and North America as its main markets. Its proposed trade deal with the EU will be a major development once it is ratified.

Sub-Saharan Africa

Trading relationships in sub-Saharan Africa are similar to Latin America but are more disadvantaged and less integrated.

- There is **minimal intra-regional trade** and Africa's main exports remain primary resources and commodities such as minerals, energy and food resources.
- Lack of skills, poor transport and energy infrastructure and widespread corruption have discouraged investment into industrial development that would enable African countries to add value to their exports. They rely on imports of most manufactured goods.
- Traditionally, Africa's main trading partner has been Europe, but this has changed with China's involvement in the continent.
- Africa is a larger, poorer and more divided continent than South America. There are many more language, ethnic and cultural divisions.

Summary:

LICs are increasing their role in global trade. In particular, LICs are developing their stance in trade through trade blocs. In South America, **MERCOSUR** is the leading trade bloc with four full-time members and a number of associates and observer states. For LICs in Africa, the African Economic Community (**AEC**) is the prominent trade bloc. Both MERCOSUR and the AEC aim to be customs unions and strive to achieve free trade areas. Within Africa and the AEC, there are several, smaller trade blocs and IGOs, such as the East African Community (**EAC**) and the Intergovernmental Authority on Development (**IGAD**).

In recent years, there have been several geopolitical meetings and discussions with heads of state and government leaders regarding trade between the world's major trade blocs (such as the case with the TTIP). Some people see this as an opportunity for development and a way to increase geopolitical relations. On the other hand, other people argue increased international trade will lead to more interdependence, pose risks to public services and will damage the environment. Critics also argue that increasing global trade will lead to more severe exploitation of workers as companies compete to 'race to the bottom' to
find the cheapest method of production.

Do you think international trade can ever be increased in a truly sustainable manner?

Quick Question: Why are trade blocs so important in global trade?

6 Summary Task: HDEs, EMEs and LDEs

The table below sets out a summary of current trading relationships and patterns. Information on HDEs has been added. Complete your own notes / table by writing your own bulleted revision points for emerging economies and LDEs from the booklet and Hodder Textbook online – see VLE book.

Highly developed economies	Emerging economies	Less developed economies

USA
+ Traditionally a protectionist country.
+ Up to 2020, the Trump administration favoured protectionist policies, e.g.:
  + USA withdrew from the Trans-Pacific Partnership negotiations
  + the Transatlantic Trade and Investment Partnership collapsed in 2016
  + USA pursued bilateral trade with other countries.
 	
EU
+ The EU negotiates trade deals as a bloc.
+ 65% of trade in the EU is intra-regional.
+ Bilateral trade deals do exist (e.g. with Australia, New Zealand and Japan).
+ Recent trade deals include: Canada–EU 2017, EU–Mercosur (South American trading bloc) 2019 (awaiting full ratification), post-Brexit EU–UK trade deal.
	China
	
	India
		Latin America
		
		Mercosur
		
		Pacific Alliance
		
		Sub-Saharan Africa

<u>NOTES / Table:</u>

7 Exam Question Practice

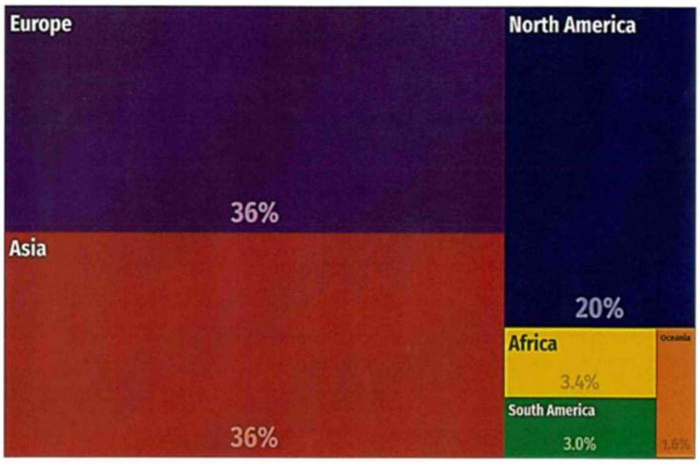

Figure 1 Top importers by continent, 2015

EXAM STYLE QUESTION

P – Pattern
A – Anomalies
D – Data (manipulation)
L - Links

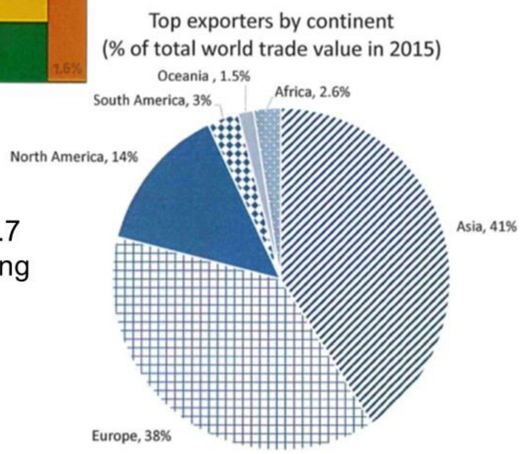

Figure 2 Top exporters by continent, 2015

The total value of world trade in 2015 was $15.7 trillion. Using figures 1 and 2 analyse the trading relationships of world trade. (6 marks)

Zig Zag Exam Question Paper A

[6 marks]

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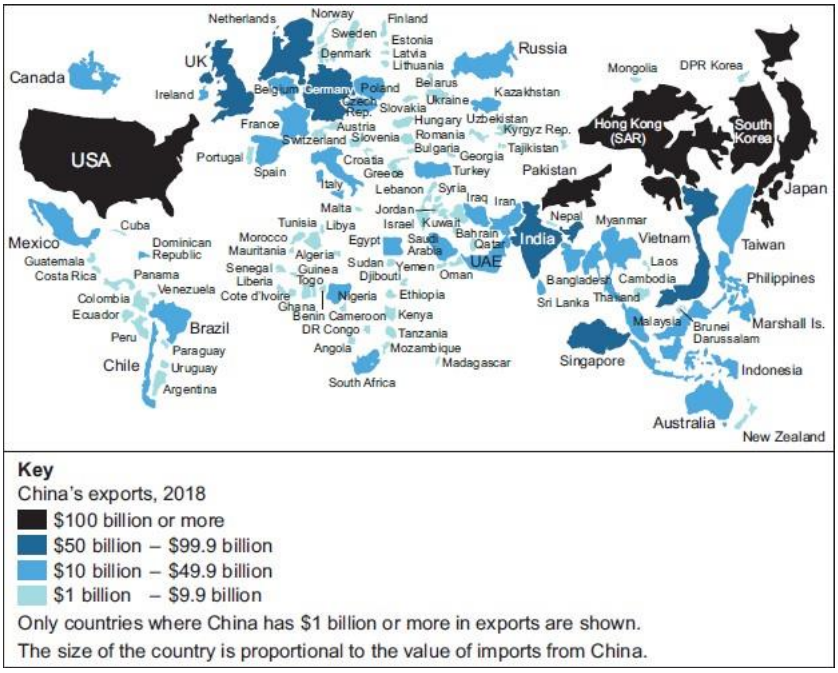
Q2. The map below shows the destination of China's biggest exports by total value in 2018.



Using the map above and your own knowledge, assess the importance of geographical location in trading relationships between major economies such as China and smaller less developed economies.

[6 marks]