LESSON 9: TRADE AND DEVELOPMENT

Key Concepts

In this lesson we will focus on summarising what you need to know about:

- International trade and world markets: commodities traded, terms of trade
- Types of trading relationships including free trade, trade barriers, subsidies and fair trade.
- The concept of globalisation and its impact on development.
- Export-led development

Terminology

Trade:	The exchange of goods, services, capital, labour and information between two parties.
Barter:	To exchange goods for other goods, rather than selling them for money.
International trade:	The exchange of goods, services, capital, labour and information between countries.
Balance of Trade:	The relationship between the value of a country's exports and its imports.
Market:	The place where goods and services are bought and sold.
Commodities:	The items (goods and services) that countries trade. Anything sold in large quantities.
Free Trade:	Trade that occurs without any restrictions.
Tariffs:	A type of tax placed on imported goods, which makes these goods more expensive than the local product.
Customs:	Taxes paid on importing and/or exporting goods.
Quota:	A limit to the amount of imported goods that may enter a country during a fixed period of time.
Subsidy:	A form of financial assistance paid by government to an industry or economic sector.
Fair trade:	Trade that supports farmers in developing countries by paying fair prices and encouraging social and environmental development in their communities.
Globalisation:	A process that leads to an integrated global economy and society.
Multinational Corporation (MNC):	A company that owns or controls production facilities in more than one country.
Outsourcing:	Having components made or assembled in a country other than where the headquarters of a company is based.
Sweatshops:	Workshop or factory where people work long hours in poor conditions for low pay, often making illegal or counterfeit goods.

Export- led development:	An economic strategy used by developing nations to “catch up” to developed nations through increasing wealth by increasing exports.

X-planation

Trade

Trade can be described as the transfer of ownership of goods and services from one person or entity to another. In its simplest form trade is a process where people or entities barter – one side provides goods or services, while the other side pays with money, goods or services.

International Trade

International Trade involves the movement of goods and services across borders between countries. Trade between two countries is called **bilateral trade**, while trade between more than two countries is referred to as **multinational trade**.

Commodities

Commodities are items that countries trade. They can either be raw materials or finished products LEDC’s export mainly raw materials and unfinished goods, so their share of global trade is very small. LEDCs also earn less for their exports than MEDCs, because processed commodities fetch higher prices than raw materials do.

Terms of Trade

Terms of trade is a term used by economists to describe the relationship between the prices a country sells its exports for and the prices it pays for its imports. It makes economic sense to try and get more for what you sell, and pay less for what you buy.

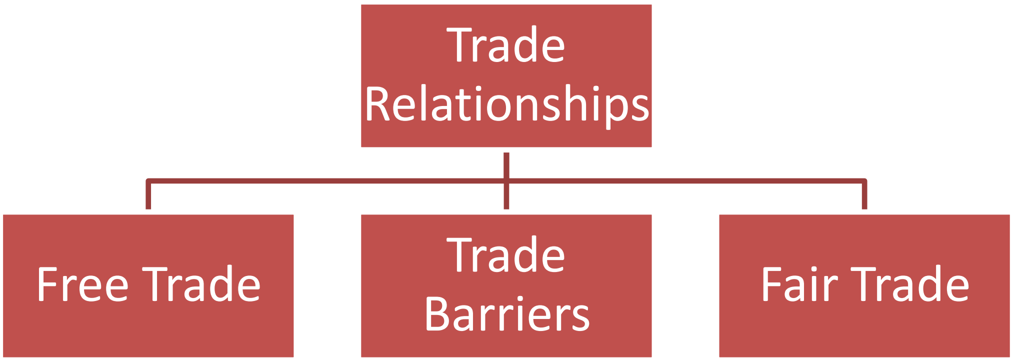
Balance of Trade

The **balance of trade** is another important term to understand. It is the relationship between the value of a country’s exports and it imports. It can either be positive or negative.

NEGATIVE BALANCE OF TRADE = imports are greater than exports

POSITIVE BALANCE OF TRADE = exports are greater than imports

Trade Relationships



Free Trade

Is trade that occurs without any restrictions. When there is free trade, nations open their borders to one another, and goods and services move freely between them. There are no tariffs or customs duties that might increase the process. Free trade is meant to benefit all trading partners.

Trade Barriers

This occurs in order to protect local manufacturers; governments might introduce measures to make imported goods more expensive. These include:

- **Import tariffs and taxes** (taxes placed on imported goods making them more expensive than local goods)
- **Subsidies for local industries** (a subsidy is financial assistance paid to a business to help support that business, to create employment, stimulate business and reduce imports)
- **Quotas** (limits that governments set to the amount of imported goods that can enter a country within a particular time frame)

Trade barriers are also used in order to protect jobs in a country, protect local products from foreign competition and to encourage local industries.

Fair Trade

Trade that supports farmers in developing countries by paying fair prices, workers enjoy better working conditions and are not exploited. This type of trade is closely linked to sustainable development. Fair trade organisations also improve infrastructure and social development (education and training) in developing countries.

FAIRTRADE

“Goods marked with this Fair Trade logo guarantee disadvantaged farmers in the developing world get a better deal”

Globalisation

Globalisation is a process whereby the increased flow of goods, services, capital, technology, ideas, information and people between countries leads to an integrated global economy and society. Globalisation has resulted in some brands spreading across the globe.

McDonald's

Shell

Globalisation & Development

Globalisation impacts development in seven different ways:

1. **Trade** - it is now easier to trade and exchange goods.
2. **Communication** - countries are better linked therefore can share knowledge.
3. **Global Governance** - international community is trying to regulate global economic activities and minimise environmental damage.
4. **Open Borders** - borders are becoming less important as freer movement of people, goods and ideas occurs.
5. **Multinational Corporations** - control world resources and operate globally.
6. **Economic Growth** - stimulated production, trade and economic growth.
7. **Migration** - more people move within their countries and across borders.

Export-Led Development

Export-led development is an economic strategy used by developing nations to “catch-up” to developed nations. Their aim is to increase wealth (development) by increasing exports through:

- Investing in industry, manufacturing and education in order to create specialised export products, and then
- Re-investing the money earned in social and physical structure

Countries such as Honk Kong, Singapore, Taiwan and South Korea have become more developed by using this approach.

X-ample Questions

Question 1

1.1 What is free trade?

1.2 What are trade barriers? Why are trade barriers necessary for protecting employment?

1.3 What do you understand by the term “exploitation”?

1.4 In what ways do subsidies, benefit activities or industries?

1.5 Provide one South African example of company that benefit from subsidies. How does it benefit?

1.6 What is fair trade and how does it benefit the people in the production line?

Question 2

Refer to the table below showing some of South Africa’s trading partners and answer the questions that follow:

	EXPORTS(% of total exports)	**IMPORTS(% of total imports)**
CHINA	**11%**	**14%**
UNITED KINGDOM	**5%**	**4%**
SAUDI ARABIA	**-**	**4%**

2.1 According to the information which country is South Africa’s largest international trading partner?

2.2 Suggest a commodity South Africa would export to China.

2.3 Name the most likely commodity South Africa would import from Saudi Arabia.

2.4 If the Chinese economy was to experience difficulties and enter recession, predict how this would affect development in South Africa.

2.5 Is South Africa’s balance of trade with these countries positive or negative?

2.5.1 China

2.5.2 United Kingdom

2.6 China has developed rapidly following an export-led model of development. Explain what this means, as well as critically examining advantages and disadvantages of this path.

Question 3

Tata is a large motor vehicle manufacturer with its head office in India. The company expanded its truck assembly chain by opening a factory in Rosslyn near Pretoria in July 2011.

3.1 Name a product manufactured by the Tata Company.

3.2 In which country did the Tata Company originate?

3.3 How can the Tata Company benefit by opening a branch in South Africa?

3.4 Explain why Tata may be regarded as a multinational corporation.

3.5 List some benefits for South Africa of having multinational corporations like Tata opening factories in the country.

3.6 Suggest reasons why some people are opposed to the presence of MNCs in South Africa.

Question 4

The value of imports and exports for selected countries 2010.

Group A	Imports $US billion	Exports $US Billion	Group B	Imports $US billion	Exports $US Billion	Group C	Imports $US billion	Exports $US Billion
USA	1939,00	1289,00	New Zealand	30,24	33,24	Mauritius	3,94	2,04
China	1327,00	1581,00	Bangladesh	21,34	16,24	Armenia	2,99	0,85
Germany	1099,00	1303,00	Croatia	20,93	11,51	Lesotho	1,77	0,99
Japan	639,10	756,20	Jordan	12,97	7,33	Belize	0,74	0,40
France	590,20	517,30	Republic of Congo	3,61	9,20	Burundi	0,34	0,07

4.1 Which country in the table earned the most from exports?

4.2 Which country earned the least from exports?

4.3 Which country in the table spent the most on imports?

4.4 How many countries earned more from exports than they spent on imports?

4.5.1 Use an atlas to locate all these countries on a world map. How many of the countries shown are landlocked (completely surrounded by land, having no access to an ocean)?

4.5.2 From the countries shown in the table, would it be fair to say that landlocked countries have lower volumes of trade than countries with access to an ocean?

4.6 Using trade as the only criterion choose the most developed country from each group shown on the table.

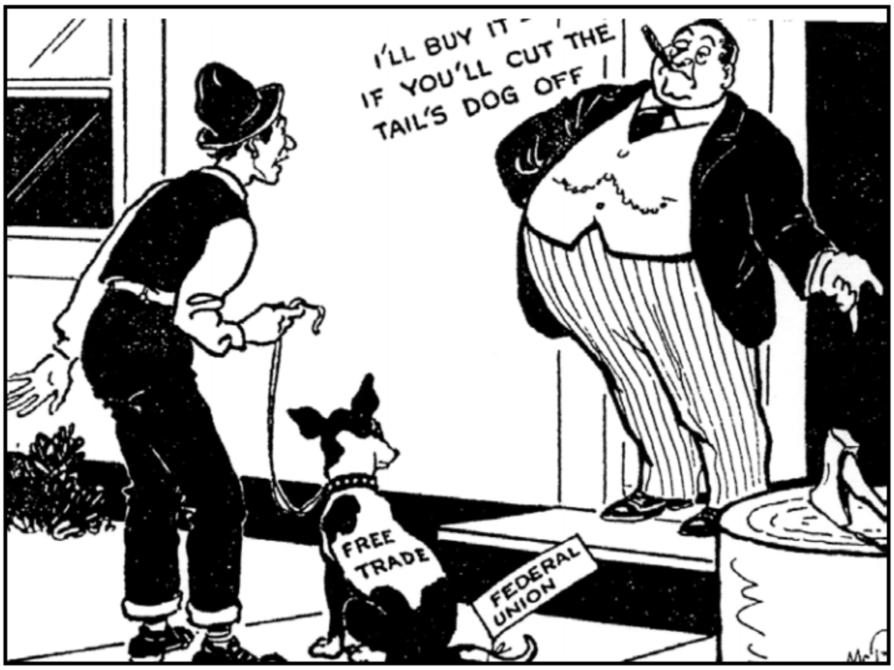
X-ercise Questions

Question 1

(Adapted from Gr 11 Exemplar 2013, DBE, Paper 1, Question 3.6)

Refer to the cartoon in FIGURE 1 showing trade and answer the questions that follow.

FIGURE 1: TRADE



[Source: cooperativeindividualism.com]

1.1 Is the man with the cigar promoting free trade? (1 x 2) (2)

1.2 Give ONE reason for your answer to QUESTION 1.1. (1 x 2) (2)

1.3 Who in the cartoon represents the following:

(a) More economically developed countries (1 x 2) (2)
(b) Less economically developed countries (1 x 2) (2)

1.4 Give TWO regulations used to prevent free trade. (2 x 2) (4)

1.5 Explain why free trade is to the advantage of less economically developed countries. (3 x 2) (6)

Solutions to X-ercise Questions

Question 1

(Adapted from Gr 11 Exemplar 2013, DBE, Paper 1, Question 3.6)

1.1 No (2) 1x2 (2)

1.2 A condition is attached to his assistance (2) 1x2 (2)

1.3 MEDC - Man with cigar/fat man/well-dressed man (2)
LEDC – Thin man/poorly dressed man/man with dog (2) 2x2 (4)

1.4 Tariffs (2)
Import licenses (2)
Export licenses (2)
Import quotas (2)
Subsidies (2)
Local content requirements (2)
Embargoes (2)
Trade restrictions (2)

1.5 Trade of goods without taxes (including tariffs) or other trade barriers (e.g. quotas on imports or subsidies for producers) (2)
Trade in services without taxes or other trade barriers (2)
The absence of trade-distorting policies (such as taxes, subsidies, regulations, or laws) that give some firms an advantage over others (2)
Free access to markets (2)
Free access to market information (2)
Inability of firms to distort markets through government-imposed monopoly power (2)