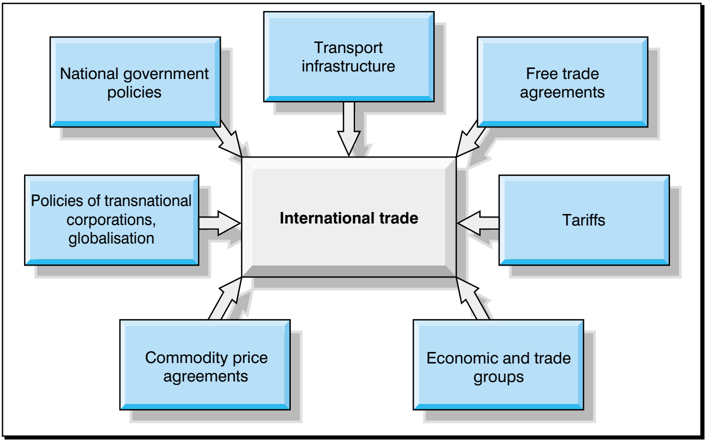
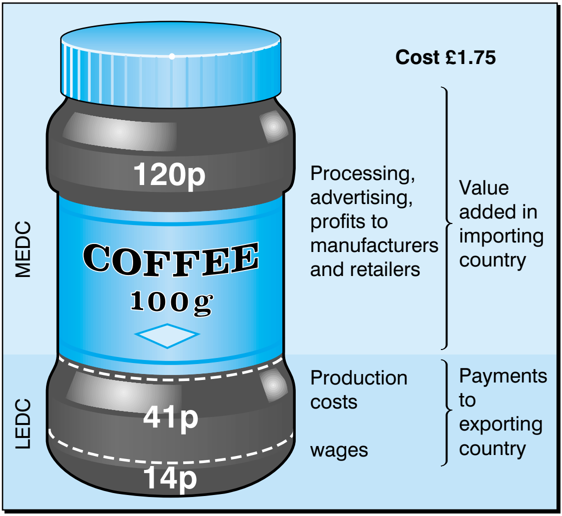
TRADE AND AID (1)

- **International trade** is the movement of goods and services between countries. The things a country sells abroad are its **exports**. The things it buys from abroad are **imports**. The difference between a country's imports and exports is its **balance of trade**.
- There has been a great expansion in world trade. The LEDCs have gained least from this growth. The value of trade in most countries in the poor 'South' is less than 1,000 US dollars per head - below 25% of the figure for countries in the rich 'North'.
- Countries try to protect their own economies by imposing **tariffs** and **quotas** on foreign imports. The **World Trade Organisation** aims to promote **free trade** by removing these restrictions. There are many influences on international trade.
- **Trading groups** such as the EU are set up to promote free trade between its members and to reduce the effectiveness of foreign competition. A lot of the trade between MEDCs and LEDCs is the result of **globalisation** and the spread of **TNCs**.



Influences on international trade

- Most trade is between MEDCs. There is an increasing amount of trade between MEDCs and LEDCs, turning primary goods into manufactured goods. Most of the world's poorest countries rely on the export of **primary goods**. Converting primary goods to manufactured goods '**adds value**'. Most manufacturing takes place in MEDCs who gain most from the profits and jobs that this creates.
- Coffee growers in LEDCs receive less than 33% of the supermarket price for a coffee jar. There are great fluctuations in the price of primary goods. There has been a steady fall in the price of primary goods compared to manufactured goods.

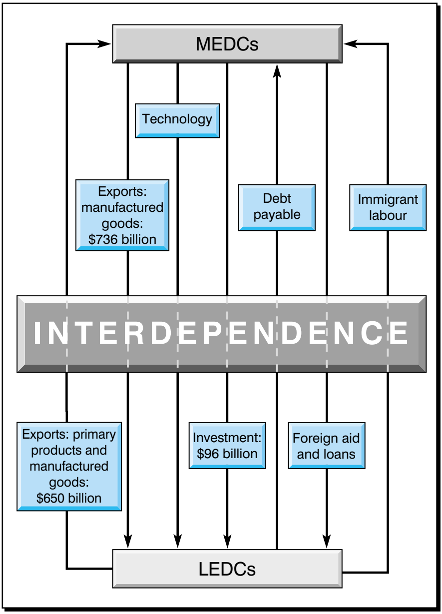


Value added to a jar of coffee

- Manufacturing is increasing in LEDCs. The goods are largely low-tech such as textiles, clothing and metals. High-tech exports such as chemicals, cars and electronic equipment are becoming more important. The profit from these exports however, may go to a TNC in an MEDC.

Aid

- **Aid** to LEDCs can be in the form of money, food, equipment and technical assistance. Few MEDCs achieve the UN recommended target of donating 7% of their GNP as foreign aid. The Scandinavians are the most generous donating between 0.83 and 0.92%. The UK gives 0.26% of GNP and the USA just 0.16%.
- **Short-term aid** is sent in response to an emergency, e.g. a natural disaster. The purpose of **long-term aid** is to improve the quality of people's lives. **Multilateral aid** is donated by international bodies such as the World Bank. It is unlikely to have any conditions attached. **Bilateral aid** is given by one country to another. It may be **tied aid**, e.g. the LEDC may have to purchase certain goods made in the donor country.
- **Non-governmental organisations (NGOs)** such as charities rely largely on private donations and government grants. They often support **appropriate technology schemes**.

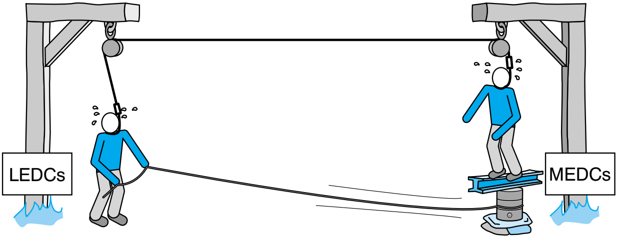


Interdependence between MEDCs and LEDCs (1994 figures)

- Aid has advantages and disadvantages for both MEDCs and LEDCs. The advantages to LEDCs are that money and emergency supplies are available at times of disaster. Also, foreign investment helps economic and social development. However, there is a danger that LEDCs become too dependent on aid. This is particularly true for tied aid. An LEDC may not be able to get the best prices for its products. MEDCs gain prestige from donating foreign aid. **Corruption** in LEDCs means that a lot of aid does not reach the right people. Aid money may be used to buy military arms.

Interdependence

- LEDCs and MEDCs depend on each other. Trade, investment, loans, interest payments, foreign aid and international migration link them.
- MEDCs gain from this **interdependence**. They obtain raw materials and foodstuffs relatively cheaply. Profits from TNCs usually go back to MEDCs. Tied aid boosts exports and secures jobs in MEDCs. However, cheaper wages and fewer planning restrictions in LEDCs mean that investments by TNCs can cause job loses in MEDCs. Industrialisation in LEDCs may produce stiff competition to industries in MEDCs.



- LEDCs gain **hard currency** by exporting to MEDCs. LEDCs benefit from investment by TNCs. New jobs are created often educating people in new skills and technologies. The terms of trade often works against LEDCs. Exploitation of primary resources in LEDCs may cause environmental damage.

Trade and aid (1–4)

1 What is interdependence? (1)

2 State one way in which transport infrastructure can influence international trade. (1)

3 What does NAFTA stand for? (1)

4 What is a protective approach to trade? (1)

5 Why did Japanese car firms establish car factories within the EU? (1)

6 What percentage of the price of a jar of coffee is paid to the producing country? (1)

7 What is dependency culture? (1)

8 Name one raw material that forms the bulk of exports for an LEDC of your choice. (1)

9 The Canadian government gave money to Tanzania on the condition that the African country bought tractors from Canada. What kind of aid was this? (1)

10 State a disadvantage of the aid donated by Canada. (1)

11 Give two reasons why people may not wish to give to charitable aid agencies. (2)

12 Why is hard currency so important to LEDCs? (2)

13 Explain how an expansion in trade should lead to increased prosperity. (3)

14 What advantages does a LEDC gain from joining a trading group? (3)

SCORE

1 Recognition that LEDCs and MEDCs are so closely linked economically that they must work together for mutual benefit. (1) Look at the cartoon on side 100.

2 Ports for oil tankers or bulk carriers allow bulky raw materials to be shipped from LEDCs to MEDCs. (1) Better transport links within LEDCs help the export of agricultural produce.

3 North America Free Trade Association. (1) Another trading group is the EU.

4 Protection of home industries from foreign competition by the imposition of import tariffs and quotas. (1) This is the opposite of free trade.

5 Japanese cars built within the EU are not subject to the import restrictions on cars made in Japan. (1) Nissan, Honda and Toyota all established car factories in the UK.

6 Approximately 31%. (1)

7 Where a country relies on foreign aid to support its economy. (1) For example, some LEDCs in Africa.

8 Oil in Nigeria. (1)
Oil represents over 95% of Nigeria's exports.

9 Bilateral aid. (1) It is also tied aid.

10 Tractors may not be the most appropriate form of technology to use in Tanzanian agriculture. Spare parts may not be available. (1)

11 They argue that too much money is spent on administration. (1) They may not agree with the charity's culture, e.g. many charities have a religious aspect. (1)

12 It is less likely to change in value. (1) LEDCs can use it to buy goods in MEDCs. (1).

13 Countries will specialise in goods and services that they produce best. (1) There will be lower prices and higher quality goods and services available. (1) Increased demand will lead to an expansion of jobs. (1) These are linked in a cycle of prosperity.

14 They can influence the market. (1) As part of a trading bloc the LEDC is stronger when dealing with other countries. (1) It may benefit from subsidies or lower interest on loans. (1)

TOTAL