

Trade

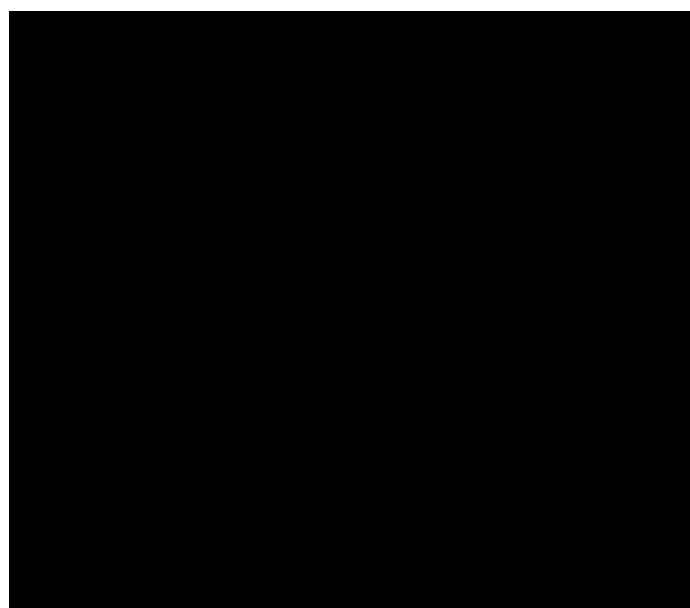
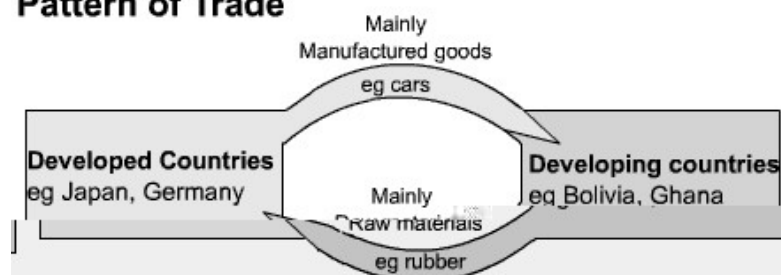
Trade – Introduction

Countries trade when they sell and buy goods to each other. Imports are the goods that are sold abroad by a country. Exports are goods that are sold overseas. A country's **trade balance** is the difference between the value of its exports and the cost of its imports. If a country makes more money from its exports than it spends on its imports it has a **trade surplus** (a profit). However, if it has to spend more money on imports than it gets from its exports it has a **trade deficit** (a loss).

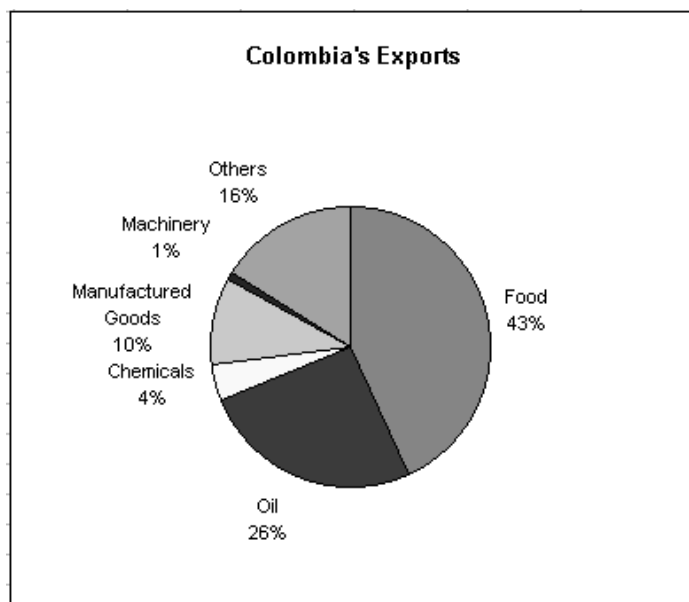
Pattern of Trade

The main pattern of trade is that developing countries tend to export mainly primary goods, and import mainly manufactured goods. In developed countries the pattern is the other way around – they tend to import primary goods and export manufactured goods. Primary goods are raw materials. They include coal, grains and fish. Manufactured goods are goods that have been made. They include cars, machinery and computers.

Pattern of Trade



This graph shows that Colombia, which is a developing country, imports a lot of manufactured goods.



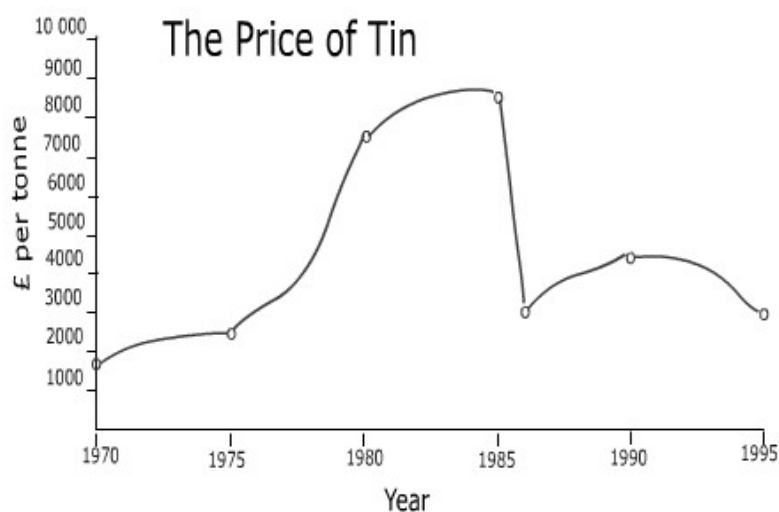
Most of Colombia's exports are primary goods.

Developed and developing countries are interdependent. This means they rely on each other. Developed countries need the raw materials for their manufacturing industries, and developing countries need to have a market for their goods.

Trade Problems for Developing Countries

Developing countries believe they get a raw deal when it comes to international trade. These problems include

- Relying on only one or two primary goods as their main exports
- They cannot control the price they get for these goods
- The price they pay for manufactured goods increases all the time
- As the value of their exports changes so much long term planning is impossible
- Increasing the amount of the primary good they produce would cause the world price to fall



The graph shows how much the price of tin has changed.

Developing countries that try to export manufactured goods find that trade barriers are put in their way. There are two types of trade barrier – **quotas** and **tariffs**.

1. A quota is a limit on the amount of goods a country can export to another country
2. A tariff is a tax on imports

Other problems that developing countries face are they are short of the money that is needed to set up new businesses and industries. Also, developing countries have fewer people who have the wealth to buy the goods made in local industries.

Multinational Companies

A multinational company has branches in many countries. Ford and Sony are examples.

Multinational companies do bring some **benefits** to developing countries. They provide jobs and increase the wealth of the local people. The country gains some wealth by way of taxes.

However, there are some **problems** as well. The jobs are often low-skilled and poorly paid. Much of the profit will go out of the country, and the company may pull out to relocate in a country where it can make a greater profit. Multinational companies are primarily interested in making profits for their shareholders. Paying wages is an expense that the company will try to reduce to as low a level as possible.