

- Terms of Trade
- Changes in Global market
- Trade Agreements

OPEC countries export oil.

Resource Endowment means a country is rich in some form of resource - the OPEC countries are rich in oil.

Resource Endowment

OPEC is an intergovernmental organization comprising of 12 oil producing nations. It was founded in 1960 after a US Law imposed quotas on Persian Gulf oil in favor of Canadian and Mexican oil industries. OPEC was made to co-ordinate and unify petroleum policies with member countries and stabilize the oil markets in order to ensure economic and regular supply of petroleum to consumers on a fair return on their investment. OPEC countries in 2007 had 78% of the world crude oil reserves. They are criticised for their policies.

Countries endowed with other raw materials such as food products, timber and minerals and fish also figure prominently in the world trade stats. MEDC's like Canada and Australia export raw materials in demand on the world market.

Comparative advantage

This concept states that the different countries will specialize in producing those goods and services for which each is best endowed. Each country will trade a proportion of their goods to other nations to obtain goods and services that it needs but for which it is not favorably endowed. It applies to raw materials as well as manufactured goods and services. This concept says that even in the complexity of the modern global economy, countries tend to concentrate on the goods and services they are best at producing. This results in specialization in production and employment. Examples include Germany for cars, Japan for high end products, Belgian for chocolate and Swiss for watch.

Locational advantage

The location of the market demand influence on trade patterns. It is advantage if the country of export is close to the market that needs the good or service as this reduces transportation costs and gains benefit of spatial proximity. For example, the tourist industry in France benefits from the large population of neighboring countries to which customers can reach quickly and cheaply. Likewise manufacturing industry in Canada benefit from being close to USA (as it is a huge market). Some countries and cities are strategically located along trade routes. For example, Singapore is situated at a strategic location along the main trade routes between Indian and Pacific Ocean.

Investment

Investment is the key to increasing its trade. Some LEDC's have increased their trade substantial. These countries have attracted bulk of foreign investment. Such low income globalizers as China, Brazil, India and Mexico have increased their trade to GDP ratio. Other countries have been losing money as their trade has fallen compared to nations income.

Historical Factors

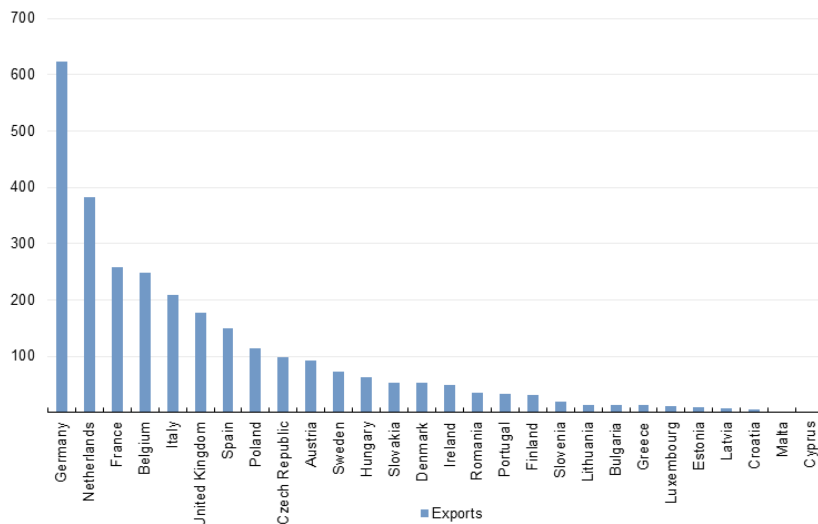
Historical relationship, often based on colonial tie, remain an important factor in global trade patterns. For example UK still maintains significant trading links with Commonwealth countries because of the trading relationships established at the time these countries were colonies. Colonial expansion heralded a trading relationship dictated by the European countries mainly for their own benefit. The historic legacy of trade dependency has led to poorer tropical countries having a limited share of world trade.

Comparative advantage: different countries specialize in producing different goods and services at a lower cost than others. So countries will trade these with other nations to get what they need.

Chinas investment in Africa (Case Study)

There has been huge amount of trade happening between China and Africa from all sectors. Below are the projects in each sector that have taken place:

Type	Projects
Business service	1053
Wholesale and retail	693
Import and export	539
Construction, transportation, storage and postal services	392
Mineral products	319



The graph above shows that Germany has one of the greatest exports in the European Union with 650 Euro (1000 million); Main exports from Germany to the EU include transport and machinery as well as planes and helicopters which make up 11% of the exports.

Trade negotiations

Free Trade Agreements are designed to create opportunities by:

- Opening new markets for goods and services
- Increasing investment opportunities
- Making trade cheaper - by eliminating substantially all customs duties
- Making trade faster - by facilitating goods' transit through customs and setting common rules on technical and sanitary standards
- Making the policy environment more predictable - by taking joint commitments on areas that affect trade such as intellectual property rights, competition rules and the framework for public purchasing decisions

Exports of goods and services also made up about **52** percent of its GDP. Significantly, EU integration has greatly intensified intra-European trade, with about 71 percent of German exports shipped to European countries and **58.2** percent delivered to member states of the EU.

Within the EU itself, Germany's most important trading partner continues to be France (**9.5** percent of total exports). Meanwhile **7.9** percent of German exports went to the US in 2012 and 6.6 percent to the UK.

Most of the goods imported to Germany originated from the Netherlands. Germany imported goods worth **86.6** billion euro from the Netherlands (**9.5** percent of total German imports), with China and France accounting for the next highest imports.

Germany's Import and Export Indicators and Statistics at a Glance (2012)

Total value of **exports**: \$1.492 trillion

Primary **exports** – commodities: motor vehicles, machinery, chemicals, computer and electronic products, electrical equipment, pharmaceuticals, metals, transport equipment, foodstuffs, textiles, rubber and plastic products

Primary **exports** partners: European Union (58.2 percent of total exports), US (7.0 percent), China (6.1 percent), Switzerland (4.5 percent), Russia (3.3 percent)

Total value of imports: \$1.276 trillion

Primary **imports** - commodities: machinery, data processing equipment, vehicles, chemicals, oil and gas, metals, electric equipment, pharmaceuticals, foodstuffs, agricultural products

One of the economic benefit of the fairtrade is that it ensures fair prices for the primary goods sold by the farmers. For example in Ivory Coast, cocoa is exported to countries like United States for about \$1400/tonne this means that for every dollar sold the cocoa farmers only receive 7 cents which is an unfair price for these farmers who do majority of the work. Therefore, farmers who sell their cocoa through fairtrade receive \$1600/tonne, this means that the farmers receive \$200/tonne they sell, which is a much fairer price for the cocoa's sold. This inturn means that the farmers can have a higher standard of living as they now earn more and can therefore afford healthcare and education for their children. Thus, fairtrad e has had an economic benefits for the farmers and worker in LEDC's.

However, fairtrade has also had an social benefit in LEDC's. For example, in the Ivory Coast new wells with motors have been constructed by the organisation this has ensured that clean water is accessible to all and this in turn has prevented diseases like malaria and cholera. However, one of the biggest achievement of the fairtrade has been investing in construction of its own health center with a doctor, midwife, and two nurses. This means that the people can be treated in time if they have any injures or if they have any diseases. This has led to more than 40 lives being saved in the Ivory coast alone. Furthermore, the life-expectency has increased from 49 to 50.5 years which proves that Fairtrade has helped improve healthcare in the Ivory coast. There are also social benefits of fairtrade in the field of education. Fairtrade distributes large amounts of scholarships to members' children so they need to pay less fees towards school. This has led to increase literacy rate in Ivory coast from 30% in 2000 to 48.7% in 2014; this clearly shows how the work of fairtrade has helped in increasing literacy rates in the Ivory Coast.

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Aid and Debt

Debt Service Ratio: Debt service ratio is the ratio of debt service payments (principal + interest) of a country to that country's export earnings. A country's international finances are healthier when this ratio is low.

Unpayable debt: It is the term used to describe external debt when the interest on the debt is beyond the means of a country, thus preventing the debt to be repaid.

Debt relief: is the partial or total forgiveness of debt, or the slowing or stopping of debt growth, owed by individuals.

Trade: The exchange of goods and services.

Imports: Good and services being purchased from overseas and brought into a country.

Exports: Goods and services leaving a country to be sold overseas.

Balance of Trade: The difference in the monetary value of exports and imports over a specified period (normally a year or a quarter).

Balance of Payments: This accounts for the balance of all monetary transactions between countries. This includes goods like the balance of trade but also services and transfers of financial capital.

Trade deficit (in the red): When the value of your imports is greater than the value of your exports.

Trade Surplus (in the black): When the value of your exports is greater than the value of your imports.

Protectionism: Methods used to protect domestic industries from foreign competition. This might be done with tariffs, quotas or subsidies.

Currency Devaluation: This means reducing the value of their currency in relation to other currencies. This might be done by keeping interest rates low so people don't want to invest in it or flooding the market with the currency (increasing supply)

International Monetary Fund (IMF)

The IMF like the World Bank was created at Bretton Woods in 1944. It started with only 46 members but has now grown to include 186. Member countries all contribute to a pool of money which member countries can then borrow on a temporary basis to overcome budget deficits/imbalances. The IMF was extremely important after WWII to help stabilise the global economy.

The IMF has taken a leading role during the current global economic crisis. It has sold gold reserves to increase it pool of money and the G20 leaders have pledged a further \$500 billion to allocate to other members suffering from budgetary problems. Even though the IMF is currently taking a leading role in the economic crisis, it has been heavily criticised. Criticisms include:

- The IMF have supported some undemocratic governments that have been favourable to European and US TNCs.
- SAPs imposed on borrowing countries were often

World Bank

The World Bank was established in Bretton Woods in 1944 and has its headquarters in Washington DC. The World Bank is not a traditional high street bank, but a global one owned by its member countries (187 countries). It has two main institutions, the International Bank for Reconstruction and Development and the International Development Association. The bank has over 10,000 employees and over 100 offices around the world. In its early days the bank did not lend much money, but then in the late 1960's and 1970's it started lending more money to developing countries in order to fund schools, hospitals, infrastructure projects, etc. In the 1980's the World Bank along with the IMF imposed SAP (structural Adjustment programmes) on many of its borrowers.

From the 1990's onwards the World Bank is now more interested in helping countries achieve the UN's Millennium Development Goals. This includes reducing poverty, improving health and education and ensuring sustainable growth.

The World Bank has had a number of criticisms including:

- Its imposition of policies on developing countries (particularly the damaging

More car ownership - more families own a car. This gives greater freedom to choose when and where to spend time.

Improvements in technology - travelling today is much quicker. Motorways and aircraft have helped reduce the time it takes to get to different countries. Travelling by air has become more accessible as you can book on line and choose more budget options.

More leisure time - people have paid holidays from work (on average three weeks per year are paid). Also people who are retired remain active for longer. There is also a trend to take more than one holiday in a year.

More choice - in the past seaside holidays and package holidays were the most popular. The industry is seeing more people look at ecotourism and more unusual holiday destinations.

TOURISM IS NOW TANZANIA'S LEADING ECONOMIC SECTOR



Earning \$1 billion (USD), Tourism Overtakes Agriculture

Growing at a steady rate for the past seven years, Tanzania's tourism is booming. According to the Governor of the Bank of Tanzania, Prof. Benno Ndulu, Tourism, earning \$1 billion USD, now contributes nearly triple the GDP of Agriculture, which has been the leading contributor to the East African country's coffers for most of its history. According to the Honorable Mme. Shamsa S. Mwangunga, Tanzania's Minister of Natural Resources & Tourism, "Estimates are that more than 750,000 tourists are expected to arrive in the country this year (2015), bringing in about \$950 million dollars. We attribute this growth to several factors, not the least of which is that Tanzania has a stable and peaceful environment with a democratically elected government."

While Tanzania's famous northern circuit national parks, Mt. Kilimanjaro, the Selous Game Reserve, and of course Zanzibar, comprising of the islands of Unguja and Pemba, are well known abroad and need little explanation, this more distant location has always been a specialty destination for tourists. However, due to the factors mentioned previously ('Reasons behind the trend of tourism'), international tourist arrivals have drastically increased in the last 10 years; therefore, increasing international travel receipts. Tanzania has improved its advertising technique by forming ties with large school organizations such as 'Nord Anglia Education Schools' – providing discounts – and hiring more qualified marketing agents to advertise Tanzania as the 'The land of Kilimanjaro'.

DUBAI TOURISM SECTOR IS 'TAKING OFF'



In April this year, Dubai International Airport passed London's Heathrow as the world's busiest gateway for international travelers.

There are various reasons, other than the ones mentioned previously, that result in Dubai continuing its growth as a tourism hotspot.

1. The 'Beyond Oil' Effect

The UAE's diversification into aviation, tourism, trade, financial services and other industries is a direct response to that in the era of Peak Oil—the point where we've run out of cheap hydrocarbon resource supply.

Through 2030, the UAE is scheduled to invest over \$300 billion in new tourism-related infrastructure. Spurring private development, a 10% municipality fee has been waived for new hotels opening before June 2017.

helping to generate future employment for local people. The aim of sustainable tourism is to ensure that development brings a positive experience for local people, tourism companies and the tourists themselves. Sustainable tourism is not the same as ecotourism.

Carrying capacity: The maximum number of people that may visit a tourist destination at the same time, without causing destruction of the physical, economic, socio-cultural environment and an unacceptable decrease in the quality of visitors' satisfaction. The IB splits carrying capacity into environmental carrying capacity and perceptual carrying capacity. Environmental carrying capacity is the maximum number of visitors before environmental harm is done. Perceptual carrying capacity is the maximum number of visitors before visitors consider an impact like noise to be excessive.

Many people think that ecotourism or sustainable tourism is not possible. Most tourists arrive at their destinations by plane s, which are a major contributor to the greenhouse effect. Deforestation will have taken place to build many hotels and resorts and the hotels and resorts will create areas of private land that will disturb local flora and fauna. Tourists will put pressure on local electricity and water supplies and create waste that has to be treated and/or disposed of. They may demand products that are not found locally and could introduce new diseases or alien species. Because of this some people say ecotourism should be known as ego-tourism. This is when people go on holiday so that they can show off to the friends when they get home of what a fantastic time they had and tell them what a remote location they visited, while also caring for the environment.

Possible Ecotourism Destinations	Possible Ecotourism Activities
• Rainforests (Amazon) • Antarctica • Coral Reefs (Australia and Belize) • Deserts (Sahara and Atacama) • Savanna (areas of grassland - common location to do safari in Africa) • Mountain ranges (Himalayas and Andes) • Remote islands (Galapagos Islands) Some countries like Belize and Costa Rica market themselves as ecotourist destinations	• Bird watching • Walking • Cycling • Rafting and kayaking • Safari (looking for animals) • Restoring water ways • Flora and fauna surveys (counting and cataloging species) • Cleaning beaches and reefs • Hot air ballooning • Horse riding • Surfing • Tree planting • Fishing and diving

People often get sustainable tourism and ecotourism confused but there are some unique differences between the two. You will learn more about sustainable tourism at the end of this unit but some of the main similarities and differences include.

Similarities Between Ecotourism and Sustainable Tourism	Differences Between Ecotourism and Sustainable Tourism
• Both attempt to minimise the impact on the environment • Both attempt to minimise the impact on local populations. With ecotourism this might include indigenous groups. • Both aim to create a unique and enjoyable experience for tourists. • Both aim to educate tourists about responsible travel • Both hope to be sustainable over the long-term.	• Ecotourism is usually on a smaller scale, whereas sustainable tourism can be on a much larger scale • Sustainable tourism also focuses on the economic needs of areas • Ecotourism is usually to remote areas of natural beauty, where sustainable tourism can be to any location e.g. cities or beaches • Ecotourism usually involves physical activity. • Ecotourism is a type of tourism that is included under the umbrella of sustainable tourism

ENVIRONMENTAL SUSTAINABILITY	ECONOMIC SUSTAINABILITY	SOCIAL/CULTURAL SUSTAINABILITY
• Use renewable energy sources to power tourist facilities • Promote use of public transport or non-polluting transport methods e.g. cycling, walking and kayaking • Avoid deforestation or damage to any natural habitat when building tourist facilities • Recycle all waste (plastic, paper, glass, metal) • Minimise waste e.g. packaging for hotel toiletries • Conserve water (half flush toilets, showers, reduction in washing by reusing towels). • Educate about importance of biodiversity, • energy reduction, conservation, etc.	• Employ local workers and provide them with training programmes. • Only buy local products so to support local economy. • Reinvest all tourist company profits in the local economy to minimise economic leakage. • Use local guides and companies	• Ensure that all tourist facilities are able to be accessed by locals and that they are affordable. • Promote local food, dance, music, costumes, language, etc. • Educate about local history and culture • Preserve historical and archeological sites (ruins, churches, castles, etc.) • Locals have an equal say

Ecotourism Case Study - Costa Rica - Monteverde Cloud Forest