Reducing disparities (1)

TRADE AND MARKET ACCESS

There are many ways in which development disparities may be addressed. Unfair trading patterns are one of the causes of the development gap. MEDCs account for 75% of the world's exports and over 80% of manufactured exports. The pattern is complicated by flows of foreign direct investment (FDI), and the internal trade within transnational or multinational corporations (TNCs or MNCs). Most of the flow of profits is back to MEDCs, while an increasing share of FDI is to NICs. Reform of trade is necessary to protect LEDCs and small countries.

Regulatory bodies

The main regulatory bodies include:

- international regulators such as the International Monetary Fund (IMF) and the World Trade Organization (WTO)
- coordinating groups of countries such as the G8
- regional trading blocs such as the European Union (EU), North American Free Trade Association (NAFTA) and Association of South East Asian Nations (ASEAN)
- national governments.

However, much of the trade and money exchange that takes place is run by stock exchanges and the world's main banks. For example, Barclays Capital is the investment-banking sector of Barclays Bank. It deals with over £360 billion of investment through its 33 offices located worldwide. Its regional headquarters are located mostly in MEDCs in cities such as London, Paris, Frankfurt, New York and Tokyo. Hong Kong is the exception, although it is an important financial centre, like most of the other places on the list.

There is widespread criticism that many of the regulatory bodies have limited power, and that when faced with a powerful MEDC or TNC they capitulate.

FAIR OR ETHICAL TRADE

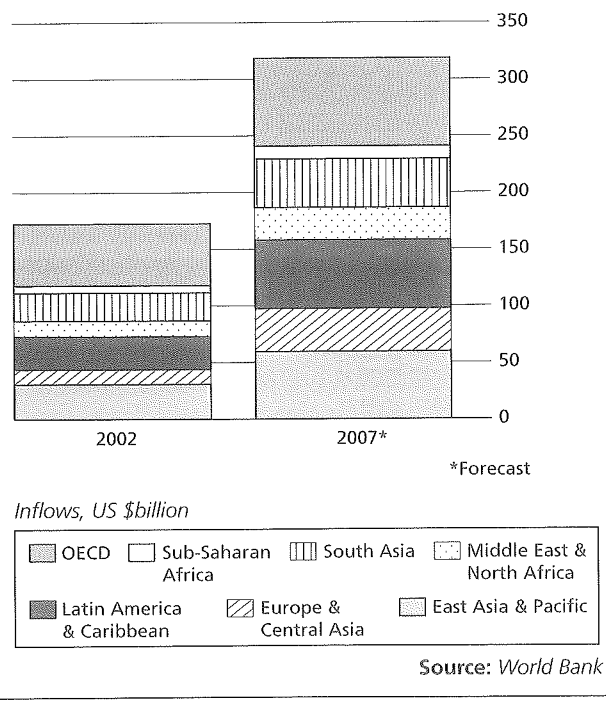
Fair or ethical trade can be defined as trade that attempts to be socially, economically and environmentally responsible. It is trade in which companies take responsibility for the wider impact of their business. Ethical trading is an attempt to address the failings of the global trading system.

Good examples of fair trading include Prudent Exports and Blue Skies, both pineapple-exporting companies in Ghana. Prudent Exports, which grows as well as exports pineapples, has introduced better working conditions for its farmers, including longer contracts and better wages. The company has its own farms, buys pineapples from smallholders and exports directly to European supermarkets. It has also responded to requests to cut back on the use of pesticides and chemical fertilizers. The result has been an increase in productivity and sales, supplying a leading British supermarket. Indeed, some retailers appear to be the driving force behind fair trade as they seek out good practice in their suppliers in terms of health and safety at work, employment of children, pay and conditions, and even the freedom of association of workers.

Nevertheless, there are conflicts of interest. For many western consumers, fair trade means banning pesticides or banning the use of child labour. Yet in many LEDCs it is normal for children to help out on farms, just as it was in the UK in the late 19th and early 20th centuries. Most LEDC farmers would prefer to send their children to school, but if the price they receive for their produce is low then they cannot afford the school fees. If western consumers want to stop child labour on farms, they may have to pay high prices for the food they buy.

REMITTANCES

Remittances are the transfer of money and/or goods by foreign workers to their home countries. Total global remittances from workers to their families reached $318 in 2007, up from $170 billion in 2002. Most of the money goes to LEDCs, more than double the value of foreign aid. The three countries receiving the most are India, China and Mexico, which together account for nearly one-third of remittances to the developing world. However, Mexico has been affected by the slowdown in the US economy. The largest recipient region was Latin America and the Caribbean, but since 2002 transfers to Europe and central Asia have increased the fastest.



Source: *World Bank*

Reducing disparities (2)

TRADING BLOCS

A **trading bloc** is an arrangement among a group of nations to allow free trade between member countries but to impose tariffs (charges) on other countries who may wish to trade with them. The EU is an excellent example of a trading bloc. Many trading blocs were established after the Second World War as countries used political ties to further their economic development. There are a number of regionally based trading blocs.

Within a trading bloc, member countries have free access to each other's markets. Thus, within the EU, the UK has access to Spanish markets, German markets and so on. However, Spain, Germany and the other countries of the EU have access to the UK's market. Being a member of a trading bloc is important as it allows greater market access – in the case of the EU this amounts to over 470 million wealthy consumers.

Some critics believe that trading blocs are unfair as they deny access to non-members; countries from the developing world, for example, have more limited access to the rich markets of Europe. This makes it harder for them to trade and to develop. In order to limit the amount of protectionism the World Trade Organization has tried to promote free trade. This would allow equal access to all producers to all markets.

The creation of EPZs has been a popular policy for governments of LEDCs because they represent a relatively easy path to begin industrialization in a country. The MNC normally provides technology, capital, inputs and the export markets.

Although the establishment of an EPZ could be seen as beneficial in the short term for the LEDC, in the long term it offers a major problem as regards economic sustainability. MNCs are normally attracted by trade and tax incentives, low labour costs and labour flexibility to locate a branch plant in an EPZ. However, they tend to pull out when economic conditions deteriorate. Thus a reliance on simple export processing would at best perpetuate a reliance on low-skilled, labour-intensive assembly and at worst see the premature end of this type of manufacturing activity within the developing country.

EXPORT PROCESSING AND FREE TRADE ZONES

Export processing zones (EPZs) and free trade zones (FTZs) are important parts of the so-called new international division of labour, and represent what are seen as relatively easy paths to industrialization. By the end of the 20th century, over 90 countries had established EPZs as part of their economic strategies.

- **Export processing zones** have been defined as labour-intensive manufacturing centres that involve the import of raw materials and the export of factory products.
- **Free trade zones** can be classified as zones in which manufacturing does not have to take place in order for trading privileges to be gained and, hence, such zones have become more characterized by retailing.

Popularity of EPZs

The popularity of EPZs is due to three groups of factors that link the economies of LEDCs with those of the world economy in general and the advanced economies in particular:

1. Problems of indebtedness and serious foreign exchange shortfalls in LEDCs since the 1980s
2. The spread of new-liberal ideas in the 1990s that encouraged open economies, foreign investment and non-traditional exports
3. The search by MNCs for cost-saving locations, particularly in terms of wage costs, in order to shift manufacturing, assembly and component production from locations in the advanced economies

The feasibility of MNCs relocating manufacturing capacity to EPZs was also improved by standardization in production processes. It proved profitable for MNCs to shift standardized production to low labour-cost locations.

In EPZ locations there was normally an added bonus for the MNC, as LEDC governments offered them concessions including:

- trade – the elimination of customs duties on imports
- investment – liberalization of capital flows and occasionally access to special financial credits
- important investments in the provision of local infrastructure by the central and/or local government of the host country
- taxation – reduction or exemption from federal, state and local taxes
- labour relations – limitations on labour legislation that apply in the rest of the country, such as the presence of trade unions and adherence to minimum wage and working hours legislation.

Location of EPZs

Within LEDCs, EPZs have been established in a wide range of environments – from border areas (as in north Mexico), to relatively undeveloped regions, to locations adjacent to large cities. The most common location has been on the coast, as in the case of China. EPZs have been most concentrated in the Asia-Pacific region, where in the 1990s approximately 40% of EPZs were located but where two-thirds of employment in EPZs was generated. Latin America and the Caribbean is the next most significant region for EPZs.