

DEVELOPING COUNTRIES AND TRADE

LESSON X



**SILESIAN
UNIVERSITY**

SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

Ingrid Majerova
World Economy
EVS/XXX

Outline of the lecture



1. Characteristic of Developing Countries
2. Trade Characteristics of Developing Countries
3. Trade problems of Developing Countries
4. Aiding the Developing Countries

CHARACTERISTIC OF DEVELOPING COUNTRIES



- **Advanced nations**
 - North America, Western Europe, Australia, New Zealand, and Japan
 - High levels of gross domestic product per capita
 - Longer life expectancies
 - Higher levels of adult literacy
- **Developing nations**
 - Africa, Asia, Latin America, and the Middle East
 - Traditional or industrial sectoral structure of economy



CHARACTERISTIC OF DEVELOPING COUNTRIES



	Gross National Product per Capita*	Life Expectancy (years)	Adult Literacy (percent)
United States	\$45,840	78	Over 95%
Switzerland	44,410	82	Over 95
Japan	34,750	83	Over 95
Mexico	13,910	75	90
Chile	12,330	78	Over 95
Algeria	7,640	72	70
Indonesia	3,570	71	88
Guinea	1,120	56	65
Burundi	330	49	26

*At purchasing power parity.



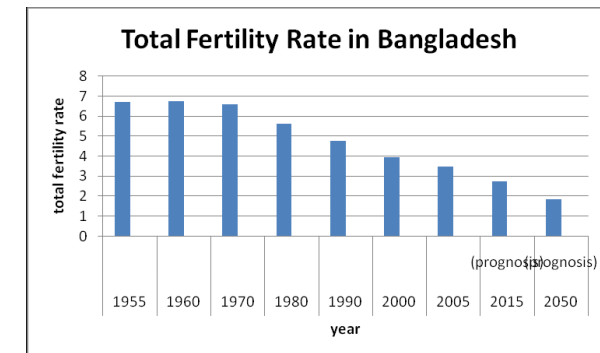
- **Low per capita real income**

- Low per capita real income is one of the most defining characteristics of developing economies. They suffer from low per capita real income level, which results in low savings and low investments.
 - It means the average person doesn't earn enough money to invest or save money. They spend whatever they make. Thus, it creates a cycle of poverty that most of the population struggles to escape.
 - The percentage of people in absolute poverty (the minimum income level) is high in developing countries.
-

CHARACTERISTIC OF DEVELOPING COUNTRIES



- **High population growth rate/size**
 - they either have high population growth rates or large populations.
 - Often, this is because of a lack of family planning options, lack of sex education and the belief that more children could result in a higher labor force for the family to earn income.
 - This increase in recent decades could be because of higher birth rates and reduced death rates through improved health care.





- **High rates of unemployment**

- In rural areas, unemployment suffers from large seasonal variations. However, unemployment is a more complex problem requiring policies beyond traditional fixes.

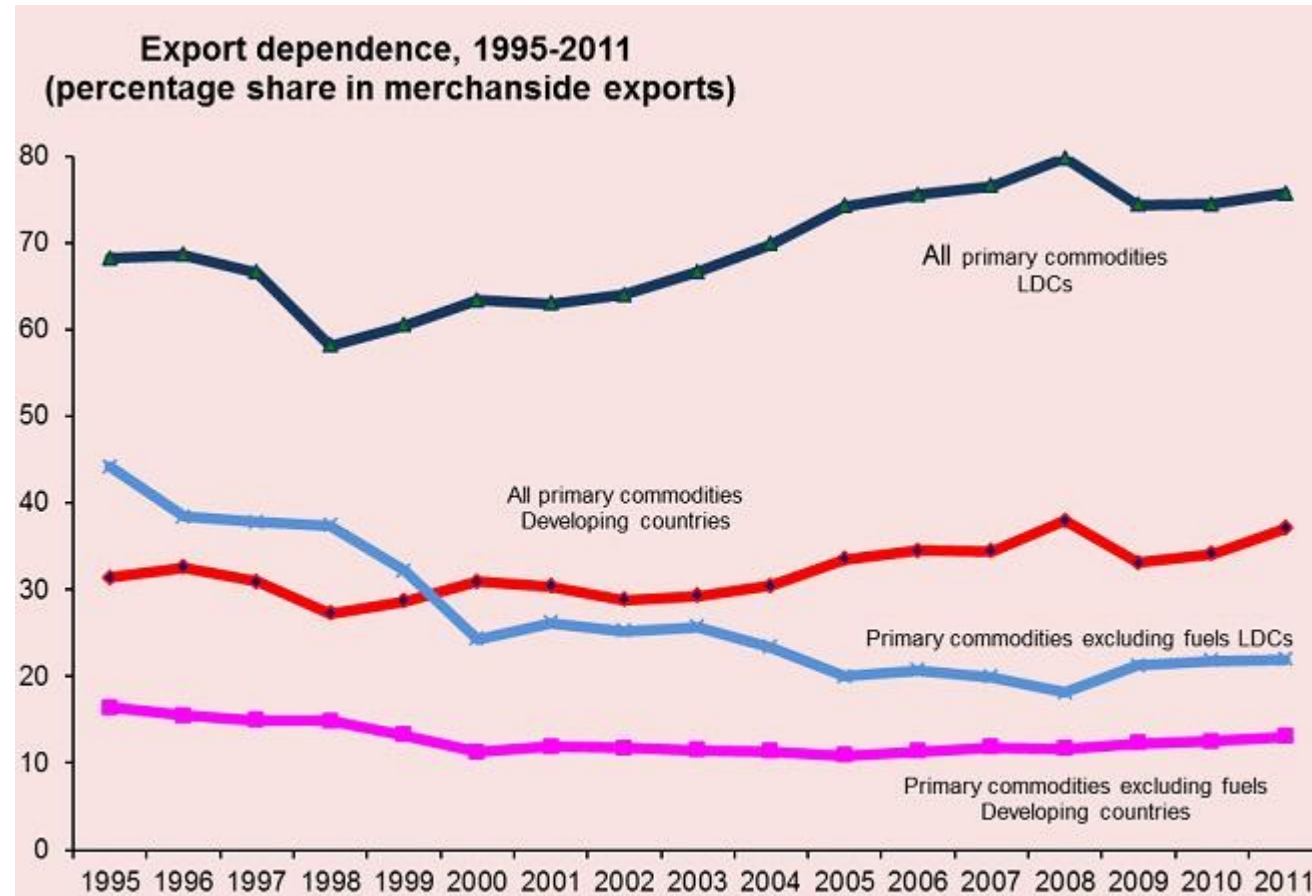
- **Dependence on primary sector**

- Almost 75% of the population of low-income countries is rurally based.
- As income levels rise, the structure of demand changes, which leads to a rise in the manufacturing sector and then the services sector.

- **Dependence on exports of primary commodities**

- Since a significant portion of output originates from the primary sector, a large portion of exports is also from the primary sector.
-

CHARACTERISTIC OF DEVELOPING COUNTRIES

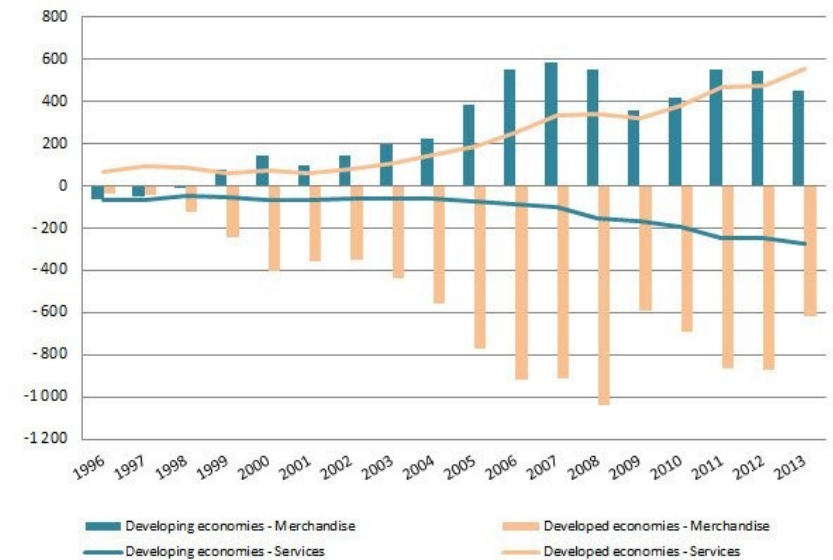


Source of data: UNCTAD online data base

TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



- **Characteristics of developing-nation trade**
- Highly dependent on advanced nations
- Exports go to the advanced nations
- Imports originate in advanced nations
- Trade among developing nations - relatively minor



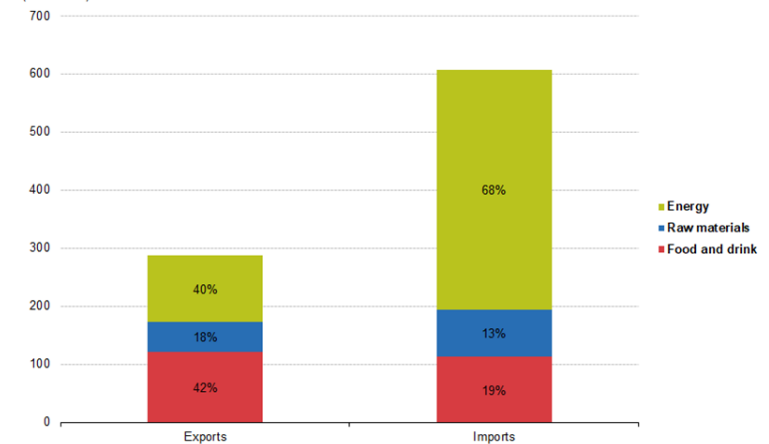
TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



- **Composition of developing-nations' exports**
- Primary products
 - Agricultural goods, raw materials, and fuels
- Manufactured goods
 - Textiles
 - Labor intensive
 - Modest amounts of technology in their production

Export and imports of primary goods by main groups, 2018

(EUR billion)



Source: Eurostat (online data code: tet00062)

TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



**SILESIAN
UNIVERSITY**
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

VALUE ADDED AS A PERCENT OF GDP

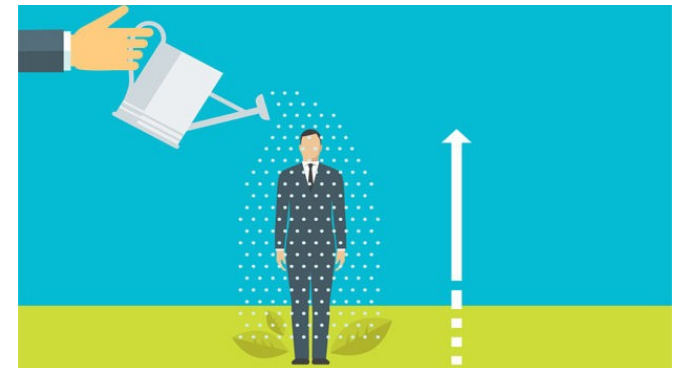
Economy	Agriculture, Forestry, and Fishing	Industry	Services
Advanced Nations			
United States	1	22	71
Japan	2	30	68
Canada	2	33	65
France	2	21	77
Italy	2	27	71
Developing Nations			
Albania	21	20	59
Chad	23	44	32
Pakistan	21	26	53
Tanzania	45	18	37
Mali	37	24	39

TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



**SILESIAN
UNIVERSITY**
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

- **Developing countries – moving into exports of manufactured products**
- Investment in people and factories
 - Higher educational levels
 - Higher capital stock per worker
- Improvements in transport and communications
- Reforms
- Liberalization of trade barriers





- **Poor nation – to develop**
- Need to take advantage of international trade
- Problem: advanced world – increased barriers to imports from these developing nations
- Other problems:
 - Structural weaknesses
 - Nonexistent or inadequate institutions and policies
 - Law and order, sustainable macroeconomic management, and public services

TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



SILESIAN
UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

- Trade Problems
- Unstable export markets
 - Exports - concentrated in only one or a few primary products
 - Instability of prices and producer revenues
 - Low price elasticity of the demand and supply schedules



TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



- **Trade Problems**
 - **Worsening terms of trade**
 - Prices of their exports relative to their imports have fallen
 - Import – manufactured goods
 - Monopoly market
 - Gains in productivity = higher earnings
 - Export – primary goods
 - Competitive market
 - Gains in productivity = lower prices
 - Prices they pay for imports
 - Rise faster than the prices commanded by their exports
 - As income rises
 - People tend to spend more on manufactured goods than primary goods
-

TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



**SILESIAN
UNIVERSITY**
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

Nation	Major Export Product	Major Export Product as a Percentage of Total Exports
Saudi Arabia	Oil	91%
Venezuela	Oil	90
Burundi	Coffee	89
Nigeria	Oil	88
Zambia	Copper	56
Malawi	Tobacco	50
Ethiopia	Coffee	36
Benin	Cotton	35

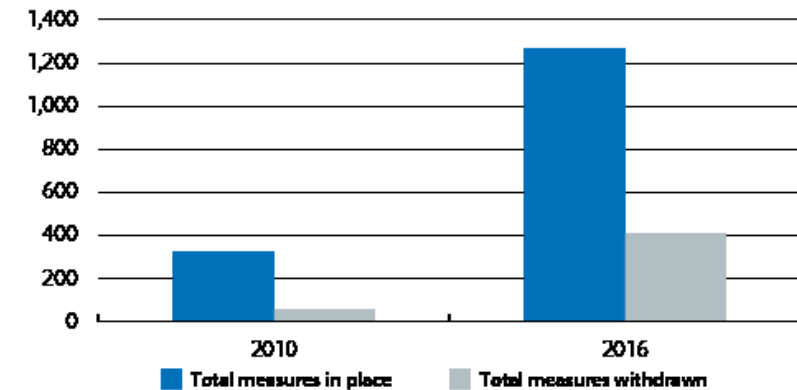
TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



- Trade Problems
- Limited market access
- Global protectionism
 - Agriculture
 - Labor-intensive manufactured products
- Higher tariffs
 - Major trading blocks: EU, NAFTA
- Tariff escalation
 - By developed and developing nations
- Quotas on imports

Protectionist policies: current and withdrawn measures *

Number of measures



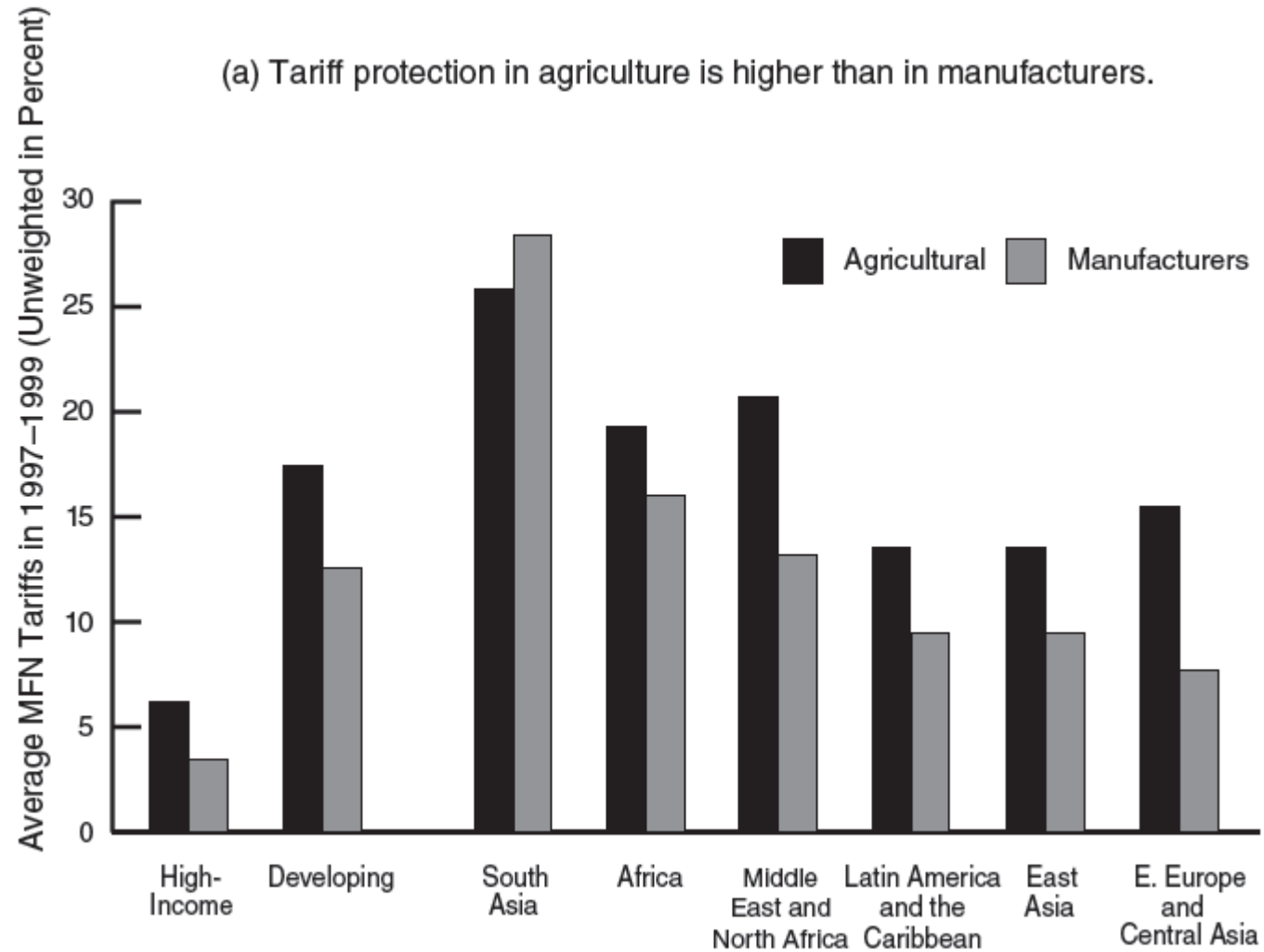
*Note: * Protectionist measures since 2008 by the G20 countries. Counting the measures in force to date and the total number eliminated to date. Data at October each year. See Note 3 in the text for more details regarding the differences between the measures included by the WTO and GTA.*

Source: CaixaBank Research, based on data from the WTO.

TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



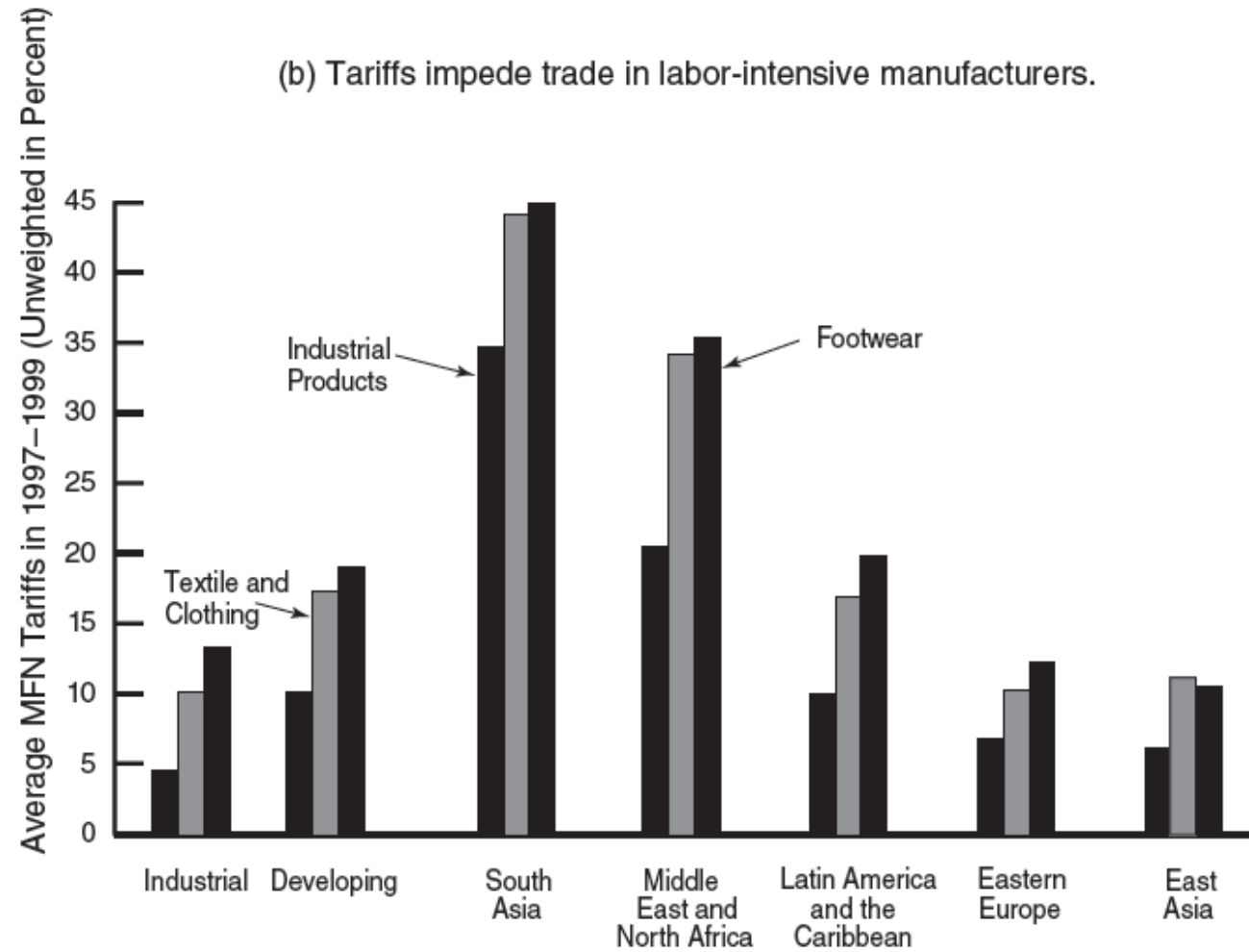
(a) Tariff protection in agriculture is higher than in manufacturers.



TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



(b) Tariffs impede trade in labor-intensive manufacturers.



TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



Poor nations typically impose higher tariffs than rich nations. Simple average bound tariff rates for selected nations for all goods in 2008.

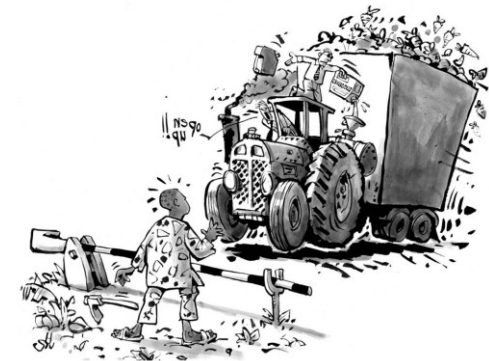
Developing Nations	Average Tariff Rate (percent)
Kenya	95.7
Ghana	92.5
Barbados	78.1
Angola	59.2
Mexico	36.1
China	10.0
Advanced Nations	
Canada	6.5
European Communities	5.4
Japan	5.1
United States	3.5

TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



SILESIAN
UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

- **Trade Problems**
- **Agricultural export subsidies of advanced nations**
- Discourage agricultural imports
- Displace developing-nation shipments to advanced-nation markets
- Result in unwanted surpluses
 - Often dumped onto world markets
 - Decreasing prices for many agricultural commodities
 - Reduces the revenues of developing nations



TRADE CHARACTERISTICS OF DEVELOPING COUNTRIES



SILESIAN
UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

- **Trade Problems**
- **American food-aid policies**
- U.S. food donated to the developing world
 - Saved millions of lives
- Purchases surplus grain from American farmers (by law)
 - Instead of purchasing what foreigners grow
 - Supports American farmers, processors, and shippers, and the world's hungry





- **Stabilizing Primary-Product Prices**
 - **International commodity agreements (ICAs)**
 - Among developing nations
 - Attempt to stabilize export prices and revenues of primary products
 - Agreements between leading producing and consuming nations of commodities
 - Stabilizing prices
 - Assuring adequate supplies to consumers
 - Promoting economic development of producers
 - Promote stability in commodity markets
 - Production and export controls
 - Buffer stocks
 - Multilateral contracts
-

- **Stabilizing Primary-Product Prices**
- **Production and export controls**
- **Affect the price - influence world supply**
 - Based on a target price
- **Obstacles:**
 - Distribution of the limits among producing nations
 - Entrance of new producers
 - Producers have the incentive to cheat on output restrictions
 - Enforcement is difficult





- **Stabilizing Primary-Product Prices**
 - **Buffer stock**
 - A producers' association (international agency)
 - Prepared to buy and sell a commodity in large amounts
 - Supplies of a commodity
 - Financed and held by the producers' association
 - Buffer stock manager
 - Buys from the market when prices are falling and sells from the buffer stock when prices are high
 - Buffer stock advantages (can promote economic efficiency and moderate the price inflation of the industrialized nations)
 - Buffer stock problems (agreeing on a target price, high costs of holding the stocks and poor decisions)
-



- **Stabilizing Primary-Product Prices**
 - **Multilateral contracts**
 - To hold the price within a target range
 - Minimum price at which importers will purchase guaranteed quantities
 - Maximum price at which producing nations will sell guaranteed amounts to the importers
 - Advantage
 - Less distortion of the market mechanism and the allocation of resources
 - Tend to furnish only limited market stability
-



- **Stabilizing Primary-Product Prices**
 - **Fair-trade coffee movement**
 - **Objective: to increase the income of poor farmers in developing nations**
 - Farmers can sell their beans directly to roasters and retailers (\$1.26 per pound)
 - Bypassing the traditional practice of selling to middlemen in their own nations (\$0.40 per pound)
 - **Farmers organize in cooperatives**
 - As many as 2,500 members
 - Set prices
 - Arrange for export directly to brokerage firms and other distributors
 - 500,000 of the developing world's 4 million coffee farmers
-

- **Stabilizing Primary-Product Prices**
- **Fair-trade coffee movement**
- Biggest winners
- Not the farmers
- Retailers
 - Charge huge markups on fair-traded coffee
 - Promote themselves as corporate citizens
 - Can get away with it - consumers generally are given little or no information about how much of a product's price goes to farmers





- **Institutions and policies created to support developing nations**
- World Bank
- International Monetary Fund

- **Generalized system of preferences (GSP)**
 - Nonreciprocal tariff preferences to exports of developing nations
 - Attempts to promote economic development in developing nations through increased trade
 - Factors that erode GSP effectiveness
 - Preferences
 - Apply to products that already face relatively low tariffs
 - Tariff preferences
 - Eroded by nontariff measures
 - Products and nations
 - Removed from GSP eligibility because of lobbying by domestic interest groups in importing nations

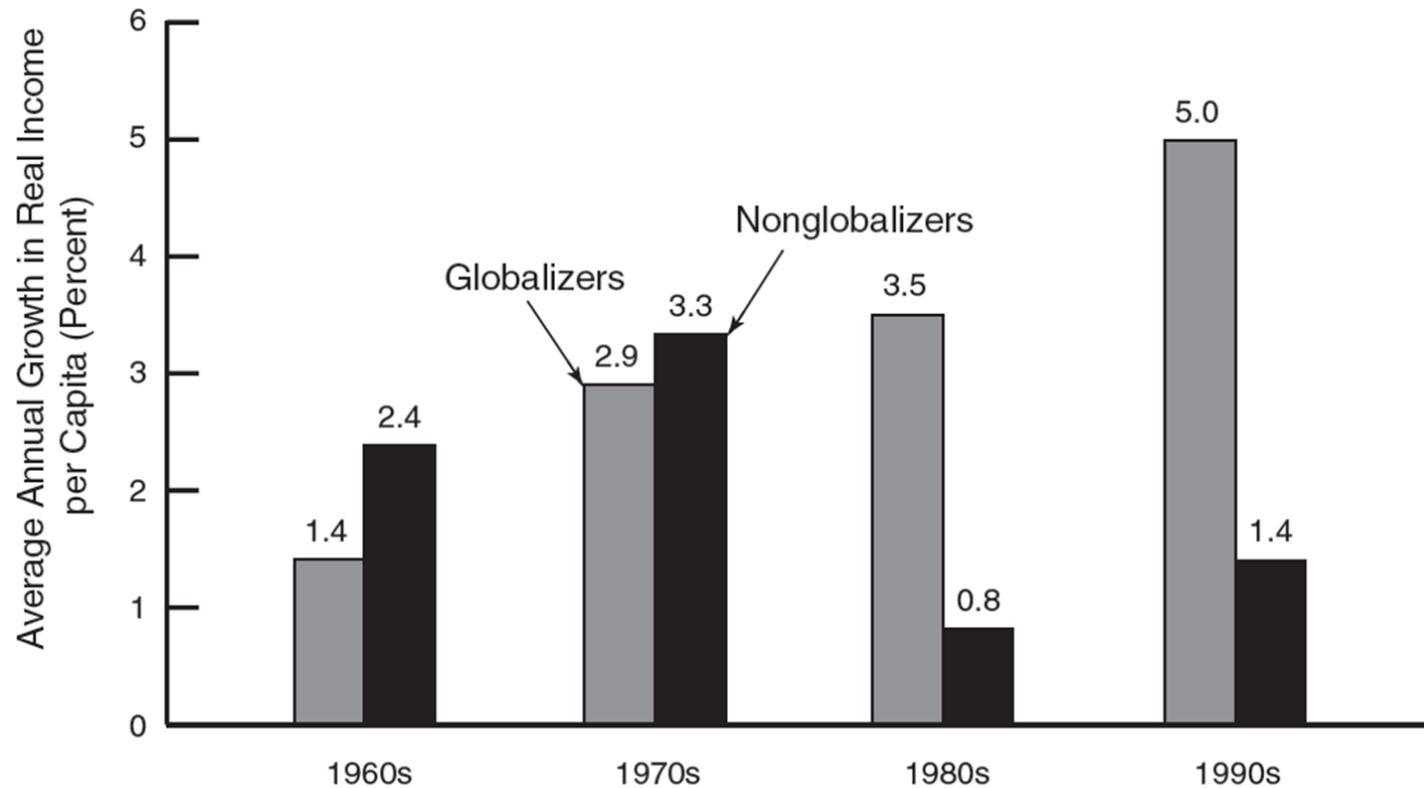
- **Critics of aid programs**
- Aid:
 - Fostered government bureaucracies
 - Prolonged bad governments
 - Favored the wealthy in poor nations
 - Been squandered
- 40 years of aid – still widespread poverty
- Aid programs
 - Substantially altered, drastically cut, or eliminated altogether





- **Proponents of aid programs**
 - Aid:
 - Enhanced poverty reduction
 - Enhanced growth in some nations
 - Prevented worse performance in other nations
 - Shortcomings of aid
 - Have more to do with donors than beneficiaries
 - Aid for the development of infrastructure
 - Transportation systems, communications, energy generation, and banking services
 - Relatively strong effects on economic growth
 - Growth-oriented aid
 - Aid for disaster and humanitarian relief
 - Food supply, water sanitation
 - Less immediate effects on economic growth
-

- Proponents of aid programs





Thank you for your Attention!
