

# CAIE Geography Pre-U

## 2A: Trade, Debt and Aid Case Studies



## TNC's/FDI

### Cadbury's

**Ghana exports 90% of its cocoa to Cadbury and Cadbury imports 70% of its cocoa from Ghana.** This makes Ghana heavily dependent on Cadbury for trade.

In 2008, Cadbury launched a **£44 million investment** programme which was designed to safeguard Ghana's cocoa-growing industry. However, due to overproduction and possible impacts of climate change and diseases, Ghana's **crop production has fallen to 40% of its potential yield**. To help further protect Ghana's cocoa industry and ensure sustainability Cadbury and fairtrade have partnered with Cocoa Life. Now 5 times as much of Cadbury's chocolate will be made with sustainably sourced cocoa.

### Apple

Apple products are made in China but designed in California, USA. Chinese workers have **terrible working conditions, long hours and low wages**. There have been increasing suicide rates amongst workers. However, instead of trying to improve working conditions which would lower suicide rates they instead built anti-suicide nets on their factory buildings. Apple is **violating 12 labour rights** and in order for workers to gain a livable wage they have to work 90 hours of overtime each month, the legal limit is 36 hours.

### Union Carbide, Bhopal

In 1984, toxic gases leaked from the Union Carbide factory in Bhopal which **killed 3,000 people** directly and a **further 20,000** since from the effects. The leak was due to **cost-cutting** at the plant which led to **safety standards being compromised**. Children are now being born with physical and mental disabilities.

### China's investment in Africa

In 2018, China announced that it would be providing **\$60 billion in financial support to African countries**. There are now more than **10,000 Chinese firms in Africa** and Africa-China trade has been growing **20% a year**. China's aim is to be able to secure a solid base of raw materials which will be able to fuel China's own rapidly expanding and growing economy. **½ of Chinese firms have introduced a new product or service** and **⅓ have introduced new technology** to Africa. China is also helping to build and develop infrastructure within Africa. **63%** of Africans are seeing China's influence as positive. Watch [this video](#) for specific examples of how China has invested in Africa and the positive and negative effects it's having in the countries it invests in.

### HIPC: Mali

In 1998 Mali's GNP per capita was **\$250, in the top ten least developed countries in the world**. In 2016, its public debt was around \$5,000 million which was **36% of its GDP**. Recently, Mali has made enough progress in its social and economic programs for it to be able to qualify for the **HIPC initiative**. This means it can begin to receive **\$220 million in debt service relief**.



## Aid Projects

### Pergau Dam, Malaysia

The Pergau Dam began being constructed in **1981** in Malaysia. It cost **£415 million**, half paid for by the British government, and the most costly aid project ever funded by the British government. It was a **tyed aid** project which meant that some of the money generated from the dam would have to be spent on weapons and machinery built in the UK.

The electricity produced from the dam only supplied the capital Kuala Lumpur which meant that it **did not help the poorest**. It also **damaged fish stocks** which affected poor fishermen, caused **deforestation** which led to **soil erosion** and affected the Sumatran rhino and Sumantran tiger. The roads made for building electricity pylons made the rainforests more accessible to **logging** companies, leading to further deforestation.

### Practical Action, Kenya

Practicals main aim in Kenya was to **change the government's housing policy**. They managed to get the government to recognise shanty town houses as proper dwellings. They also aim to **improve basic services and infrastructure in these areas**. The **local people were consulted from the outset** which made sure that they benefited from the project. The local people were also taught basic construction and maintenance skills which will allow them to continue to improve and maintain their surroundings.

### Cyclone Haiyan, Southeast Asia

This is an example of short term relief aid. The Asian development bank provided **\$500 million and the UN launched a \$300 million aid appeal** to help those affected by the cyclone. Over 25 humanitarian organisations were helping rescue and recovery efforts in the Philippines.

### STAR-Ghana

Since 2010 it has supported **308 projects** working to improve **education, health, access to justice, a more democratic government and the supply and access to oil and gas**. They spent over **\$3 million on education** to ensure that all children have access to pre-tertiary education. They also **reintegrated 73 teenage mothers into school**. They increased pupil enrolment by **15.7%** from 2011 to 2014.

## Trade Blocs

### What are they

Type of intergovernmental agreement where barriers to trade are reduced or eliminated among member states.

### Types of trading blocs

- **Free trade area**: trade barriers are removed but each country maintains its own tariffs against other countries.



- **Customs Union:** similar to a free trade area but members have a common tariff against other countries.
- **Common market:** similar to a customs union but there also is a free flow of factors of production between member countries.
- **Economic Union:** similar to a common market, however, they also have a common tax system and use the same currency.

### Advantages of trade blocs

- **Size of market:** increase in FDI and also a larger customer base so the economies benefit.
- **Technology:** faster transfer of technology across international borders.
- **Economies of scale:** create lower costs for producers and lower prices for consumers.
- **Protection:** companies inside the bloc are protected from cheaper imports from non-member countries

### Disadvantages of trade blocs

- **Loss of benefits of free trade.**
- **Distortion of trade:** reduces beneficial effects of specialisation and the exploitation of comparative advantage whilst distorting world trade.
- **Inefficiencies and trade diversions:** inefficient traders within the bloc are protected whilst trade is diverted away from efficient producers outside the bloc.
- **Retaliation:** creating a trade bloc is likely to stimulate the creation of other trade blocs.

### The EU: protection of sugar

Subsidies for sugar in the EU are around **£400 per tonne**. The original purpose for the subsidy was to enable the vast and growing EU sugar surplus to be exported at the world price of 4p per pound compared with the current EU price of 15p. The surplus of sugar dumped **5 million tonnes** on the world market every year. This distorted world markets and **diverted trade away from more efficient farmers**, most of which are in Africa.

### North American Free Trade Agreement (NAFTA)

Comprises of **Canada, Mexico and the USA**. The goal was to **integrate Mexico** with the highly developed countries of Canada and the USA by **eliminating most tariffs**. The hope was that this free trade would allow Mexico to experience **steadier and stronger economic growth** and provide more jobs and opportunities.

Between **1993 and 2016 regional trade increased from \$290 billion to \$1.1 trillion** and **US FDI in Mexico increased from \$15 billion to \$100 billion**. Mexico's **farm exports increase threefold**.

However, NAFTA meant that Mexico also suffered from the **2008 economic recession in the USA**. Poverty also remains at the same level in Mexico as it was in 1994 and Mexico's per capita income has increased slower than the per capita income of other Latin American countries.



## Mercosur

Trading bloc among **South American countries** that was created in **1991**. It aims to bring the free movement of goods, capital, services and people among its members. Full members include Argentina, Paraguay, Uruguay and Brazil.

