**Trade, Aid and Exchange**

**TNCs:** Transnational corporations are companies that operate in more than one country. TNCs will normally locate their **headquarters** in their home country, for example Toyota has its headquarters in Japan. Headquarters are normally located in the TNCs country of origin because this is where the company was first established, where most of the profits will return to and where most of top management team is from. Most TNCs will also have R&D (see definition below) facilities which they will locate in developed country where there is a skilled workforce and a high level technology. However, TNCs will often chose to offshore there manufacturing plants to LEDCs where productions costs are lower (cheaper labour, cheaper land, etc.)

**Research and Development (R&D):** Scientific facilities that investigate, design and produce new or updated products. For example Google and Microsoft are constantly researching and developing new pieces of software. TNCs are constantly carrying out R&D because they want to make their products better and attract new customers.

**FDI:** Foreign direct investment is money spent by a foreign company in a country. FDI might be the building of a new factory, new road or educating a workforce.

**Offshoring:** When TNCs move sections of their business overseas. Call centres and manufacturing plants are often moved overseas because labour and production costs are cheaper.

**Outsourcing:** When certain parts of a company’s operation are given to another company to provide. For example most companies outsource catering and cleaning, maintenance and IT support are also often outsourced. Companies outsourcing in the hope the services are provided more cheaply and the company is exposed to less risk. Outsourcing can be cheap because the company they have outsourced specialises in one business e.g. IT support and therefore can do it on a bigger scale and have cheaper average costs.

**Deindustrialisation:** When factories and industry starts to close down in a country. The UK has gone through deindustrialisation because production costs became too much and many companies chose to move overseas.

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| **Advantages of TNCs locating in a country** | **Disadvantages of TNCs locating in a country** |
| * Creates jobs for local people
* Locals with jobs then spend money in their local economy at local businesses and therefore there is a positive multiplier effect as extra money gets added to the local economy.
* TNCs will pay local and government taxes and therefore increase the government budget.
* Jobs at a TNC will be in the formal economy, so hopefully better regulated in terms of safety, pay, etc.
* Improves workers skill and education levels
* They introduce new technology into the country
* Infrastructure like roads and ports are often upgraded and benefit the whole economy
* Diversifies the economy, might move away from the reliance on one industry like farming or tourism
* The country receives prestige for attracting TNCs and investment into the country.
 | * Many of the best paid managerial jobs go to foreigners
* Local workers often do manual jobs which are poorly paid and often workers suffer exploitation (long shifts, no breaks, etc.)
* There will be some economic leakage as profits from TNCs go back to their home country
* Increasingly manufacturing processes are becoming more mechanised so less workers are needed in factories.
* One of the attractions of LEDCs is cheap labour, but as a country develops labour costs increase and TNCs may move to cheaper locations.
* Products produced by TNCs maybe too expensive for locals to buy. TNCs may also use local raw materials.
* The increased demand created by TNCs may cause local inflation.
* If the government is building new roads or a port for a TNC it probably means that they can't spend as much money on education or healthcare.
* TNC decision makers are often foreign so policies of TNCs may not always benefit local people.
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TNCs are often criticised for having too much power. Below is a list of 25 of the world's biggest TNCs, based on their market value (share price). Nearly half of the companies are headquarted in the US, but China already has four and this figure will only increase in the future as the Chinese economy continues its rapid growth. The TNCs are have a turnover more than many LICs. For example ExxonMobil employs about 84,000 people, has a turnover of about $383 billion and a profit of about $30 billion (this is nearly twice El Salvador's total GDP). They are criticised because they employ so many people and earn so much money that they hold power over countries who fear losing the investment of TNCs. Because they can afford the best technology, the most skilled workers and the best lawyers they can also draw up very favourable contracts which may exploit poorer countries.



**Formal Economy:** The economy that is formally registered with authorities and regulated by the government. The formal sector will be liable to pay taxes.

**Informal Economy:** The section of the economy that is not registered with the government, is not regulated and does not pay taxes. The informal economy is sometimes called the black market.

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|  | **Informal Economy** | **Formal Economy** |
| **Advantages** | * Many independent poor people work in the informal sector e.g. car washers or shoe shiners. This often means the money goes where it is most needed.
* It often employs people with low skill and education levels who might normally find it hard to get a job.
* Workers may learn skills which means that they can get jobs in the formal economy.
* Many businesses are labour intensive and don't rely on technology, so they are cheaper to set up and employ more people.
* Many businesses actually work in local communities and recycle waste material (a form of recycling).
* Can give economic opportunities to illegal immigrants or refugees (of course this could also be a negative because it attracts more refugees and illegal immigrants)
 | * They pay taxes to the government so are contributing to government revenue.
* Workers are protected so that they get a proper and regular wage and have safety regulations, etc.
* It provides products for the export market which then gain foreign income for the country.
* Because they are regulated, businesses should follow environmental regulations so that they are less polluting.
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| **Disadvantages** | * Parts of the informal economy is involved in illegal activities like the drugs and sex industry.
* The government does not receive taxes from these businesses.
* Because they are not regulated they don't follow any environmental guidelines and can often cause pollution.
* Workers can be exploited by not being paid fully, not receiving sick pay or being forced to work in dangerous conditions.
 | * Production costs tend to be higher which makes the products less affordable to many people.
* They will often avoid hiring unskilled and uneducated workers because of the training costs.
* Many businesses in the formal economy tend to mechanise to try and reduce costs and therefore don't employ as many people.
* The formal sector is often dominated by TNCs and there is often economic leakage out of local communities.
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Sometimes children have to work in the informal sector to support themselves or their family. This might because they have been orphaned, run away from an abusive family or belong to a single parent family. Working in the informal sector from a young age is likely to deprive them of an education, which means that they probably won't be able to go to university or get a job in the formal economy. However, they learn other skills like language skills if they are dealing with tourists, money management, confidence and independence. If they are lucky they might be able to use these skills to find a more secure job.

Even if children are learning some skills, they should never be in the position where they have to give up school to go to work. Unfortunately it is estimated that some 200 million children are being forced to work, many in dangerous and illegal activities like the sex industry, armed conflict, mining and domestic slavery. The **ILO** (International Labour Organisation) and UNICEF (United Nations Children's Fund), both part of the UN are trying to raise awareness and end child labour. They are trying to introduce child labour laws and enforce laws that already exist. They are trying to prosecute people who exploit children and provide children with an education who have been rescued from child labour. However, it is also necessary to look at the causes of child labour, which is normally poverty and try and end this.

**Protectionism, Free trade and Fairtrade**

**Protectionism** is measure that a government uses to try and protect domestic industry. The three main ways that a government aims to protect its domestic industry are through; tariffs, quotas and subsidies.

**Tariffs:** A tax placed on foreign imports to make them more expensive and less competitive than locally produced products.

**Quotas:** A limit placed on the amount of foreign imports. By limited the amount of imports this again should increase the price of them and make them less competitive.

**Subsidies:** Financial support given to domestic producers to make their products cheaper compared to foreign imports. This might take the form of a grant or loan (money), or it might be reduced taxes or a plot of land that is given to them to build on.

The **WTO** (World Trade Organisation) is trying to end protectionism and promote free trade throughout the world because it believes it will increase global trade and improve everyone’s standard of living. **Free trade** is basically trade with no protectionist measures. The WTO currently has 153 member countries representing about 97% of the world's population. There are currently trading blocs that promote free trade within their borders, but may have protectionist policies against countries outside. A **trading bloc** is a group of countries that have joined together to promote trade by removing protectionist policies. Probably the best known example is the **EU** (European Union) that has 27 member countries.

One problem of global trade is that poor primary producers can often be exploited by large TNCs. One organisation that is trying to fight against exploitation of poor primary producers is the Fairtrade Foundation. The **Fairtrade Foundation** does not produce any products but instead certifies products that have been produced by companies that have paid a fair price for primary products e.g. tea leaves, coffee and cocoa beans. You can recognise Fairtrade products because they will have the Fairtrade logo on them.

**Craft Industry**: Where production is small-scale, either at home or in small workshops. Products are usually unique and traditional because they are not mass-produced. Materials used in the production process are usually local and the techniques traditional and usually labour intensive.

**Reaching Out (Craft Industry, Hoi An, Vietnam)**

Reaching Out is located in the town of Hoi An in Central Vietnam, it was founded in 2000. Reaching Out is a craft industry that not only produces traditional local products, using local materials and traditional techniques but it also provides work for people with physical and learning disabilities.

Reaching Out has a shop in the historic centre of Hoi An (a UNESCO World Heritage Site). Attached to the shop is workshop where people work. The shop is open to locals and tourists who can buy traditional Vietnamese goods like:

Textiles, Wood Carvings, Lacquer ware, Metal work, Leather work, Ceramics.

Reaching Out employs about 45 people who all receive a fair wage for their work (about 35% above the average wage in Vietnam for similar jobs), receive training and have an equal democratic voice in the business. Reaching Out buys products from local suppliers who it builds up long-term working relationships with.

Small craft industries can find it hard to compete with larger TNCs because they produce on a smaller scale so often can't make the products as cheaply. They also can't spend as much on advertising and struggle to break into new markets because a shortage of finance.

However, craft industries like Reaching Out offer things that TNCs can't. Each product is unique because it is handmade, products are made traditionally and are traditional. With Reaching Out, customers also have the knowledge that money is going directly into the local economy, you can see the products being made and you have the knowledge that workers and suppliers are being treated fairly.

**Externalities**

Externalities: An impact or affect that is caused by an unconnected event or process. Externalities can be both positive and negative. For example a new factory being built may create extra business for a local shop when staff buy their lunch (positive externality), but it may also create congestion and pollution in the local area (negative externality).

Negative externalities usually affect poor people the most. Poor people tend to be people who are forced to live near polluting factories because they can't afford to live anywhere else. It is also poor countries that polluting TNCs tend to locate in, because either environmental regulations do not exist or they are not enforced. The old/young and sick are also vulnerable to pollution caused by industry.

Depending on the type of externality, some can just have local impacts on the surrounding houses and communities or others can have much bigger impacts covering whole countries or even the globe. The Chernobyl Nuclear accident in the Ukraine has created long-tern negative externalities, but it also greater much wider temporary negative externalities across much of Europe.