Chapter 24

Patterns and Volume of world trade

Key terms

1. Bilateral trade agreement: an agreement between two countries, or between a country and a trading bloc, which gives favourable trade agreements: it reduces some barriers of trade between the two.
2. Emerging countries: middle-income countries which could become high-income countries over the next 20 or 30 years
3. Pattern of trade: refers to composition of exports and imports and geographical distribution of trade

The patterns of trade

: refers to the types of goods and services countries or groups of countries export and import, who they trade with and how their trade volumes compare.

1. **Factors influencing patterns of trade between countries and causes of changes in these patterns**

1.1 Impact of emerging economies

- Over the past 50 years; for example, China is one of leading exporters today.
- Emerging countries tend to experience higher economic growth rates than developed economies. Emerging countries: middle-income countries which could become high income countries over the next 20-30 years (BRICS: Brazil, Russia, India, China)
- Many emerging countries have cost advantages over developed countries e.g. low wage. Developed countries have tended to move to importing more goods and exporting more services.

1.2 Changes in comparative advantage

- The theory of comparative advantage suggests that countries will specialise in those goods and services in which they have a comparative advantage.
- E.g. the UK has a comparative advantage in financial and insurance services.

1.3 Growth of trading blocs and bilateral trading agreement

- **Bilateral trade agreement** : agreements between countries to promote trade and commerce.
- They eliminate trade barriers such as tariffs, import quotas, export restraint in order to encourage trade and investment between members.

1.4 Changes in relative exchange rates

- A fall in an exchange rate of one currency can make its exports become cheaper and increase export revenue,
- However, short term changes in exchange rate have almost no impact on patterns of trade unless they are very large. It is long term changes which are sufficiently large that impact trade.

1.5 Changes in protectionism between countries

- Restrictions on free trade between countries affect trade flows between countries.

1.6 the volume of wold trade.

- There was a slow down in the volume of wold trade since 2007
- Recovery from 2008 financial crisis has been slow domestic consumption & imports of consumer goods especially in Eurozone.
- TNCs bringing manufacturing back to developed economies as developing economies starts to lose their cost advantage.