HL IB Geography

Your notes

4.2 Global Networks & Flows

Contents

4.2.1 Global Flows

Your notes

Materials, Goods & Services

- Places are interconnected by a range of flows; some are beneficial, some are exploitative and some are illegal
- Many stakeholders are involved and their power varies from place to place

Growth of world trade

- Since 1995, world trade volume and value have expanded on average by 4% and 6%, respectively
- The COVID-19 pandemic affected global trade, which shrank by 8.9% and had a serious effect on shipping costs, which has continued to increase by 350% since May 2020
- In 2022, the global trade of goods exported throughout the world was valued at US$24.9 trillion and had risen to pre-pandemic levels in 2019
- According to the World Trade Organisation, merchandise trade volume grew by 1.7% in 2023 and is expected to reach 3.2% in 2024
- North America, Europe and Asia continue to account for the bulk of trade
- However, **trade (imports and exports)** in goods increased more strongly in developing countries than developed countries, increasing by 31% between 2019 and 2022, with exports up by 41% over that period

Services

- The services share of world trade has grown from 9% in 1970 to over 20% today
- Services could account for up to one-third of world trade by 2040—a 50% increase in just twenty years
- Developed economies shift from goods to services, with services exports comprising 28% of total exports as of 2016
- Developing economies are increasing their participation in global services trade, with their services exports growing from 14% to 17% of total exports from 2005 to 2016
- China, India, Hong Kong, and South Korea continued to be the market leaders in commercial services
  - **China** has a strong manufacturing base, large domestic market, and significant investment in technology and infrastructure
  - **India** has a large English-speaking population, expertise in IT and software services and competitive labour costs

Your notes

  - **Hong Kong** is a strategic location for trade. It has robust financial and legal systems and is a gateway to mainland China's market
  - **South Korea** has an advanced technology sector, highly educated workforce and government support for innovation and R&D
- Digital services emerged as an important source of growth, accounting for 54% of global services exports in 2022 and 12% of total global trade in goods and services
  - Developed economies export $2.996 trillion and developing economies $946 billion in such services, for a growth rate of 12.6% in 2022
- Within developing countries, travel and tourism account for the majority of commercial services

Merchandise trade

- Exports of goods and services from least-developed countries (LDCs) increased by 31% between 2019 and 2022
- China was the top exporter of merchandise trade in 2022, accounting for 13% of the world's total (worth $4,000 billion)
  - 2nd was the United States at $3,500 billion
  - 3rd was Germany with $2,500 billion
- Total world merchandise exports were valued at $24.9 trillion in 2022
- Trade in goods and services totalled $31.0 trillion in 2022

EXAMINER TIP

When writing about trade, remember to distinguish between imports and exports. Exports are when a country sends goods and services elsewhere, and imports are goods entering the country. From an economic point of view, it is better to have more exports than imports, making the trade balance of an economy healthier and improving the lives of the people in that country.

4.2.2 Flows in Aid

Your notes

International Aid

- International aid is any form of needed assistance provided by one country or multilateral institution to another
- Aid is most commonly provided as **official developmental assistance (ODA)**, which targets poverty reduction and the promotion of public welfare and economic development
- There are many types of international aid, and it varies according to:
  - **Timing**: emergency vs. long-term, loans vs. grants
  - **Source**: multilateral vs. bilateral, charities, NGOs, companies, UN, etc.
  - **Constituents:** financial, capital goods, military, experts/technical advice, information, food, etc.
  - **Relationship**: former colony, military pact, part of trade bloc, etc.
  - **Why aid is needed**: foreign exchange gap, savings gap, technical gap, medical gap, knowledge gap
- Major **donors range** from **multilateral institutions** such as UN agencies and the EU to **bilateral donors** such as the UK, US and **non-governmental organisations (NGOs)** such as Amnesty International and World Vision
- The distribution of humanitarian and development aid has changed since the 1950s
- Initially, aid was directed to developing countries through the funding of large infrastructure projects, in the hope that economic development would **'trickle down'** to those in poverty
- This attitude changed in the 1970s, when those in poverty were directly targeted for funding
- However, this ended in the 1980s with the emergence of Structural Adjustment Programmes (SAPs), along with International Monetary Fund (IMF) attempts to enact structural change within developing economies
- The end of the Cold War and the continued failure of development in regions such as Africa led to a stalemate in development during the 1990s, with Overseas Development Aid (ODA) levels falling
- By the turn of the millennium, a new determination to target the causes of poverty and economic deprivation emerged
- Strategies became focused on giving developing countries and their citizens' ownership of their own economic development
- The UN Millennium Development Goals were a result of this

What constitutes foreign aid?

Your notes

- Foreign aid is the voluntary transfer of resources from one country to another—typically capital (i.e. financial resources)
- Some types of foreign aid:
  - **Bilateral aid:** direct government-to-government assistance
  - **Multilateral aid**: when multiple governments pool resources in cooperation with organisations like the World Bank, the IMF and the UN
  - **Tied aid:** the receiving country accepts aid with the expectation that it will be spent in the lending country
  - **Voluntary aid:** a charitable donation, particularly when countries are facing a humanitarian crisis
  - **Project aid:** when aid is used to finance a specific project
  - **Military aid:** similar to tied aid, but specific to weapons and military supplies
- Aid can sometimes be seen as patronising by the country receiving it
- Aid from some countries may be inappropriate owing to cultural differences
  - Sometimes local practices are more efficient than aid offered, e.g. in India, a bullock cart is potentially more useful than a truck (depending on the specific location)

Advantages and Disadvantages of International Aid

Advantages	Disadvantages
Slows regional and rural to urban migration	Undercuts local industry and farming
Reduces expensive imports	Distorts local prices and incentives
Creates jobs, raises wages, etc.	Increases regional inequalities
Encourages reforms and improvements	May be wasted on big projects
Creates new markets	Funds can be lost in corruption or misspent
Leads to healthier and better skilled workers	Hidden costs (spares, fuel, etc.) so, donor country benefit

Reduces political or social instability	High interest rates are a drain on the economy and a debt burden

Your notes

International Loans

- Loans are transfers of money or skills that need to be repaid within a set time
- In 1970, the United Nations' official development assistance (ODA) set a percentage target of 0.7% GNI (i.e. countries should aim to allocate at least 0.7% of their GNI towards loans or aid to other nation)
  - So far, only a few donors have met this target

How much do countries lend?

- The main providers are HICs to developing countries
- In 2022, the United States spent $60.5 billion on foreign aid, with Ukraine receiving $16.4 billion. Both Jordan and Egypt received military aid from the US
- However, when compared to their gross national income (GNI), the US donated less than 0.25%
- The largest donors in relation to GNI are Sweden at 0.9%, Denmark at 0.7%, and Norway at 0.86%
- France and the UK provided 0.5% of their GNI in aid

Structural Adjustment Programmes

- Structural adjustment programmes (SAPs) are loans from the IMF
- They require the borrowing country to cut back on government spending in healthcare, education and other social services
- They increase liberalisation and international trade
- They privatise national resources such as water
- They encourage countries to become economically self-sufficient by creating innovation, attracting inward investment and promoting growth

Criticisms of SAPs

- It is argued that without controls, these loans would create a cycle of dependence where countries in financial difficulties would continue to borrow without solving the issues that caused the problem in the first place
- Others argue that imposing controls on an already-poor country is adding to their vulnerability and impacts women, children and the vulnerable the most

- Countries with SAPs have less policy freedom to deal with economic shocks, unlike richer lending countries that can call on public borrowing to help them out
  - This was particularly noticeable during and after the global pandemic, when many poorer countries were unable to call on extra loans to see them through
- Critics also argue that SAPs are a form of neocolonialism where rich countries offer bailouts to former colonies or other poorer countries in exchange for reforms that favour them in the future

Your notes

Debt Relief

- A country's debt can be expressed as either a ratio of debt to a country's GDP or as a ratio of a country's external debt to the value of its exports
- The lower the percentage to GDP, the lower the debt
  - For instance, the UK's general government gross debt was £2,223.0 billion at the end of March 2021, equivalent to 103.7% of gross domestic product (GDP), according to data from the Office for National Statistics (ONS) as of March 2022
  - Although this is high by UK standards, other countries have a much larger ratio
  - Japan, for example, has a national debt of 256%; Italy has over 134%
  - The US national debt is over 100% of GDP
  - Also, the UK had much higher national debt in the past; in late 1940s, UK debt was over 200% of GDP
- Many countries have borrowed more money and accumulated more debt than it is feasible for them to pay back in the near future

Why do some countries find it difficult to repay?

- There is usually a combination of economic and political factors: high interest rates on international loans, demands of the country's population as development grows, changes in government and policies, corruption, etc.
- Other factors include natural disasters
- Social factors such as high levels of population growth, limited educational provision and poor infrastructure also means a lack of governmental funds to repay or 'service' the loan or re-pay the capital
- Debt is a major development issue. The $5 trillion of external debts owed by developing countries costs them more than $1.5 billion a day in repayments, and much of that comes from the poorest countries
- Most of the world's poorest countries have limited access to international capital markets; their sovereign debt does not have an official credit rating

Your notes

- Most of the countries in Sub-Saharan Africa are in this situation and are classified as heavily indebted
- 25 of the 32 countries are rated as severely indebted
- In 1962, sub-Saharan Africa owed $3 billion in loans
- By 2017, its debt had risen to $230 billion
- There is widespread support for either cancelling a country's debt altogether, rescheduling debt payments or indexing interest rates to the country's economic growth
- Debt relief frees developing countries from their debt service payments. They can then use these savings to contribute to poverty reduction

The Heavily Indebted Poor Countries (HIPCI) Initiative

- Launched by the World Bank and the IMF in 1996 to reduce the debts of the poorest and most indebted countries to sustainable levels
- Under the initiative, a calculation would be made to find the reduction needed in the country's external debts to bring them below <150% of the value of the country's annual exports; this is considered to be a sustainable level
  - Côte d'Ivoire benefited from HIPCI; it has been granted external debt relief of $7.7 billion.
  - As a result, the stock of Ivorian public debt decreased from 69% of GDP in 2011 to 40% of GDP in 2012
- Criticism of debt relief suggests that countries are encouraged to overspend, it does not help countries that are not in debt, and it does not help the poor

EXAMINER TIP

Make sure you specify if you are talking about absolute or relative amounts of money a country donates or receives. Remember that although the USA gives the highest amount of aid in monetary terms, in relation to its GNI, it is one of the smallest donors in relative terms.

4.2.3 Flows in Remittances

Your notes

Pattern of Global Remittances

- Remittances have increased from $126 billion in 2000 to $702 billion in 2020 and $794 billion in 2022
- In 2022, the top five remittance-receiving countries were [in millions (M) of US dollars]:
  - India: $100, 000M
  - Mexico: $60,300M
  - China: $51,000M
  - Philippines: $38,000M
  - Egypt, Arab Rep.: $32,337M
- Low- and middle-income countries rely heavily on remittances to improve their economies
  - Although India is the country benefiting the most from remittances, the $100 billion received provided just 2.9% of its 2022 GDP
  - Tonga's main economy is tourism, but inward remittances of $250M amounted to 50% of its 2022 GDP
  - Lebanon boosted its shrinking economy through $6.8 billion in remittances in 2022, estimated to be almost 38% of its GDP
- The United States continues to be the top remittance-sending country, with a total outflow of $68 billion in 2020
- Despite predictions of a decline due to COVID-19, 2020 saw only a slight drop (2.4%) from the 2019 global total
- The actual size of the flow of global remittances is hard to estimate because of unrecorded flows of money through formal or informal channels

EXAMINER TIP

Remember that remittances **do not** always flow from HICs to LICs. The flow of remittances is dependent on where the economic migrant is working. For instance, there are many Indian economic migrants working in Dubai, UAE, which is a high-income economy.

Impacts of Remittances

Your notes

- The advantage of remittances compared to other financial help is that remittances **go directly** to the family
- Remittances provide **direct financial support** to families, helping them afford basic necessities and stay above the poverty line
- Remittances allow investments in education, health, and entrepreneurship, which contributes to long-term poverty reduction
- Remittances are used to improve housing and sewerage services
- During economic downturns or disasters, remittances help prevent vulnerable populations from falling into poverty
- The inflow of remittances has indirect multiplier effects on the local economy, stimulating growth and development
- In some countries, remittances make-up a considerable portion of GDP, influencing economic stability
- However**,** in some cases, remittances can lead to inequality within communities
- The transfer of remittances from one country to another can be expensive and some money transfer companies charge the sender and receiver
- In some countries, wages have been withheld by the employer and/or returned to the government, as was the case from the UAE to North Korea

4.2.4 Illegal Flows

Your notes

Trafficked People

- Globalisation has given countries challenges in managing flows across its borders in a bid to allow goods to pass through quickly and efficiently
- One of these challenges is the illegal goods trade, where organised crime gangs move a commodity from origin to destination along established routes
- These flows have wide-ranging consequences, from damaging international security and relations to de-valuing currency and threatening the global economy
- Also called **'modern-day slavery', human trafficking** is the illegal movement of people for exploitation and profit
- **Human trafficking is a global problem** that affects people of all ages
- It is estimated that over 1 million people are trafficked each year worldwide, and between 20,000 and 50,000 are trafficked into the United States, which is the largest destination for victims of the sex-trafficking trade
- Because of the 'hidden' nature of human trafficking, the actual number is unknown and is probably higher

Statistics

- According to the International Labour Organisation (ILO), human trafficking globally generates an estimated 150 billion USD in profits every year
- Listed as the fastest-growing criminal industry in the world today, and second to the drug trade
- Every 30 seconds, a child is sold

> The 2020 Global Report on Trafficking in Persons states 'there are more humans being sold today the world than at any other point in human history'

- Trafficking can be domestic or international and about 60% of victims are international
- Women account for over half of those trafficked
- Frequently, victims come from poor countries and are exploited in rich countries

Counterfeit Goods

Your notes

- According to the Organisation for Economic Co-operation and Development (OECD), the total value of counterfeit and pirated goods was around $2.8 trillion, costing 5.4 million jobs in 2022
- This is more than drugs and human trafficking combined
- COVID-19 lockdown saw an increase in online sale of counterfeit goods
  - This was due to the ease of opening one website when another was shut down through illegal trading
  - Evidence shows that online sales grew from 10% of retail sales to more than 30% during COVID
- Counterfeit goods are responsible for labour exploitation, environmental damage and health implications for consumers because of the use of poor-quality or dangerous materials, lack of quality control and technical training
- Also, there are links between counterfeit goods, money laundering, illicit drugs and corruption
- Corruption and bribery are linked when goods are transported internationally
- Economies suffer not only from the reduction in tax revenues but also from the increase in the cost of surveillance and policing

Flows of Drugs

- The flow of drugs and fraudulent medicines is a global issue
- Drug trafficking is a major trade
- It includes the cultivation (growing), manufacture, distribution and sale of substances that are prohibited by law
- Worth about $5 billion, the trade in fraudulent medicines is mostly from East Asia and the Pacific to Southeast Africa
- According to the World Health Organisation (WHO), in developed countries, around 1% of total medical product sales involve counterfeit or substandard medicines
- In low- and middle-income countries, this share is much higher, reaching up to 30% of total sales

> The Lancet medical journal published that 33% of malaria drugs in sub-Saharan Africa and east Asia were fraudulent

- According to a report by Global Financial Integrity (GFI), the estimated annual global value of the drug trafficking market is somewhere between $426 billion and $652 billion (USD)
- The true value of the global flow of drugs is unknown, as estimates only consider major drugs such as cannabis, cocaine, opiates and amphetamine-type stimulants

- It does not even include the ever-evolving world of new psychoactive substances (NPS)
- The largest producer of illegal drugs varies depending on the specific type of drug
  - Opium and heroin: Afghanistan is the world's largest producer of illicit opiates
    - In 2020, they cultivated around 215,000 hectares of opium poppy
    - However, they are not a major supplier to the United States
  - Cocaine: Colombia produces 60% of the world's cocaine, followed by Peru and Bolivia
- Bolivia also provides a transit hub for drug shipments from Peru
- Morocco is known for cannabis production
- Mexico and the Bahamas are involved in illicit drug production

EXAMINER TIP

Remember that the trade in drugs also includes over-the-counter medicines as well as illegal substances such as heroin and cannabis.

Your notes

4.2.5 Foreign Direct Investment & Outsourcing

Your notes

Foreign Direct Investment (FDI)

- Foreign Direct Investment (FDI) is an investment from **one** country into the structure, equipment or organisations of **another** country
- FDI is a way for companies to expand their operations into new markets, gaining access to new customers, resources, or talents
- This type of investment is **different** from **indirect investments** like purchasing stocks, as FDI usually involves active management and control of the foreign business
- The 2008-2009 financial crisis saw FDI decline, with inflows decreasing from $1.7 trillion to below $1.2 trillion in 2009
- By 2011, inflows had returned to pre-2008 figures and continued to increase until COVID-19, when FDI fell to $929 billion in 2020
- Global FDI rebounded by 77% to $1.65 trillion in 2021
- However, in 2022, global FDI fell again by 12% to $1.3 trillion because of numerous global crises, such as the war in Ukraine, high food and energy prices and soaring public debt
- Despite the overall decline, certain industries like agriculture and extractive industries, usually do well during crises
- Europe and North America are currently the largest investors of FDI
- Flows of FDI to developing countries are uneven but 2022 saw a global increase of 4%
- Africa had the largest decline in FDI flows, at 44%, with landlocked and small-island states receiving the least
- Latin America and the Caribbean saw a 51% increase in investment in 2022
- Asia saw no change in FDI and Europe spent more than it received in 2022

	Advantage	Disadvantage
NICs and LICs	Export-generated income is higher Reduction of negative trade balances Wealth is spread with rise in labour-intensive manufacturing Export-generated income is higher	Agricultural output is reduced as people are employed elsewhere Rural-to-urban migration increases, placing pressure on core regions Exploitation of workers by TNCs

	Local areas benefit from growth in new, higher-paid jobs	A narrow economic base results in overdependence
HICs	Imports are cheaper LIC growth increases demand for exports Industrial processes are more efficient Enhanced job prospects lead to increased worker mobility	Lack of jobs for unskilled workers, resulting in skills gap Job losses are worse in areas of concentrated industries Local branch factories are vulnerable to change

Your notes

Outsourcing From TNCs

- **Transnational Corporations (TNCs)** are companies that operate in multiple countries
- They are important agents of globalisation, creating longer and more frequent connections between countries
- **TNCs** lead to increased flows of **FDI,** which helps spread cultures and ideas globally
- **Headquarters** are usually based in HIC cities, with research and development (R&D) and decision-making concentrated in growth areas with large supplies of educated and skilled workers; the **core**
- Assembly and production are found in LICs, NICs and depressed regions of HICs where labour costs are lower; the **periphery**
- Labour costs are reduced through investment in technology, automation and subcontracting

Positive and Negative Impacts of TNCs

Positive impacts	Negative impacts
Employment: TNCs create job opportunities, which can help to create a **positive multiplier effect**	**Environmental degradation:** TNCs may exploit natural **resources** and cause **pollution** during the production process
Investment: TNCs use **outsourcing** or **offshoring** to maximise profits, bringing **FDI** into **LIC** and **NIC** countries	**The exploitation of workers**: sometimes workers are forced to work long hours for low pay in poor conditions

Trade: TNCs can increase trade between the countries they operate in due to the **linkages** they create	**Closure of local businesses**: local companies may be unable to compete with **TNCs** because of their **economies of scale**
Technology transfer**:** TNCs introduce new methods of production in countries, which can improve **productivity** and create further job opportunities	**Increasing inequalities:** the large profits generated by **TNCs** are not evenly distributed, with rich people getting much richer while poorer people see fewer benefits
Economic development: due to **FDI** and employment, **LIC** countries start to achieve more economic growth	**Loss of culture**: this is sometimes referred to as **cultural erosion**—the idea that cultural differences start to disappear as **TNCs** spread western cultural values and ideas
Education and technical skills: TNCs can invest in training, apprenticeships or scholarships to improve labour skills	**Loss of taxes:** profits are sent overseas, and taxes are not paid to the host country. TNCs are powerful and are not loyal to a host country's government; investment can disappear as quickly as it came
Development of energy resources: around 1.6 billion people in developing countries lack access to adequate energy services and rely on wood, dung and biomass for fuel. TNCs invest in small-scale and large-scale power generation projects such as dams and micro hydro power schemes	Exploitation of local resources: TNCs exploit natural resources, whether renewable, as in forests, fisheries and agricultural products, or non-renewable, such as minerals or petroleum, in developing countries

Your notes

EXAMINER TIP

It is important to keep your discussions impartial when talking about TNCs and their advantages and disadvantages. You may feel that TNCs exploit their workers, however, they are providing a wage to many people. It might not be ideal working conditions, but for some people, it is the difference between eating or starving.

4.2.6 Global Strategies & Supply Chains

Your notes

Tata Group, India

- Founded in 1868, Tata is India's oldest and largest private sector business
- The Tata group now consists of more than 100 companies, with a turnover of more than $70 billion (half of which comes from overseas)
- It operates in 80 countries and employs approximately 600 000 people
- The group has a wide range of interests, including:
  - Cars
  - Steel manufacturing
  - Chemicals
  - IT consultancy
  - Retail
  - Hotels
- Unlike most TNCs, Tata's control is not centralised but spread among the member companies, giving them more control over operation and strategy
- However, it is the corporate brand values that unify all the companies in the group: loyalty, dignity and corporate social responsibility (CSR)
- Not all the group companies use the Tata logo, such as:
  - Starbucks in India
  - Tetley tea
  - Good Earth
  - Air India
  - Taj hotels

Your notes

Tata Group Logo - Photo by Rubaitul Azad on Unsplash

- Before 1991, the Tata group was located mostly in India and focused on providing products with a strong Indian culture
- With the purchase of Tetley Tea (one of the UK's leading tea brands), Tata stepped onto the world stage with a steady stream of business purchases around the world
- Tata will only rebrand if the group feels it will add value. For instance, Tata motors refuses to rebrand Jaguar and Land Rover, as these are established names, and any changes would destroy their value
- Tata has always prided itself on its social responsibilities
    - An 8-hour working day was introduced in 1912

Your notes

    - By 1920, workers had paid annual leave
    - Tata Trust spends over $105 million annually to fund causes such as
        - Clean water projects
        - Literacy programs
- Jamshedpur (home of Tata Steel) is a model example of a successful company town
- It was India's first planned city, built by the Tata group
- Tata runs almost all of the city's institutions, including:
    - A 1000-bed Tata Main Hospital with up-to-date ICU, CCU and burn care units
    - A giant sports stadium and parks
    - The local utility companies called Tata Town Services
    - Tata Steel Zoological Park
- Tata is currently committed to 'frugal innovation', where new products are produced at an affordable cost to poor people and the rising middle class
- Products include:
    - **Tata Nano**, a $2300 small, rear-engine, pod-shaped car
    - **Tata Swach** is a water purifier using rice husk ash infused with nano-silver particles. It produces safe, clean, potable water without the use of electricity or running water, which are generally not available in rural areas
    - **Tata House Nano** is a pre-fabricated house that can be built within a week for $500. It is small (an area of 20 m^2), with a living room, bedroom, kitchen and bathroom, and can accommodate 2 adults

Apple Inc. USA

- As of April 2024, Apple has a market cap of $2.628 trillion
- Apple's supplier code of conduct states that

> Suppliers are required to provide safe working conditions and treat workers with dignity and respect. Act fairly and ethically and use environmentally responsible practices wherever they make products or perform services for Apple

- The manufacture of its products is spread around the globe, with most of them in China through partners such as Foxconn

- Since 2005, Apple's supply chain in China has been criticised for human rights abuse and ethical issues
- Foxconn, Apple's main supplier and the world's largest electronic manufacturing services company, employs approximately 1.6 million people in China
- However, there have been allegations of poor working conditions, such as:
  - 15-hour working shifts
  - One day off every 14 days
  - Paid around US$100 per month, they are required to live on the premises and pay for rent and food from the company
  - Mandatory overtime
  - Workplace bullying and harassment
  - Recruitment discrimination based on ethnicity, religion and gender
- In 2010, demands for improved working conditions and higher wages resulted in 18 attempted suicides, 13 of which succeeded
- After the suicides, Foxconn installed mesh netting around its buildings to stop people from jumping
- They also provided counselling for its workers and increased wages
- In 2014, a BBC investigation found the problems still existed, despite Apple's promise to reform factory practices after the Foxconn suicides
- Apple's social actions have been described as reactive, while Chinese labour laws and their lack of enforcement have done little to protect workers

Your notes