Why many ledcs struggle to increase their balance of trade essay sample

The balance of trade is the difference between a country’s imports and exports. But around the world there is still a wide imbalance of trade between the LEDCs and MEDCs. This trade gap between LEDCs and MEDCs seems to widen over the years as more and more MEDCs are able to have a trade surplus whereas LEDCs have a trade deficit which might result in making them even poorer or fall in debt. Although 82 per cent of the world’s population lived in LEDCs in 2000, but only contribute 24 percent to the world’s trend. So why are LEDCs not able or struggle to increase their balance of trade.

The gap between LEDCs and MEDCs exists due to the production of primary goods, such as food, in LEDCs that sell their products to MEDCs at low prices, whereas MEDCs supply secondary and sometimes even tertiary products that can be sold at a much higher price. Although the price of the primary goods increased they did not increased as much as the secondary goods which mean LEDCs are not able to gain enough money to gain a trade surplus.

A reason for the struggle is that LEDCs are not able to increase their selling price as there are many different LEDCs that can provide the same product and do not raise the price. This results obviously that the MEDCs will always buy the goods in the country that provides it the cheapest. Thus, a LEDC has to adjust to the lowest price on the market so that it can sell its goods to the MEDCs. This can be seen for example in only Africa there are already two countries (Algeria and Nigeria) that provide the primary goods oil and natural gas. And also Egypt provides oil. Consequently, they have to adjust to each other’s prices, so they are able to sell their goods to the MEDCs.

Another obstacle is that many LEDCs export mostly one or two products and so a really small rate of goods which has the disadvantage that they might not have that many export as imports and so create a trade deficit. The second problem that is created by a low range of products is that MEDCs might fix the price of these goods and if there is an overproduction, a change or fall in demand for that product, a crop failure or exhaustion of a mineral, then there can be serious effect on the economy of the producing country. An example country for this might be Ghana which depends 76 percent on cocoa or Zambia that depends 86 percent on copper. So if there is for example a decrease in demand in cocoa, Ghana is not able to sell its cocoa, it is only able to gain money from the other exports that are only 24 percent of the normal exports. This would result in a great trade deficit, making the country even poorer and more likely to fall in debt.

Many LEDCs have these obstacles in their way to improve their balance of trade and so their standard of living but are not able to overcome them and as long there are countries that export more than they import there will always be these obstacles as this creates countries that have to import more than export.