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GCSE ECONOMICS

A593/01/SM The UK Economy and Globalisation

STIMULUS MATERIAL

JUNE 2015

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INSTRUCTIONS TO CANDIDATES

- You should make yourself familiar with the stimulus material before you take the question paper. A clean copy of the stimulus material will be given to you with the question paper.
- This copy must **not** be taken into the examination.

INFORMATION FOR CANDIDATES

- The following stimulus material has been adapted from published sources. It was correct at the time of publication and all statistics have been taken directly from the published material.
- This document consists of **12** pages. Any blank pages are indicated.

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Globalisation and development

Over the past 30 years, economists have observed the process of globalisation with great interest. There has been much debate and disagreement over the effects of globalisation on developed and developing economies but what is not in doubt is that globalisation has had a great impact on the UK and on other world economies.

During this time period there has been a huge growth in world trade. The value of world trade has continued to rise, even during the economic slowdown which started in 2008. One of the reasons for this expansion in trade is that the WTO has played a significant role in the reduction of protectionist measures.

This growth in world trade has brought many benefits, but it has been suggested that it has also caused a range of different problems for a number of countries. For example, some economists refer to the fact that the UK continues to run a current account deficit on the balance of payments.

Other economists emphasise that the benefits of increased trade have not been felt equally by different countries.

In 2005 the WTO introduced the 'Aid for Trade' initiative. This encourages developed economies to assist developing economies so that developing countries can gain the full benefits of trade. This is only one method of supporting growth in developing countries, with different policies being favoured by other economists.

A group of economics students decided to investigate the benefits of globalisation and the impact of trade on different economies. They collected the following information through their research.

Trade in services forms just one part of the current account on the balance of payments. This is one aspect of trade where the UK performs strongly and it continues to run a trade surplus. In part this is a result of specialisation within the UK economy.

The data below shows the five most important export markets for UK services in 2011 and the five countries from which the UK imported the most services in 2011.

	Country	**Value of exports (£bn)**		**Country**	**Value of imports (£bn)**
1	Irish Republic	6.1		Germany	3.8
2	Switzerland	6.0		France	3.4
3	Germany	5.5		Irish Republic	1.9
4	Netherlands	4.8		Netherlands	1.5
5	France	4.1		Sweden	1.4

Fig. 1 – Value of UK exports and imports of services in 2011

The data in Figs 2 and 3 summarises the external trading position of services in the UK economy in 2011. Overall, the UK recorded a surplus on trade in services in that year. However, the overall current account balance showed a continued deficit.

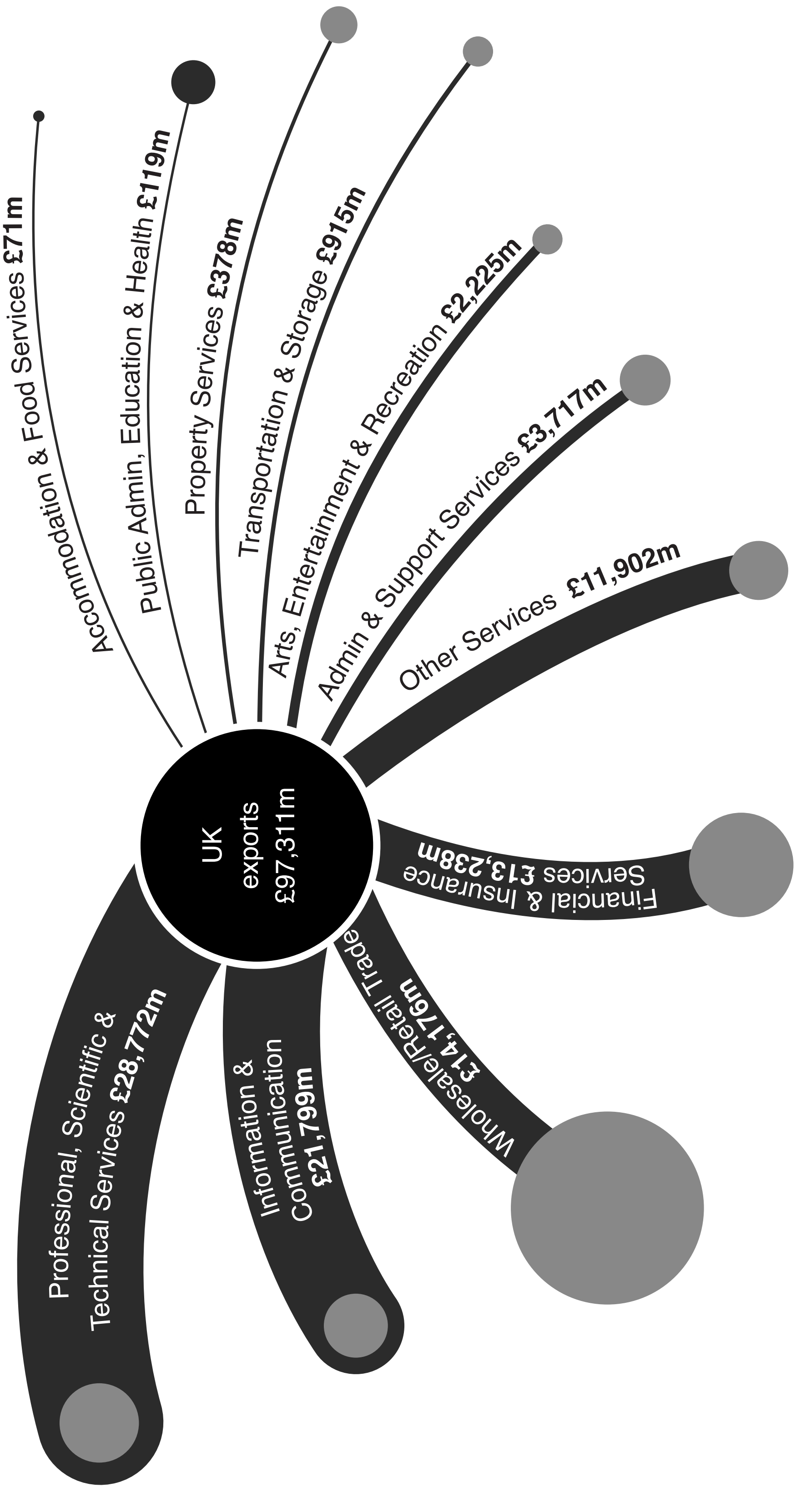

Fig. 2 – Value of UK exports of services in 2011 (millions of pounds)

Imports (Figures are subject to rounding)

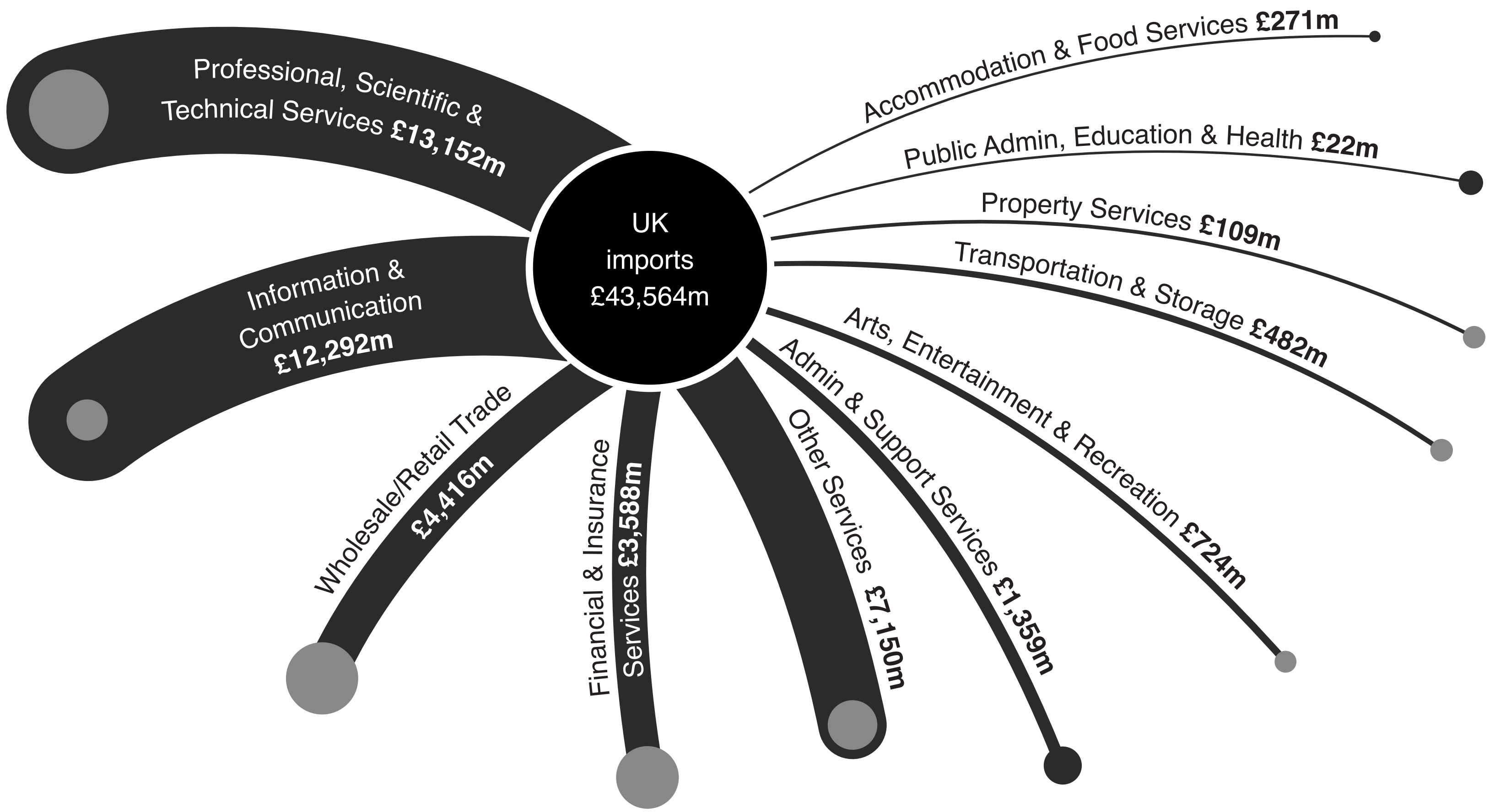

Fig. 3 – Value of UK imports of services in 2011 (millions of pounds)

Some economists highlight the possible gains to the UK and other economies of following free trade policies as part of the globalisation process. In contrast, other economists recognise that there might be problems resulting from globalisation, as shown below.

Critics claim that the overall impact of globalisation on the UK economy has been negative. Some of the critics have called for the use of protectionist policies to limit these problems.

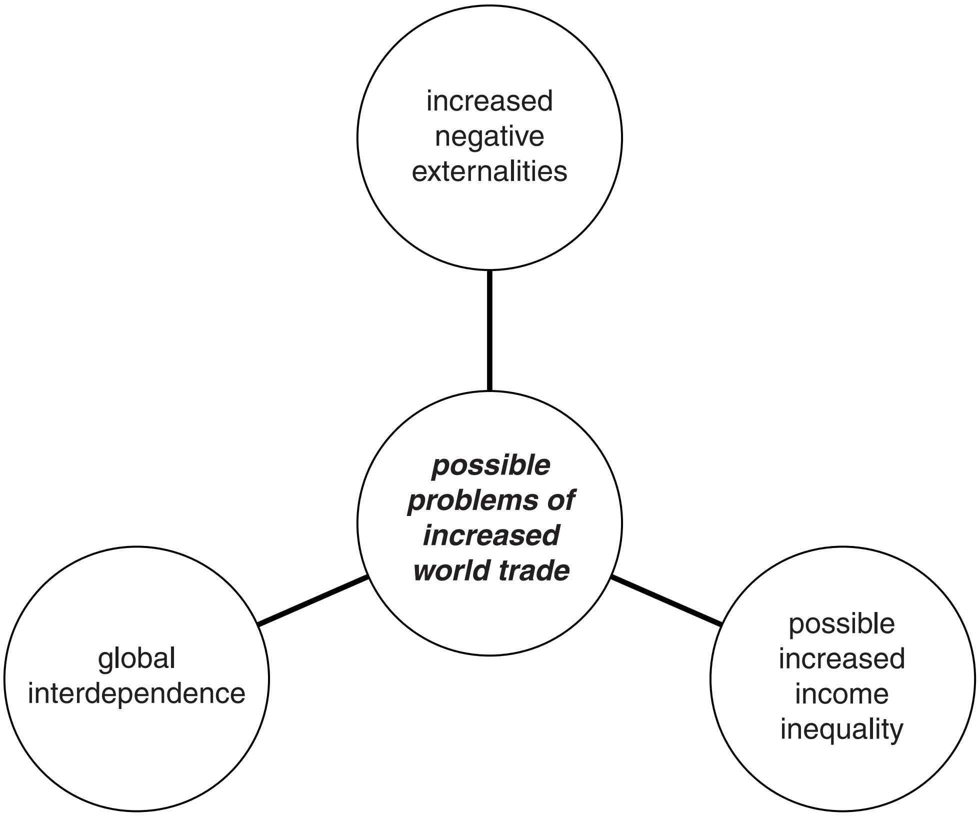

Fig. 4 – Some of the possible problems of globalisation

The WTO has cut its trade growth forecast for 2013 because of risks from the Eurozone crisis and from greater protectionism.

Global trade had been forecast to grow by 4.5% in 2013, but it was later only expected to grow by 3.3%. WTO Director General, Pascal Lamy, indicated that countries might turn to protectionism as other attempts to boost economic growth had not been as successful as had been hoped.

The WTO added that "China's growth should continue to outpace other leading economies, cushioning the slowdown in the growth of world trade, but world exports will still be constrained by weak demand in Europe".

Fig. 5 – News article: WTO cuts 2013 trade growth forecast

India's Commerce Minister, Anand Sharma, has said that the current round of trade negotiations at the WTO must continue.

He told the BBC that a potential collapse of these talks could be disastrous for the world economy. He added that global trade has struggled to recover from the 2008–2009 financial crisis, with problems in the Eurozone and turbulence in the Middle East and Africa.

Fig. 6 – News article: Possible failure of WTO talks would be 'disastrous' says Indian Commerce Minister

The following data was collected about certain world economies.

	Bangladesh	Benin	India	United Kingdom
Population in 2012 (millions)	152.4	9.4	1300	62.8
Life expectancy (years)	70 (women) 69 (men)	59 (women) 55 (men)	68 (women) 64 (men)	82 (women) 78 (men)
Main exports	Clothing Fish Jute goods Leather products	Cotton Palm oil	Agricultural products Textiles Software services Chemicals	Manufactured goods Chemicals Foodstuffs Services
National Income per capita in 2011 (US $)	780	800	1420	37780

Fig. 7 – Selected data profiling four world economies

Many countries continue to enjoy the benefits of increased trade, but there are still obstacles which prevent developing countries from achieving the full benefits of increased trade. A number of developing countries have high levels of poverty and there is no guarantee that trade can solve the problems of such poverty.

The following information is about Nigeria, which has enjoyed strong economic growth, but at the same time has millions of people classed as living in poverty.

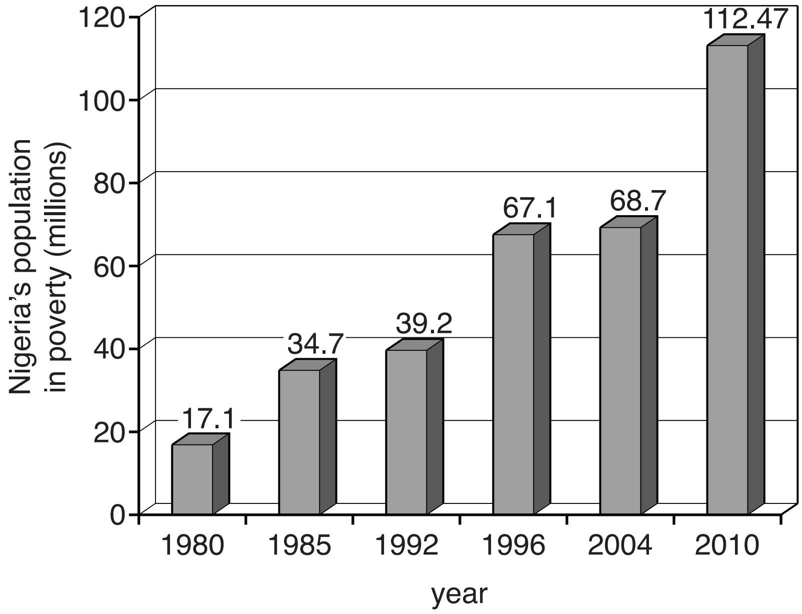

Fig. 8 – Nigeria's population in poverty (millions)

Poverty has risen in Nigeria, despite economic growth. The National Bureau of Statistics (NBS), a government agency, said that in 2010 60.9% of Nigerians were living in absolute poverty. The NBS predicted that this rising trend was likely to continue.

Nigeria is Africa's biggest oil producer but the sector has been linked to accusations of corruption. The NBS said that there was a paradox at the heart of Nigeria because the economy was going from strength to strength, mainly because of oil production – but Nigerians were getting poorer.

Oil accounts for some 80% of Nigeria's state revenues but Nigeria has hardly any capacity to refine crude oil into fuel. The crude oil has to be exported for refining and then imported back into Nigeria as fuel.

Fig. 9 – News article, 'Nigerians living in poverty rise to nearly 61%' February 2012

Some research was undertaken as to what measures could be put in place to support growth in developing economies. One of these measures is Foreign Aid, which includes the 'Aid for Trade' initiative.

Aid for Trade

'Aid for Trade' helps developing countries, particularly the least developed countries, to trade.

Many developing countries face a range of obstacles which limit their ability to engage in international trade.

The WTO led 'Aid for Trade' initiative seeks to bring together resources to address the trade-related constraints identified by the developing and least developed countries.

Fig. 10 – An introduction to 'Aid for Trade'

'Aid for Trade' is needed because many of the poorest countries have struggled to benefit from trading opportunities due to their inability to produce or export efficiently. Many African countries desperately need resources to improve their infrastructure such as ports, telecommunications and customs facilities. If such countries cannot send goods to world markets in a competitive way, then they will gain little from international trade.

Some studies have shown that with sound infrastructure, transport costs could be reduced by between 40% and 60%.

Fig. 11 – Why 'Aid for Trade'?: Global Review of 'Aid for Trade', 2011

Some data was found on the level of economic growth in different countries and the proportion of economic output which was accounted for by exports. In addition, an article was found which argued that trade could help countries to achieve economic growth.

	GDP (US $ bns)	GDP growth increase from 2011 (%)	Exports of goods and services (% share of GDP)
Australia	1520.6	3.4	21
Bangladesh	115.6	6.3	25
Costa Rica	45.2	5.1	38
France	2612.9	0	27
Germany	3399.6	0.7	52
Ghana	40.7	7.9	46
India	1841.7	3.2	24
UK	2435.2	0.3	32

Fig. 12 – Economic indicators for selected world economies in 2012

In today's climate of weak economic recovery and high unemployment, what can governments do to boost growth and employment? One answer lies in keeping global markets open to trade.

Findings from a recent report highlight how different aspects of trade play a pivotal role in boosting growth.

Trade affects employment in many ways. One of the most important is through economic growth and rising per capita incomes. Numerous studies, covering different countries at very different levels of development, highlight the vital role of trade in driving economic growth.

Case studies reviewing the experience of the 12 most rapidly growing countries over the past 60 years concluded that the power of the global economy was a central feature common to all 12 countries. Other case studies suggest that the evidence is "overwhelming" that trade plays an essential role in raising incomes.

Fig. 13 – OECD report: 'Trade, growth and jobs'