A-Level Economics: Globalisation Past Paper Questions

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Question 1

(a) To what extent has the growth of trading blocs contributed to globalisation?

(15)

(b) Evaluate the view that trading blocs have been a major constraint on economic development in developing economies.

(25)

Question 2 (a, b, c, d)

The Global Financial Crisis

Figure 1: Real GDP: % Change on Previous Year

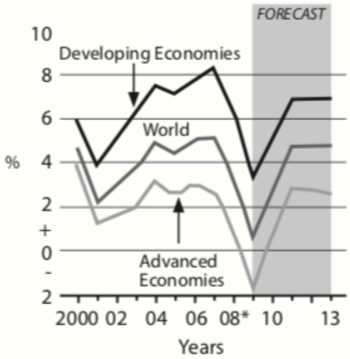
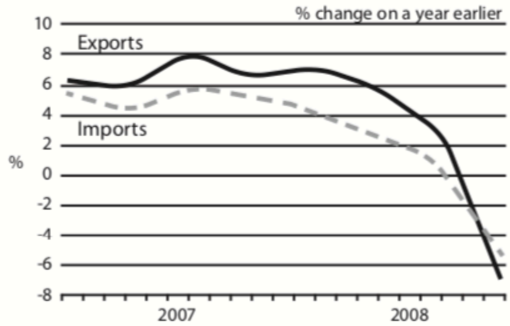
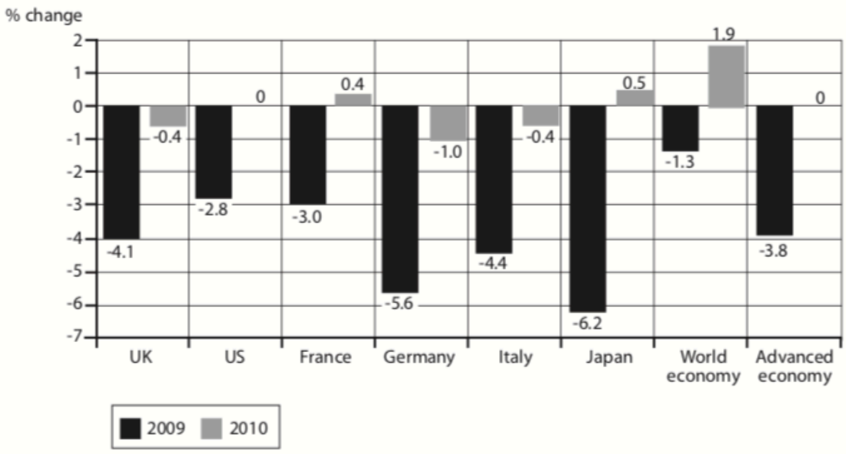


Figure 2: Value of World Exports and Imports: % Change on a Year Earlier



Source for Figure 1: *The Economist*, 21 February 2009 (Turning their backs on the world).
Source for Figure 2: *The Sunday Times*, 29 March 2009 (Export Giants sink most as World Trade Slumps by David Smith).

Figure 3: Real GDP Forecasts in 2009 and 2010, selected countries (% change)



Source: IMF.

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Extract 1: Globalisation in retreat?

Between 2000 and 2008 the value of world trade in goods and services rose by 12% a year. Free trade has made the biggest contribution to more than 60 years of global prosperity. However, a golden age of global trade has come to an abrupt end. The economic meltdown has popularised a new term: deglobalisation. For the first time for many years, trade and investment flows are declining, but is globalisation really ending? At the end of 2008, the International Monetary Fund (IMF) said the world economy would grow at 2.2% in 2009, but by March 2009 it expected negative growth of between 0.5% and 1% over the year. Moreover, this recession appears to be affecting most economies simultaneously.

Falling trade has been the transmission mechanism from the financial crisis to the world's factories. In the second half of 2008 the value of trade fell: Pascal Lamy, the World Trade Organisation's (WTO) director-general estimates that world trade dropped by 5% in November 2008, by a further 7% in December and another 7% in January 2009.

The downturn has been sharpest in the countries which opened up most to world trade, especially East Asia's tiger economies. Singapore's exports are 186% of GDP; its economy shrank at an annualised rate of 17% in the last three months of 2008. Taiwan's exports are 60% of its GDP and its economy may fall as much as 11% this year. The downturn will also hurt rich countries which specialise in manufacturing: the IMF forecasts a contraction of about 2%, but Germany and Japan, who are big exporters of capital goods, cars and electronics are expected to shrink by much more (see Figure 3).

In contrast, the biggest emerging economies are doing less badly so far. In India, where exports are only around 15% of GDP, growth is expected to be 5% for 2009 and China was still growing by 6.8% in 2008.

There are several reasons why the banking system's problems have affected trade so quickly. First, the global recession is more severe than most thought possible. Secondly, according to the World Bank, global supply chains mean that a downturn quickly spreads. The trade interdependence of economies has rapidly transmitted the recession around the globe. Another problem is that trade finance has dried up. Firms have found it difficult to get export credits, without which they cannot do business.

A further issue is that the world recession is leading to protectionism. Lamy identifies several types, including import tariffs and subsidies to support industries which have faced difficulties.

Financial deglobalisation is hitting countries in a variety of ways. Foreign direct investment (FDI) fell by 21% in 2008 and is expected to fall a further 12%-15% in 2009. Rich countries seem to have suffered most so far. They have seen FDI falls of 33% on average and by 50% or more in Britain, Italy and Germany while Finland and Ireland have seen net outflows. FDI flows to developing countries were still growing in 2008, but by only 4%, after a rise of 20% in 2007. Flows to big South American countries were up by about 20% and those to India more than 100%.

Meanwhile, small countries that developed industries such as tourism, which grew as a result of globalisation, are also suffering. The WTO says international tourist numbers fell 1% in the second half of 2008, which may not sound bad, but this compares with growth of more than 5% per annum in the previous four years. In the Caribbean, visitors may fall by 33% this season: hotels are half empty, flights are being cancelled and fiscal deficits are rising.

Source: adapted from *The Economist*, 21 February 2009 'Turning their backs on the world' and *The Sunday Times*, 29 March 2009 'Export giants sink most as world trade slumps' by David Smith.

(a) Explain the characteristics of 'deglobalisation' (*Extract 1, line 4*).

(5)

(b) Explain why some countries may experience a more severe recession than others.

(8)

(c) Examine the possible effects of the global recession on countries with well-established tourist industries.

(10)

*(d) With reference to lines 26–34 of Extract 1, evaluate reasons why the banking crisis has hit world trade so severely.

(12)

*(e) In the light of the global recession, assess the likely economic effects of an increase in protectionism on the world economy.

(15)

Question 3

(a) Assess the economic effects of the growth of trading blocs on the global economy.

(20)

(b) The UK is a member of the European Union but has not adopted the euro as its currency. To what extent do the benefits of membership of a monetary union such as the Eurozone outweigh the costs?

(30)

Question 4

(a) Assess the view that the main cause of globalisation is the increased significance of transnational companies.

(20)

(b) To what extent do the costs of globalisation outweigh the benefits?

(30)

Question 5

Assess the effect of globalisation on inequality in the world economy.

(20)

Question 6

(a) In the early 1970s, the USA, Germany and Japan accounted for over one-third of world trade but, by the 1990s, global trade had become more diversified. By 2012, China was the world's second largest trading country after the USA.

Assess the factors that may cause changes in a country's pattern of trade with other countries.

(20)

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Question 7

Extract 2 Russia's entry to World Trade Organisation (WTO) ends 19 years of negotiations

Russia's entry into the WTO in August 2012 had been a long time in coming. Negotiations began soon after the breakup of the Soviet Union and the collapse of communism and have been rumbling on for the past 19 years.

Russia's membership of the WTO means that the last major economic power has joined the global trading system. The WTO will force Russia to lower its average tariffs from 9.5% to 6% by 2015. WTO membership will also make the government curb subsidies to some industries, including farming. Russia is hoping entry will provide the sort of boost enjoyed by China after it was admitted to the WTO in 2001. However, that looks unlikely for three reasons. The economic climate is much less favourable than it was in 2001, when the global economy was about to embark on its strongest period of growth since the late 1960s and early 1970s. China's economy was much better equipped to reap the benefits of WTO membership, with a strong manufacturing base contrasting with Russia's over-reliance on oil and gas. Finally, China gained from being the first former communist giant to join the WTO.

There are still, of course, potential benefits to Russia from WTO membership. The government is hoping for a surge in foreign direct investment that will help make Russian industry more efficient. Russia's exporters will gain approximately $1.5 billion to $2 billion (£950 million to £1.3 billion) a year from the dismantling of foreign trade barriers. Lower tariffs on imported goods should lead to cheaper goods in the shops, boosting the spending power of consumers.

But WTO membership comes at a price. Dismantling protective barriers means that large sections of Russian industry may struggle to compete. Already, there are doubts about the ability of the automobile sector to survive in a more open trading system.

(Source: © Guardian News and Media Ltd, 2012)

Evaluate the likely benefits for Russia of its decision to join the WTO.

(15)

Question 8

The Trans-Pacific Partnership (TPP), a giant new trading bloc of 12 countries, including the USA, Canada, Australia, Japan, Peru, Malaysia and Vietnam is likely to be established in 2015.

(a) Examine the potential benefits of membership of such a trading bloc.

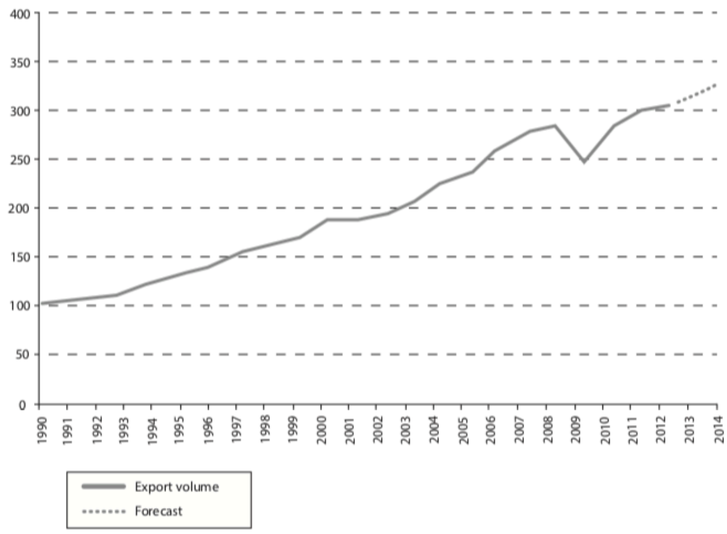
(20)

(b) In the light of your answer to part (a), evaluate the economic effects of a decision by the UK government to exit the European Union.

(30)

Question 9

Figure 1 Volume of world exports of goods, 1990-2014. (Indices, 1990 =100)



(Source: WTO: 2013 PRESS RELEASES; PRESS/688; 10 April 2013 'Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle' http://www.wto.org/english/news_e/pres13_e/pr688_e.htm)

Extract 1 Poverty decreases sharply in developing world

The United Nations Development Report published in 2013 says higher economic growth in at least 40 developing countries has helped lift hundreds of millions of people from absolute poverty, and pushed billions more into a new global middle class.

Helen Clark, a UN administrator, called such progress an "incredible success of emerging markets", praising governments for accompanying faster rates of economic growth with practical policies to help the poor. "These countries opened up to foreign direct investment and prioritised infrastructure but also invested in their people," she said. They targeted education and health, and put welfare programmes in place.

Underpinning the improvements in the Human Development Index (HDI) was rapid growth in countries such as China, India and Brazil, with China and India having doubled economic output per head in less than 20 years. But the report stressed that growth and improvements in HDI spread far beyond the four BRIC countries of Brazil, Russia, India and China, and included at least 40 countries that had accompanied greater economic dynamism with effective poverty-reduction policies.

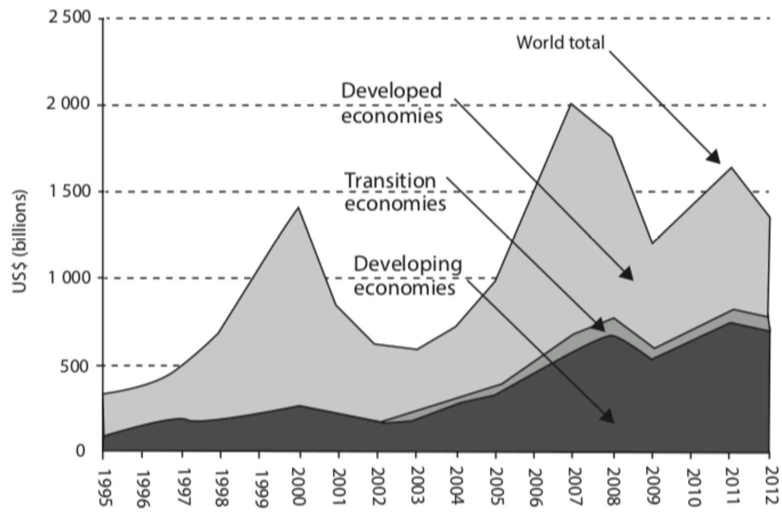
Partly as a result, the report found that worldwide absolute poverty has plunged from 43% in 1990 to just 22% in 2008, including more than 500 million people being lifted out of poverty in China alone.

Underpinning this poverty reduction was developing countries' increasing share of global trade, which grew from 25% to 47% between 1980 and 2010. The report found that trade between developing countries was the biggest factor in that expansion, increasing from less than 10% of total global trade to more than 30%.

By Adam Thomson in Mexico City, March 14, 2013

(Source: http://www.ft.com/cms/s/0/6d7a1c52-8cc5-11e2-8ee0-00144feabdc0.html#axzz2l0iwqz1p)

Figure 2 Foreign direct investment (FDI) inflows, global and by group of economies, 1995–2012 (billions of US dollars)



(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 3 Percentage share in world FDI flows 2010–2012

'Transition economies' refers to former centrally planned economies

	FDI inflows %				**FDI outflows %**		
	2010	2011	2012		2010	2011	2012
Developed economies	49.4	49.7	41.5		68.4	70.5	65.4
Developing economies	45.2	44.5	52.0		27.5	25.2	30.6
Transition economies	5.3	5.8	6.5		4.1	4.3	4.0

(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

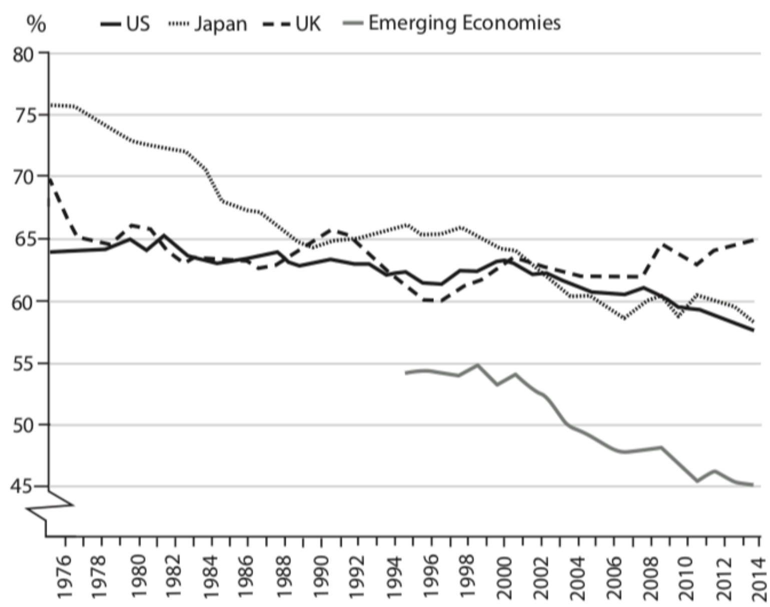
Extract 2 Trends in FDI flows

FDI flows to developing economies recorded their second highest level in 2012. They accounted for a record 52% of global FDI inflows, exceeding flows to developed economies for the first time ever. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows: nine of the twenty largest recipients were developing countries.

FDI inflows to developed economies declined by 32% to $561 billion – a level last seen in 2004. The European Union alone accounted for almost two thirds of the global FDI decline.

(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 4 Share of wages as a proportion of GDP 1976–2013



(Source: http://blogs.r.ftdata.co.uk/gavyndavies/files/2013/06/ftblog478.png)

Extract 3 Changes in the distribution of national income

Between 1999 and 2011 average labour productivity in developed economies increased more than twice as much as average wages. For example, in the USA, real hourly labour productivity in the non-farm business sector has increased by about 85% since 1980, while real hourly earnings increased by only around 35%.

The global trend has resulted in a change in the distribution of national income. In many countries, the share of wages as a proportion of GDP is falling and the share of profits is rising. Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill causing the labour share to decrease.

The drop in the labour share is due to technological progress, trade globalisation, entry of labour-abundant economies into the global economy, decreasing trade union density (the proportion of paid workers who are trade union members) and an increased pressure on firms to increase profits enhanced by the rise of private equity funds, hedge funds and institutional investors.

(Source: Global wage report 2012–13 www.ilo.org/wage12http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_194843.pdf)

(a) With reference to Figure 1, outline **two** reasons for the trend in world exports over the period shown.

(5)

(b) With reference to Figure 3, analyse **two** possible reasons why, in 2012, FDI flows to developing countries were 'exceeding flows to developed economies for the first time ever'. (Extract 2, lines 2–3)

(8)

(c) With reference to the data and your own knowledge, examine ways by which a country might try to attract investment from a transnational company (TNC).

(10)

*(e) 'Globalisation is solely responsible for the trend in the share of wages as a proportion of GDP.'

To what extent do you agree with this statement? Use the information provided and your own knowledge in your answer.

(15)