

A-Level Economics: Protectionism Past Paper Questions

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Question 1

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.

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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.

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

(15)



Question 2

Since the global financial crisis of 2008 there have been over 5 700 increases in tariffs, quotas and administrative controls on international trade.

Evaluate the likely effects of an increase in protectionism on the economy of a developing country of your choice.

(Total for Question 7 = 25 marks)



Question 3

Extract 1 US trade disputes

President Obama has promised that two million of the jobs which America needs to create in the next five years are to come from doubling US exports. The US is to have a National Export Initiative which will include an export promotion cabinet and a policy of getting tough with trading partners who "have not played by the same set of rules" as the US. A major problem is the undervaluation of China's currency, the renminbi, against the dollar.

President Obama will also have to settle several trade disputes, especially the one with Mexico. Mexico imported \$129 billion in American exports in 2009. In response to trade union pressure, the US Congress cancelled a trial programme that allowed Mexican trucks to travel more freely into the US. In retaliation, Mexico imposed \$2.4 billion in tariffs on a variety of American goods, resulting in a loss of \$2.6 billion in US exports and 25 000 jobs.

Additionally, in 2009, Brazil persuaded the World Trade Organisation (WTO) that American government subsidies and loan guarantees to cotton growers violated WTO rules. This ruling allows Brazil to impose \$560m in retaliatory tariffs on cotton goods, beauty products and cars. More importantly, Brazil is free to impose other penalties, most notably ignoring US patents in the media, pharmaceutical and technology industries. This retaliation by Brazil could result in thousands of American workers losing their jobs.

Source: The Sunday Times, 14 March 2010 and the Financial Times, 12 March 2010.

With reference to Extract 1, assess the impact of tariffs, such as those imposed by Mexico and Brazil, on US consumers and producers. Illustrate your answer with an appropriate diagram.

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