OCR
Oxford Cambridge and RSA

Thursday 9 June 2016 – Afternoon

GCSE ECONOMICS

A593/01/SM The UK Economy and Globalisation

STIMULUS MATERIAL

Duration: 1 hour 30 minutes

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After the global recession, a global recovery?

Between 2007 and 2009 the global recession saw a decline in the rate of world economic growth. Since 2009, the global economy has bounced back and has, once again, been growing steadily.

When rates of economic growth in various parts of the world are compared, there have been some important differences.

It is estimated that all of the 40 fastest growing economies of the next ten years will be in Africa, Latin America or Asia. Most of the 40 slowest growing economies will be in Europe.

One part of the world which is estimated to grow more slowly is the Eurozone. Other countries such as Mexico, Indonesia, Nigeria, Turkey and South Korea (the MINTS) are expected to become just as important as the BRICS (Brazil, Russia, India, China and South Africa) during the next ten years.

Are there any particular reasons for the differences in expected rates of economic growth around the world?

What might be the likely consequences for different parts of the global economy?

What is it that is helping some developing economies to perform so well?

How much of an impact are schemes such as debt relief and fair trade having on economic prosperity?

A group of economics students was asked to do some research into the global recession and the recovery of the global economy. The information which follows was collected from their research.

The students were interested to find out exactly when the global recession had happened and how long it had lasted. They found the following chart which showed how the total value of global real GDP and total global exports of some specific categories of traded goods had changed between 2002 and 2011.

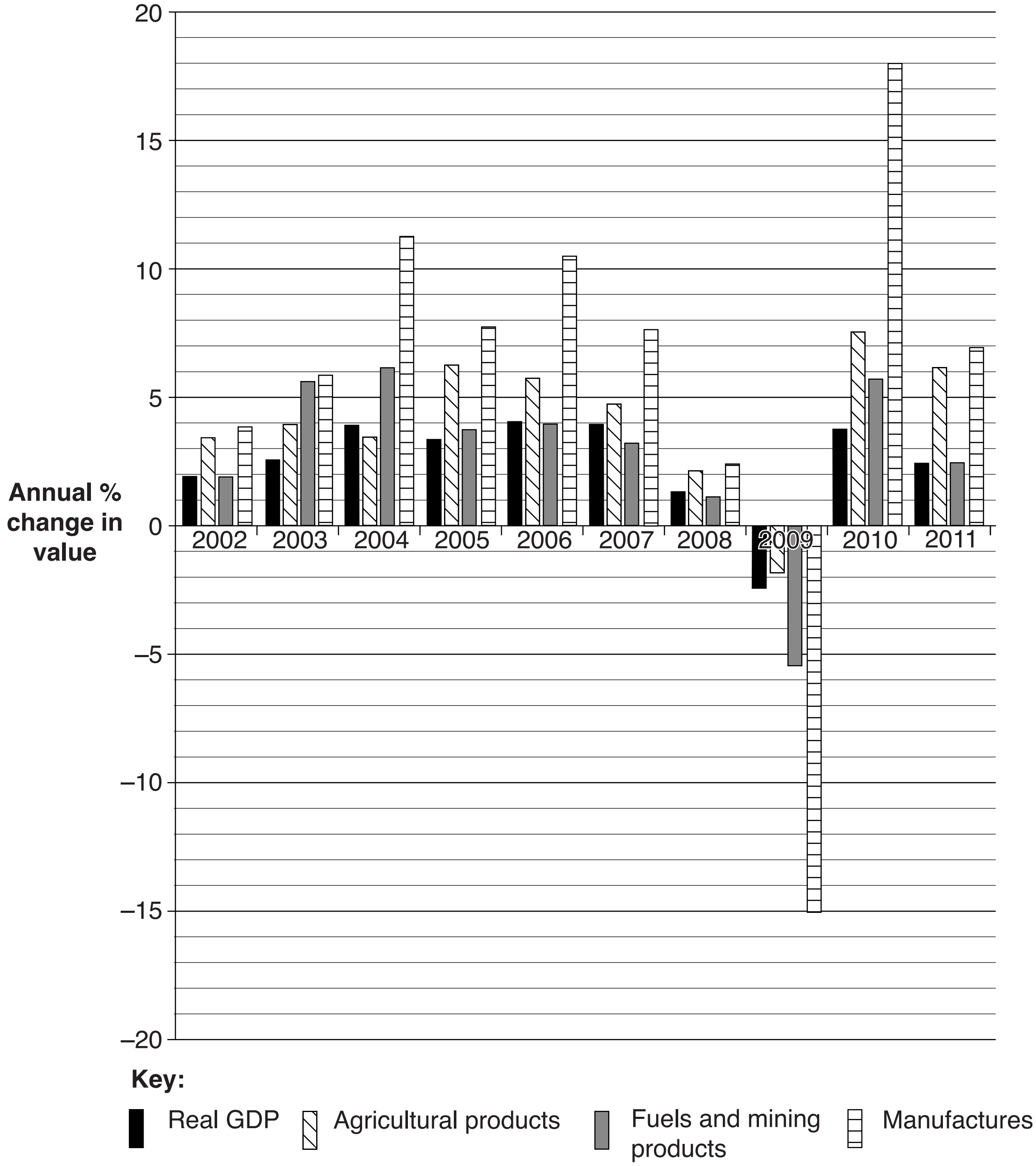

Fig. 1: Annual percentage change in the value of global real GDP and global exports of some categories of traded goods – 2002 to 2011

With the global recession over and the global economy growing positively once more, the students wanted to find out what the future was likely to be for economic growth and whether the future looked the same around the world.

They found that different economies and regions of the world have already experienced varying rates of economic growth over the past couple of years. This is predicted to continue over the next few years.

			Projections		
	2012	**2013**	**2014**	**2015**	**2016**
Global output	**2.5**	**2.4**	**2.8**	**3.4**	**3.5**
Advanced economies	**1.3**	**1.2**	**1.8**	**2.4**	**2.5**
United States	2.8	1.9	2.1	3.0	3.0
United Kingdom	0.3	1.7	3.2	2.7	2.4
Japan	1.4	1.5	1.3	1.3	1.5
Eurozone	-0.6	-0.4	1.1	1.8	1.9
Of which: Germany	0.9	0.5	1.4	1.5	1.8
Italy	-2.4	-1.9	-0.2	0.9	1.3
Spain	-1.6	-1.2	1.3	1.7	1.8
Developing economies	**4.8**	**4.8**	**4.8**	**5.4**	**5.5**
China	7.7	7.7	7.6	7.5	7.4
India	4.5	4.7	5.5	6.3	6.6
Mexico	4.0	1.1	2.3	3.5	4.0
Sub-Saharan Africa	3.7	4.7	4.7	5.1	5.1
Of which: Ethiopia	8.7	9.7	7.4	7.0	6.6
Nigeria	6.5	7.0	6.7	6.5	6.1
Sierra Leone	15.2	13.3	14.1	10.5	9.2
Tanzania	6.9	7.0	7.2	7.2	7.1

Sources: The World Bank and the IMF

Fig. 2: Real GDP growth rates (%) for selected areas and economies – 2012 to 2016 (figures for 2014, 2015 and 2016 were projections)

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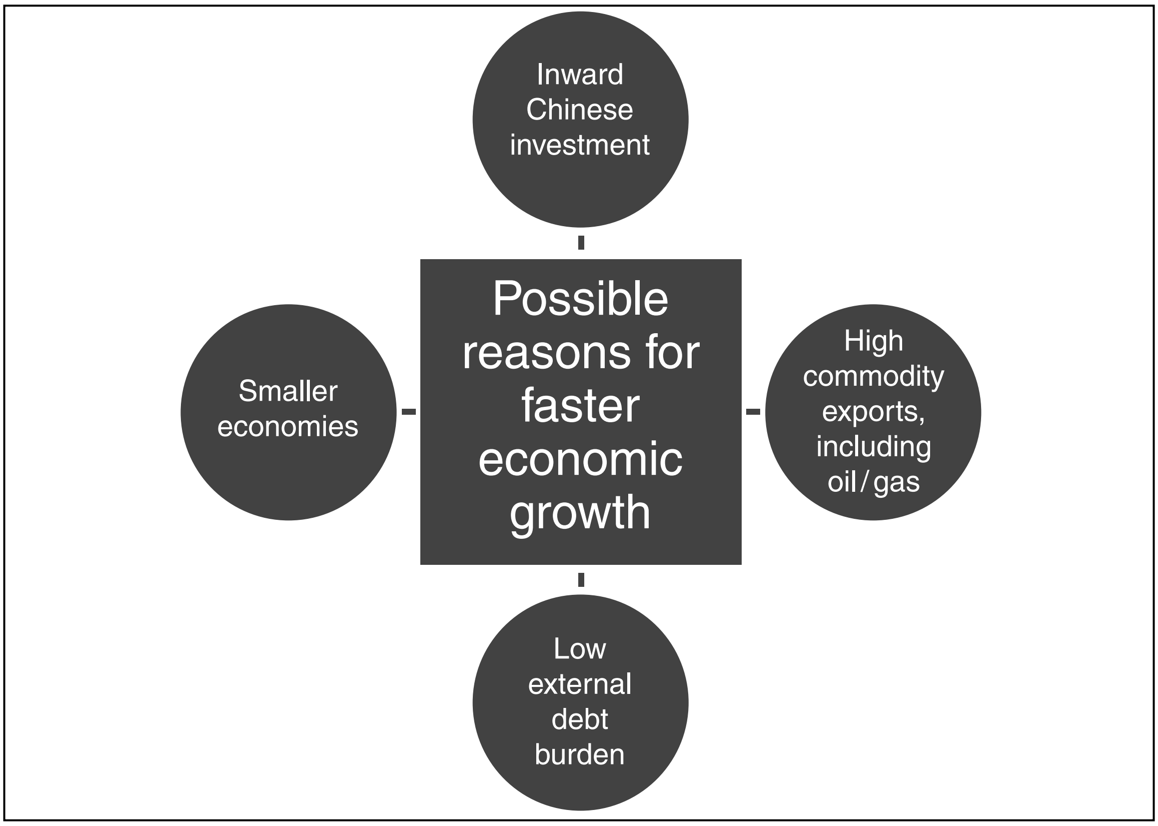
The students decided to split into two groups to try to find out why some economies were predicted to grow faster, while other economies were predicted to grow more slowly.

They found that there were a number of possible reasons to explain why economies might grow at different rates. There was no overall agreement between economists, but some of the more popular possible reasons are shown in Fig. 3 below.



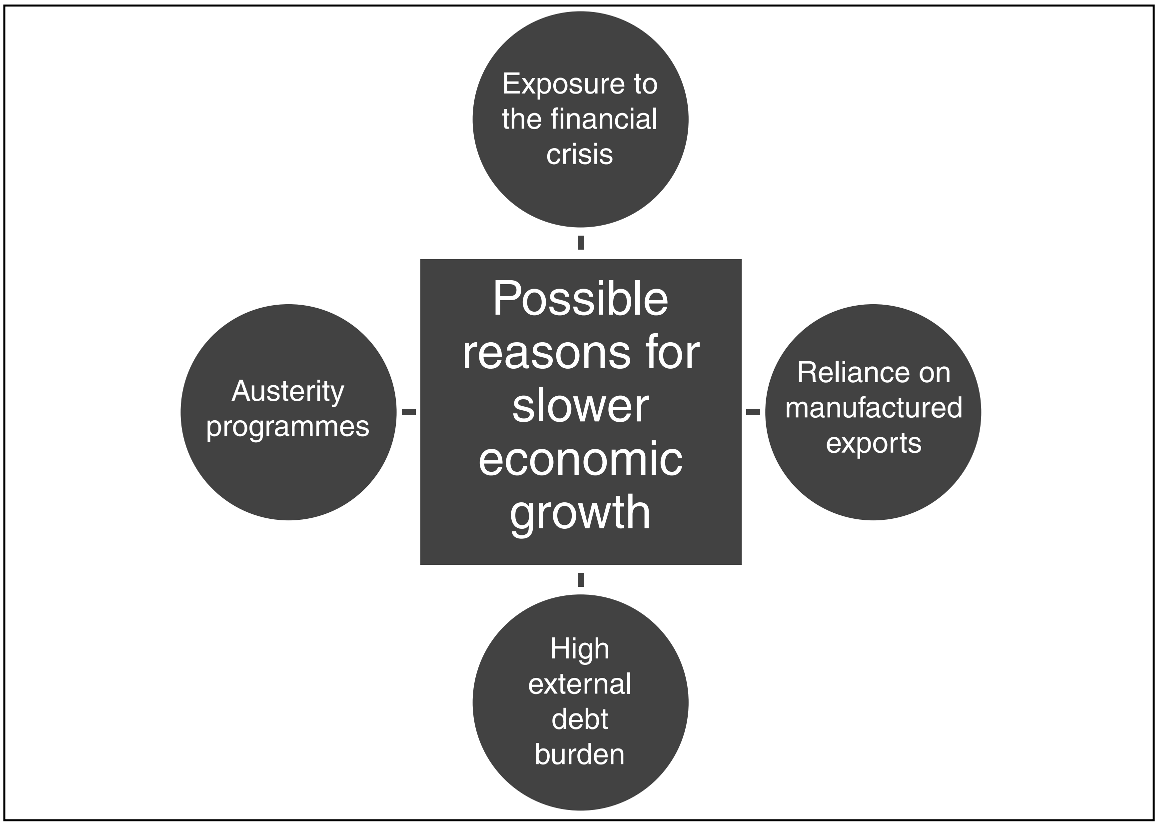


Fig. 3: What might cause different rates of economic growth?

The students discovered that one of the ways in which some of the poorest economies in the world have been helped to grow faster is by external debt relief. Debt relief involves the cancellation or a reduction in the level of debt held outside a country. This has involved international organisations such as the International Monetary Fund (IMF) and the World Bank. The aim is to make sure that no poor country has an external debt burden that it cannot manage.

The external debts of over 30 poor countries (mainly in Africa) have been cancelled. This has saved them money that they no longer need to repay, as well as saving them from having to pay interest on those debts.

It also means that these poor countries can reduce poverty (both absolute and relative) by spending money on health, rural infrastructure and education in their own countries, rather than using it to repay debts and interest.

Interest payments on external debt in 2001

- 2.8% of GDP

Interest payments on external debt in 2013

- 1.6% of GDP

Poverty-reducing expenditure in 2001

- 6.5% of GDP

Poverty-reducing expenditure in 2013

- 10.4% of GDP

Fig. 4: Some average effects of the external debt relief programme in 36 countries

More poverty-reducing expenditure on health, education and infrastructure could help developing countries to benefit from globalisation.

Countries that have benefited from external debt relief include Ethiopia, Ghana, Tanzania and Zambia.

The students found, however, that external debt relief is not popular with some economists. Countries that benefited from external debt relief might borrow more money because they think that debt relief will happen again. Also, will the benefits of debt relief benefit the poor or will the benefits go to the rich?

External debt relief comes with some conditions from the IMF and the World Bank. These include satisfactory performance in macroeconomic policies. Some countries with a large external debt burden have found this difficult to achieve.

One of the students had heard her parents discussing Fairtrade products when they were shopping in the local supermarket. She said that she had done some research and she suggested that this might be another way in which some of the poorest countries in the world could grow faster.

Sales of Fairtrade products in the UK rose by 14% in 2013 to £1.78bn

Michael Gidney, chief executive of the Fairtrade Foundation, said: “It’s 20 years since the very first Fairtrade products appeared in the UK, and the appetite for Fairtrade is still growing despite challenging economic conditions.”

Sales of Fairtrade sugar rose by 25% in 2013. The sales value of chocolate grew by 52%, cocoa by 5% and bananas by 4%, whereas coffee and tea sales have continued to hold steady.

Demand for fresh vegetables was up 316% in 2013. Wine sales grew by 15% for the second consecutive year.

The UK has more than 4,500 certified Fairtrade products on sale.

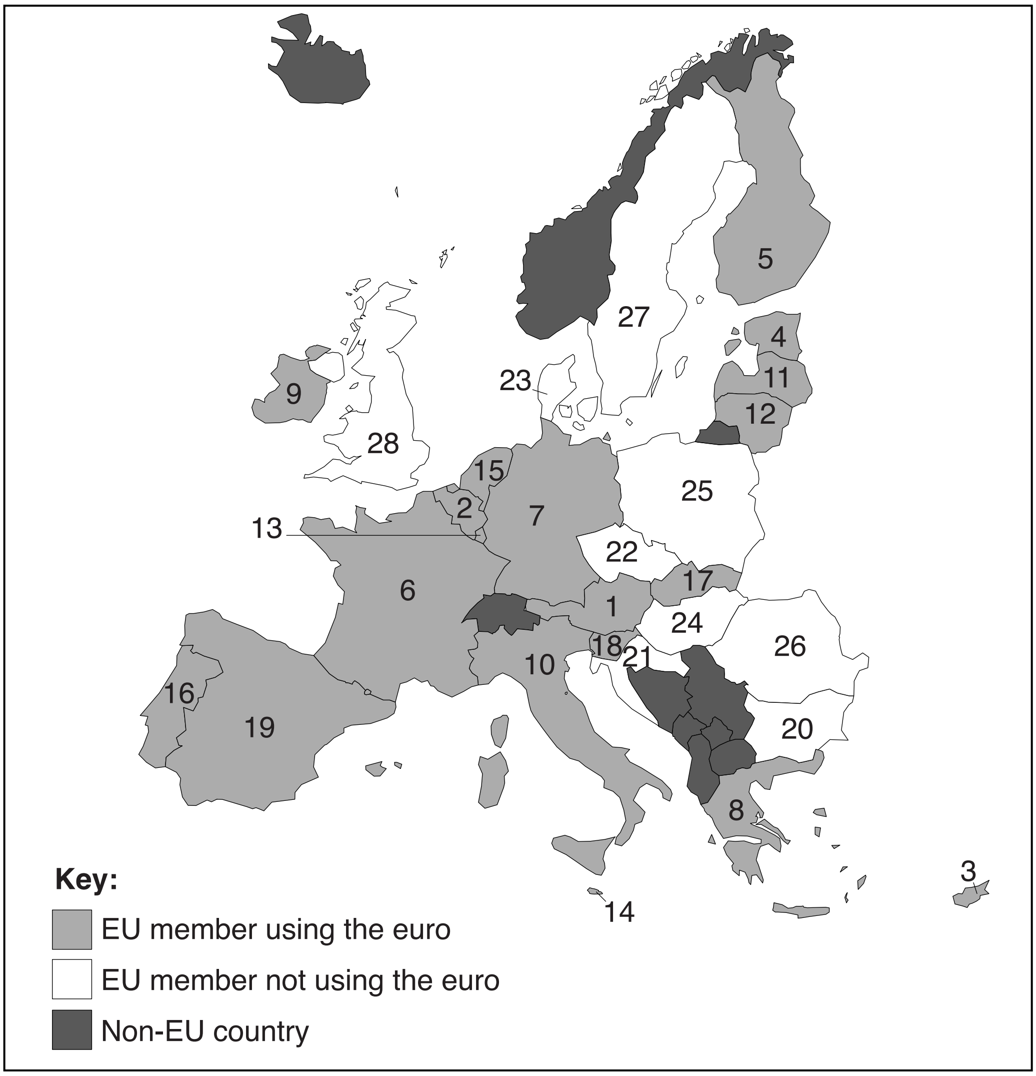
Fig. 5: BBC News article, February 2014: ‘Fairtrade Sales in UK Rise 14% to £1.78bn’

However, perhaps Fairtrade was not as good a solution as some people had thought.

One of the students said that she had read that the benefits of Fairtrade to developing economies were very small. For example, the spending on Fairtrade food products in the UK in 2012 was only 0.82% of the total amount spent on food.

Another student said that other farmers who grew non-Fairtrade products might be poorer because UK consumers were buying more Fairtrade products.

The Eurozone is predicted to perform far less well than many other areas of the global economy. The students needed to identify which European countries were members of the European Union (EU) and which were members of the Eurozone using the single currency (the euro).



The eurozone consists of

1 Austria
2 Belgium
3 Cyprus
4 Estonia
5 Finland
6 France
7 Germany
8 Greece
9 Ireland
10 Italy
11 Latvia
12 Lithuania
13 Luxembourg
14 Malta
15 Netherlands
16 Portugal
17 Slovakia
18 Slovenia
19 Spain

The EU not using Euro

20 Bulgaria
21 Croatia
22 Czech Republic
23 Denmark
24 Hungary
25 Poland
26 Romania
27 Sweden
28 UK

Fig. 6: Europe, the EU and the Eurozone

As of January 2015, the EU had 28 member countries. Of these, 19 countries were also members of the Eurozone. The latest country to join the Eurozone was Lithuania, which joined on 1 January 2015.

The Eurozone has been performing poorly compared to other parts of the global economy and the research data suggests that this may continue for a few years. So, the students were rather surprised to find that the Eurozone had increased in size in January 2015 when Lithuania had joined the single currency.

They found a newspaper article that summarised some of the issues for people in Lithuania.

Lithuania joins Baltic neighbours in Eurozone

The New Year meant a new currency for Lithuania – it was joining the euro.

Some Lithuanians feared price rises, but there seemed to be growing optimism towards the adoption of the euro. With Lithuania's entry, the Eurozone now has 19 members.

Government officials believed that the euro would not only boost investment, but would also bring deeper integration with the West.

However, some opinion polls suggested almost 60% of the population did not want the new currency.

"Even before the euro, prices in pharmacies went up – I'm afraid to think about what will happen now," said one pensioner who was braving the winter cold and selling home-made socks outside a shop in an effort to top-up her pension.

There were reports of much scepticism in the country after recent bailouts for existing Eurozone members.

But the view of a successful entrepreneur was shared by many well-to-do Lithuanians who live in the cities: "Further integration in a unified market would help boost trade and cut currency exchange costs," he said.

In late December 2014 there were some signs of panic – people were queuing up to deposit cash in banks or to exchange litas (Lithuania's former currency) into euros.

Many people appeared confused about the switch to the euro. From 1 January 2015 they still had two weeks to pay for things in litas, though they got change in euros.

There were even reports of customers storming some shops to stock up on basic foodstuffs.

But a pensioner believed euro adoption could "only be a good thing". "To be part of a huge European market is important," she said.

Fig. 7: Based on news article, January 2015: 'Lithuania joins Baltic neighbours in euro club'

One factor that could influence the performance of the Eurozone is the value of the euro against other currencies.

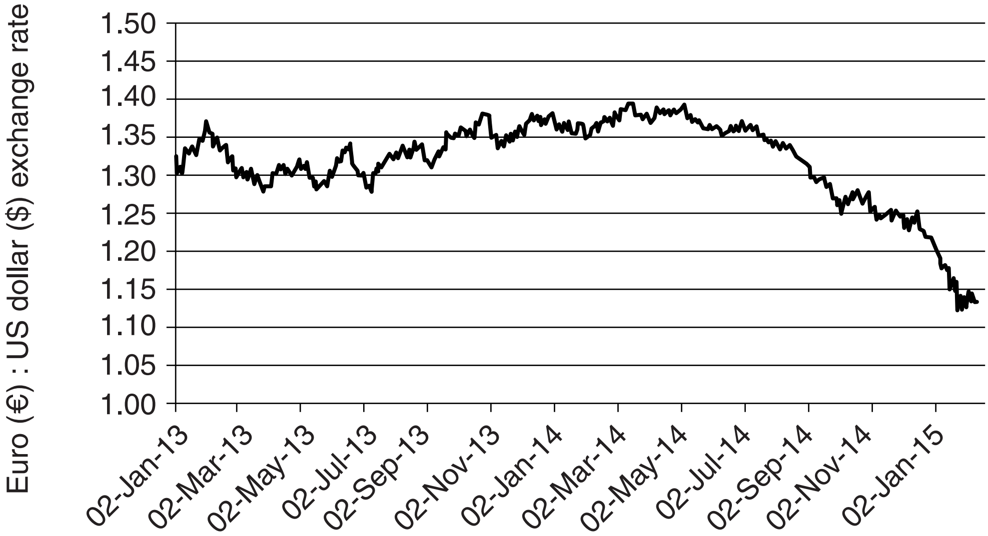


Fig. 8: The value of the euro in US dollars (January 2013 – February 2015)

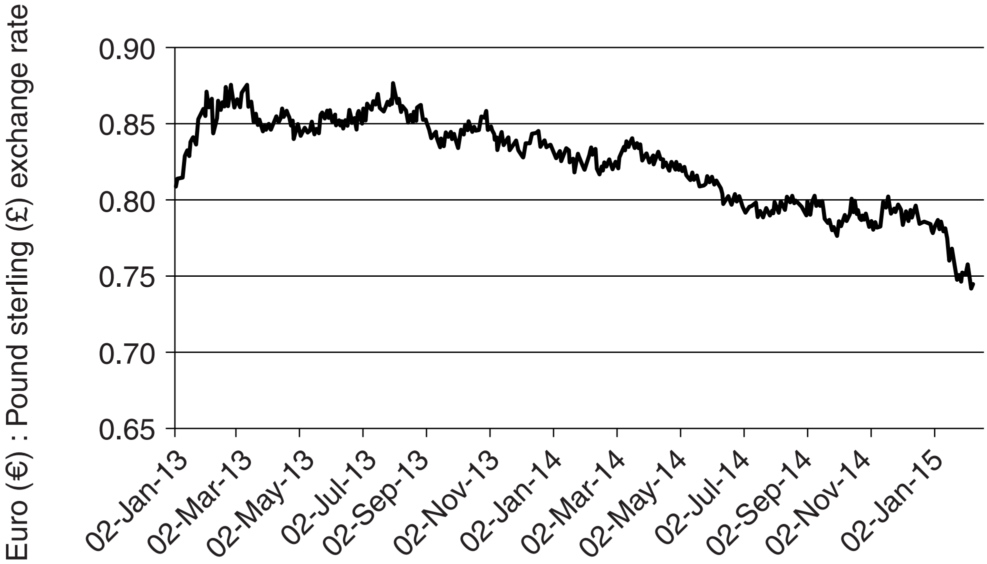


Fig. 9: The value of the euro in UK pounds (January 2013 – February 2015)