Economics Questions By Topic:

Trading Blocs & the WTO (4.1.5)

A-Level Edexcel Theme 4

0207 060 4494

www.expert-tuition.co.uk

online.expert-tuition.co.uk

enquiries@expert-tuition.co.uk

The Foundry, 77 Fulham Palace Road, W6 8JA

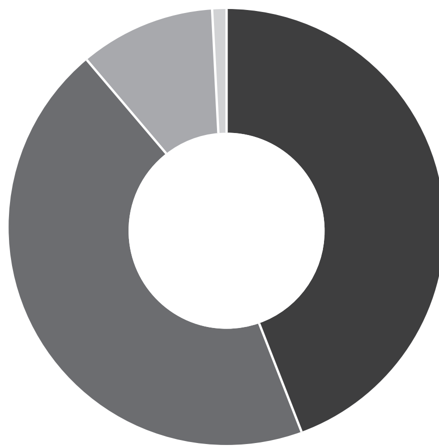
Table Of Contents

Section B .... Page 1
Section C .... Page 33

Question 1

Trade and Development Issues in Africa

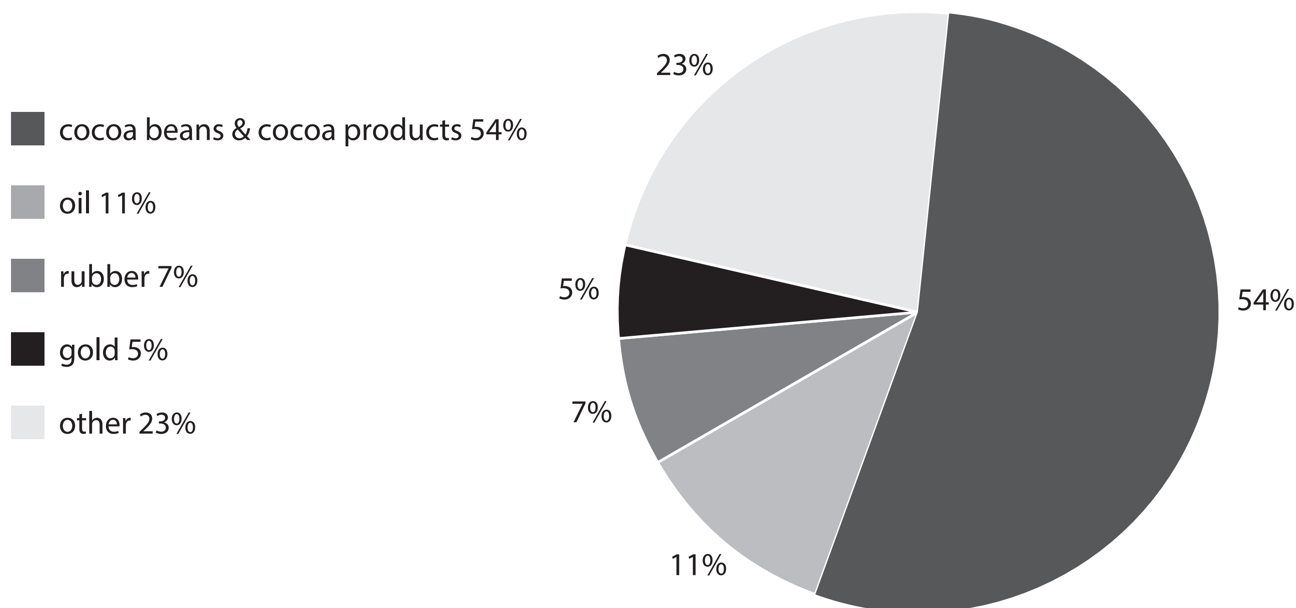
Figure 1: The Fairtrade scheme in the cocoa industry. How the additional revenue is spent by cocoa farmers.



Improving business administration and infrastructure	44%
Investing in farm equipment, training and funding	45%
Supporting social services for the community	10%
Other	1%

(Source: https://www.fairtrade.org.uk/~/media/FairtradeUK/What%20is%20Fairtrade/Documents/Policy%20and%20Research%20documents/Monitoring%20reports/Fairtrade%20Monitoring%20Report_9thEdition%202016.pdf)

Figure 2: Ivory Coast exports – relative share of main products (%), 2016



(Source: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/civ/all/show/2016/)

Extract A

Cheap cocoa is costing farmers dear

The median annual income of cocoa farmers in the west African country, Ivory Coast, is just US$2600. Research suggests that an annual income of US$6133 is needed for this country's farmers to have a decent, living income. This situation is even worse for farmers who are not part of a Fairtrade scheme. 5

World cocoa prices fell by more than a third in 2017. Cocoa farmers have to accept all the risk from price volatility, putting a significant strain on their fragile incomes. On the other hand, cocoa processors and chocolate manufacturers are able to adapt or even make high profit and consumers continue to enjoy their chocolate.

This is still happening despite considerable investment in agriculture to build a 10 sustainable cocoa sector. The focus has been on raising productivity and diversifying crops. The average cocoa farm in the Ivory Coast produces only around half of the output that could be achieved with training and resources such as fertilisers, equipment and replanting. If farmers diversify into other crops, livestock or non-farm activities, they lower the risk they face of fluctuating world cocoa prices. 15

Even tripling farm output would not provide the average cocoa farmer with a living income. Diversification alone will not always make farms more profitable. If we want farmers to earn a living income, we must also be willing to pay farmers more.

(Source adapted from: https://www.fairtrade.org.uk/Media-Centre/Blog/2018/October/Cheap-cocoa-is-costing-farmers-dear)

EXPERT TUITION

Extract B

Sub-Saharan Africa is becoming more integrated

After two years of negotiations, representatives of a large number of African countries signed the African Continental Free Trade Agreement (AfCFTA) in Kigali on March 21, 2018. This created a trading bloc of 1.2 billion people with a combined gross domestic product of more than US$2 trillion. The agreement committed countries to removing tariffs on 90% of goods and to liberalise services. 5

This can be seen as a sign of rapid and steady regional integration. Sub-Saharan Africa in particular is much more integrated today than in the past. The level of integration in sub-Saharan Africa is now similar to that in the world's other developing and emerging market economies. 10

However, the two largest African economies, Nigeria and South Africa, refused to sign the agreement. Nigeria's manufacturers and trade unions are concerned about the potential negative impacts of becoming more open to imports from other African countries with lower labour costs.

Greater interdependence can expose small economies to their partners' recessions. 15 After nearly 20 years of strong economic activity, sub-Saharan Africa experienced the downside of integration in 2015. The collapse in commodity prices and the slowdown in economic activity in Nigeria and South Africa contributed to sub-Saharan African growth slowing sharply. Since 2017 growth has begun to recover. The recovery is mixed, though, and it is unclear to what extent the slow recovery of the larger economies is still 20 affecting the rest of sub-Saharan Africa.

(Source adapted from: https://www.imf.org/ and https://www.pulse.ng/)

EXPERT TUITION

1 Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

(15)

EXPERT TUITION

(Total for Question 1 = 15 marks)

EXPERT TUITION

Question 2

	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP (US$ bn)	2.47	37.23	7.10	28.25	19.80
Population (mn)	16.14	62.78	18.21	58.43	48.89
GDP per capita (US$)	....	....	390	483.48	405
GDP per capita PPP (US$)	483	1 517	1 167	1 380	1 165
HDI	0.355	0.519	0.434	0.476	0.456
IHDI	no data	0.344	0.287	0.346	0.303

(Sources: www.tradingeconomics.com, United Nations)

Figure 1

Economic indicators for the five EAC member countries, 2012

Extract A

Burundi's economic growth

Burundi has maintained a stable macroeconomic environment and over recent years improved its performance in health, education and gender equality. However, in spite of this recent progress, Burundi's economic growth has been modest compared to neighbouring countries in the EAC.

Burundi is a small, land-locked country and is one of the most aid-dependent countries in the world. The country is vulnerable to external shocks, such as volatile food and energy prices, declining aid flows, and the adverse impact of climate change. 5

These factors are made worse by the high proportion of current expenditure in the government budget, and a high level of tax exemptions – counting for as much as 3% of GDP. 10

Coffee and tea make up almost 70% of Burundi's total export earnings. This lack of export diversity makes it difficult to widen the tax revenue base and finance public investments.

(Source: adapted from 'Burundi: more fiscal resilience will improve government effectiveness', All Africa, 19 December 2013, http://allafrica.com/stories/201312190925.html)

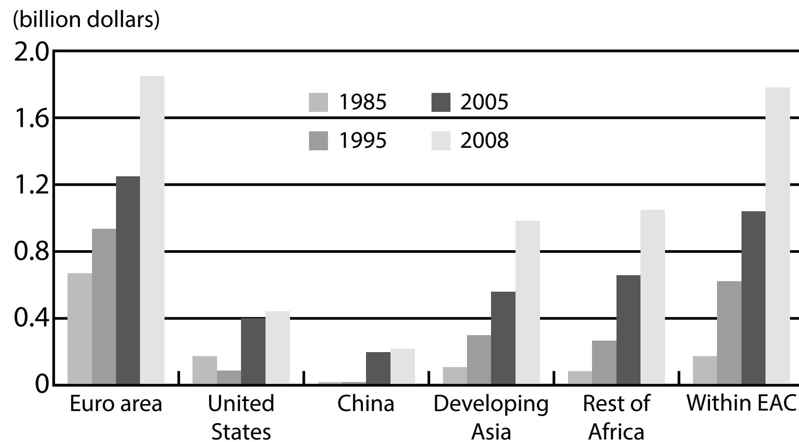


Figure 2

Value of EAC exports 1985–2008 (US$ billions)

Extract B

Trade in East Africa

The EAC was established as a free trade area in 2000 by Kenya, Tanzania and Uganda, with Burundi and Rwanda joining in 2007. Its objectives are the promotion of free trade and the free movement of capital and labour among its members. In 2013, an agreement was signed outlining plans for launching a monetary union by 2024.

Between 2000 and 2011, lower tariffs within the EAC boosted regional trade, offering the five member countries a route to faster growth. During 2000–10, intra-regional exports increased from US$700 million to US$2 billion. Rwanda's exports have grown the most during this period, from US$1.6 million to US$156 million, but are still a fraction of those of Kenya, the region's largest economy. Kenya's exports to the other EAC members were about US$1.2 billion in 2010. In contrast, export growth in Burundi – the poorest member – has remained constant and imports have declined, mainly because of civil war and inferior infrastructure, such as airports, roads, and docks.

5

10

(Source: adapted from 'Trade in East Africa', Finance & Development, IMF, December 2011, Vol. 48, No. 4, http://www.imf.org/external/pubs/ft/fandd/2011/12/data.htm)

EXPERT TUITION

Extract C

The costs and benefits of monetary union

There are major costs and benefits of a monetary union between EAC members. One of the issues is the different degrees of economic openness of their economies. The level of economic openness is measured by trade as a percentage of GDP. Kenya is the most open economy in the region (60.6%), followed by Tanzania (49.5%), Uganda (41.3%), Rwanda (35.4%) and Burundi (28.8%). However, economic openness has been increasing 5 in all countries except Burundi where the situation deteriorated between 2006 and 2010.These differences in the degree of trade openness indicate that EAC countries may face asymmetric shocks, a situation which does not support the EAC monetary union in the current situation. However, if the observed trends continue, the increase in economic openness will contribute to building a solid foundation for the success of the 10 EAC common currency, which would help to reduce the transaction costs for trade and investment between EAC members.

However, according to the EAC Trade Report, gross intra-EAC trade was only 3.1% of their GDP in 2010. In the EU, by contrast, the value of intra trade was 26% of GDP in 1998 in the area that would adopt the euro; by 2007 this had increased to 33%. Thus trade 15 integration in the EU was much deeper than in the EAC. The benefits, in the form of reduced transaction costs, derived from a common currency were small in the European Monetary Union, and will thus be even smaller in the EAC monetary union.

(Source: adapted from 'Towards a common currency in the East African Community (EAC): issues, challenges and prospects', UNECA, 2012, http://www.uneca.org/sites/default/files/publications/towards_a_common_currency_in_the_eac-2012.pdf)

EXPERT TUITION

(a) Assess the benefits Kenya has gained from its membership of the EAC since 2000.

(10)

EXPERT TUITION

(b) Discuss the likely costs and benefits of monetary union to the five members of the EAC.

(15)

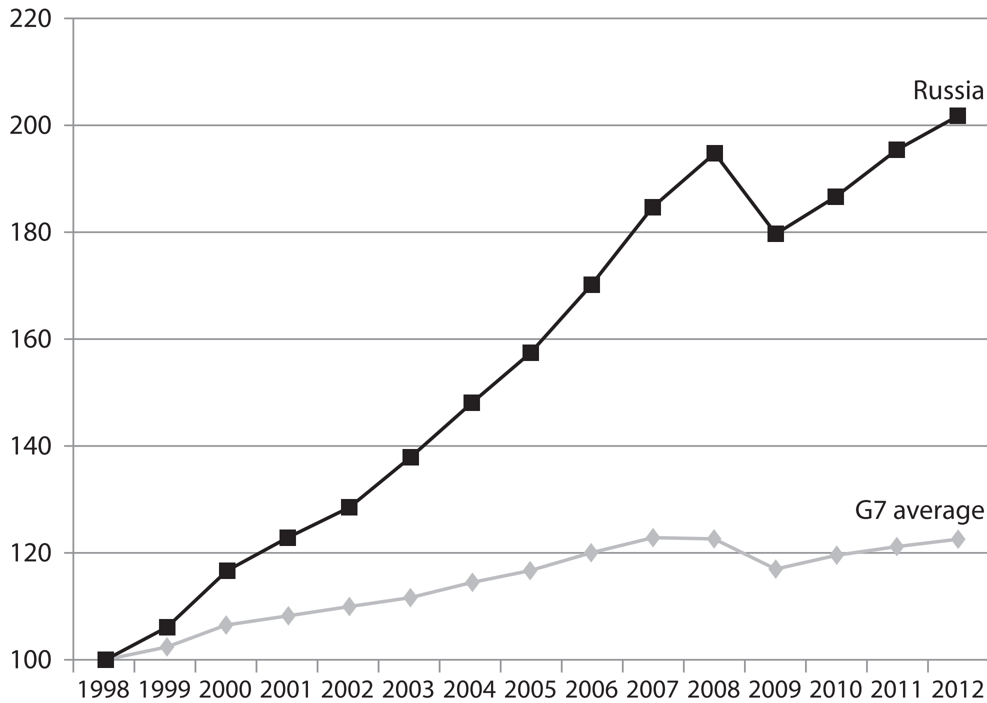
EXPERT TUITION

(Total for Question 2 = 25 marks)

EXPERT TUITION

3 The Russian economy and membership of the World Trade Organisation (WTO)

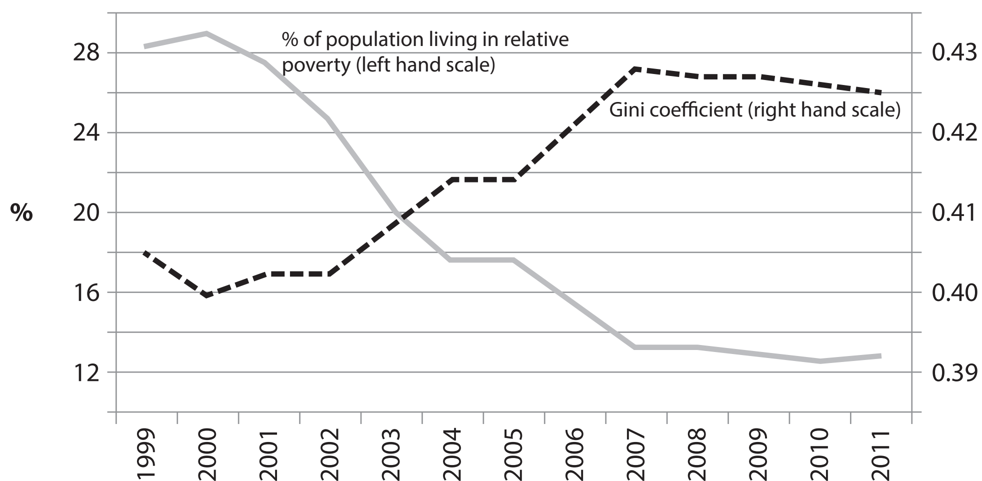
Figure 1 Index of real GDP in the G7* and Russia 1998-2012 (1998 = 100)



* the USA, UK, France, Germany, Italy, Canada, and Japan

(Source: © Forbes.com LLC)

Figure 2 Relative poverty* and inequality in Russia

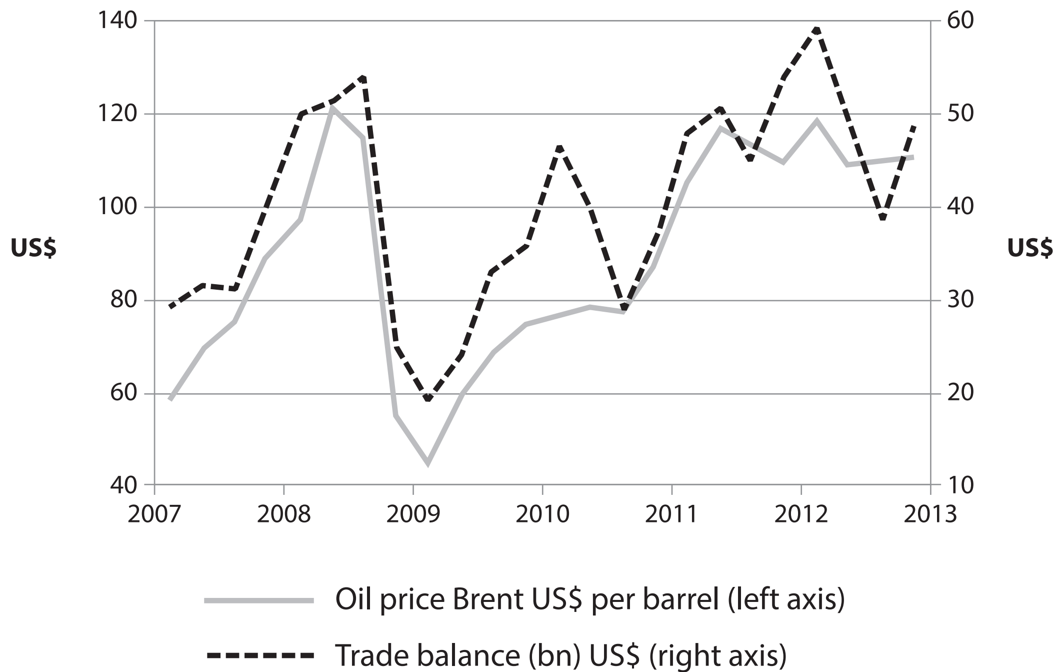


*a level of income set at 60% or less of median household income

(Source: © The World Bank Group, 2012)

EXPERT TUITION

Figure 3 Oil price and Russia's trade balance



(Source: © The World Bank Group, 2013)

Extract 1 Russia needs a plan for modernising its economy

Between 2000 and 2008 personal incomes in Russia doubled. The unemployment rate fell from around 12% to 7% in the same period. Russia acquired $500 billion of foreign currency reserves and the decline in population was halted.

Russia's economy is still not performing badly. Thanks to the high oil price, economic growth is likely to stay at 4% or a little less for the next few years – respectable by West European standards. The problem is that Russia's rulers do not appear to have a plan for modernising the economy, which is alarmingly unbalanced. Oil and gas provide half the government's revenue and almost 70% of export earnings. Output of oil and gas is static and few new fields are coming on stream. Even if the oil price stays high, Russia is heading for current account and budget deficits in the years ahead.

(Source: © Centre for European Reform)

EXPERT TUITION

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)

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

(15)

EXPERT TUITION

(Total for Question 3 = 15 marks)

EXPERT TUITION

4 Crisis in the Eurozone

Figure 1: Budget deficits as a percentage of GDP of selected Eurozone countries (2010)

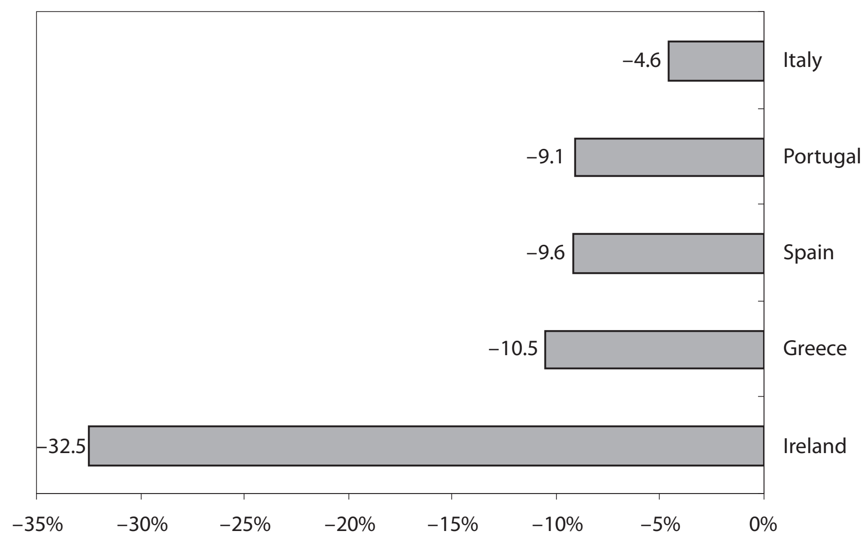
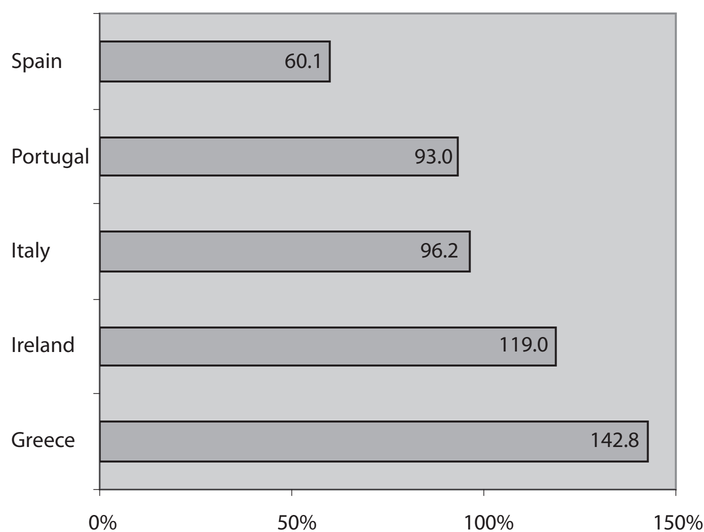


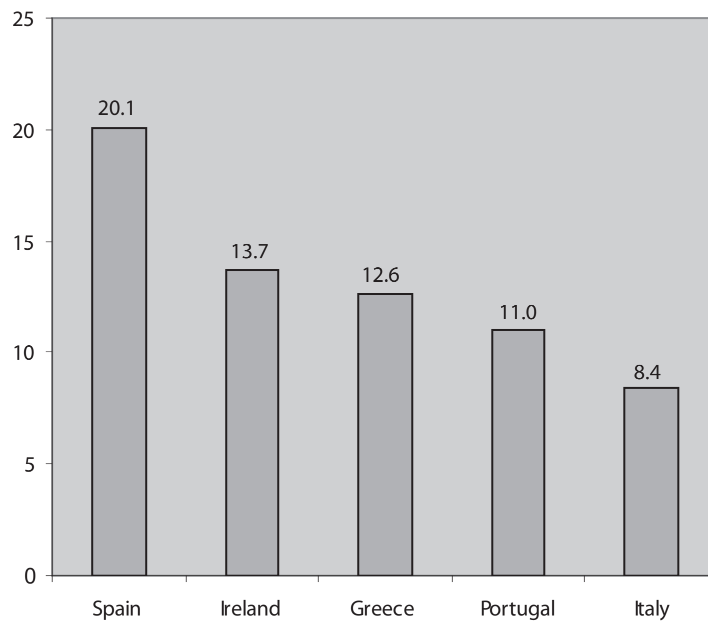
Figure 2: National debts as a percentage of GDP of selected Eurozone countries (2010)



(Source for Figures 1 & 2: Eurostat © European Union http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-26042011-AP/EN/2-26042011-AP-EN.PDF)

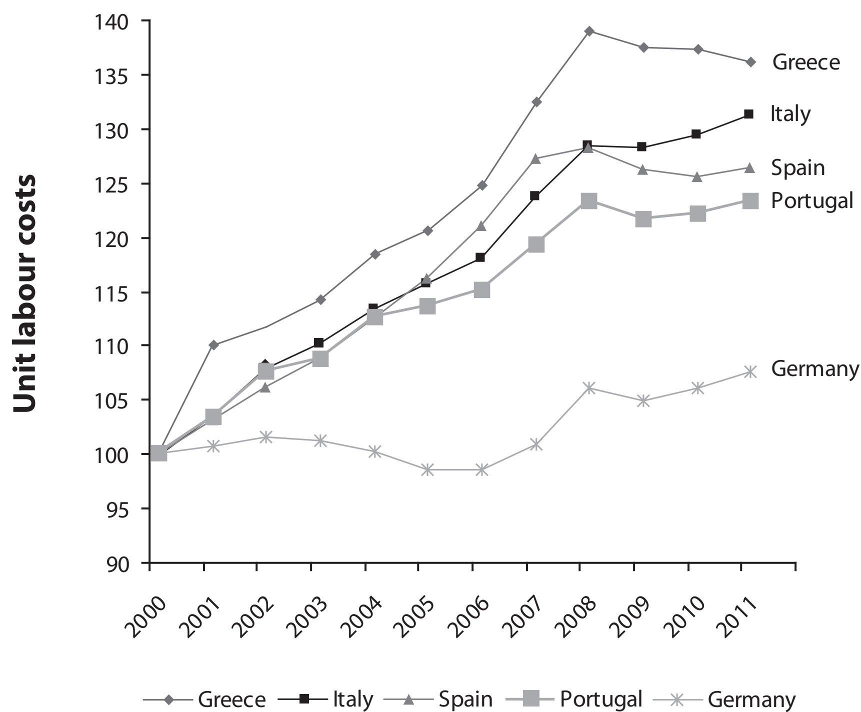
EXPERT TUITION

Figure 3: Unemployment in selected Eurozone countries, per cent (2010)



(Source: Eurostat © European Union http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics#A_detailed_look_at_2010)

Figure 4: Unit Labour Costs in selected Eurozone countries (2000 = 100)



(Source: Eurostat © European Union http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_aux_ulc&lang=en)

EXPERT TUITION

Extract 1: Differences in performance in Eurozone economies

The fear that Greece's debt crisis might be the first of similar problems elsewhere in the Eurozone has been borne out. In November 2010, Ireland joined Greece in being forced to apply for funds from the European Union (EU) rescue scheme and the International Monetary Fund (IMF). A few months later in April 2011, Portugal became the next country to seek substantial financial support. 5

Although economic growth picked up in most EU countries in 2010, there were marked differences in performance. Germany's economy is booming, with Gross Domestic Product (GDP) increasing 3.5% but the Irish economy contracted by 1.6% in the final quarter of 2010 and is forecast to grow by less than 1% in 2011. The outlook for Greece is worse: GDP fell by 3.9% in 2010. It is notable that GDP in countries 10 outside the Euro such as Britain, Poland and especially Sweden grew at a rate faster than the Eurozone average in the first nine months of 2010.

In many countries unemployment has not risen by as much as might be expected given the depth of the financial crisis of 2008-9. Germany now has lower unemployment than before the crisis, thanks in part to short-time working and 15 flexible time arrangements in its manufacturing sector. The worst affected countries include Ireland and Spain, where a collapse in construction activity has caused a sharp rise in unemployment.

Weak growth and high unemployment could cause serious problems for countries that already have high levels of national debt. That explains why Greece was first to 20 lose the confidence of the markets with a national debt to GDP ratio of 127% and a budget deficit of 15.5% of GDP in 2009. Both Ireland and Spain had low national debt to GDP ratios before 2008, but a combination of recession and a collapse in their housing markets resulted in a massive fall in tax revenues.

(Source: © *The Economist* Newspaper, 6 April 2011)

EXPERT TUITION

4 Assess possible reasons why the GDP of European Union countries outside the Eurozone grew at a faster rate than the Eurozone average in the first nine months of 2010.

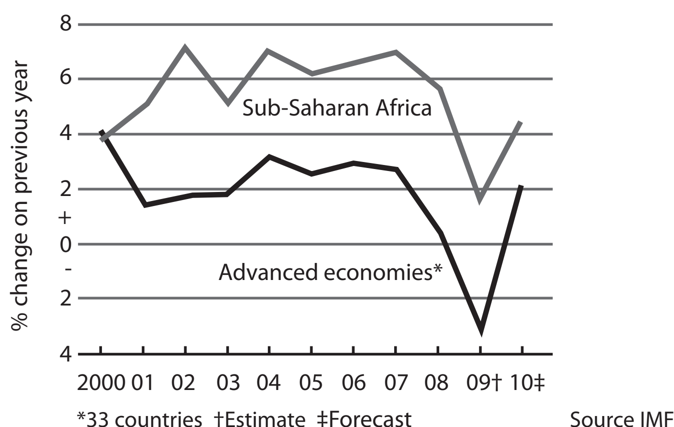
(10)

EXPERT TUITION

4 10

5 Sub- Saharan Africa and the Global Recession

Figure 1: GDP, % change on previous year



*33 countries †Estimate ‡Forecast Source IMF

Extract 1: The Impact of the World Recession on Sub-Saharan Africa

The global recession was slow to hit Africa. Its banks and stock exchanges were isolated enough from the wider capital markets to suffer few shocks. Foreign investment remained steady. Oil-rich countries such as Angola continued to boom. However, reduced demand for African exports in 2009, together with the shrinking of private investment flows, has hit the continent hard after a long period of unusually strong growth. It is estimated that countries south of the Sahara (Sub-Saharan Africa) on average grew by less than 2% in 2009. In many countries income has started to fall and unemployment to rise. 5

Therefore, the confidence of Dominique Strauss-Kahn, the IMF's head, who has been touring Africa, struck some as strange. He went out of his way to praise Africa's central banks. He even said Africa's economies were more dynamic than most of Asia's. The main point, he said, was that Africa was recovering from the global crisis faster than expected. 10

According to the IMF, Sub-Saharan Africa's economy will grow overall by 4.5% in 2010. But this may be distorted by a large boost from oil and gold, as well as from the guaranteed aid which makes up half the budget in some countries. Kenya will struggle to grow by 3% in 2010 and even that depends on an upswing in tourism. Nearly every African country will grow more slowly than the 6% that many development economists consider is the minimum necessary to allow countries with rapidly increasing populations to maintain living standards. 15 20

Source (for both figure 1 and extract 1): *The Economist*, 11 March 2010, http://www.economist.com/world/middle-east/displaystory.cfm?story_id=15679939

EXPERT TUITION

Extract 2: Emerging Economies and Sub-Saharan Africa

As poor countries emerge from recession and the rich world struggles to recover, the BRIC countries – Brazil, Russia, India and China – see an opportunity to increase their influence. A new study by the Overseas Development Institute (ODI), says the emerging countries, such as the BRIC countries, increasingly affect the growth of poorer countries. China has a huge list of pledges to Africa: it has promised $10 billion of cheap loans over 3 years; it has also offered debt forgiveness, new hospitals, professional training for 15,000 Africans and a doubling of aid. When Sudan ran into trouble repaying $34 billion foreign debt, it turned to China, India and regional development funds in the Gulf. India helped to bail out Tanzania's financial institutions.

Trade and foreign direct investment (FDI) from the West are already falling, but the middle-income countries are filling the gap. While total FDI in Africa fell by about a third between 2008 and 2009, the flow from China rose by 80% (admittedly from a low base). Brazil says it has invested $10 billion in the continent since 2003. Since 2009, the BRIC countries' investments and loans have increased rapidly (see Figure 2).

Aid agencies consider that China and others are "rogue donors" because they give to and support corrupt regimes. Aid from China is usually 'tied' to hospitals, roads and equipment built or sold by Chinese companies. Further, much 'aid' is loans at near-commercial rates of interest. African governments have had their debts to the West mostly forgiven and are accumulating new loans elsewhere.

Trade with the BRIC countries may be a trap. The BRIC countries import raw materials like copper and cotton from poor countries; rich countries tend to buy manufactured goods such as garments. So more trade with the BRIC countries and less with the developed world offers less chance of growth in the secondary sector – the opposite of how China grew richer. Eswar Prasad of Cornell University says that China and India's enormous appetite for raw materials may help poor countries diversify their export markets but not their industry, leaving them more dependent on volatile commodities than before.

EXPERT TUITION

Figure 2: Examples of Foreign Direct Investment (FDI) and loans by BRIC countries in Africa since January 2010

COUNTRY	SECTOR	$m	TYPE
BRAZIL			
Angola	Oil	800	FDI
Mozambique	Mining	1 300	FDI
Nigeria	Oil	2 000	FDI
RUSSIA			
Angola	Construction	500	FDI
Nigeria	Gas	2 500	FDI
INDIA			
Chad	Textiles	25	Loan
Malawi	Development Projects	50	Loan
Zambia	Hydro Power	50	Loan
CHINA			
Liberia	Mining	2 600	FDI
Tanzania	ICT	180	Loan
Zambia	Development	1 000	Loan

Source (for both Extract 2 and Figure 2): *The Economist*, 20 March 2010

*5 With reference to Extract 2, evaluate the benefits to African countries of increased trade with the BRIC economies.

(12)

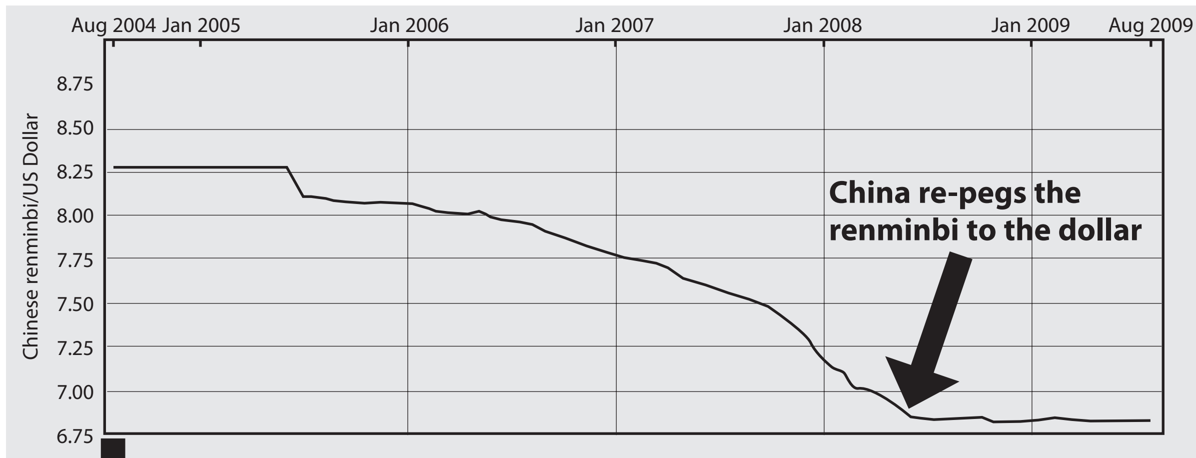
EXPERT TUITION

5 12

EXPERT TUITION

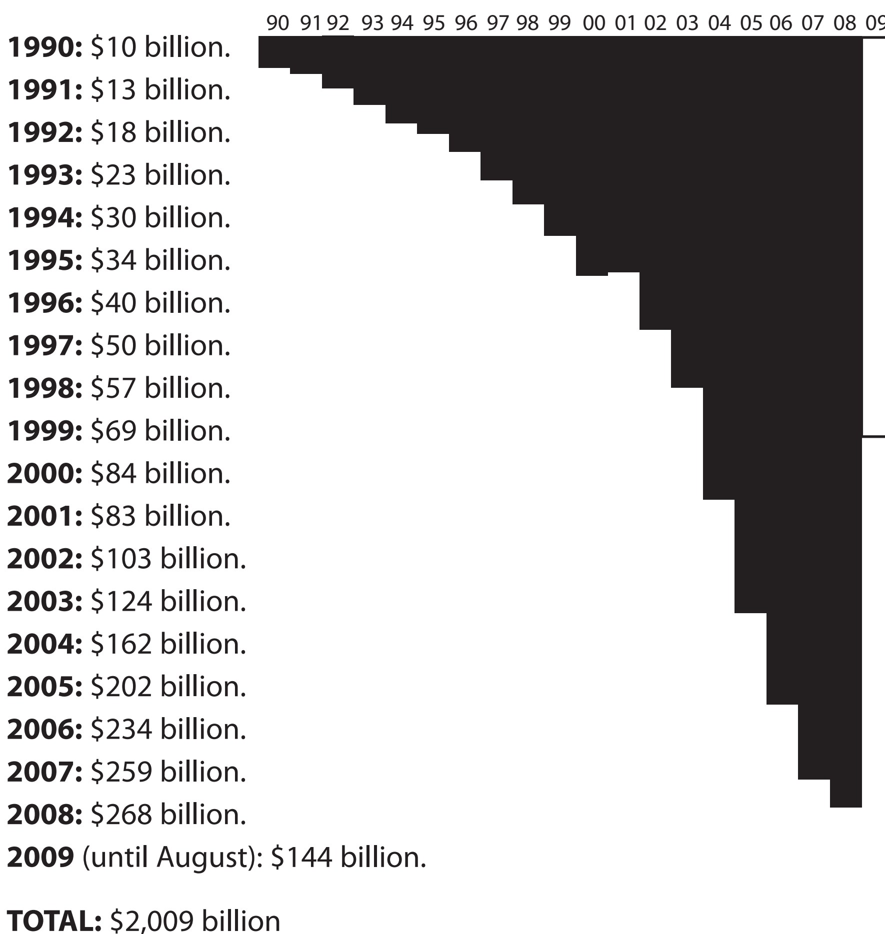
6 Trade Imbalances

Figure 1: Value of Chinese renminbi against the US Dollar



Source: http://www.marketskeptics.com/2010/04/cracks-appearing-in-us-financial-system.html

Figure 2: US trade deficits with China since 1990



1990: $10 billion.
1991: $13 billion.
1992: $18 billion.
1993: $23 billion.
1994: $30 billion.
1995: $34 billion.
1996: $40 billion.
1997: $50 billion.
1998: $57 billion.
1999: $69 billion.
2000: $84 billion.
2001: $83 billion.
2002: $103 billion.
2003: $124 billion.
2004: $162 billion.
2005: $202 billion.
2006: $234 billion.
2007: $259 billion.
2008: $268 billion.
2009 (until August): $144 billion.

TOTAL: $2,009 billion

Source: http://www.census.gov/foreign-trade/balance/c5700.html

EXPERT TUITION

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. 5

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. 10

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. 15

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

Extract 2 The Chinese currency

The undervaluation of China's currency, the renminbi, against the dollar has been a source of tension between the US and China for some time. The Chinese government has kept the renminbi at 6.83 per dollar since mid-2008 to protect its exporters from the global recession and a contraction in world trade. China has accumulated a record $2.4 trillion of reserves and $889 billion of US government debt, partly as a result of its exchange rate policy. Global growth would be about 1.5% higher if China stopped undervaluing its currency and running trade surpluses, according to Paul Krugman, a leading economist. If China did not start to appreciate the renminbi over the next few weeks, there was a good chance that the US would label China a 'currency manipulator'. That could allow the US to impose new tariffs on Chinese products. 5 10

Stephen Roach, Chairman of Morgan Stanley Asia said Paul Krugman's call for a stronger renminbi is "very bad" advice because the US trade deficit is due to a low level of savings in the US. Boosting Chinese spending and increasing savings in the US is a better way of reducing trade imbalances, according to Roach.

Source: http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aaDhEg_mZprU

EXPERT TUITION

6 With reference to Extract 1, explain the role of the World Trade Organisation (WTO).

(5)

6 5

EXPERT TUITION

***7** 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)

EXPERT TUITION

7 50

***8** (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)

EXPERT TUITION

C 8 50

EXPERT TUITION