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GCSE ECONOMICS

A593/01/SM The UK Economy and Globalisation

PRE-RELEASE STIMULUS MATERIAL

JUNE 2017



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 **16** pages. Any blank pages are indicated.

Globalisation – A Cause for Celebration or Not?

Since the global recession that took place after the financial crash in 2008, there has been a lot of debate as to whether globalisation has been a success or not.

The global economy has changed both in terms of its size and the position of economies within it.

Changes have also taken place in the way that countries trade with each other. The values of imports and exports have been increasing, but some countries have seen their position decline within the global trading system while others have been expanding their volume of trade.

The increased interdependence between economies that globalisation has caused means that economic problems within the world's biggest economies are likely to affect other economies and the businesses within them. It used to be said that when the United States sneezes, the world catches a cold. However, the same might now be said of China. Many countries rely on exports to China; such as Zambia, which is heavily dependent on Chinese demand for its copper. How would they be affected by a slowdown of the Chinese economy?

Globalisation means that countries need to be competitive. There have been changes in the international competitiveness of different countries and this has been affected by productivity levels, access to education and the role of multinational corporations (MNCs).

A group of economics students decided to investigate the effects of globalisation in recent years. They collected the following information through their research.

The size of the global economy has increased, but there have been major changes in the relative positions of some countries within the global economy. The obvious examples are China and India. As some countries have been growing and moving up the international economic league table, other countries are moving down the table.

	1990	2014
1	United States	China
2	Japan	United States
3	Russia	India
4	Germany	Japan
5	Italy	Germany
6	France	Russia
7	China	Brazil
8	Brazil	Indonesia
9	India	France
10	United Kingdom	United Kingdom

Fig. 1 The changing position of the top 10 economies in the world economy – countries ranked by total GDP (PPP in US\$ constant prices) in 1990 and 2014

The students collected the following data about the UK's main trading partners for imports and exports of goods.

UK Exports of Goods (US\$ millions)								
	2000		2005		2010		2014	
1	United States	\$44,751	United States	\$52,757	United States	\$42,549	Germany	\$49,693
2	Germany	\$33,720	Germany	\$39,289	Germany	\$41,689	United States	\$47,959
3	France	\$27,546	France	\$34,628	Netherlands	\$32,531	Netherlands	\$37,330
4	Netherlands	\$22,221	Ireland	\$29,342	France	\$28,686	Switzerland	\$33,202
5	Ireland	\$19,096	Netherlands	\$22,872	Ireland	\$25,340	France	\$30,142

UK Imports of Goods (US\$ millions)								
	2000		2005		2010		2014	
1	United States	\$44,996	Germany	\$66,714	Germany	\$70,870	Germany	\$97,510
2	Germany	\$42,230	United States	\$36,923	China	\$48,929	China	\$58,991
3	France	\$26,929	France	\$35,825	Netherlands	\$39,616	Netherlands	\$51,100
4	Netherlands	\$22,970	Netherlands	\$34,490	United States	\$34,946	United States	\$42,505
5	Japan	\$15,907	China	\$30,502	France	\$32,836	France	\$39,645

Fig. 2 The changing pattern of UK trade in goods – the top 5 UK export markets and sources of imports into the UK (US\$ millions 2000-2014)

China and India have grown very quickly in recent years. One reason for their dramatic economic growth rates has been their increased involvement in world trade. The students wanted to know the major trading partners of each of these countries and to see how they had changed.

China Exports of Goods (US\$ millions)					
		2000			2014
1	United States	\$52,162	1	United States	\$397,099
2	Hong Kong	\$44,520	2	Hong Kong	\$363,223
3	Japan	\$41,654	3	Japan	\$149,452
4	South Korea	\$11,293	4	South Korea	\$100,402
5	Germany	\$9,278	5	Germany	\$72,731
6	Netherlands	\$6,687	6	Netherlands	\$64,923
7	United Kingdom	\$6,310	7	Vietnam	\$63,618
8	Singapore	\$5,761	8	United Kingdom	\$58,991
9	Taiwan	\$5,040	9	India	\$58,280
10	Italy	\$3,803	10	Russia	\$53,686

China Imports of Goods (US\$ millions)					
		2000			2014
1	Japan	\$41,520	1	South Korea	\$190,286
2	Taiwan	\$25,497	2	Japan	\$162,686
3	South Korea	\$23,208	3	United States	\$154,136
4	United States	\$22,376	4	Taiwan	\$152,310
5	Germany	\$10,411	5	Germany	\$104,776
6	Hong Kong	\$9,431	6	Australia	\$90,132
7	Russia	\$5,769	7	Malaysia	\$55,771
8	Malaysia	\$5,480	8	Brazil	\$51,976
9	Australia	\$5,099	9	Saudi Arabia	\$48,679
10	Singapore	\$5,060	10	South Africa	\$44,670

Fig. 3 The changing pattern of China's trade in goods – the top 10 China export markets and sources of imports into China (US\$ millions 2000 and 2014)

India Exports of Goods (US\$ millions)					
		2000			2014
1	United States	\$9,083	1	United States	\$42,496
2	Hong Kong	\$2,608	2	United Arab Emirates	\$37,170
3	United Arab Emirates	\$2,469	3	Hong Kong	\$13,508
4	United Kingdom	\$2,233	4	China	\$13,252
5	Germany	\$1,865	5	Saudi Arabia	\$12,797
6	Japan	\$1,767	6	United Kingdom	\$9,677
7	Belgium	\$1,445	7	Singapore	\$9,645
8	Italy	\$1,262	8	Germany	\$7,746
9	France	\$999	9	Brazil	\$6,973
10	Russia	\$904	10	Netherlands	\$6,734

India Imports of Goods (US\$ millions)					
		2000			2014
1	United States	\$3,152	1	China	\$58,280
2	Belgium	\$3,073	2	Saudi Arabia	\$32,581
3	United Kingdom	\$3,053	3	United Arab Emirates	\$27,212
4	Switzerland	\$3,020	4	United States	\$21,234
5	Japan	\$2,016	5	Switzerland	\$21,169
6	Germany	\$1,780	6	Qatar	\$16,472
7	Singapore	\$1,482	7	Iraq	\$16,097
8	China	\$1,449	8	Nigeria	\$15,674
9	Malaysia	\$1,389	9	Indonesia	\$15,261
10	South Africa	\$1,270	10	Kuwait	\$15,060

Fig. 4 The changing pattern of India's trade in goods – the top 10 India export markets and sources of imports into India (US\$ millions 2000 and 2014)

Some developing countries have seen their trading patterns changed considerably by the growth of China. The students decided to look at the African country of Zambia.



Fig. 5 The value of Zambian exports to the UK and China (US\$ millions 2000-2014)

The students found that Zambia's main export markets had changed. In 2000, the UK was ranked 1st as the most important market for Zambia's exports and China was only ranked 50th. By 2014, China was ranked 2nd, while the UK had fallen to 10th.

	Importance to Zambia of exports to the UK - Rank	Importance to Zambia of exports to China - Rank
2000	1	50
2005	3	11
2010	6	2
2014	10	2

Fig. 6 The changing importance of Zambian exports to the UK and China (2000-2014)

The students found out that the main reason for increasing Zambian exports to China is because of China's demand for Zambia's main export – copper.

The students collected the following information about the production (supply) and usage (demand) of copper in the global economy.

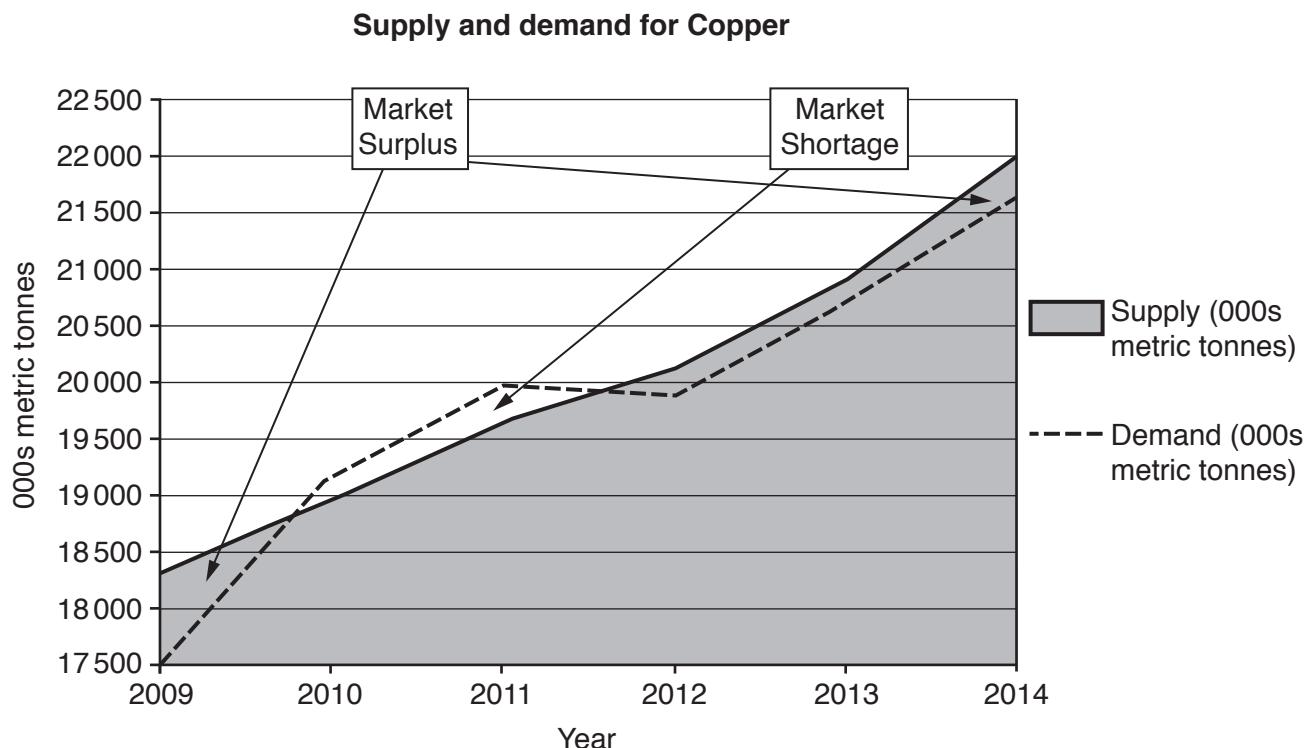


Fig. 7 The production (supply) and usage (demand) of copper – 2009 to 2014

The students found a news article that showed how global interdependence means that countries such as Zambia have been badly affected by the 2015 slowing down of China's rate of economic growth.

Copper is one of the casualties in the collapse of global commodity prices caused by China's economic slowdown.

The price of copper fell from a peak of just over US\$10,100 a tonne in 2011 to US\$4,955 a tonne in 2015. Investors were warned that prices would continue to fall.

Demand for copper, which is used in many industries from construction to car manufacturing, has suffered from the slowing Chinese economy.

Also, the price of crude oil has fallen about 60% since 2014, coal has fallen 60% since 2011, and iron ore is down even more, nearly 70% since 2010.

Wider impact

The effects of these falling prices are spreading out into other sectors of business such as mining companies and other support services. For example, shipping companies around the world are losing money due to the collapse in Chinese demand for iron ore and coal.

Any economy dependent on commodity exports has seen its currency depreciate.

Australia, whose iron ore, coal, oil and natural gas provided the raw materials for the Chinese boom, has seen the Australian dollar lose more than 25% of its value against the US dollar over the past year.

Smaller countries

For smaller countries the effect can be catastrophic.

Recently, Zambia's currency, the kwacha, fell more than 17% in one day - its biggest one-day fall on record - as prices for its copper exports fell again. Copper accounts for 85% of Zambia's exports.

The currency recovered the next day, but it is down 45% in the past year.

The kwacha has also been hit by the news that the country's largest mining company (the second largest employer in Zambia after the government) announced it would lay off more than 9,300 people out of a total workforce of 21,000.

Source: BBC News

Fig. 8 Adapted from News article, September 2015: 'Copper price close to six-and-a-half-year low'

The students were interested to see what had happened to the prices of some of the primary commodities mentioned in the news article.

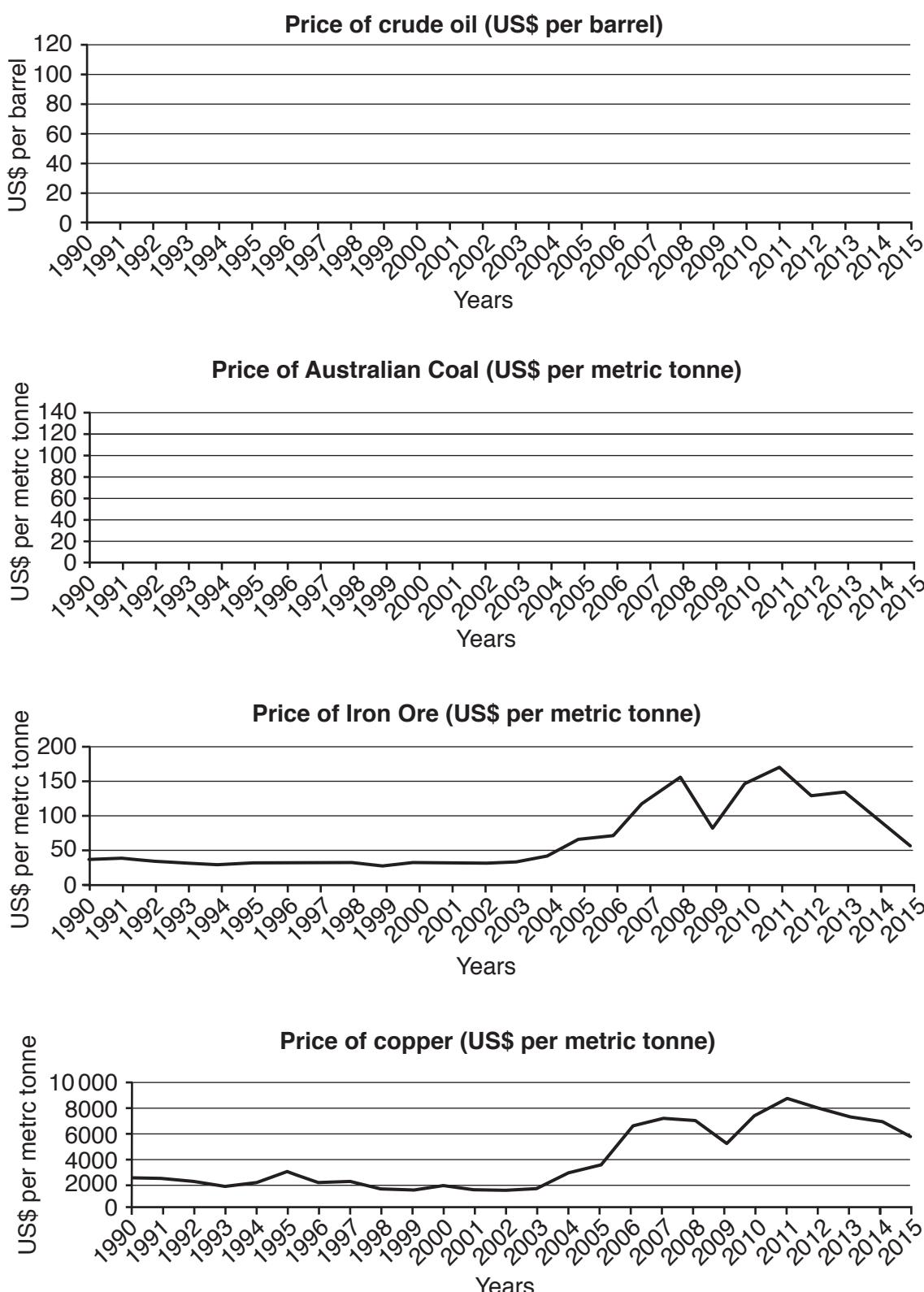


Fig. 9 Average annual prices of selected commodities (US\$ 1990 to 2015)

To be competitive in the global economy governments need to understand the importance of productivity and education. The students decided to split into two groups and to find out more about productivity and education.

The groups returned with the following information.

Productivity in the UK is well below that in most of its major trading partners. In 2014, for example, while a UK worker might be producing 100 units of output in an hour, a worker in Germany would be producing 136 units, a worker in France 131 units, a worker in the United States 130 units, a worker in Italy 110 units and a worker in Canada 104 units.

Only in Japan was productivity lower than in the UK as a worker there would only produce 84 units in an hour.

On average, these six other countries were 18% more productive than the UK.

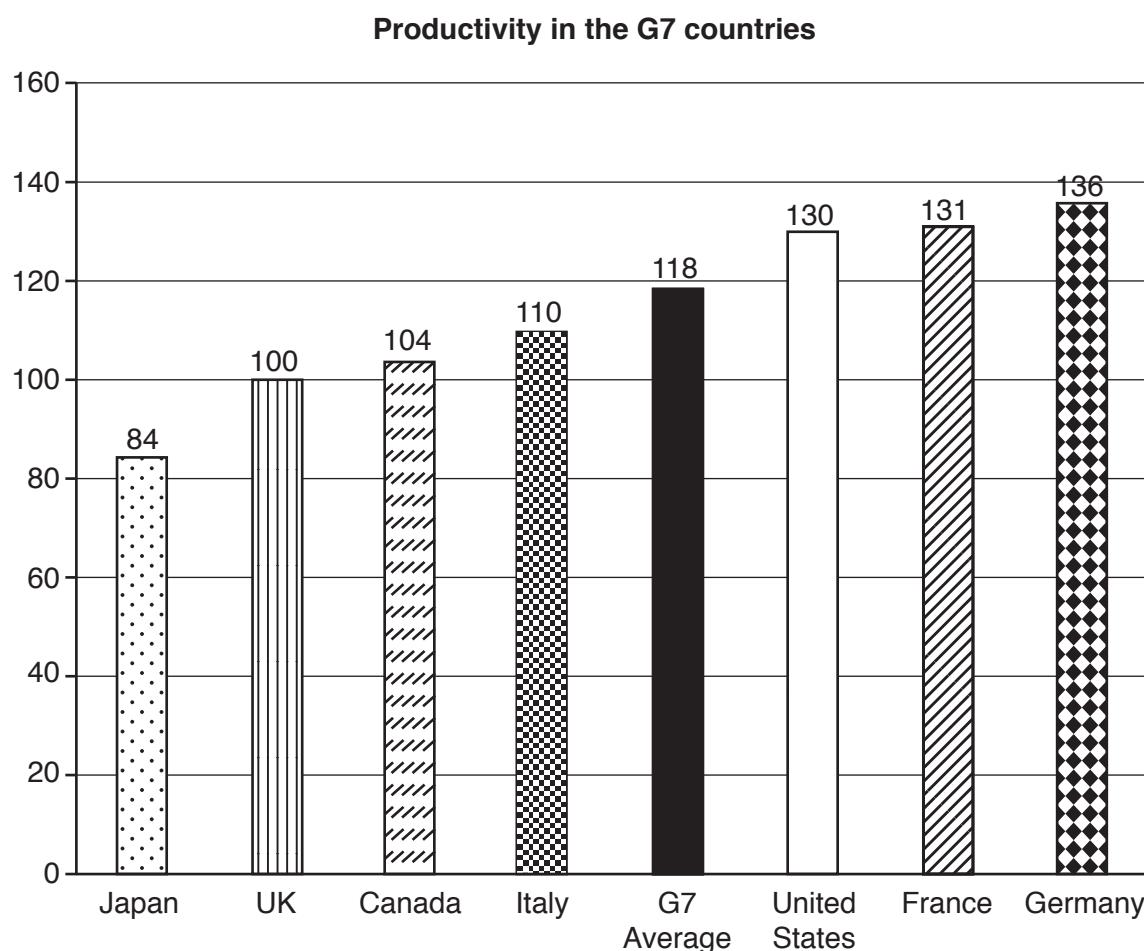


Fig. 10 Productivity in the G7 countries in 2014 (Index values – UK=100)

An educated labour force can allow a country to be more competitive. But the students found that some countries differed significantly from others in the percentage of their labour force that had completed primary, secondary and tertiary education.

Country Name	GDP per capita (current US\$)	Percentage of the labour force that completed only primary education	Percentage of the labour force that completed both primary and secondary education	Percentage of the labour force that completed primary, secondary and tertiary* education	Total of primary, secondary & tertiary*
Switzerland	\$83,295	13.7	51.7	34.3	99.7
Singapore	\$54,578	20.7	49.9	29.4	100.0
Germany	\$43,932	13.5	57.9	28.3	99.7
United Kingdom	\$41,051	6.8	53.9	38.1	98.8
Turkey	\$10,646	52.5	20.2	18.3	91.0
Malaysia	\$10,508	17.0	55.8	24.4	97.2
Namibia	\$5,682	57.0	23.4	6.7	87.1
Morocco	\$2,861	44.0	11.6	9.2	64.8
Cambodia	\$948	28.0	20.5	2.8	51.3

Fig. 11 GDP per capita (US\$) and percentage of labour force that completed primary, secondary and tertiary* education in selected countries (2012)

* Tertiary education includes learning activities in specialised fields of academic, advanced vocational or professional education in schools, colleges and universities.

Globalisation has seen increasing levels of foreign direct investment (FDI) by multinational corporations (MNCs). The students wanted to find out where MNCs were investing their money and which countries they came from.

The Role of Multinational Corporations (MNCs)

In 2014, China became the largest recipient of FDI in the world, while the United States dropped to the third largest recipient. Of the top 10 FDI recipients in the world, five are developing economies.

The importance of Asian countries in providing investment funds has significantly increased. Their share in global FDI reached a record 35% in 2014, up from 13% in 2007.

The top 10 countries receiving FDI, 2014 (US\$ billions)			The top 10 countries providing FDI, 2014 (US\$ billions)		
1	China	129	1	United States	337
2	Hong Kong	103	2	Hong Kong	143
3	United States	92	3	China	116
4	United Kingdom	72	4	Japan	114
5	Singapore	68	5	Germany	112
6	Brazil	62	6	Russia	56
7	Canada	54	7	Canada	53
8	Australia	52	8	France	43
9	India	34	9	Netherlands	41
10	Netherlands	30	10	Singapore	41

Source: World Investment Report 2015

Fig. 12 The top 10 countries for inflows and outflows of FDI (US\$ billions 2014)

The students knew that MNCs are controversial. So they decided to identify some of the costs and benefits of MNCs in host countries.

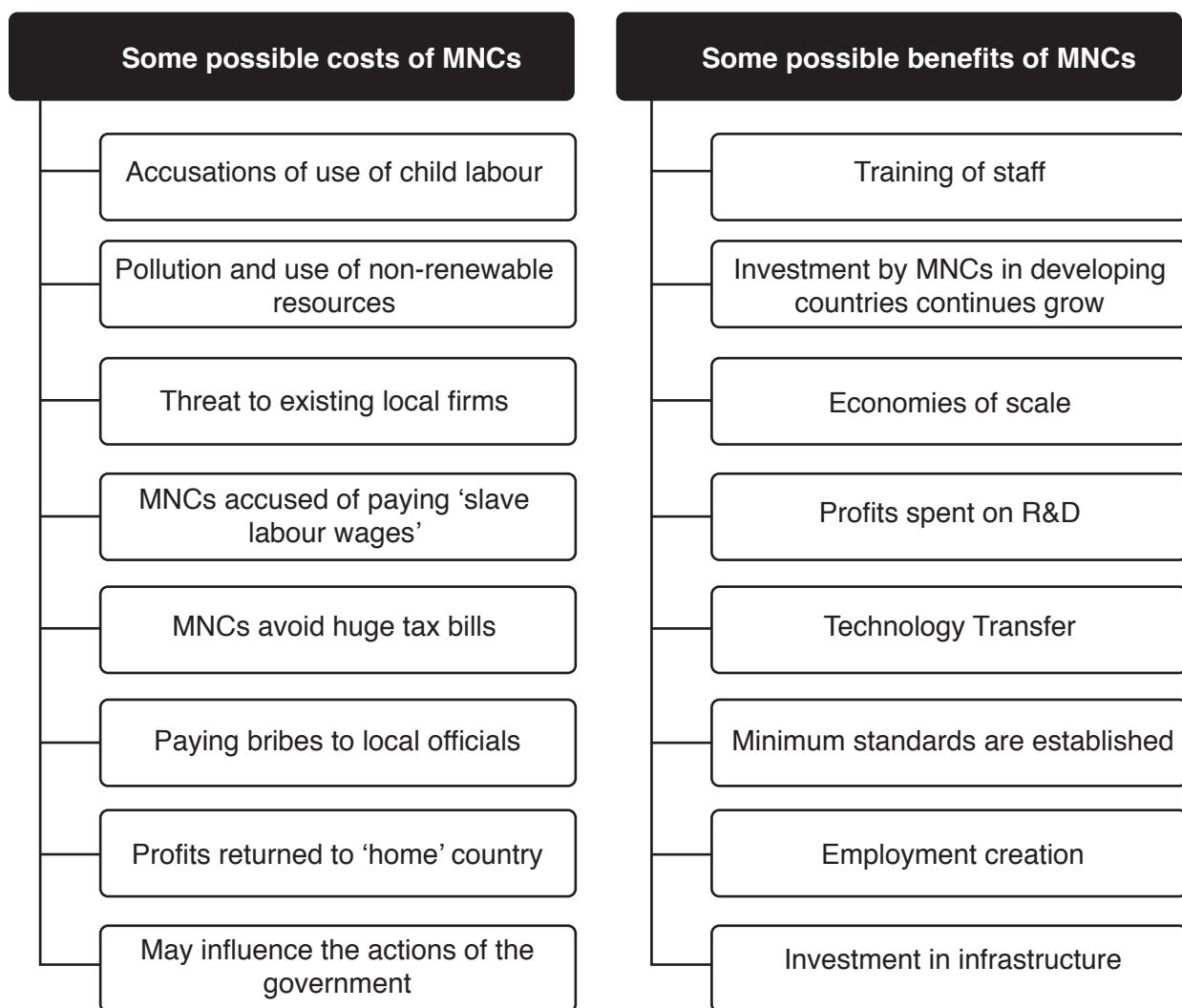


Fig. 13 Selected costs and benefits of MNCs on host countries



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