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ECONOMICS

A593/SM

The UK Economy and Globalisation

STIMULUS MATERIAL

PRE-RELEASE MATERIAL FOR 2011 EXAMINATION

JUNE 2011

This material may be given to candidates at any time after 20 January 2011.

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The Trade Game

Gemma and Daniel are students studying GCSE Economics. As part of their course they have been asked to write a report on how international trade has changed as a result of globalisation. They have put together the following information to help them write their report.

Look first at where the UK's exports go and imports come from to see what patterns they could see.

Fig. 1 – Where UK exports go – 2008

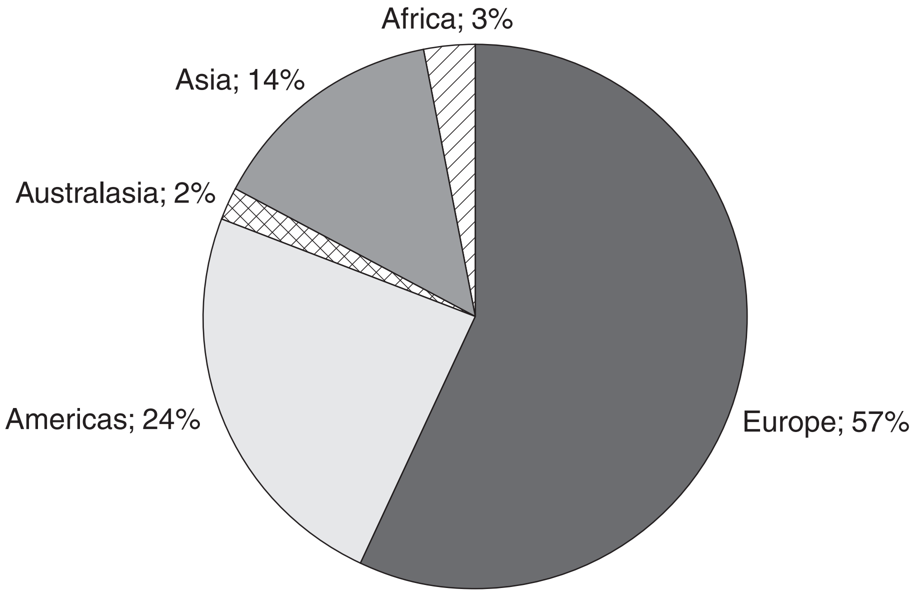
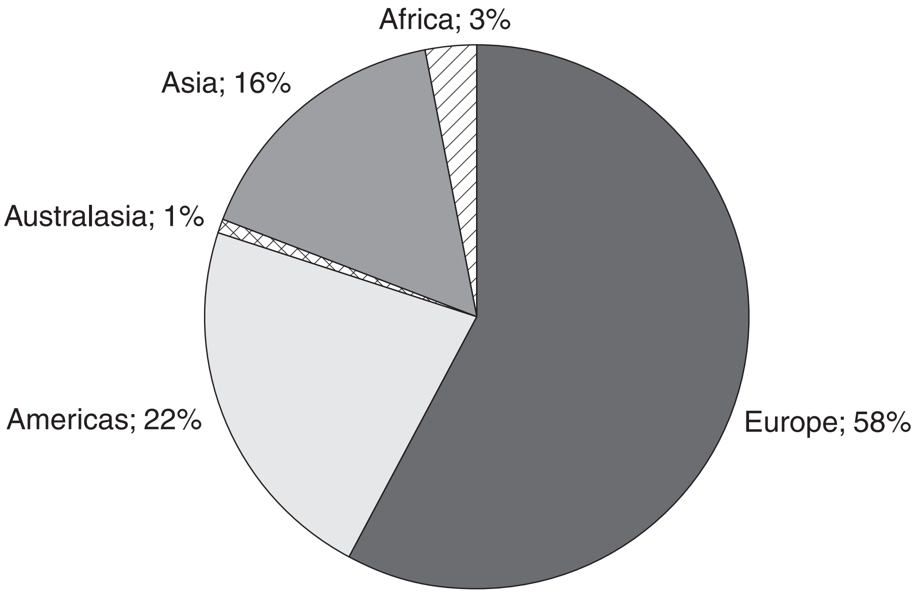


Fig. 2 – Where UK imports come from – 2008



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Gemma and Daniel realise that the EU plays a very important part in the UK's trade. In 2009 there were 27 countries in the EU, as shown on the map below.

Fig. 3 – The European Union (EU) and the Euro Area

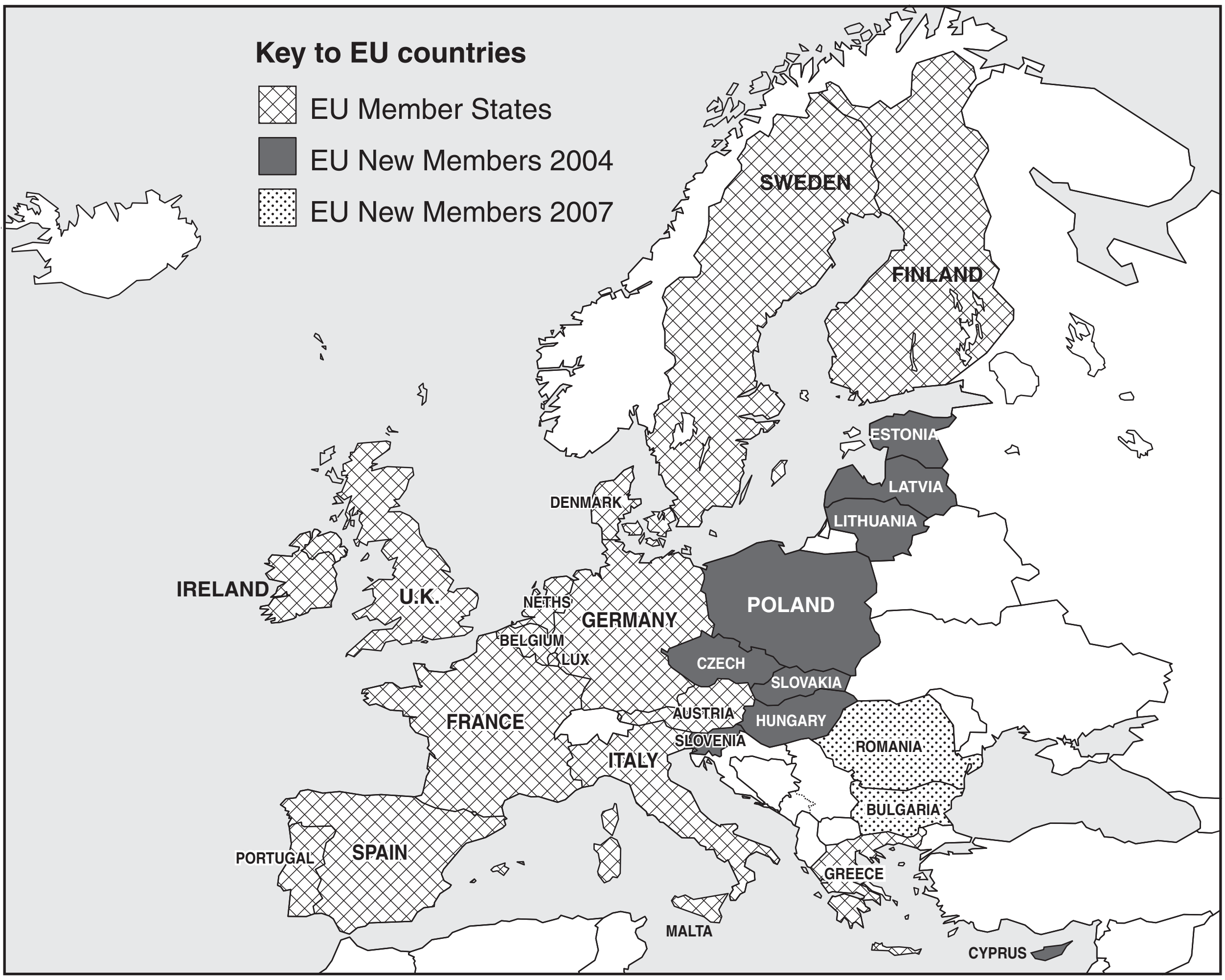


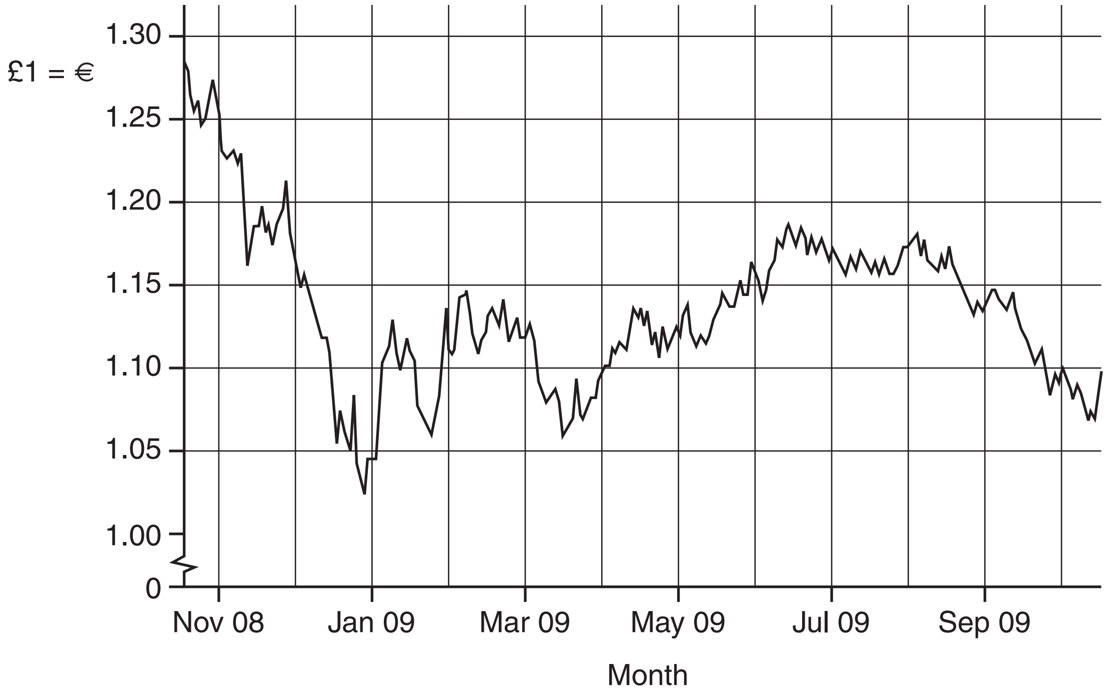
Fig. 4 – The UK as a member of the EU

Although the EU makes up only 7% of the world's population, its trade with the rest of the world accounts for approximately 20% of global exports and imports.

Trade between EU countries represents 66% of all EU trade. Being part of the EU single market has made trade between the UK and other member states much easier due to the existence of free trade. Goods, services, capital and people can now move freely across national borders.

There are, however, a number of costs to the UK of being part of the EU, such as job losses and paying money into the EU budget.

Fig. 5 – Pound sterling to the Euro exchange rate – November 2008 to October 2009



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Gemma and Daniel realised that trade with other countries was very important to the UK. They found the following headlines which highlight some of the costs and benefits of international trade to the UK.

Fig. 6 – Newspaper headlines: international trade

A

More trade with Brazil and India increases competition and lowers prices for UK consumers

B

More small UK firms go bust because they cannot compete with cheaper goods from China

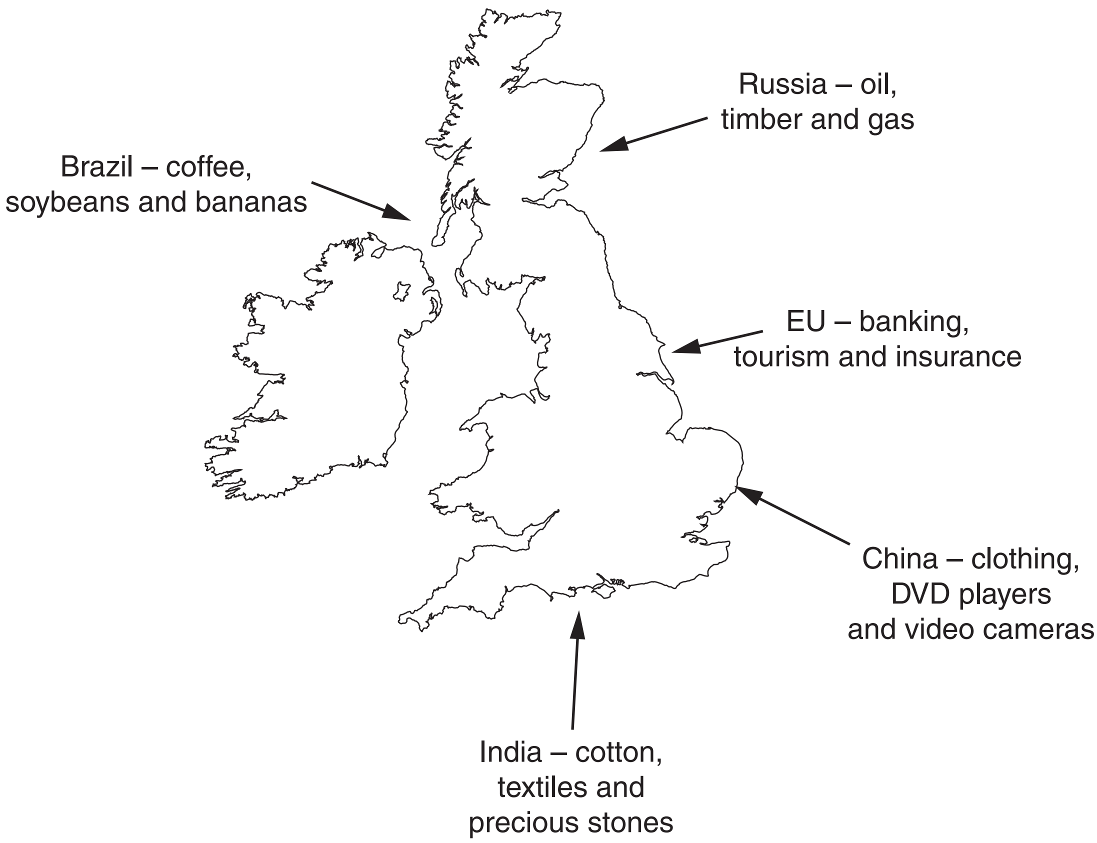
C

UK consumer choice widened as trade with India increases

D

UK trade deficit worsens again

Fig. 7 – What goods and services the UK receives from where



Gemma and Daniel found the following information about what the World Trade Organisation is and what it does.

Fig. 8 – What the WTO does

WORLD TRADE ORGANISATION

Location: Geneva, Switzerland

Established: 1 January 1995

Created by: Uruguay Round negotiations (1986–94)

Membership: 150 countries (since 11 January 2007)

Budget: US$150 million for 2006

Functions:
- **Administering WTO trade agreements**
- **Forum for trade negotiations**
- **Handling trade disputes about subsidies, tariffs and quotas**
- **Monitoring national trade policies**
- **Technical assistance and training for developing countries**
- **Cooperation with other international organisations**

Fig. 9 – WTO acts over unfair subsidies

USA in ‘$4bn cotton row sanction’

The USA is the world’s second-largest producer of cotton.
In August 2008 the USA faced $4bn in annual trade sanctions for failing to scrap illegal subsidies paid to USA cotton growers.
Brazil, which brought the case, asked the WTO to impose the punishment.
A ruling that subsidies helped USA cotton growers undercut foreign competitors was upheld.

Source: Adapted from a BBC article

Gemma and Daniel decided to find out which other countries were important in the trade game. They found out the following about the BRIC (Brazil, Russia, India and China) countries.

Fig. 10 – Emergence of the BRIC nations

Brazil, Russia, India and China are predicted to emerge as major world economies by 2050.
Investment bank Goldman Sachs argues that by 2050 only the USA and Japan are likely to remain in the G7, the group of the world's seven richest nations. Replacing the UK, Germany, Italy and France will be Brazil, Russia, India and China – the "BRICs".
Growth of the BRIC economies will make them much more influential in the WTO and other organisations than they were in the 1990's.

Adapted from a BBC article

Fig. 11 – BRICs and the EU – some facts and figures

2008 Fact	BRIC	EU
World land coverage	25%	2.9%
Percentage of world's population (2008)	40%	7.4%
Combined GDP (PPP)	US $15,435 trillion+	US $15,247 trillion+
Economic growth (per annum)	Brazil 5.1% Russia 5.6% India 7.4% China 9.0%	0.8%
Inflation rate (per annum)	Brazil 5.7% Russia 14.1% India 8.3% China 5.9%	3.5%
Unemployment rate	Brazil 7.9% Russia 6.4% India 6.8% China 4.0%	7.4%

+ trillion = million million

Having collected this data Gemma and Daniel began to write their report.

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