EXPERT TUITION

Economics Questions By Topic:

Emerging & Developing Economies (4.3)

A-Level Edexcel Theme 4

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SECTION A

Write your answers in the spaces provided.

1 In 2018, the International Monetary Fund (IMF) lent Argentina $57 billion as part of a bailout package to help prevent the country's government defaulting on its debts. This financial crisis also caused significant capital flight out of Argentina's economy.

(Source adapted from: https://www.ft.com/content/737b48bc-c1c9-11e8-95b1-d36dfef1b89a)

(a) Explain the role of the IMF in providing financial assistance to countries such as Argentina.

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(b) Which **one** of the following is most likely to happen to Argentina's currency value as a result of capital flight, assuming it is operating with a floating exchange rate system?

(1)

☒ **A** Appreciation

☒ **B** Depreciation

☒ **C** Devaluation

☒ **D** Revaluation

(Total for Question 1 = 5 marks)

2 The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	**Human Development Index (HDI) value**
Vietnam	5 092	0.666
India	5 497	0.609

(Source: www.hdr.undp.org/en/composite/HDI)

(a) Which **one** of the following statements can be deduced from the data in the table?

(1)

☒ **A** Average incomes are higher in India than in Vietnam.

☒ **B** Levels of absolute poverty are higher in Vietnam.

☒ **C** Life expectancy is higher in India than in Vietnam.

☒ **D** Provision of healthcare and education is less effective in Vietnam than in India.

(b) With reference to the data provided, explain **two** limitations of using the HDI to compare levels of development between countries and over time.

(4)

(Total for Question 2 = 5 marks)

END OF SECTION A

SECTION B

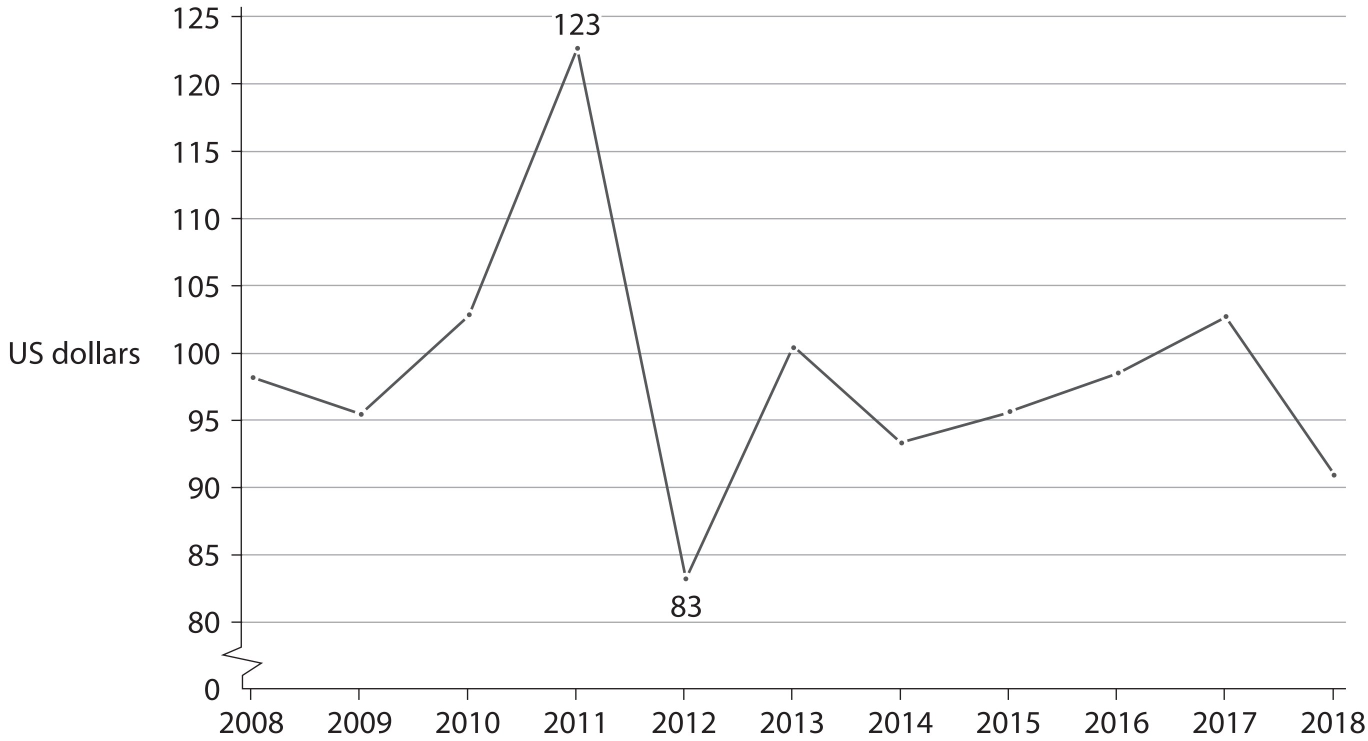
Read all extracts/figures before answering.

Write your answers in the spaces provided.

Question 3

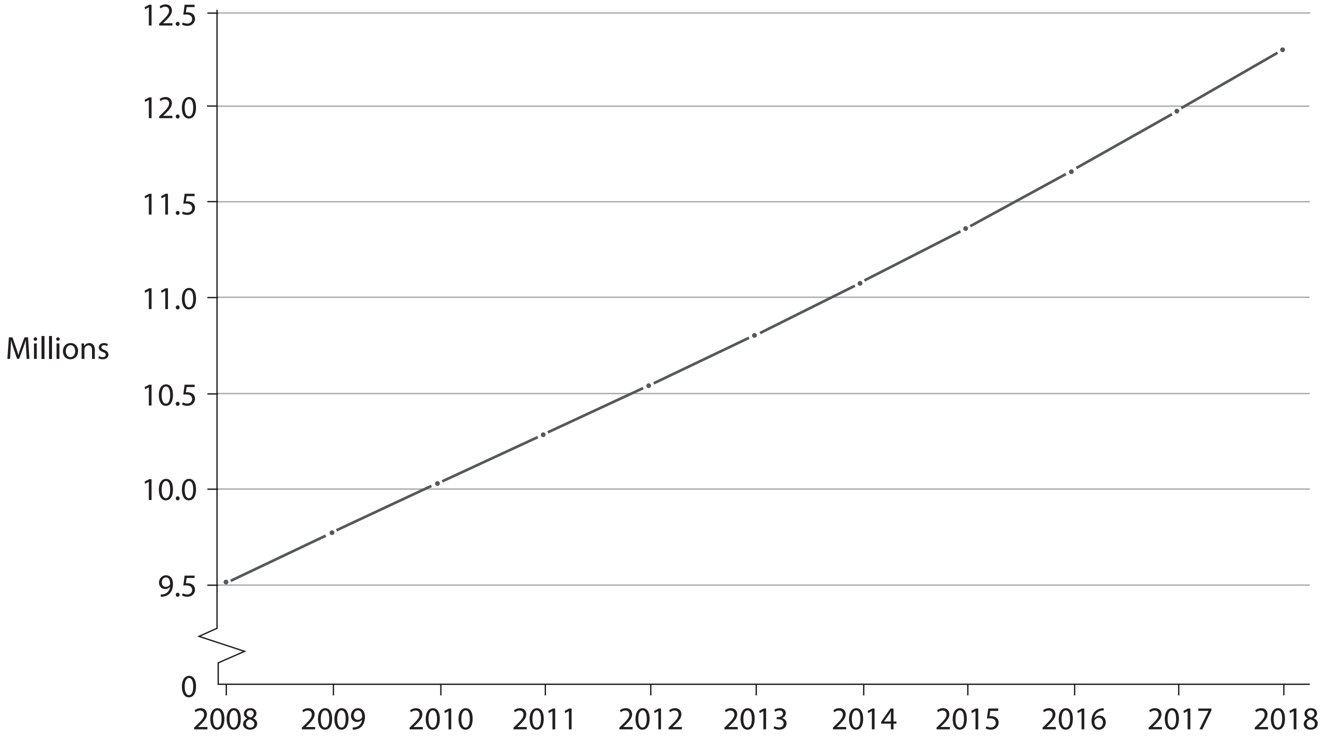
Trade and aid in Rwanda

Figure 1: Aid funding received by Rwanda (per capita, US dollars), 2008 to 2018



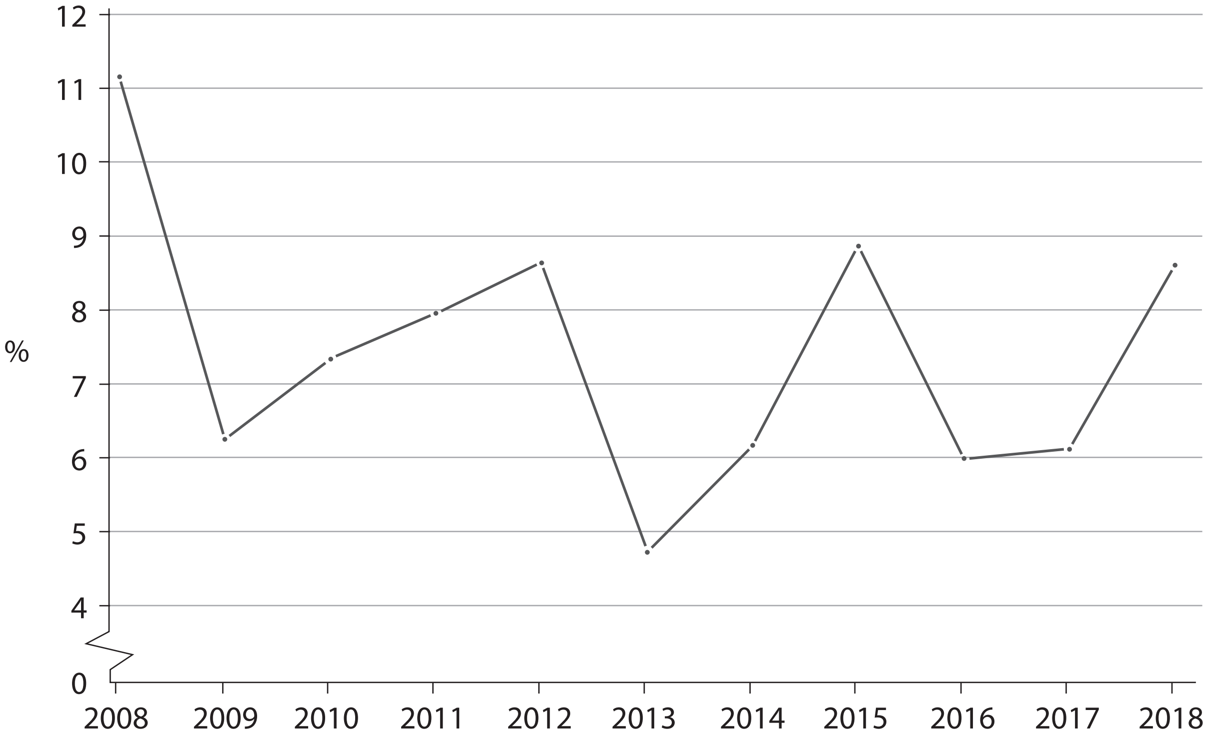
(Source adapted from: data.worldbank.org)

Figure 2: Population of Rwanda (millions), 2008 to 2018



(Source adapted from: https://tradingeconomics.com/rwanda/population)

Figure 3: Rwanda real GDP annual percentage growth rate, 2008 to 2018



(Source adapted from: African Development Bank Statistics accessed April 2020)

Extract A

Rwandan tariffs on imports of used clothing

In a market in Kigali, Rwanda's capital, an auction is under way. Sellers offer crumpled T-shirts and faded jeans; traders argue over the best picks. Everything is second-hand. A Tommy Hilfiger shirt sells for 5 000 Rwandan francs ($5.82); a plain one for a tenth of that. Afterwards, a trader sorts through the purchases he will resell in his home village. The logos hint at their previous lives: Kent State University, a rotary club in Pennsylvania, Number One Dad.

These auctions were once twice as busy, but in 2016 Rwanda's government increased import tariffs on a kilo of used clothes from $0.20 to $2.50. Now many traders struggle to make a profit. The traders are not the only ones who are unhappy. Exporters in the US claim the tariffs are costing jobs there. In March, the US President warned that he would suspend Rwanda's tariff-free access to US markets for its clothing exports after 60 days if it did not remove the tariff.

Globally, about $4 billion of used clothes crossed borders in 2016. The share from China and South Korea is growing, but 70% still come from Europe and North America. Many go to Asia and eastern Europe, but Africa remains the largest market. The trade enables poor people to afford clothes and creates retail jobs. However, governments worry that the trade undercuts their own clothing manufacturers.

Second-hand imports of clothing now dominate African markets. Researchers at the Overseas Development Institute, a British think-tank, estimate that Tanzania imports 540 million used items of clothing and 180 million new ones each year, while producing fewer than 20 million itself. African manufacturing is weak for many reasons, from ineffective privatisations to collapsing infrastructure. But second-hand clothing imports are a major factor: it is estimated that they accounted for half of the fall in employment in the African clothing industry between 1981 and 2000.

For example, a clothing factory in Kigali is operating at only 40% of capacity and employs 600 workers, down from 1 100 in the 1990s. It is hard to compete, says Ritesh Patel, its manager, when a used imported T-shirt sells for the price of a bottle of water. Instead, the company specialises in uniforms for police, soldiers and security guards, which cannot be bought second-hand.

The threatened suspension of tariff-free access to the US market would hurt Rwanda, but not very much. Last year Rwanda sold just $1.5 million of clothing to the US. Nor, with about 12 million people, is Rwanda a big market for US exports.

(Source adapted from: https://www.economist.com/finance-and-economics/2018/05/31/rwanda-refuses-to-remove-tariffs-on-imports-of-used-clothing)

Extract B

Development in Rwanda

Rwanda's strong economic growth has been accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on policies to encourage industrialisation and poverty reduction initiatives have contributed to significant improvements in access to services and human development indicators. Absolute poverty declined from 59% to 39% of the population between 2001 and 2014 but was almost stagnant between 2014 and 2017. The official inequality measure, the Gini index, declined from 0.52 in 2006 to 0.43 in 2017.

(Source adapted from: https://www.worldbank.org/en/country/rwanda/overview)

3 (a) Using the data in Figures 1 and 2, calculate the change in the level of total aid funding to Rwanda between 2011 and 2012.

(5)

(b) With reference to the information provided, examine **two** likely benefits for the Rwandan economy of the growth in the country's population.

(8)

(c) With reference to the information provided, assess the likely impact on the Rwandan economy of the change in aid received between 2017 and 2018.

(10)

(d) Discuss policies, other than import tariffs, that the Rwandan government could use to develop its manufacturing industries.

(15)

(Total for Question 3 = 38 marks)

Question 4

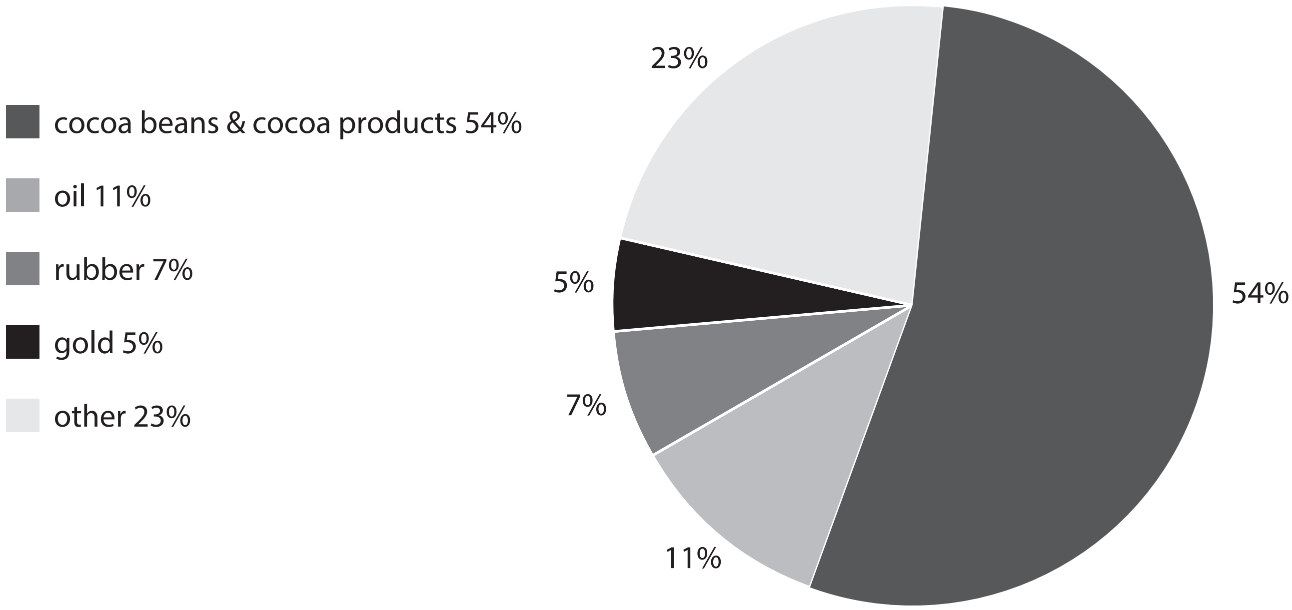
Trade and Development Issues in Africa

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$2 600. Research suggests that an annual income of US$6 133 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.

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 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.

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)

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.

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.

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. 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 affecting the rest of sub-Saharan Africa.

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

4 (a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

(5)

(b) Examine **two** ways, apart from Fairtrade schemes, in which cocoa farmers could boost their incomes despite the falling price of cocoa.

(8)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports. Refer to Figure 2 in your answer.

(12)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

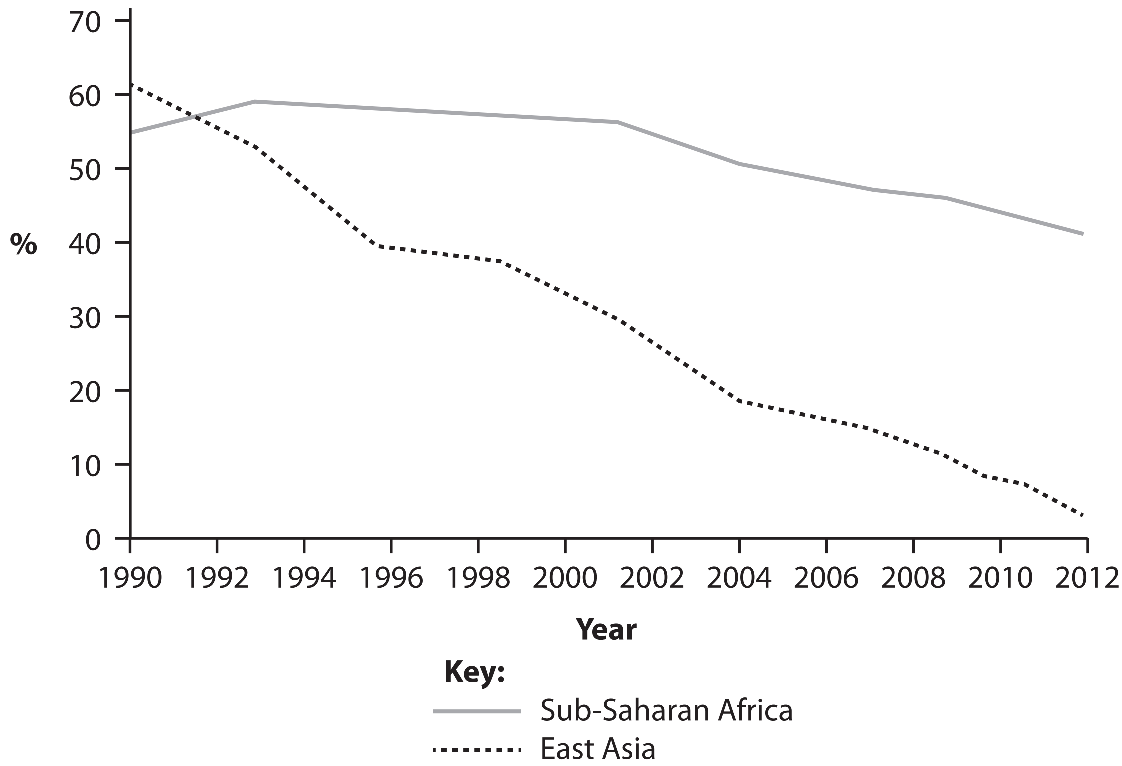
(10)

(Total for Question 4 = 35 marks)

Question 5

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US$1.90-a-day 2011 PPP)



(Source: https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

Extract A

Lessons from globalisation

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.

In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, "low wages, insecure employment, stateless corporations and striking inequalities". His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.

The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.

The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What's more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.

(Source: adapted from https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism)

Extract B

Tackling inequality

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.

These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution.

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.

(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)

5 Discuss the role of the financial sector in the growth and development of developing countries.

(15)

(Total for Question 5 = 15 marks)

6 The East African Community (EAC)

	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 fi e 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.

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.

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)

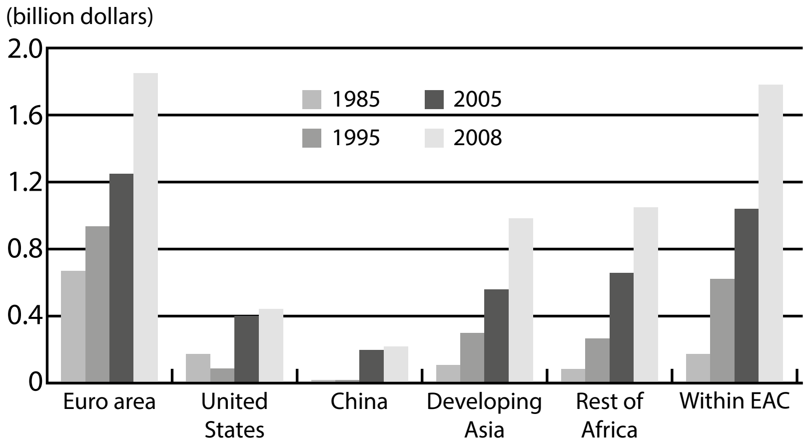


Figure 2

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.

(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)

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 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 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 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)

6 With reference to Extract A and Extract B, examine **two** factors that constrain economic growth in Burundi.

(8)

(Total for Question 6 = 8 marks)

7 Bolivia's economy

Figure 1 Selected economic variables, 2010–2014

Indicator	2010	2011	2012	2013	2014
Population (millions)	9.9	10.1	10.2	10.2	10.6
Real GDP growth (%)	4.1	5.2	5.2	6.8	5.4
Inflation rate (%)	2.5	9.9	4.5	5.7	5.8
Current account balance (% of GDP)	4.4	2.2	7.3	3.4	0.0

(Source: from http://databank.worldbank.org/data/reports.aspx?source=2&country=BOL)

Figure 2 Agriculture, value added, % of GDP

	2006	2014
Bolivia	13.9	13.0
Latin America and Caribbean (developing countries only)	5.1	5.0

(Source: adapted from http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS/countries/BO-XJ?display=graph)

Extract 1 Economic prosperity

Absolute poverty used to be widespread in Bolivia but in recent years its people have become more prosperous. Since 2006, when Evo Morales became President, the economy – a big exporter of gas and minerals – has almost tripled in size. Mr Morales has benefited by being President during a time of high commodity prices, which have raised economic growth. He nationalised the energy sector by taking a greater stake in the companies that extract the nation's gas and demanded a bigger share of the revenues. This has greatly increased the Government's income, giving it the money to pay for social programmes such as cash payments to young mothers, improved pensions and infrastructure projects. Some $500 million a year has been spent on cash-transfer schemes for elderly people, schoolchildren and pregnant women, for example. Populist actions such as these have contributed to a substantial increase in consumer spending.

Between 2005 and 2013, 2.6 million people joined the middle class, poverty rates halved and the Gini coefficient fell from 0.6 to 0.48. 'When the money was concentrated in a few hands there was no consumption,' explains Finance Minister Arce, observing that Bolivia's national minimum wage has increased by 276% since 2006.

(Sources: adapted from http://www.ft.com/reports/new-bolivia, 26 Oct 2015 and http://www.nytimes.com/2014/02/17/world/americas/turnabout-in-bolivia-as-economy-rises-from-instability.html?_r=0)

Extract 2 Agriculture

The province of Santa Cruz is the powerhouse of Bolivian agriculture. It accounts for about 60% of national farming output, with soya contributing more than half of the province's production. The potential for expansion in Santa Cruz, where much land is underused, has led some to see it as South America's next agricultural frontier.

Such hopes have only been strengthened by the fall in global oil and gas prices, which has forced energy-producing countries such as Bolivia to seek alternative and more sustainable forms of income. With soya alone representing Bolivia's third-biggest source of foreign exchange after gas and mining, the Government has announced ambitious plans to boost the area of land under cultivation from 2.7 million hectares in 2014 to 4.5 million hectares by 2020.

Another key agricultural product is the original superfood, quinoa. Much of it is grown on Bolivia's high plains by Aymara and Quechua farmers. Quinoa has more nutrients per 100 calories than any other grain and people from New York to London pay roughly \$10 a pound for it. The USA imports 60% of Bolivia's quinoa production; the rest goes mostly to Europe. Exports rose from 4 900 tonnes in 2005 to 35 000 tonnes in 2013.

The price paid to Bolivian producers per kilo of organic royal quinoa also increased sharply, from under \$1 in 2007 to almost \$5 in 2014. However, in 2015, the price dropped to almost \$3.

Nevertheless, farmers identify a long list of challenges which include the need to improve technology, access to credit and the poor infrastructure of this landlocked country. The expansion of Bolivian agriculture has also led to some of the highest deforestation rates in the world.

(Sources: adapted from http://www.ft.com/cms/s/0/d9b4953a-50d3-11e5-b029-b9d50a74fd14.html#ixzz3xKZ3cIvK, and http://www.ft.com/cms/s/0/d9b4953a-50d3-11e5-b029-b9d50a74fd14.html#axzz3xFX7qKmt)

Extract 3 Tourism

Despite the richness and diversity of natural resources and beautiful unspoiled scenery, Bolivia has not so far been able to attract as many US and European tourists as its neighbour Peru. Lack of accommodation and electricity supply has made many tourists reluctant to visit Bolivia.

However, a new tourism development strategy and investments (both Government and private sector) of \$800 million aim to attract 7.1 million visitors a year by 2020. A new ski resort is to be built on Mount Mururata, 35 kilometres east of the capital, La Paz. Improvements in transportation links between the Andes and the Amazon, upgrades of Santa Cruz de la Sierra airport and the opening of new boutique hotels are further projects that will make the country more appealing for visitors.

(Source: adapted from https://www.ft.com/reports/new-bolivia 'Bolivia's tourism market wants to go upmarket' FT 26 October 2015) *(a) With reference to the information provided, assess the benefits to the Bolivian economy of having a large agricultural sector.

(12)

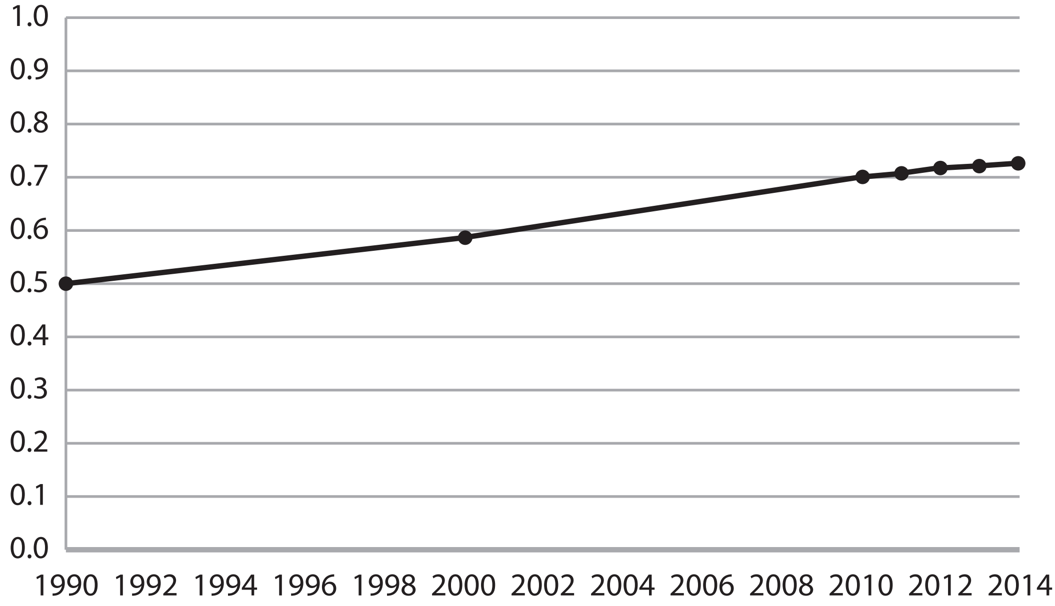
*(b) With reference to Extract 3 and your own knowledge, evaluate tourism as a means of promoting economic development in Bolivia.

(15)

(Total for Question 7 = 27 marks)

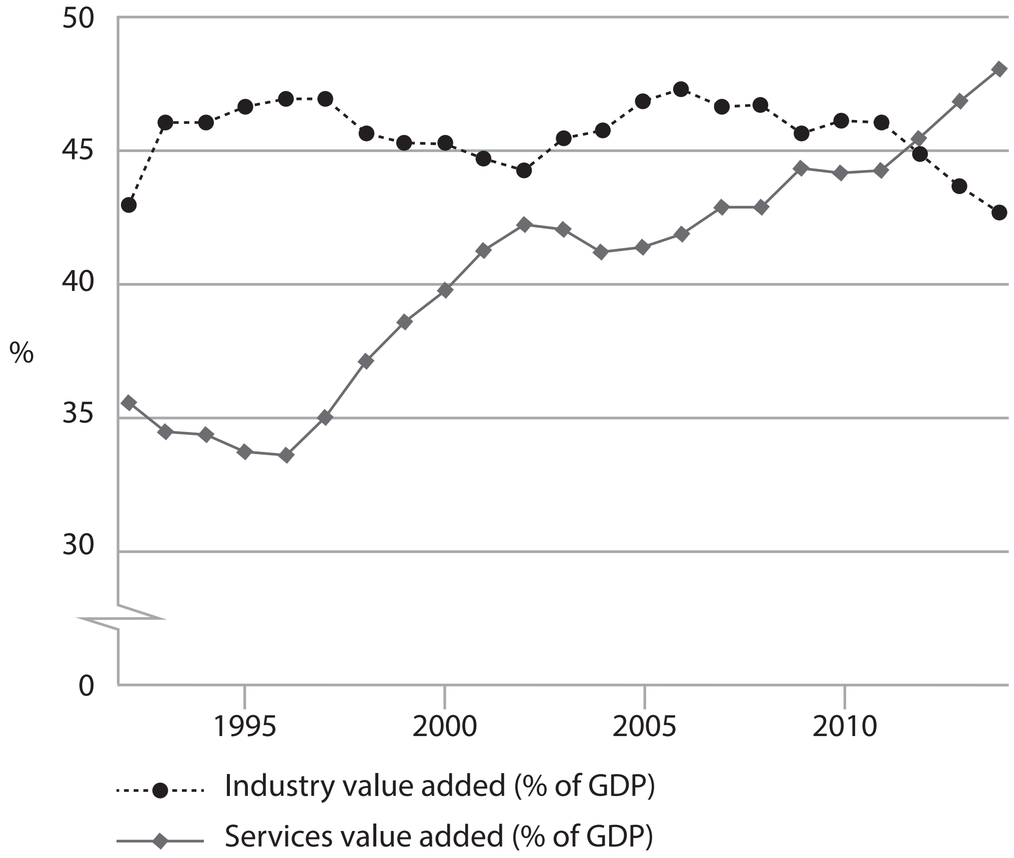
8 China's economy

Figure 1 China's human development index (HDI), 1990–2014



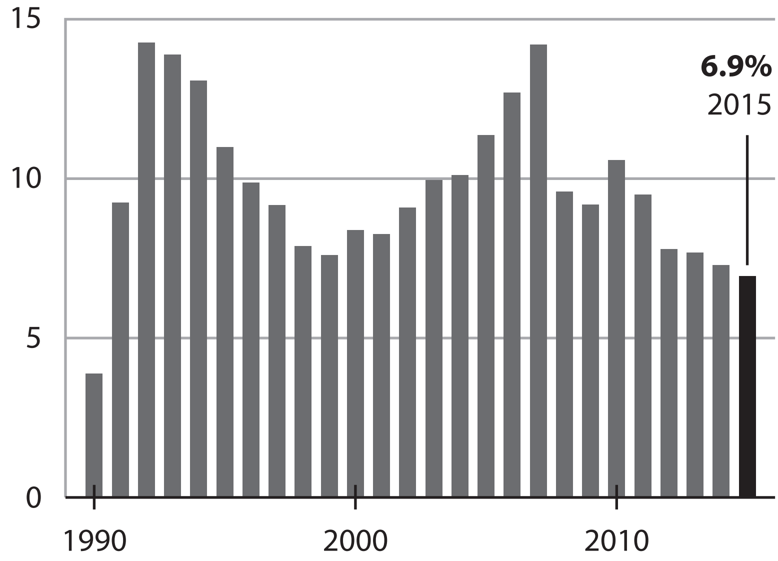
(Source: http://hdr.undp.org/en/countries/profiles/CHN)

Figure 2 China's industry and services sectors, as a proportion of GDP, 1992–2014



(Source: adapted from http://www.cnbc.com/2016/01/17/how-chinas-economy-has-evolved-in-charts.html)

Figure 3 China's real GDP growth, year-on-year percentage change, 1990–2015



(Source: adapted from http://i.dailymail.co.uk/i/pix/2016/01/19/11/305438200 0000578-3406224-image-m-6_1453201350106.jpg)

Extract 1 China's economic growth

In 2015, China recorded a significant fall in its rate of economic growth to 6.9%, the weakest for 25 years. If any other major economy grew by nearly 7% a year, it would be seen as a triumph. However, it is being seen as evidence of deep problems in the Chinese economy.

With growing debt and too much housing and factory capacity, economists predict a tougher year ahead. Share prices have fallen and there is a danger of a house price crash. Fears over slowing momentum in China and the Government's handling of the economy have combined with concerns over plunging oil and commodity prices to pull down global stock markets since the start of 2016.

During the economic slowdown, China's economy has diverged along two tracks, with the manufacturing industries that powered it for so long being hit harder while services and household consumption are booming. Service industries last year managed to absorb job losses from manufacturing. In 2015, services made up 50.5% of GDP, considerably higher than the manufacturing sector. Consumption's contribution to the economy also grew strongly, accounting for 66.4% of GDP, more than 15 percentage points higher than in 2014.

The trend to greater reliance on consumption rather than investment is one the Government has long said it wants to encourage. But as the rate of economic growth falls further, economists expect more companies to fail and unemployment to rise. Therefore, it is expected that the Chinese Government will adopt further expansionary economic policies in 2016. The Chinese Government has traditionally used budget deficits to fund infrastructure spending coupled with lower interest rates and measures to boost exports to revive growth. However, these policies appear increasingly ineffective. For example, higher spending on infrastructure in 2015 only led to a short-term increase in investment. Meanwhile, exports, which accounted for 34.9% of GDP in 2007 but only 22.6% as of 2014, are unlikely to promote growth given weak demand from developed economies.

Even as the economy slowed, consumer debt increased by 18.2% in 2015. Total debt equals almost 260% of annual economic output, up from less than 160% in 2007. Increasingly, new lending is being used to service debt rather than fund new ventures and energy-saving technologies. Households and companies now spend the equivalent of 20% of GDP on interest payments, more than the US, Japan and the UK. As the economy slows and the yuan (the Chinese currency) weakens, the Chinese are moving their money out of the country, contributing to a fall in investment.

The Government finds itself in a dilemma: if it cuts interest rates, there will be more capital flight. If it raises interest rates then companies with large debts are likely to go bankrupt causing an increase in unemployment.

(Sources: adapted from http://www.wsj.com/articles/china-economic-growth-slows-to-6-9-on-year-in-2015-1453169398 and http://www.afr.com/news/economy/chinese-gdp-growth-falls-to-new-low-of-7-percent-20160119-gm8xi2#ixzz3yAGy1elJ)

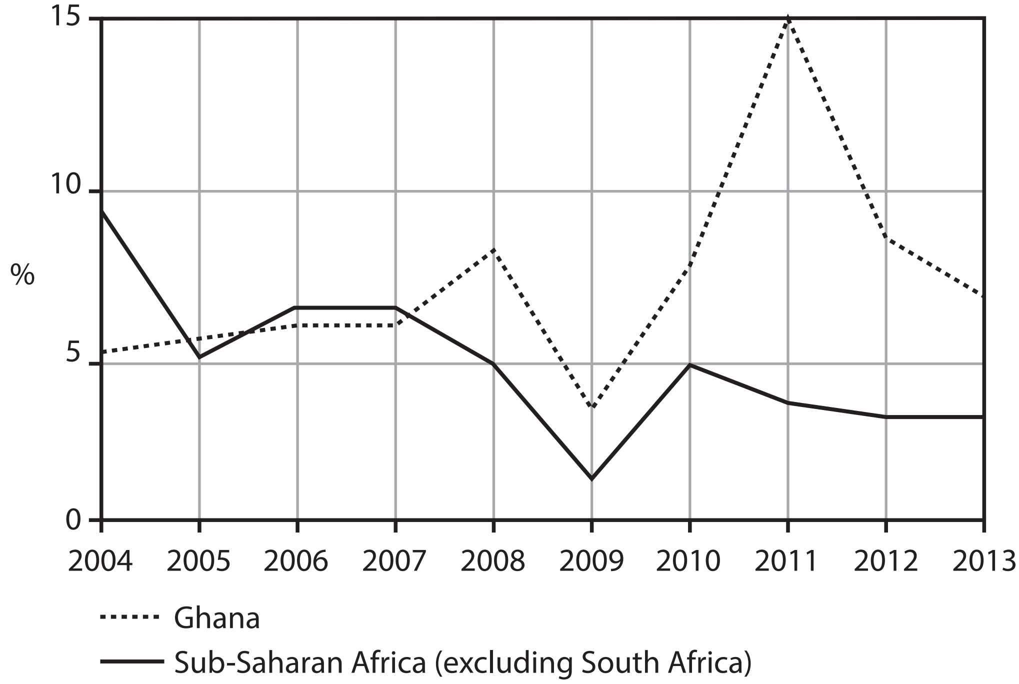
8 With reference to Figure 1, explain factors that might account for the change in China's human development index between 1990 and 2014.

(5)

(Total for Question 8 = 5 marks)

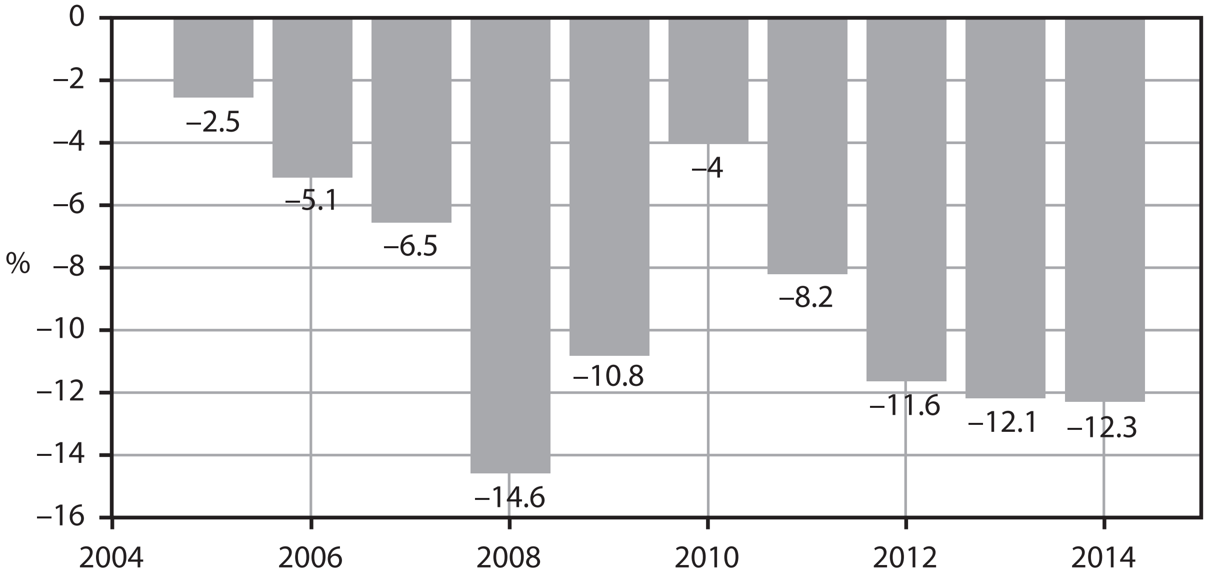
9 Ghana's Economy

Figure 1 GDP growth rate 2004–2013 (annual % change in GDP)



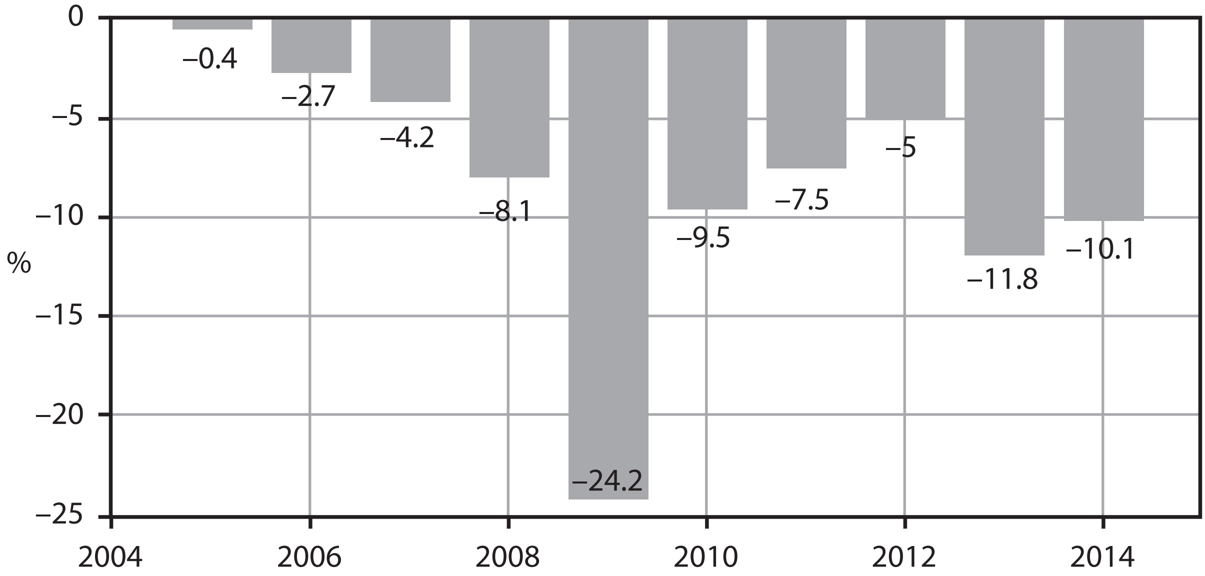
(Source: http://www.worldbank.org/en/country/ghana)

Figure 2 Ghana's current account of the balance of payments as a proportion of GDP, 2005–2014



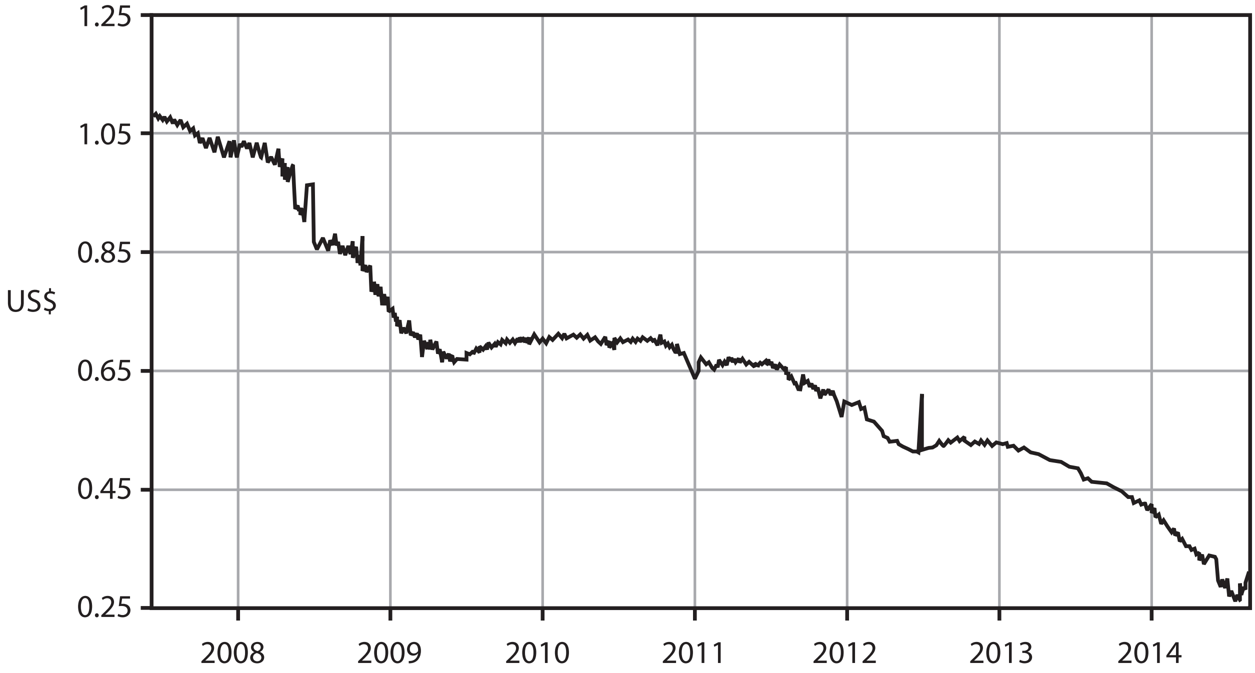
(Source: http://www.tradingeconomics.com/ghana/current-account-to-gdp)

Figure 3 Ghana's government budget balance as a proportion of GDP 2005–2014



(Source: http://www.tradingeconomics.com/ghana/government-budget)

Figure 4 Exchange rate: US dollars per 1 Ghana cedi, July 2007 to September 2014



(Source: http://www.xe.com/currencycharts/?from=GHS&to=USD&view=10Y)

Figure 5 Central Government expenditure, 2009-2014 (% of GDP)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Total Government expenditure of which:	**24.8**	**25.7**	**25.1**	**33.1**	**31.8**	**31.1**
Wages and salaries	6.8	8.7	7.5	10.0	10.4	9.7
Interest payments	2.7	3.0	2.7	3.4	4.7	6.8
Transfers to other Government units	3.5	4.2	4.2	6.0	4.9	4.6
Capital expenditure	6.8	6.7	6.2	6.6	5.1	4.8
Other	5.0	3.1	4.5	7.1	6.7	5.2

(Source: http://ifsghana.org/images/pdfs/ghana_a_review_of_the_2015_national_budget_final.pdf)

Extract 1 Ghana seeks International Monetary Fund (IMF) help after its currency depreciates by 40%

Ghana, the country that was the prime example of the 'Africa rising' story of strong economic growth and improved governance, is to seek help from the IMF. The reversal of fortunes underlines the challenges the continent still faces. The West African nation will turn to the IMF for financial assistance after its currency (the cedi) plunged by 40% in value against the US dollar, making the cedi the worst performing currency in the world in 2014. Ghana is the second sub-Saharan African country to turn to the IMF for help in 2014, after Zambia announced its intention to do so in June.

Ghana's request for a bailout is likely to shake some investors, as Ghana was seen as a model of economic and political development in the continent. In 2007 it became the first country in sub-Saharan Africa, apart from South Africa, to raise $750 million through the issue of 10-year government bonds.

Although the continent still has some of the world's fastest-growing economies, issues including conflict, strikes, overspending by the state and the slow pace of reforms have put a brake on expansion.

The opening of talks with the IMF about a financial rescue is a policy reversal for John Mahama, Ghana's president, who has long insisted that his country would resolve its economic problems using home-grown solutions. Critics said Mr Mahama's government has been slow to cut public spending to bring down the double-digit fiscal deficit, although some of its policies have also been praised. For example, the President said that the Government had introduced new taxes to increase revenues. Further, to reduce the current account deficit, Mr Mahama plans to provide "stimulus and incentives" such as investment grants and the removal of export taxes to encourage agricultural businesses to produce foodstuffs domestically – including rice, sugar and poultry – that currently cost the country $1 billion per year to import. He also said he wanted to create a system to incentivise cocoa traders through subsidies to process more beans within the country into raw materials for chocolate production such as cocoa powder, rather than simply exporting the commodity.

Seth Terkper, Ghana's finance minister, said the president had "directed [the government] to open discussion with the IMF" to support the country's growth programme, adding that the most immediate concern was "to stabilise the cedi and reduce the [fiscal] deficit".

Nearly three years after the start of oil production in Ghana, which was meant to strengthen the country's fiscal position, the country faces a double-digit fiscal deficit after a 75% increase in public sector salaries over two years. Inflation is rising rapidly as the cedi plunges.

Ghana ran a fiscal deficit equal to 11.8% of gross domestic product in 2013. The Government has promised to cut the deficit to 8.5% in 2014 but observers believe it would struggle to reduce it below 10%. The IMF warned, in its annual review of the Ghanaian economy in May 2014, that under current policies the fiscal deficit would stay at about 10.2% this year and 9.3% in 2015.

Mr Terkper said: "We would like to have a complementary plan with the World Bank and the African Development Bank [in addition to the IMF programme] to achieve our objective to become an upper- middle-income economy."

(Source: adapted from www.ft.com/cms/s/0/195ce3ec-1a5f-11e4-8131-00144feabdc0.html#axzz3EgzRL7Xqid Last updated: August 3, 2014 3:16 pm By Javier Blas in London and from http://www.ft.com/cms/s/0/3c9d1018-97d1-11e3-8dc3-00144feab7de.html#axzz3H4SBcfSN 'Mahama vows to diversify economy as Ghana tackles fiscal turmoil' 17 February 2014)

9 With reference to the information provided, outline **two** roles of the IMF.

(5)

(Total for Question 9 = 5 marks)

10 India's Economy

Figure 1 GDP growth 2003–2012

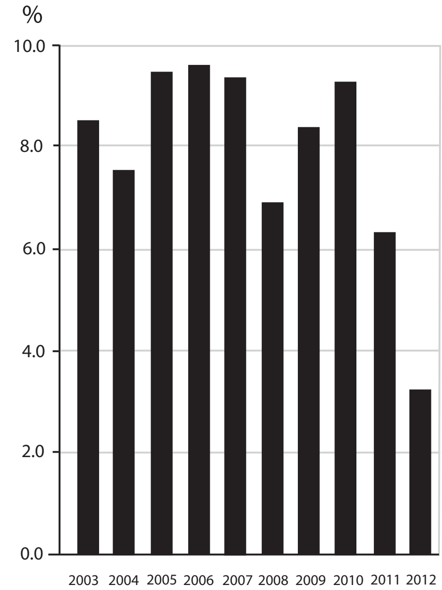


Figure 2 Net investment as a proportion of GDP, 2003–2012

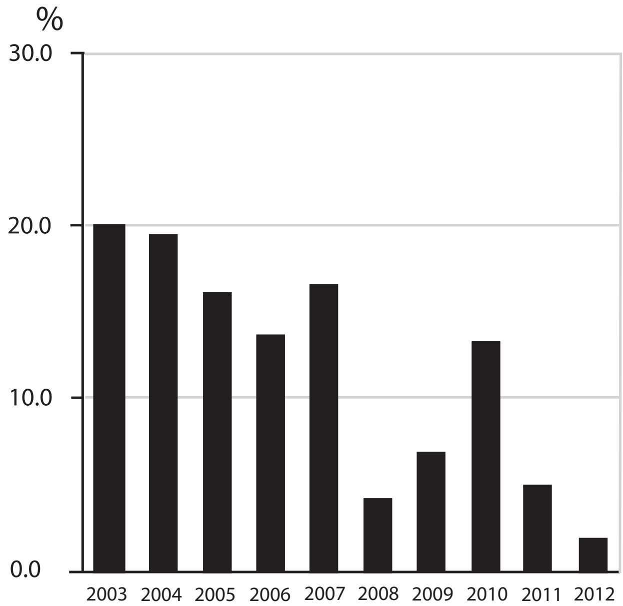
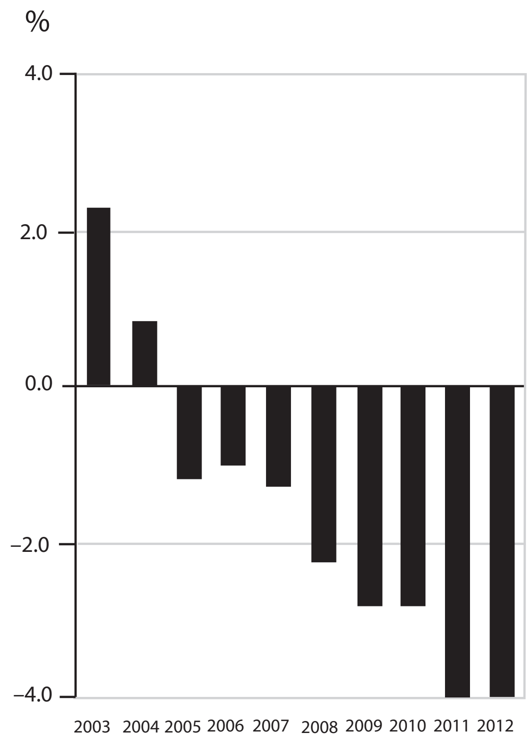
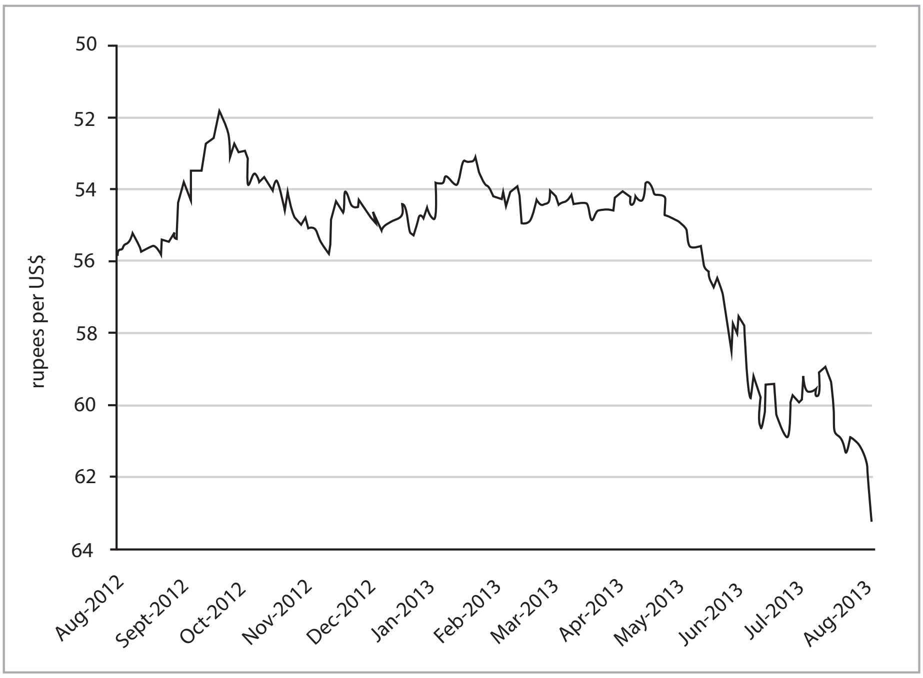


Figure 3 Current account of the balance of payments (% of GDP) 2003–2012



Source: (Figures 1–3 www.focus-economics.com/en/economy/reports/economic.../India)

Figure 4 Indian rupee against the US dollar, August 2012 to August 2013



Extract 1 Why India's economy is still in trouble

The currencies of several developing economies fell rapidly between May and August 2013 following the announcement that the USA's Federal Reserve Bank is to run down its programme of quantitative easing. Among them was India's rupee, which fell more than 20% to a record low, causing observers to declare a crisis. Although the rupee regained a little value after August 2013, this did nothing to fix the underlying problems plaguing India's economy.

India's rapid growth since the early 1990s has obscured the fact that India has very low literacy rates and poor nutritional standards. While the rupee's rapid depreciation is perhaps the most visible sign of the country's problems, there are other alarming indicators: India's GDP only grew 3.2% in 2012 compared with 7.8% in China. Some scholars, such as the Harvard economist Amartya Sen, have urged India's government to invest more in programmes to improve health care and alleviate poverty. Equally important is the need for the country to provide work for the hundreds of millions of poor, unskilled people who were left behind during the growth surge of 1990–2009. The most promising way to accomplish that is to re-engineer the 1991 economic development programme to emphasise more sustainable growth.

However, the government's reforms of the early 1990s did not go nearly far enough. First of all, its economy is still suffering from restrictive regulations. For example, labour laws make layoffs difficult, discouraging many foreign manufacturers from opening factories. The government has also failed to complete reforms allowing foreign investors to take profits out of the country. Further, crucial measures such as competitive tendering have not been implemented.

The country has also neglected to use policies to stimulate domestic manufacturing, instead focusing on the service sector. The service economy grew by almost 10% in the 1990s, but India's already undersized manufacturing sector grew by only 5.7%. A country like India, with a huge and unskilled population, needs a manufacturing base to employ its people and pay for its imports. But India manufactures too little and imports too much. The contribution of India's manufacturing to GDP is only around 15% whereas manufacturing contributes about 40% to GDP in China.

India also failed to deal with problems such as corruption and a poor energy grid. Frequently, scarce electricity is diverted to the offices and workshops of bribe-payers or the politically connected. Misplaced government intervention has, for instance, provided subsidies to fertiliser producers instead of improving farmers' ability to buy the fertiliser.

(Source: http://www.newyorker.com/online/blogs/currency/2013/09/why-indias-economy-is-still-in-trouble.html)

Extract 2 India's economic slowdown forces middle classes to put dreams on hold

A decade of rapid growth propelled tens of millions of Indians from poverty into a middle class that now numbers over 200 million, an extraordinary social transformation in a nation of 1.2 billion. Economic reforms and a boom in India's IT and business-services industries fuelled expansive growth of the economy – 8% on average per year from 2003 to 2012.

But these days, the optimism that once inspired slogans such as "India Rising" is fading. The economy is expected to grow by only 4%–5% in 2013, not enough to create the salaried jobs needed for the country's growing workforce nor to enable millions of people to escape poverty in the next few years.

Following the fall in the value of the rupee, prices for staple products such as fuel and onions have increased rapidly. Further, a sharp increase in inflation, high interest rates and infrastructure problems have caused the economy to slow down. Many of the country's new consumers say that the rising costs of fuel and food, combined with the weak rupee, have forced them to put off major purchases such as homes and cars and to cancel holidays.

(Source: Annie Gowen in Ghaziabad for the Washington Post Guardian Weekly, Tuesday 12 November 2013 http://www.theguardian.com/world/2013/nov/12/india-delhi-economic-slowdown-middle-class)

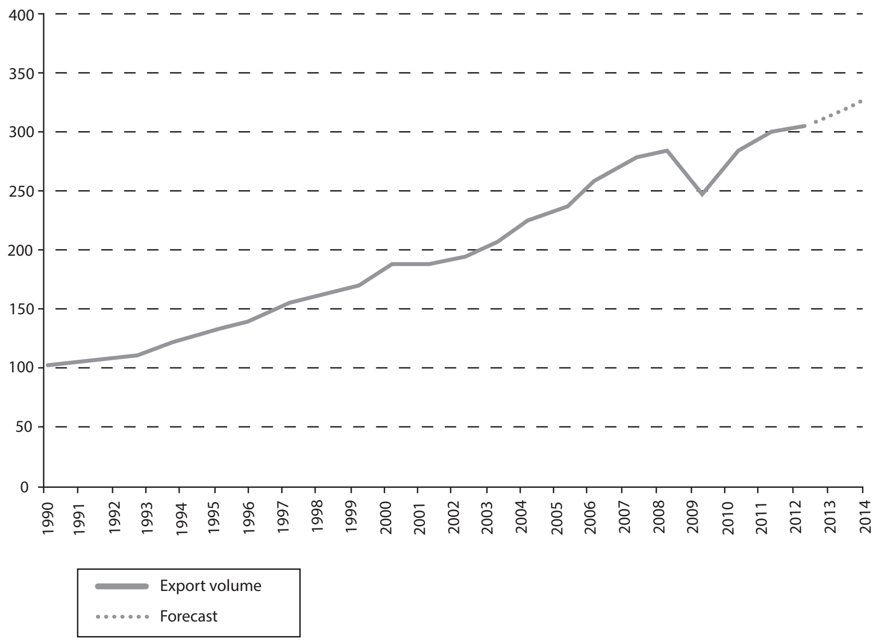
10 Examine the case for the Indian government using policies to 'stimulate domestic manufacturing' (Extract 1, line 23) as a means of promoting economic development.

(10)

(Total for Question 10 = 10 marks)

11 Globalisation

Figure 1 Volume of world exports of goods, 1990-2014. (Indices, 1990 =100)



(Source: WTO: 2013 PRESS RELEASES; PRESS/688; 10 April 2013 'Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle' http://www.wto.org/english/news_e/pres13_e/pr688_e.htm)

Extract 1 Poverty decreases sharply in developing world

The United Nations Development Report published in 2013 says higher economic growth in at least 40 developing countries has helped lift hundreds of millions of people from absolute poverty, and pushed billions more into a new global middle class.

Helen Clark, a UN administrator, called such progress an "incredible success of emerging markets", praising governments for accompanying faster rates of economic growth with practical policies to help the poor. "These countries opened up to foreign direct investment and prioritised infrastructure but also invested in their people," she said. They targeted education and health, and put welfare programmes in place.

Underpinning the improvements in the Human Development Index (HDI) was rapid growth in countries such as China, India and Brazil, with China and India having doubled economic output per head in less than 20 years. But the report stressed that growth and improvements in HDI spread far beyond the four BRIC countries of Brazil, Russia, India and China, and included at least 40 countries that had accompanied greater economic dynamism with effective poverty-reduction policies.

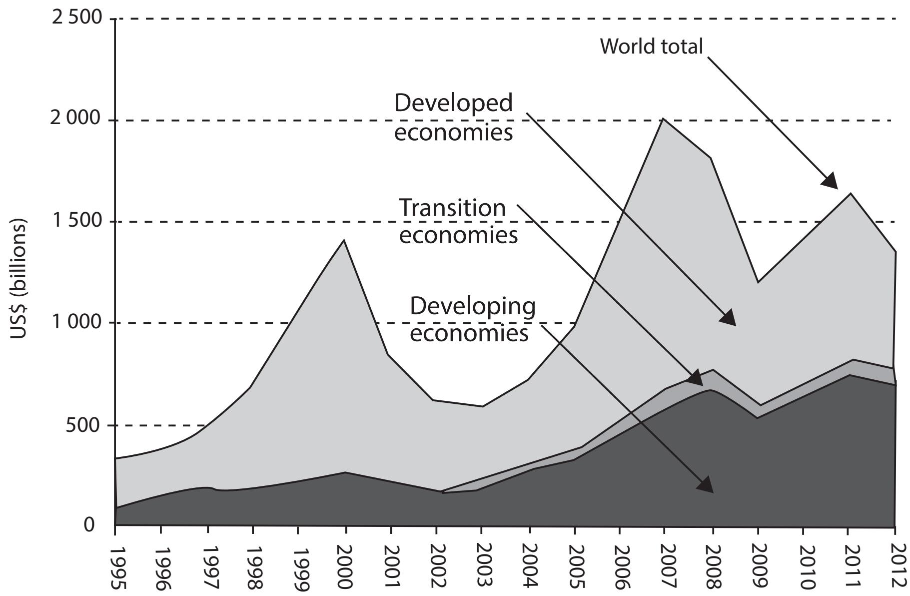
Partly as a result, the report found that worldwide absolute poverty has plunged from 43% in 1990 to just 22% in 2008, including more than 500 million people being lifted out of poverty in China alone.

Underpinning this poverty reduction was developing countries' increasing share of global trade, which grew from 25% to 47% between 1980 and 2010. The report found that trade between developing countries was the biggest factor in that expansion, increasing from less than 10% of total global trade to more than 30%.

By Adam Thomson in Mexico City, March 14, 2013

(Source: http://www.ft.com/cms/s/0/6d7a1c52-8cc5-11e2-8ee0-00144feabdc0.html#axzz2l0iwqz1p)

Figure 2 Foreign direct investment (FDI) inflows, global and by group of economies, 1995–2012 (billions of US dollars)



(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 3 Percentage share in world FDI flows 2010–2012

'Transition economies' refers to former centrally planned economies

	FDI inflows %				**FDI outflows %**		
	2010	2011	2012		2010	2011	2012
Developed economies	49.4	49.7	41.5		68.4	70.5	65.4
Developing economies	45.2	44.5	52.0		27.5	25.2	30.6
Transition economies	5.3	5.8	6.5		4.1	4.3	4.0

(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

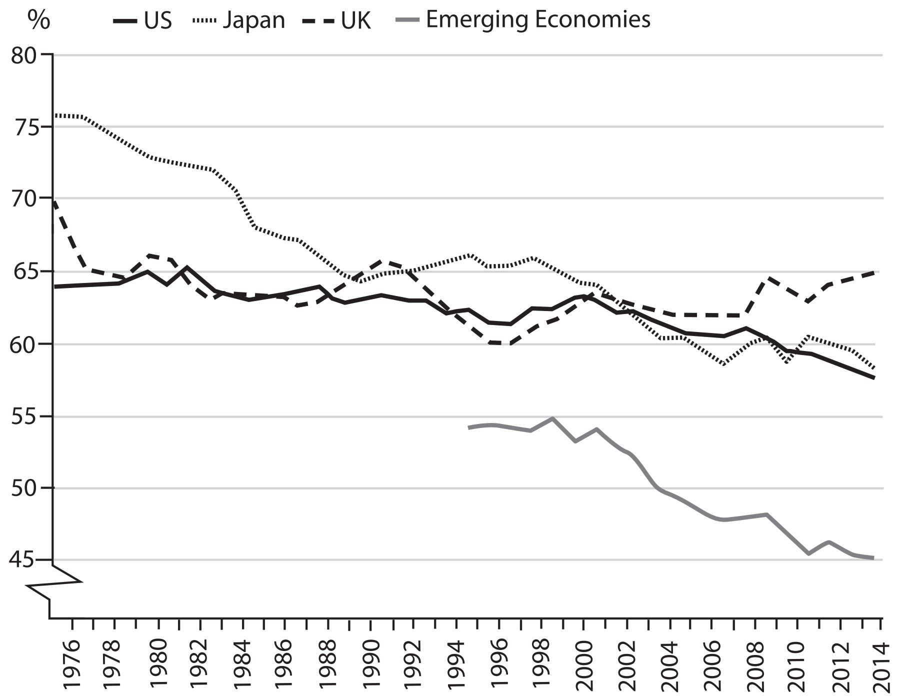
Extract 2 Trends in FDI flows

FDI flows to developing economies recorded their second highest level in 2012. They accounted for a record 52% of global FDI inflows, exceeding flows to developed economies for the first time ever. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows: nine of the twenty largest recipients were developing countries.

FDI inflows to developed economies declined by 32% to $561 billion – a level last seen in 2004. The European Union alone accounted for almost two thirds of the global FDI decline.

(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 4 Share of wages as a proportion of GDP 1976–2013



(Source: http://blogs.r.ftdata.co.uk/gavyndavies/files/2013/06/ftblog478.png)

Extract 3 Changes in the distribution of national income

Between 1999 and 2011 average labour productivity in developed economies increased more than twice as much as average wages. For example, in the USA, real hourly labour productivity in the non-farm business sector has increased by about 85% since 1980, while real hourly earnings increased by only around 35%.

The global trend has resulted in a change in the distribution of national income. In many countries, the share of wages as a proportion of GDP is falling and the share of profits is rising. Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill causing the labour share to decrease.

The drop in the labour share is due to technological progress, trade globalisation, entry of labour-abundant economies into the global economy, decreasing trade union density (the proportion of paid workers who are trade union members) and an increased pressure on firms to increase profits enhanced by the rise of private equity funds, hedge funds and institutional investors.

(Source: Global wage report 2012–13 www.ilo.org/wage12http://
www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/
---publ/documents/publication/wcms_194843.pdf)

(a) With reference to Figure 3, analyse **two** possible reasons why, in 2012, FDI flows to developing countries were 'exceeding flows to developed economies for the first time ever'. (Extract 2, lines 2–3)

(8)

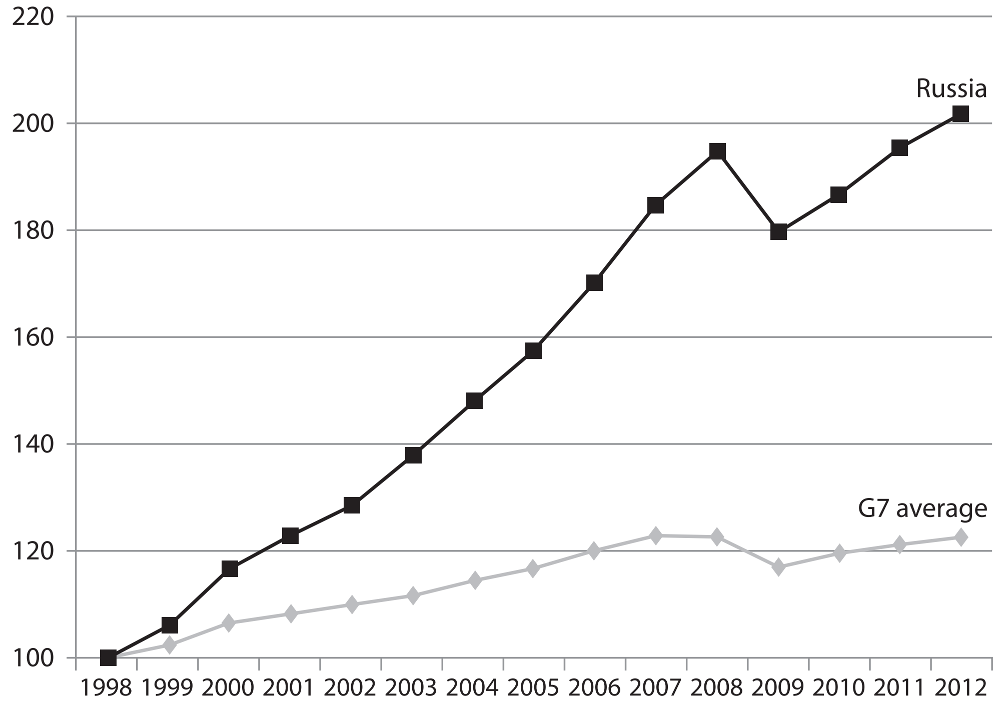
(b) With reference to the data and your own knowledge, examine ways by which a country might try to attract investment from a transnational company (TNC).

(10)

(Total for Question 11 = 18 marks)

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

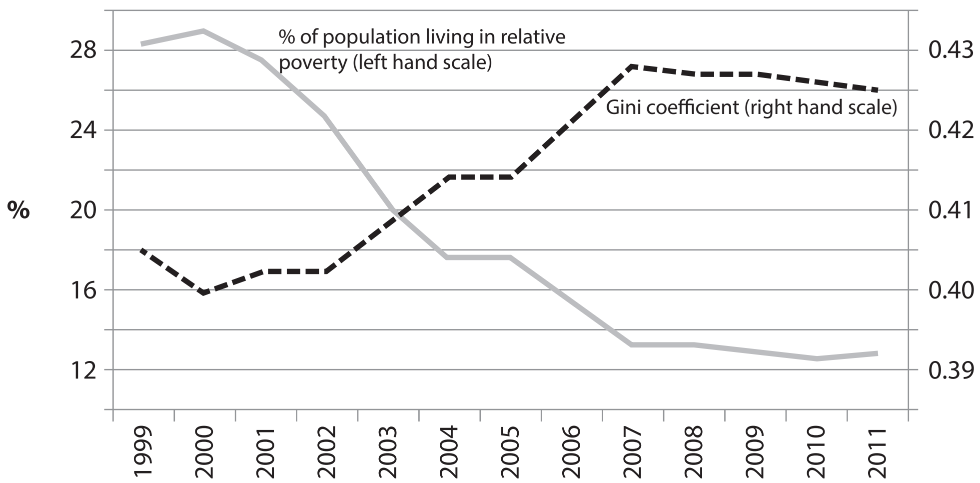
Figure 1 Index of real GDP in the G7* and Russia 1998-2012 (1998 = 100)



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

(Source: © Forbes.com LLC)

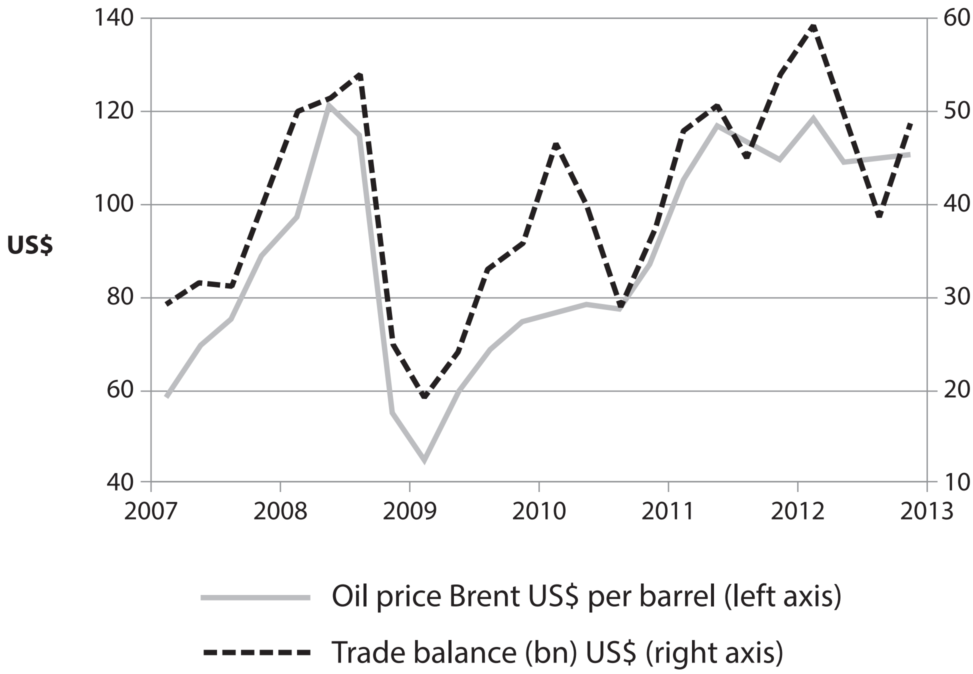
Figure 2 Relative poverty* and inequality in Russia



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

(Source: © The World Bank Group, 2012)

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)

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)

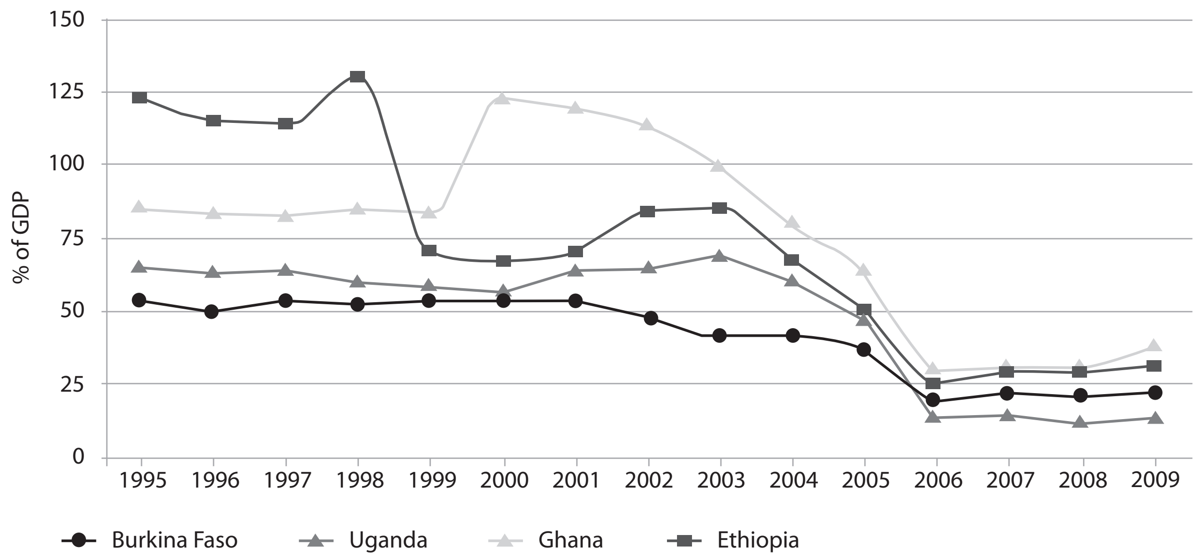
*12 Assess the implications for the Russian economy of its dependence on oil and gas.

(12)

(Total for Question 12 = 12 marks)

13 The Lion Kings

Figure 1 External debt of selected African countries as a % of Gross Domestic Product (GDP), 1995-2009



(Source: © 2012 African Economic Outlook)

Figure 2 The World's Fastest-Growing Economies 2001-2010: Annual Average GDP Growth (%)

Angola	11.1
China	10.5
Myanmar	10.3
Nigeria	8.9
Ethiopia	8.4
Kazakhstan	8.2
Chad	7.9
Mozambique	7.9
Cambodia	7.7
Rwanda	7.6

(African countries in bold italics)

Figure 3 Forecast Annual Average GDP Growth (%), 2011-2015

China	9.5
India	8.2
Ethiopia	8.1
Mozambique	7.7
Tanzania	7.2
Vietnam	7.2
Congo	7.0
Ghana	7.0
Zambia	6.9
Nigeria	6.8

(African countries in bold italics)

Extract 1 Africa on the point of take-off

The World Bank says Africa "could be on the brink of an economic takeoff much like China was thirty years ago". Jeffrey Sachs, one of the leading experts on developing countries, says the continent could become "the surprise winner of the coming decade". The scale and extent of Africa's economic boom is unprecedented: from 2001 - 2010 six out of the ten fastest growing countries were African. In eight of the last ten years, Africa's lion states have grown faster than Asia's tigers. The fastest-growing economy in the world in 2011 was Ghana at 13%, compared with barely 1% in most European countries and just over 1% in America. Thanks to external debt relief in Africa and the massive increase in borrowing in Europe, many European countries are now more indebted than African nations.

New African billionaires and multi-millionaires are being created at an astonishing rate and the wealth is trickling down. Some 313 million people, 34% of the continent's population, spend $2.20 a day, a 100% rise in less than 20 years, according to the African Development Bank Group (AfDB).

Some African firms are now so big they are buying global rivals. South African Breweries has bought America's Miller, to become SAB Miller, the world's second largest brewer. The world's leading multinationals are rushing to invest in Africa. For example, America's Walmart, the world's biggest retailer, recently spent $2.4 billion acquiring a majority stake in South African firm Massmart. Overall foreign investment in Africa has grown more than 600% in the last decade.

Why is Africa suddenly shaking off decades of decline? Traditional industries of mining and agriculture are now more valuable and more productive. Africa has about half of the world's gold deposits, 10% of its oil reserves, and a third of its diamonds, copper, platinum and "rare earth" minerals used in smartphones, tablet computers and flat-screen TVs. Prices for these commodities are high, having risen significantly over the last decade. Furthermore, some of the old problems which have held Africa back are easing: the birth rate is falling and infrastructure is slowly improving, largely thanks to investment from China. Thousands of miles of roads and railways, oil and gas pipelines and new ports are being built in Kenya, Ghana, Nigeria and Mozambique.

While many macro factors are creating the right conditions for growth, micro factors, such as technology, are also generating prosperity. Until as recently as 2005, Africa was almost isolated from a technological perspective with most countries only having a few ancient landline telephone systems. Today, thanks to vast new underground fibre-optic cables that run from the east and west coasts of Africa, and millions of mobile phone masts, the continent is plugged into the world. The 400 000 landline subscribers in Nigeria have become 60 million mobile phone subscribers. The continent is the world's fastest-growing mobile phone market, expanding by 20% per year since 2006. Internet speeds have risen 100-fold in the last few years while connection costs have fallen 40-fold. Internet usage grew by 2 527% between 2000 and 2011. The real effects of the technological boom are felt beyond the high-tech companies themselves. These improvements in communication have created the one thing Africa lacked: a consumer society. In Kenya, for example, around 41% of the population use mobile phones to pay for goods by transferring credits from one handset to another in seconds. McKinsey & Company, a research consultancy, predicts that African consumer spending will rise from $869 billion in 2008 to $1.3 trillion by 2020.

Nevertheless, Africa is still the poorest continent on earth. Most of its one billion population live on less than $2 a day and average life expectancy in some countries is as low as 46. Education may have improved but is very weak by international standards. Deforestation and desertification are rising, causing conflicts over access to land and water. South Africa, which used to be a model for the continent, is tainted with corruption – a problem common in many other African countries. Despite all the advances in technology, only 12% of Africans are regular internet users, compared with a world average of 30%. All the new infrastructure has done little to overcome the problems of excessive bureaucracy, congested roads and over-crowded ports and airports. Basic services, such as power supplies, are inadequate with power cuts a common occurrence. Internal security is a major problem in countries such as Nigeria.

(Source for Extract 1 and Figures 2 and 3: © The Sunday Times 26 February 2012)

(a) With reference to the fifth paragraph of Extract 1 (lines 29-44), analyse **two** benefits of improved technology for Africa.

(8)

*(b) Apart from technology and debt relief, assess reasons why Africa is 'suddenly shaking off decades of decline' (Extract 1, line 20).

(12)

*(c) With reference to Extract 1, evaluate factors which continue to limit economic development in many African countries.

(15)

(Total for Question 13 = 35 marks)

14 Brazil

Figure 1 Brazil's Gross Domestic Product (GDP) per capita (PPP) in US dollars ($)

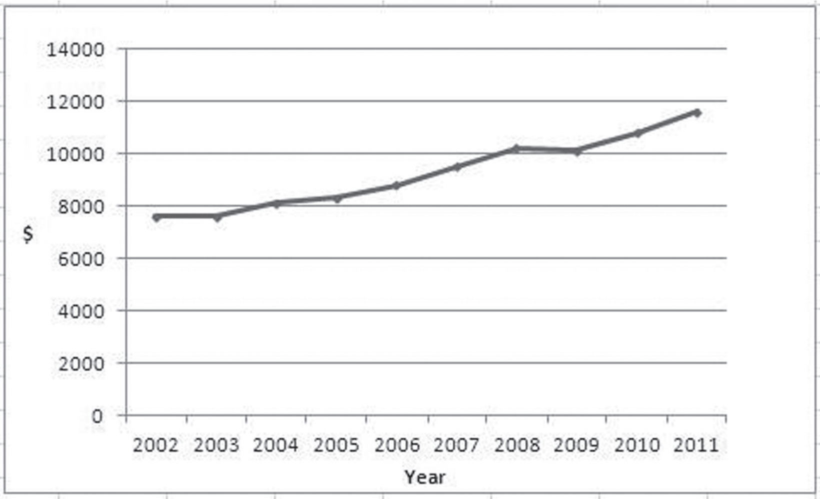
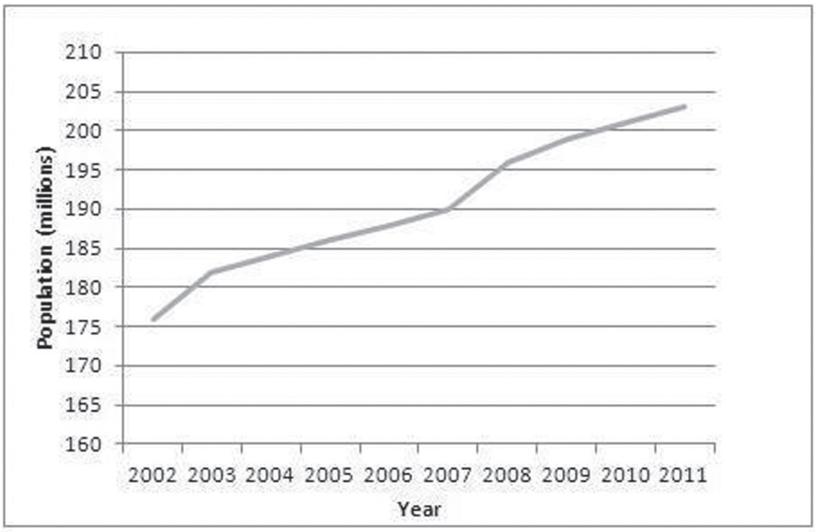
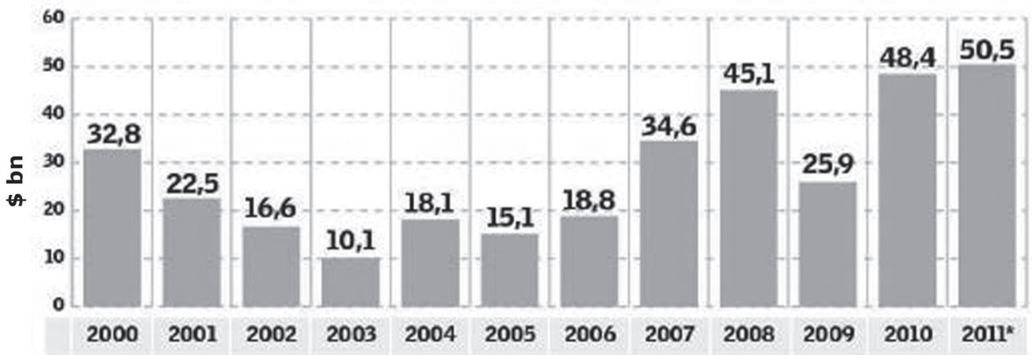


Figure 2 Population of Brazil (millions)



(Source for Figure 1 and Figure 2: © Index Mundi)

Figure 3 Annual Foreign Direct Investment in Brazil (billion US$)



*estimate

(Source: © Brasmari)

Extract 1 Brazil's economy overtakes UK

Brazil has claimed the UK's spot as the world's sixth largest economy after official figures showed its economy grew 2.7% in 2011 against the UK's 0.8%. France remains in fifth place behind Germany, Japan, China and the US. The per capita income of Brazilians remains less than a third of that enjoyed in the UK at approximately $11 900 (£7 400) per head, but the gap is narrowing all the time while developed economies largely stagnate.

Brazil's dash for growth can be traced back to the mid-1990s when a series of privatisations ended the state's dominance of commercial life. China became a big customer, with a particular liking for soya beans and iron ore. The US also began to invest heavily in the country. Top of the list of economic attractions is agriculture and the processing of foodstuffs, which account for about a quarter of Brazilian GDP and 36% of exports. In the last 20 years it has become the world's largest producer of sugarcane, coffee and tropical fruits. It also has the world's largest commercial cattle herd (50% larger than that of the US) at 170 million animals, according to official figures. Oil is expected to become the next big commodity for export, especially if a way can be found to drill safely in the Atlantic's deep waters. Reserves are believed to equal those shared by Norway and the UK in the North Sea.

President Lula da Silva brought in social policies to raise the incomes of Brazil's poorest people after his election in 2002. Dilma Rousseff, his successor, oversees a country where most people are considered middle class. Absolute poverty has dropped dramatically from 10% of the population in 2004 to 2.2% in 2009 and inequality, as measured by the Gini coefficient, has fallen to a 50-year low of 0.519. Key factors in these trends have been low inflation, consistent economic growth, social programmes and real increases in the minimum wage.

Rousseff is a strong advocate of tackling corruption and increasing transparency in government. Within the first year of her government, several cabinet ministers resigned after accusations of bribery in awarding contracts. Yet bribery and the politicisation of the civil service continue to cause problems, with many overseas companies complaining that contracts are only signed and completed after bribes have been paid to civil servants.

The combination of huge natural resources and significant growth in manufacturing and services has attracted foreign direct investment while high interest rates have meant Brazil is one of the most attractive places for the world's super-rich to save their money. One of the knock-on effects has been to push up the value of the *real*, Brazil's currency, which has appreciated 40% since the financial crisis of 2008. For Brazil's wealthy it is a bonus because it increases their wealth and foreign buying power. It has also allowed the government to embark on a spending spree.

But for exporters it is a huge headache because if the commodity boom ends, the high value of the *real* could mean the country has little in the way of business to fall back on. Guido Mantega, Brazil's finance minister, blames the US, UK and continental Europe for driving investors towards Brazil. He argues that quantitative easing schemes have cheapened the world's major currencies, leaving his as one of the few attractive ones around. However, he is trapped because domestic savings are not sufficient to sustain long-term high growth rates. That means Brazil must continue to attract foreign investment, especially as the government plans to cover the cost of oil extraction, nuclear power and other infrastructure sectors over the next few years.

(Source: Adapted from Philip Inman, © Guardian News and Media Limited, 6 March 2012 and © World Bank) *(a) Assess the potential problems associated with primary product dependency for a country such as Brazil.

(12)

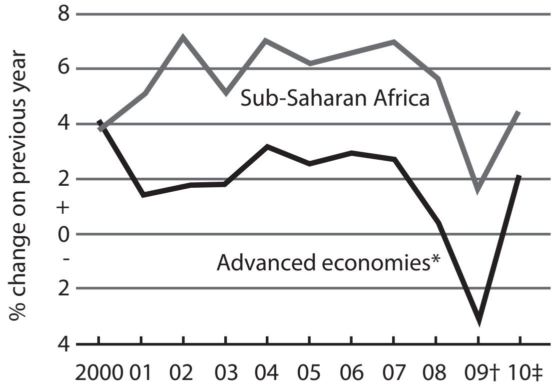
*(b) Evaluate the benefits of inward foreign direct investment for a country such as Brazil.

(15)

(Total for Question 14 = 27 marks)

15 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.

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.

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.

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

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.

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

(a) With reference to lines 18–19 of Extract 1, explain why many development economists consider that a growth rate of 6% is the minimum desirable in most African economies.

(5)

(b) With reference to Figure 1 and Extract 1, analyse why the growth rate of the Sub-Saharan African economies was higher than that of Advanced Economies between 2000 and 2010.

(8)

(c) With reference to Figure 2 and Extract 2, assess the benefits of foreign direct investment in primary sector industries of countries in Sub-Saharan Africa.

(10)

*(d) With reference to Extract 2, to what extent might aid from the 'BRIC' economies promote development in Sub-Saharan Africa?

(15)

END OF SECTION B **(Total for Question 15 = 38 marks)**

SECTION C

Write your answers in the spaces provided.

***16** In 2014 gross savings as a proportion of GDP were 47% in Singapore but only 16% in Brazil and 10% in Kenya.

(a) Assess whether a low savings ratio is the most significant constraint on economic growth in developing countries.

(20)

(b) Evaluate trade protection of manufacturing industries in developing countries as a means of achieving economic growth.

(30)

(Total for Question 16 = 50 marks)

***17** Some developing economies such as Uganda, Nigeria and Indonesia are experiencing rapid increases in their populations whereas Germany, Italy and Japan are experiencing falling populations.

(a) Assess the economic impact of rapid population increases on developing economies.

(20)

(b) Evaluate policies which a government in a developed economy might pursue to increase the size and productivity of its working population.

(30)

(Total for Question 17 = 50 marks)

***18** (a) Assess the view that economic development is dependent on economic growth. Refer to examples of developing countries in your answer.

(20)

(b) Discuss the view that savings gaps in developing countries are the most significant constraint on economic growth.

(30)

(Total for Question 18 = 50 marks)

***19** Assess possible reasons why the annual average growth rates of developing economies have been more than 4.5% higher than those of developed economies in recent years.

(20)

(Total for Question 19 = 20 marks)

*20 (a) Assess the significance of **three** factors which might limit economic development in developing countries.

(20)

(b) Discuss debt cancellation and trade liberalisation as alternative means of promoting economic development in developing countries.

(30)

(Total for Question 20 = 50 marks)

21 *(a) To what extent is primary product dependency a constraint on economic growth and development in developing countries?

(20)

*(b) Evaluate **four** ways in which economic growth and development might be promoted in developing countries.

(30)

END OF SECTION C **(Total for Question 21 = 50 marks)**