EXPERT TUITION

Economics Questions By Topic:

Protectionism (4.1.6)

A-Level Edexcel Theme 4

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SECTION B

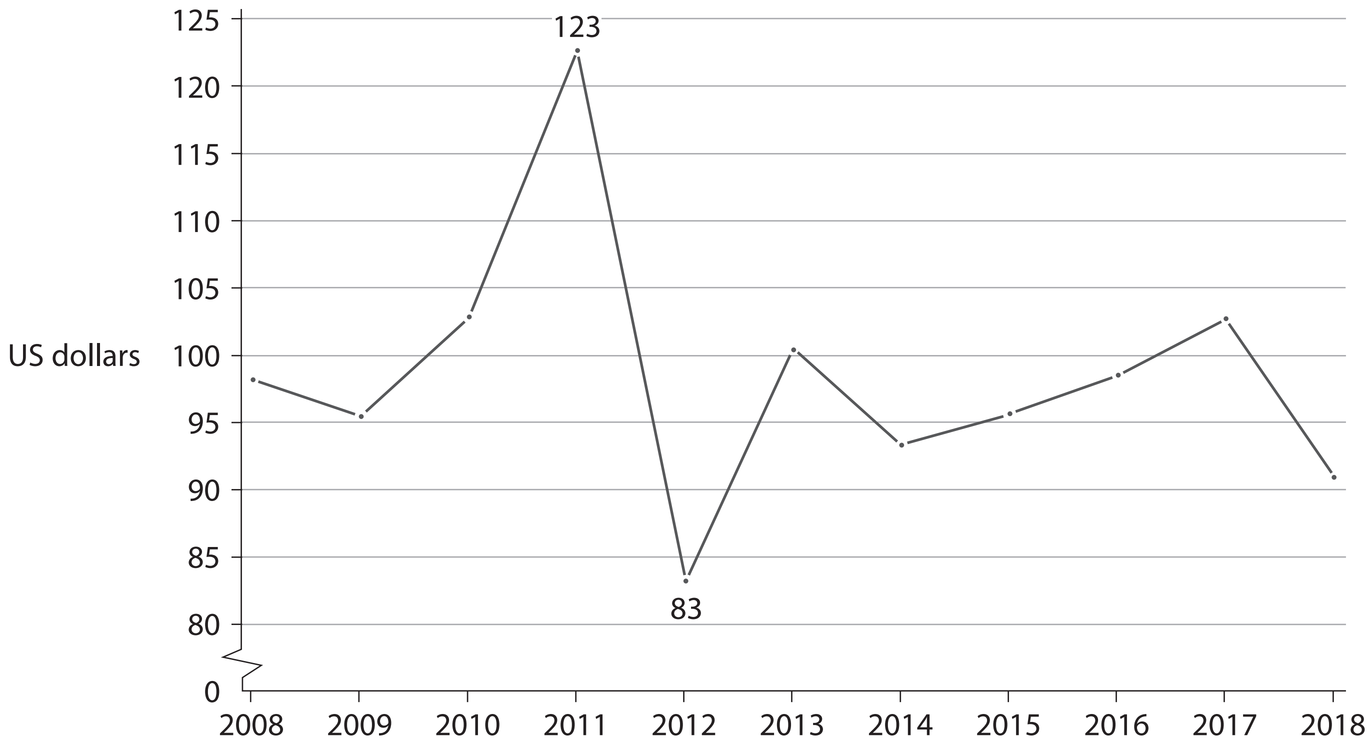
Read all extracts/figures before answering.

Write your answers in the spaces provided.

Question 1

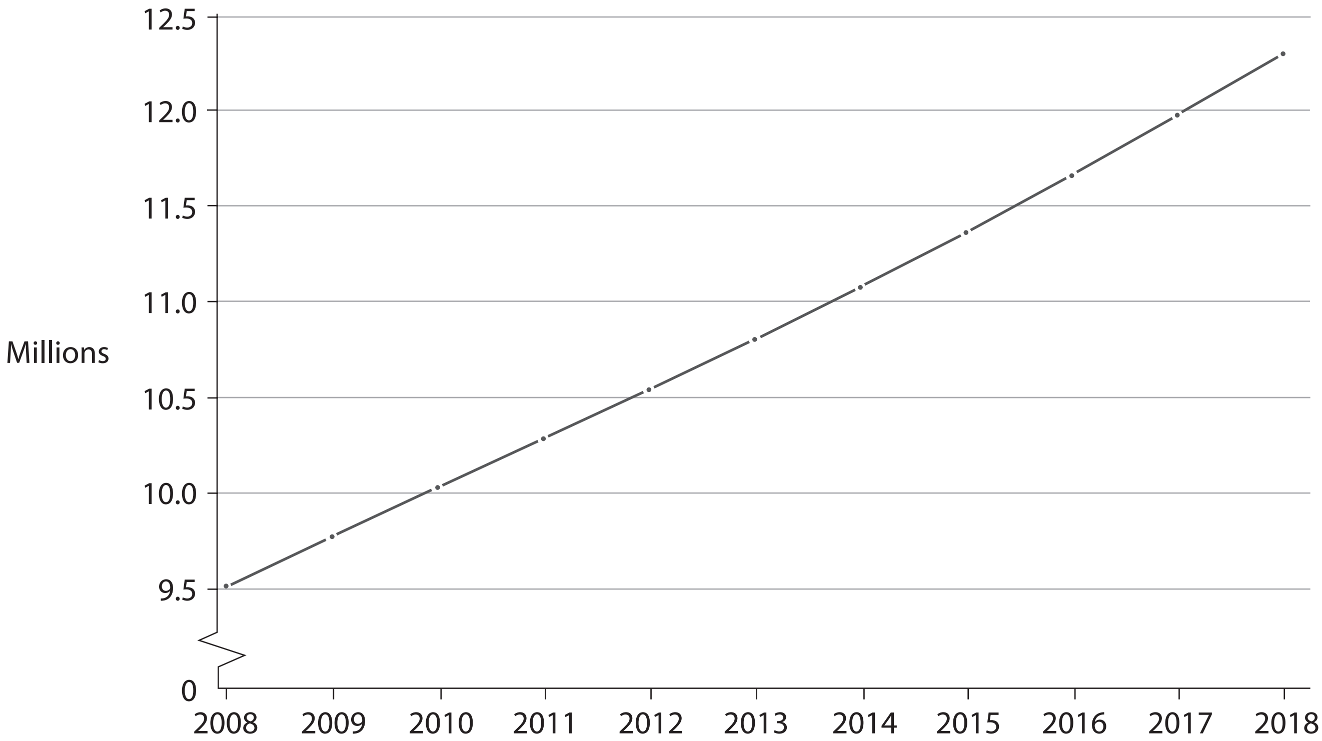
Trade and aid in Rwanda

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



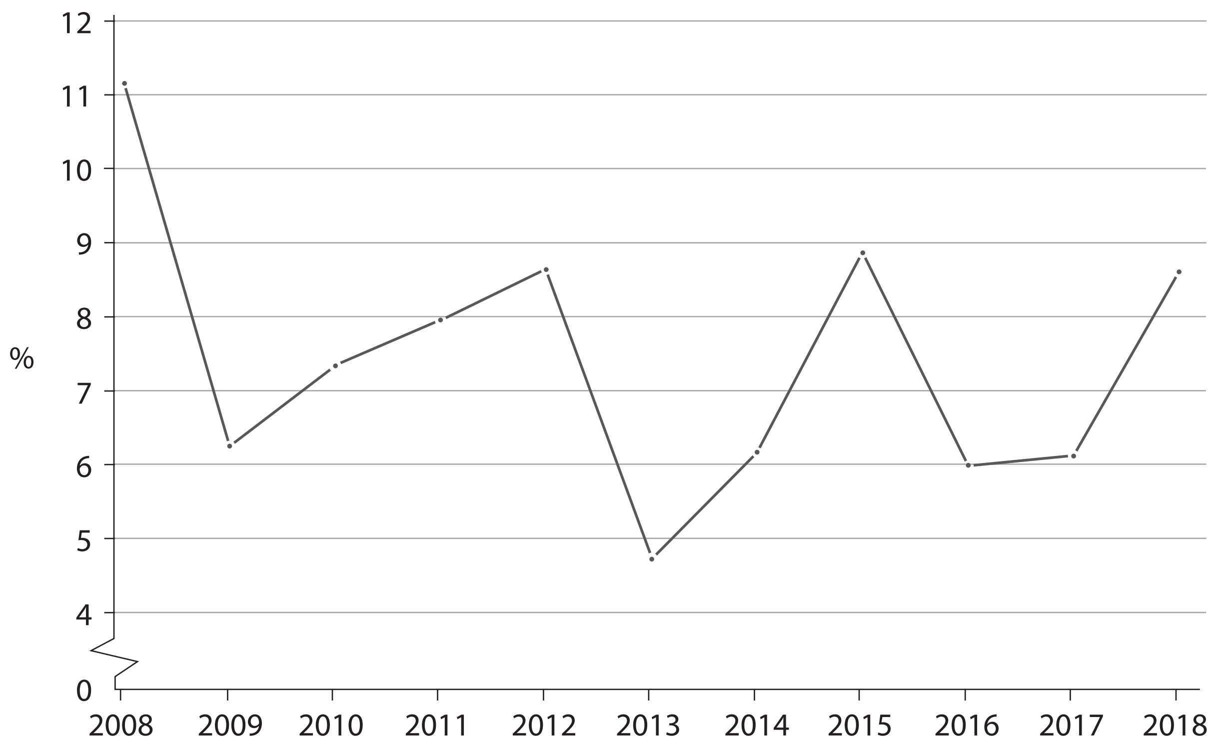
(Source adapted from: data.worldbank.org)

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)

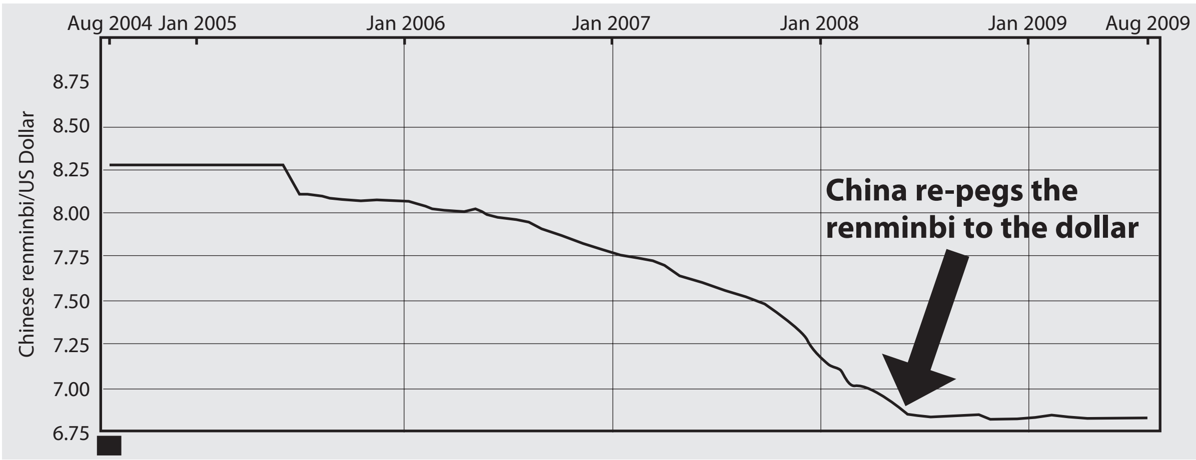
1 Discuss the likely impact on Rwandan consumers and clothing manufacturers of the increase in the tariff on imports of second-hand clothes. Use an appropriate diagram to support your answer.

(12)

(Total for Question 1 = 12 marks)

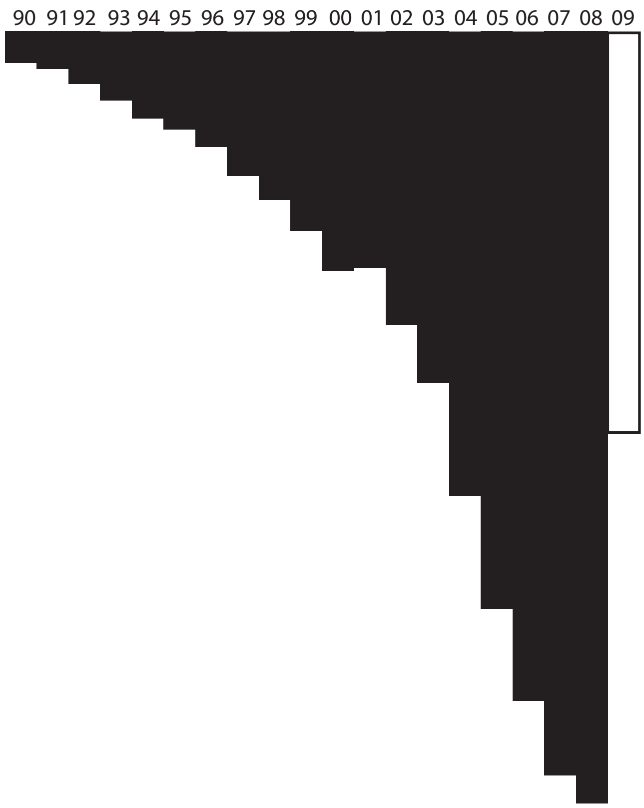
2 Trade Imbalances

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

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.

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.

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.

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.

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

*2 With reference to Extract 1, assess the impact of tariffs, such as those imposed by Mexico and Brazil, on US consumers and producers. Illustrate your answer with an appropriate diagram.

(15)

(Total for Question 2 = 15 marks)

3 The Global Financial Crisis

Figure 1: Real GDP: % Change on Previous Year

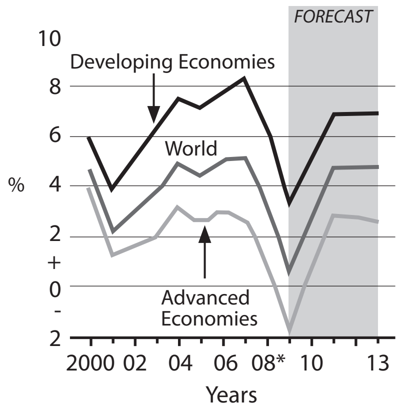
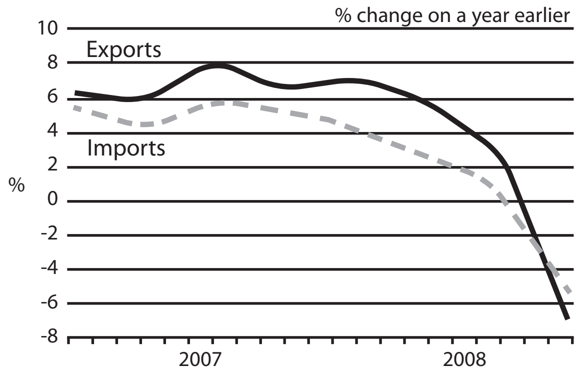
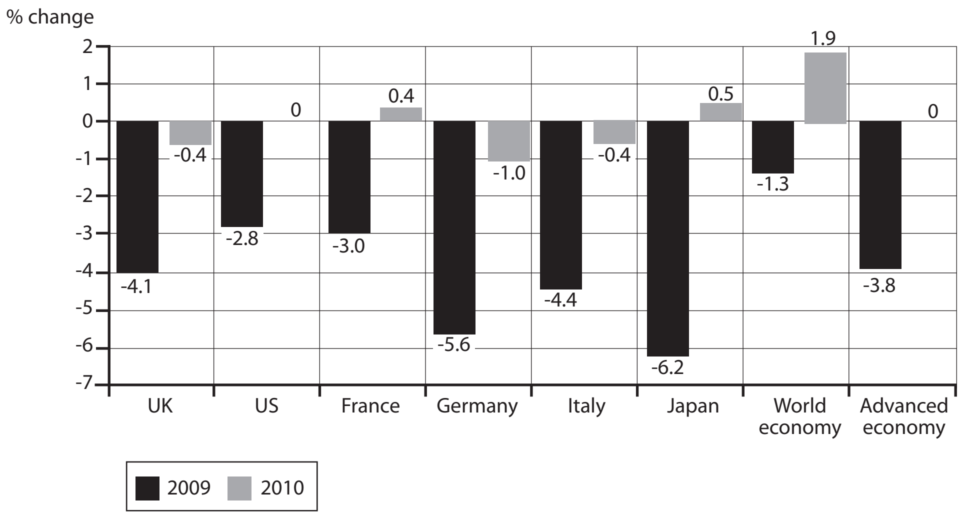


Figure 2: Value of World Exports and Imports: % Change on a Year Earlier



Source for Figure 1: *The Economist*, 21 February 2009 (Turning their backs on the world).
Source for Figure 2: *The Sunday Times*, 29 March 2009 (Export Giants sink most as World Trade Slumps by David Smith).

Figure 3: Real GDP Forecasts in 2009 and 2010, selected countries (% change)



Source: IMF.

Extract 1: Globalisation in retreat?

Between 2000 and 2008 the value of world trade in goods and services rose by 12% a year. Free trade has made the biggest contribution to more than 60 years of global prosperity. However, a golden age of global trade has come to an abrupt end. The economic meltdown has popularised a new term: deglobalisation. For the first time for many years, trade and investment flows are declining, but is globalisation really ending? At the end of 2008, the International Monetary Fund (IMF) said the world economy would grow at 2.2% in 2009, but by March 2009 it expected negative growth of between 0.5% and 1% over the year. Moreover, this recession appears to be affecting most economies simultaneously.

Falling trade has been the transmission mechanism from the financial crisis to the world's factories. In the second half of 2008 the value of trade fell: Pascal Lamy, the World Trade Organisation's (WTO) director-general estimates that world trade dropped by 5% in November 2008, by a further 7% in December and another 7% in January 2009.

The downturn has been sharpest in the countries which opened up most to world trade, especially East Asia's tiger economies. Singapore's exports are 186% of GDP; its economy shrank at an annualised rate of 17% in the last three months of 2008. Taiwan's exports are 60% of its GDP and its economy may fall as much as 11% this year. The downturn will also hurt rich countries which specialise in manufacturing: the IMF forecasts a contraction of about 2%, but Germany and Japan, who are big exporters of capital goods, cars and electronics are expected to shrink by much more (see Figure 3).

In contrast, the biggest emerging economies are doing less badly so far. In India, where exports are only around 15% of GDP, growth is expected to be 5% for 2009 and China was still growing by 6.8% in 2008.

There are several reasons why the banking system's problems have affected trade so quickly. First, the global recession is more severe than most thought possible. Secondly, according to the World Bank, global supply chains mean that a downturn quickly spreads. The trade interdependence of economies has rapidly transmitted the recession around the globe. Another problem is that trade finance has dried up. Firms have found it difficult to get export credits, without which they cannot do business.

A further issue is that the world recession is leading to protectionism. Lamy identifies several types, including import tariffs and subsidies to support industries which have faced difficulties.

Financial deglobalisation is hitting countries in a variety of ways. Foreign direct investment (FDI) fell by 21% in 2008 and is expected to fall a further 12%-15% in 2009. Rich countries seem to have suffered most so far. They have seen FDI falls of 33% on average and by 50% or more in Britain, Italy and Germany while Finland and Ireland have seen net outflows. FDI flows to developing countries were still growing in 2008, but by only 4%, after a rise of 20% in 2007. Flows to big South American countries were up by about 20% and those to India more than 100%.

Meanwhile, small countries that developed industries such as tourism, which grew as a result of globalisation, are also suffering. The WTO says international tourist numbers fell 1% in the second half of 2008, which may not sound bad, but this compares with growth of more than 5% per annum in the previous four years. In the Caribbean, visitors may fall by 33% this season: hotels are half empty, flights are being cancelled and fiscal deficits are rising.

Source: adapted from *The Economist*, 21 February 2009 'Turning their backs on the world' and *The Sunday Times*, 29 March 2009 'Export giants sink most as world trade slumps' by David Smith.

*3 In the light of the global recession, assess the likely economic effects of an increase in protectionism on the world economy.

(15)

(Total for Question 3 = 15 marks)

END OF SECTION B

SECTION C

Write your answers in the spaces provided.

4 Since the global financial crisis of 2008 there have been over 5 700 increases in tariffs, quotas and administrative controls on international trade.

Evaluate the likely effects of an increase in protectionism on the economy of a developing country of your choice. **(25)**

(Total for Question 4 = 25 marks)

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

Evaluate trade protection of manufacturing industries in developing countries as a means of achieving economic growth. **(30)**

(Total for Question 5 = 30 marks)

***6** In Nigeria, a 70% tariff has been applied to imports of fully assembled motor vehicles. In addition, increased tariffs of between 20% and 100% have been applied on certain agricultural goods, such as wheat and rice.

Assess the possible reasons why a country might impose tariffs on imports.

(20)

(Total for Question 6 = 20 marks)

*7 In 2012, EU agricultural subsidies amounted to €76 billion ($94 billion) and US agricultural subsidies were €138 billion ($172 billion).

Evaluate the economic effects of such agricultural subsidies on the global economy. **(30)**

END OF SECTION C **(Total for Question 7 = 30 marks)**