Please check the examination details below before entering your candidate information

Candidate surname: StemUp Model Solution

Other names:

Pearson Edexcel
International Advanced Level

Centre Number

Candidate Number

Time 2 hours

Paper reference **WEC14/01**

Economics

International Advanced Level
UNIT 4: Developments in the global economy

You must have:
Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **ALL** questions in Section A and Section B.
- Answer **TWO** questions in Section C.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.
- Good luck with your examination.

Turn over ▶

P65836A

©2021 Pearson Education Ltd.

1/1/1/1/1/1

P 6 5 8 3 6 A 0 1 2 8

Pearson

SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 Between 2009 and 2018 Argentina's national debt increased from approximately $186 billion to nearly $447 billion.

Which **one** of the following is the most likely effect of an increase in national debt of a country?

- ☒ **A** A decrease in its comparative advantage
- ☒ **B** A decrease in its interest rates
- ☒ **C** An increase in its debt servicing costs
- ☒ **D** An increase in the external value of its currency

(Total for Question 1 = 1 mark)

2 Armenia's Gini coefficient increased from 0.28 in 2009 to 0.34 in 2017.

Which **one** of the following is most likely to reduce Armenia's income inequality?

- ☒ **A** A reduction in the national minimum wage
- ☒ **B** An improvement in education and training
- ☒ **C** A decrease in progressive tax rates
- ☒ **D** An increase in regressive tax rates

(Total for Question 2 = 1 mark)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

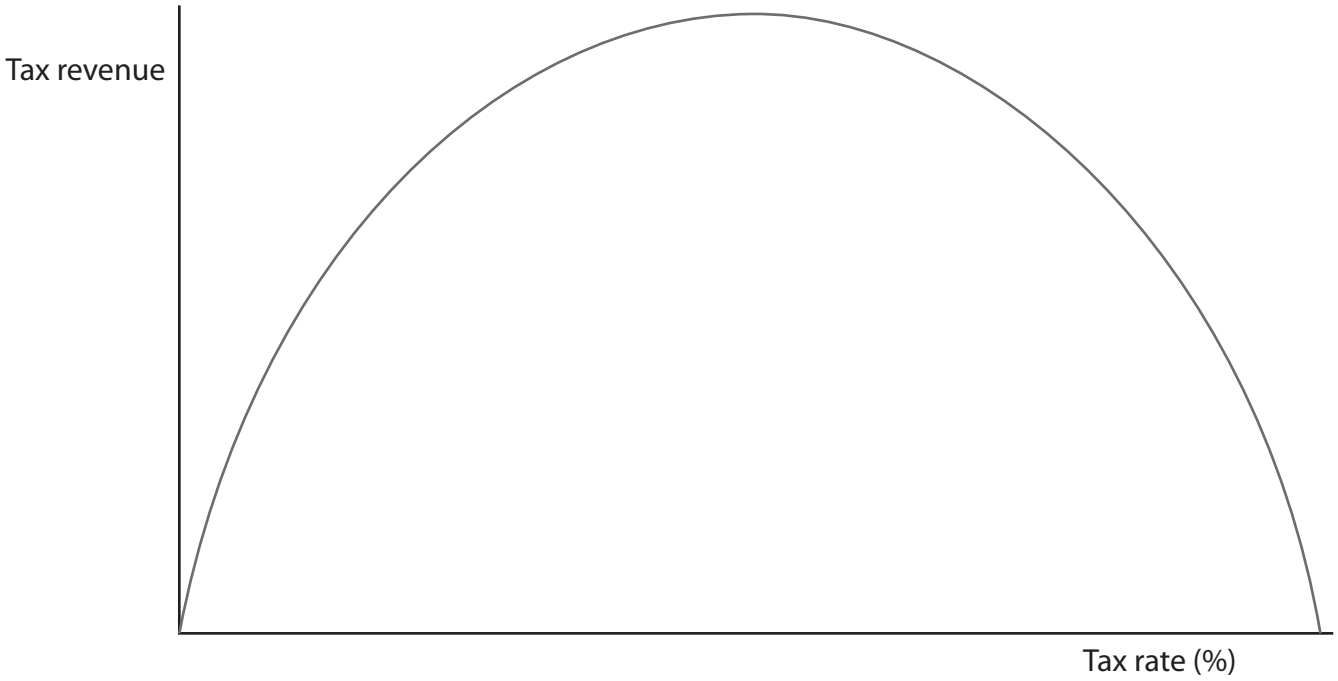
3 In 2018 the value of oil exports accounted for 85% of Nigeria's GDP.

Which **one** of the following is most likely to result from a fall in world oil prices?

- ☒ **A** A deterioration in Nigeria's current account deficit
- ☐ **B** An improvement in Nigeria's terms of trade
- ☐ **C** An increase in transportation costs in Nigeria
- ☐ **D** A reduction in Nigeria's budget deficit

(Total for Question 3 = 1 mark)

4 The diagram illustrates the relationship between tax rate (%) and government tax revenue.



Which **one** of the following models is represented by this relationship?

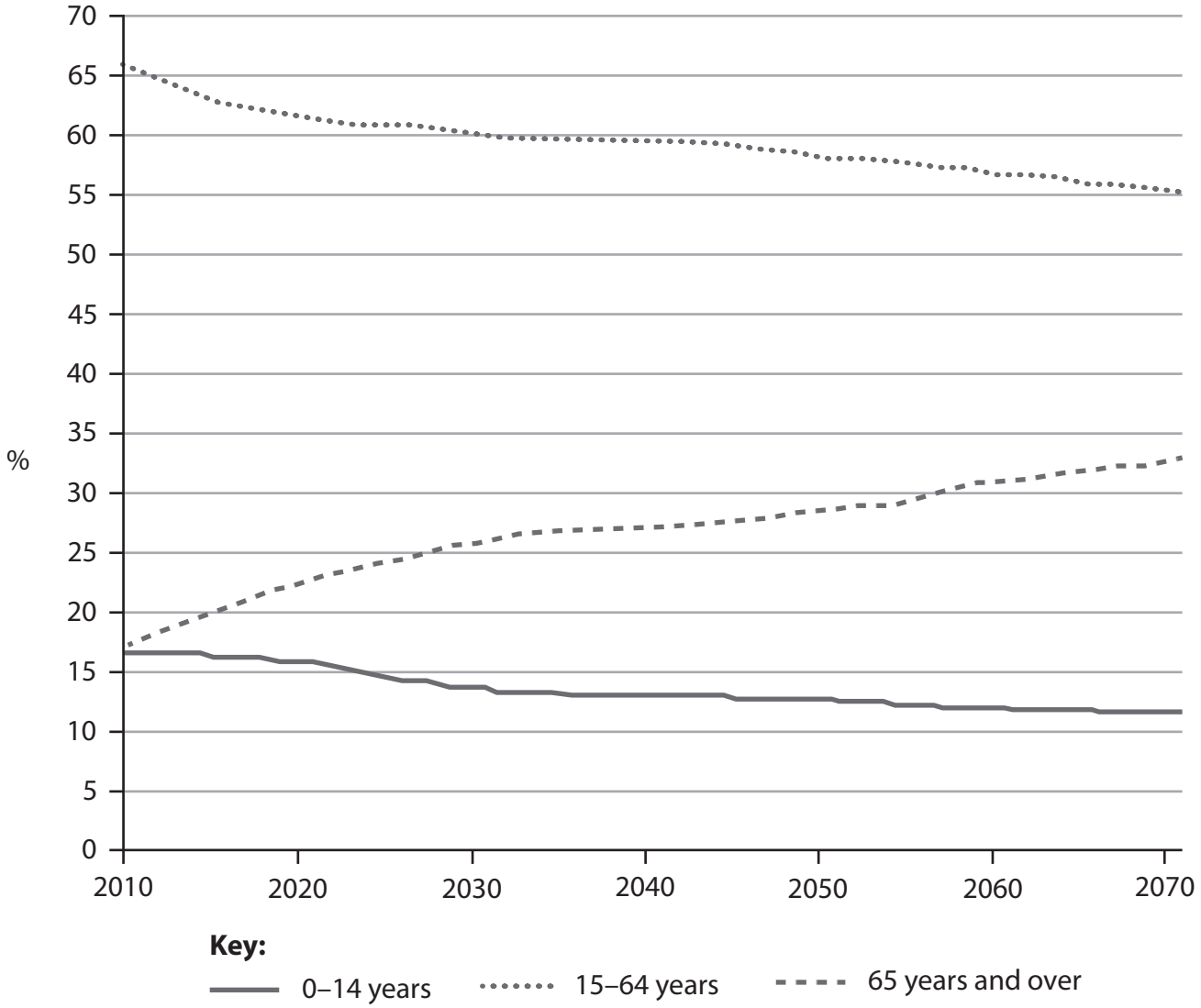
- ☐ **A** The J-curve
- ☐ **B** The Phillips curve
- ☐ **C** The Lorenz curve
- ☒ **D** The Laffer curve

(Total for Question 4 = 1 mark)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

5 The chart shows the age distribution of population in Finland between 2010 and 2070. The data is a forecast for 2020 to 2070.



Which **one** of the following can be deduced from the chart?

- ☒ **A** The tax burden on the working population is likely to decline by 2070
- ☒ **B** Finland is likely to experience labour shortages by 2070
- ☒ **C** The working population is forecast to rise by nearly 16%
- ☒ **D** Social welfare spending on the population aged 65 years and over is likely to decrease

(Total for Question 5 = 1 mark)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

6 The table shows Afghanistan's terms of trade between 2015 and 2017 (2000=100).

Year	Terms of trade
2015	154.4
2016	163.8
2017	169.0

Ceteris paribus, which **one** of the following can be deduced from the data?

- ☒ **A** The value of Afghanistan's imports have risen relative to the value of its exports
- ☒ **B** The average price of Afghanistan's exports have fallen relative to the average price of its imports
- ☒ **C** Afghanistan is likely to experience an improvement in its living standards
- ☒ **D** Afghanistan is likely to experience a deterioration in the financial account of the balance of payments

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 In 2018, the EU's rate of inflation was 1.6%.

(a) With reference to Figure 1, calculate the nominal GDP growth rate of the EU in 2018. You are advised to show your workings.

(2)

(b) Explain what is meant by 'quantitative easing' (Extract A, lines 8–9).

(4)

(c) With reference to Figure 1, Figure 2 and Extract A, analyse **two** reasons why 'Many EU countries experienced strong economic growth after 2012' (Extract A, lines 2–3).

(6)

(d) With reference to Figure 1, Figure 2 and Extract A, examine **two** reasons why 'there is concern that the future rate of economic growth in the EU might be much lower' (Extract A, lines 12–13).

(8)

(e) With reference to Extract B, discuss the likely economic benefits to the EU of forming a trade agreement with Mercosur.

(14)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

In 2018, the EU's rate of inflation was 1.6%.

(a) With reference to Figure 1, calculate the nominal GDP growth rate of the EU in 2018. You are advised to show your workings.

(2)

Nominal GDP growth ≈ real GDP growth + inflation

From Figure 1, real GDP growth in 2018 = 2%

Nominal GDP growth = 2% + 1.6% = 3.6%

(b) Explain what is meant by 'quantitative easing' (Extract A, lines 8–9).

(4)

Quantitative easing is an unconventional monetary policy where the central bank creates new money electronically and uses it to buy assets, mainly government bonds, from banks and other financial institutions. This increases the money supply and bank liquidity, raises bond prices and lowers long-term interest rates, so it is cheaper to borrow.

In the EU, the ECB carried out a €2.5 trillion quantitative easing programme between 2015 and 2018, which gave firms greater access to credit to finance investment. The ECB has indicated that it could extend the programme, which would reduce fears of economic uncertainty.

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

(c) With reference to Figure 1, Figure 2 and Extract A, analyse **two** reasons why 'Many EU countries experienced strong economic growth after 2012' (Extract A, lines 2–3).

(6)

One reason is an increase in consumer spending. Extract A states that after years of low domestic demand, household expenditure rose by 2% in 2018. Consumption is the largest component of aggregate demand (AD = C + I + G + (X − M)), so higher spending shifts AD to the right from AD1 to AD2. Firms raise output to meet demand, and through the multiplier effect real GDP rises from Y1 to Y2, as shown in the diagram.

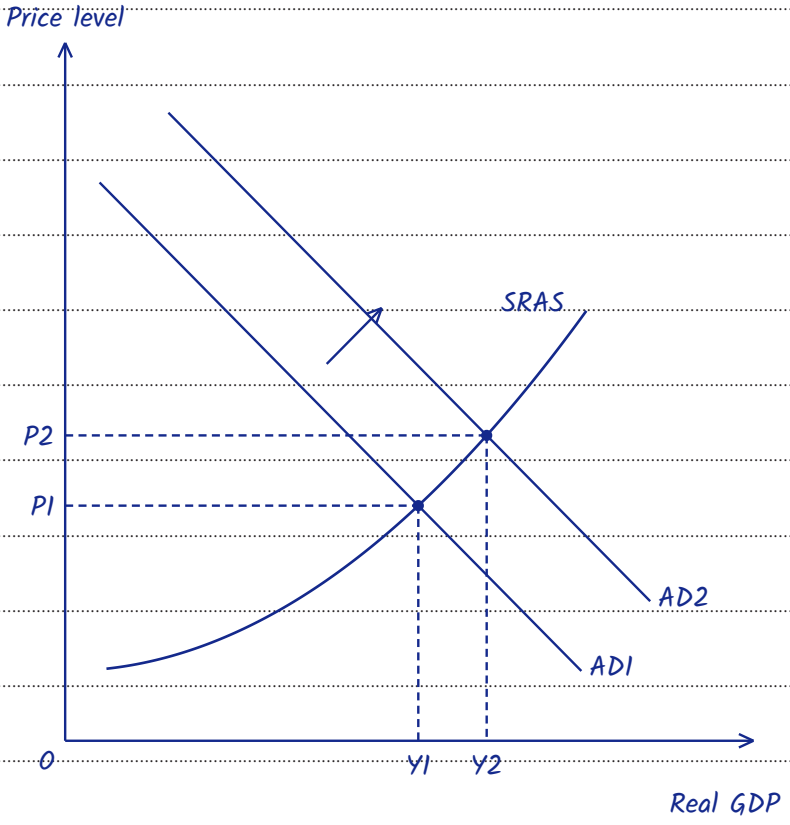


Figure 1 shows real GDP growth rising from about −0.4% in 2012 to about 2.3% in 2015 and 2.5% in 2017.

A second reason is an increase in investment, including FDI. The ECB's €2.5 trillion quantitative easing programme gave firms greater access to cheap credit, and Figure 2 shows inward FDI rising from about 2.2% of GDP in 2014 to about 5.8% in 2016. Investment is an injection into

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

the circular flow, so it increases AD in the short run. It also increases the capital stock and productive capacity of the economy, so LRAS shifts to the right and the EU can sustain higher growth without inflation. The expansion in global trade also raised net exports, adding further to AD.

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(d) With reference to Figure 1, Figure 2 and Extract A, examine **two** reasons why 'there is concern that the future rate of economic growth in the EU might be much lower' (Extract A, lines 12–13).

(8)

Figure 1 already shows real GDP growth slowing from about 2.5% in 2017 to 2% in 2018.

One reason is rising oil prices. Most EU countries are net importers of oil, which is an essential raw material and energy source in production. Higher oil prices raise costs of production for firms, so SRAS shifts to the left, causing cost-push inflation and lower real output. Extract A says rising oil prices are also expected to reduce FDI, and Figure 2 shows inward FDI had already fallen sharply from about 5.8% of GDP in 2016 to about 0.3% in 2018. Lower investment reduces AD in the short run and the growth of productive capacity in the long run.

However, oil prices are volatile and could fall again if global supply increases, for example from higher US shale output, which would reduce costs for EU firms. Also, the ECB has indicated that it could extend quantitative easing, so firms would keep access to finance and investment may not fall as much as expected.

A second reason is low spending on research and development, which Extract A says is significantly lower than in most Asian countries, together with a shortage of skilled labour in the technology sector. Less R&D means less innovation and lower dynamic efficiency, so EU firms become less non-price competitive. A skills shortage lowers labour productivity, which raises unit labour costs and export prices, so EU goods become less price competitive. Exports fall, reducing (X – M) and AD, and LRAS grows more slowly, so the trend rate of growth is lower.

This is likely to be the most significant factor, because the R&D gap with Asian trading

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

partners is long-term and would need considerable investment over many years to close. On the other hand, the skills shortage in technology is a global problem, and rising wages for skilled workers in the EU may attract migrants and encourage training, which could correct the shortage over time. Similarly, the slowdown in China may be temporary if confidence returns after the trade war with the USA.

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(e) With reference to Extract B, discuss the likely economic benefits to the EU of forming a trade agreement with Mercosur.

(14)

A free trade agreement removes tariffs and quotas on trade between the members. Extract B states that the EU and Mercosur deal would be the largest ever trade agreement negotiated by the EU in terms of tariff reductions, so the potential benefits are large.

The main benefit is trade creation. According to the law of comparative advantage, the EU should specialise in goods it produces at a lower opportunity cost, such as cars, machinery and pharmaceuticals, while Mercosur countries such as Brazil and Argentina specialise in agricultural goods such as beef. Removing tariffs allows higher-cost domestic production to be replaced by lower-cost imports, so world output rises and resources are allocated more efficiently.

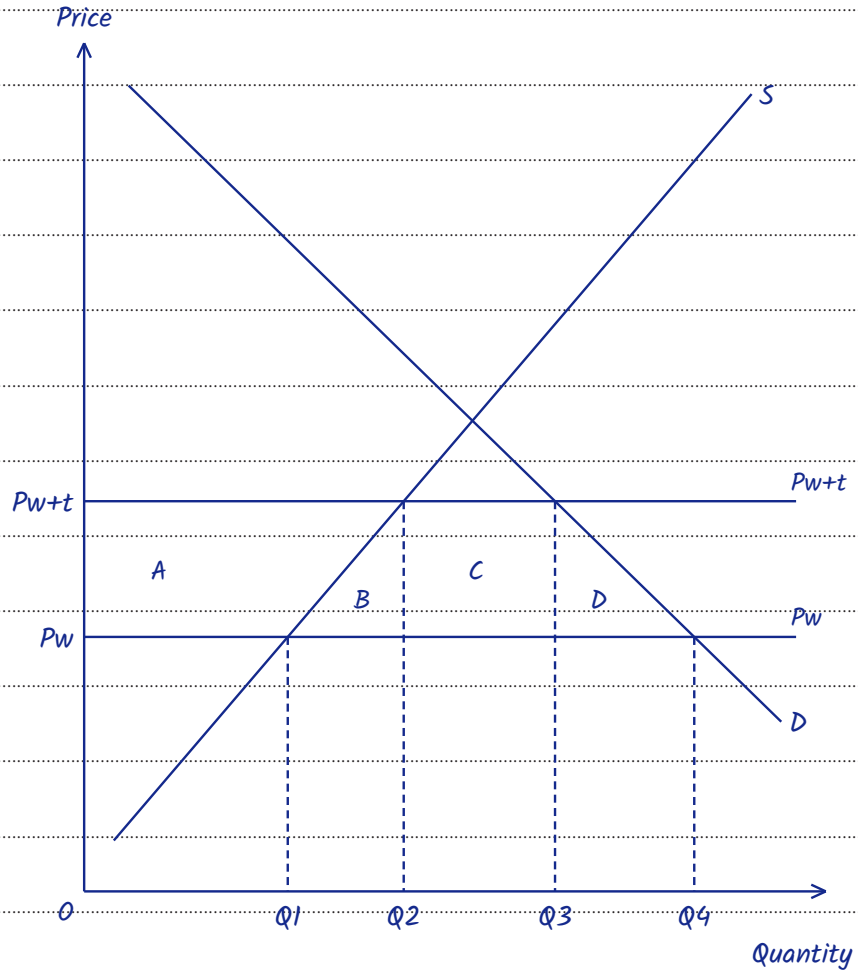
EU firms also gain access to the larger South American market of Mercosur. Lower tariffs make EU exports such as cars cheaper there, so firms can increase sales and output, benefiting from internal economies of scale that lower long-run average costs. Higher exports increase (X – M), shifting AD to the right, and through the multiplier this raises real GDP and employment in the EU.

Increased competition is a further benefit. Extract B mentions "greater competition for Mercosur's car manufacturers and for the EU's beef farmers". Competition forces firms to cut costs, reducing x-inefficiency, and to innovate, which increases dynamic efficiency and long-term productivity. At a time when President Trump is threatening to increase trade barriers with China and the EU, the deal diversifies the EU's export markets, reducing its dependence on the USA, and strengthens its position as a leading promoter of global free trade.

The diagram shows the EU market for beef. With a tariff the price is Pw+t, domestic producers

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

supply Q2 and imports are Q2 to Q3. When the tariff is removed the price falls to Pw, domestic supply falls to Q1, demand rises to Q4 and imports rise to Q1 to Q4.



Consumers gain consumer surplus of A + B + C + D, producers lose producer surplus A and the government loses tariff revenue C, so there is a net welfare gain of B + D, as the deadweight losses of the tariff are removed. Consumers benefit from lower prices and greater choice, which raises real incomes.

However, the benefits may be limited. The EU's beef farmers may be unable to compete with low-cost Mercosur producers, causing firms to close and structural unemployment in rural areas, so the gains would not be shared equally between member states. Imports from Mercosur may rise by more than EU exports to Mercosur, worsening the current account of some EU countries. There may also be trade diversion if Mercosur goods replace imports from lower-cost producers

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

outside the agreement, which reduces efficiency.

The benefits also depend on whether the deal is concluded. Extract B shows "a lack of co-ordination" between Mercosur's largest agricultural exporters, which was partly blamed for the failure to agree a deal in 2018, so negotiations could fail or include long phase-in periods. Mercosur economies are also small and volatile compared with the EU, so the boost to EU exports may be modest.

Overall, the agreement is likely to bring significant long-run benefits for EU consumers and exporting manufacturers through trade creation, economies of scale and greater competition, and it is especially valuable given rising US protectionism. However, the gains will be unevenly distributed, with EU farmers likely to lose, and their size depends on the agreement being concluded and enforced.

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

BLANK PAGE

SECTION C BEGINS ON THE NEXT PAGE.

stemup.co.uk

SECTION C

Answer TWO questions from this section.

8 According to the Global Competitiveness Index, Belgium's international competitiveness rank fell four places between 2015 and 2019.

Evaluate measures that a developed country might take to increase its international competitiveness. Refer to a developed country of your choice in your answer.

(Total for Question 8 = 20 marks)

9 Between 2014 and 2018 the average cost to developing countries of servicing and repaying their external debts increased by over 60%.

Evaluate the case for promoting *economic development* through debt relief. Refer to a developing country of your choice in your answer.

(Total for Question 9 = 20 marks)

10 Between January and August 2018, Turkey's currency, the lira, depreciated by nearly 40% against the US dollar.

Evaluate the economic effects of a depreciation of a country's currency. Refer to a country of your choice in your answer.

(Total for Question 10 = 20 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

Write the answer to your FIRST chosen question here.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Write the answer to your SECOND chosen question on page 22.

Chosen question number: **Question 8** ☒ **Question 9** ☐ **Question 10** ☐

International competitiveness is the ability of a country's firms to sell goods and services in global markets at a price and quality that are attractive compared with rivals. It depends on price factors, such as unit labour costs and the exchange rate, and non-price factors, such as quality, innovation and reliability. Belgium's rank in the Global Competitiveness Index fell four places between 2015 and 2019. Belgium has some of the highest labour costs and tax burdens on labour in the OECD, partly because wages are automatically indexed to inflation.

One measure is to increase spending on education and training. This increases human capital, closing the skills gap, so labour productivity rises. Higher output per worker lowers unit labour costs, so firms can cut export prices, improving price competitiveness, and better skills raise the quality of output and innovation, improving non-price competitiveness. As a supply-side policy, this shifts LRAS to the right from LRAS1 to LRAS2, so real GDP rises from Y1 to Y2 and the price level falls from P1 to P2, as shown in the diagram below, making exports cheaper relative to foreign goods.

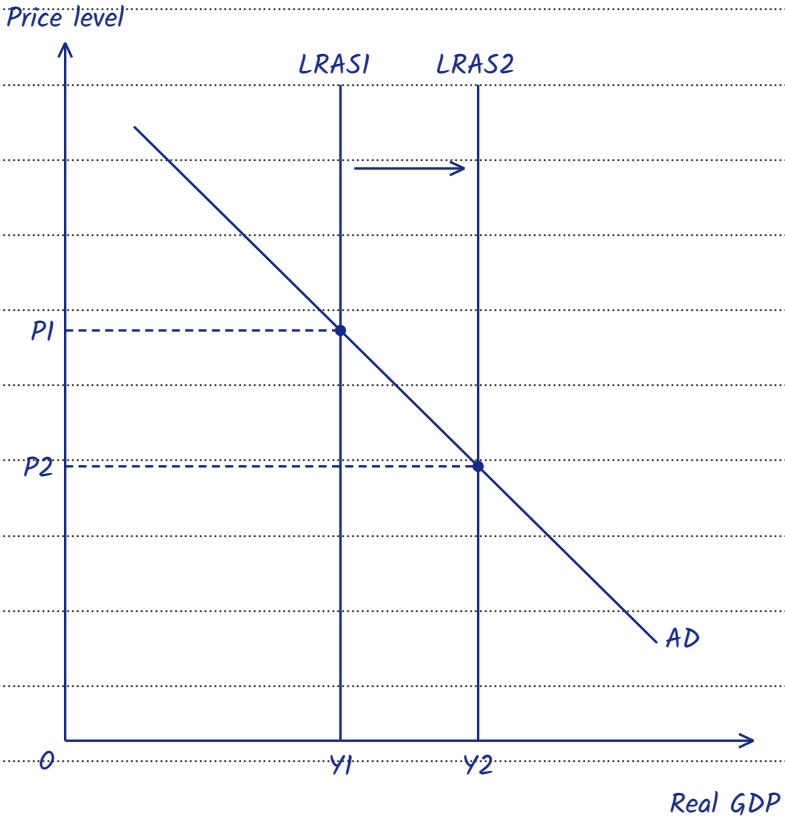
However, education spending has an opportunity cost, since the money cannot be used for other priorities, and there is a long time lag before workers become more productive, so it will not reverse Belgium's fall in rank quickly. Success also depends on whether training matches the skills firms need.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

stemup.co.uk



A second measure is to reduce labour costs and taxes on business. Belgium has cut employer social security contributions through its "tax shift" and cut corporation tax from around 34% to 25% by 2020. Lower costs of employment reduce unit labour costs and allow firms to cut prices, while lower corporation tax increases post-tax profits, giving firms more retained profit to invest in new capital and R&D. It also makes the country more attractive for FDI from multinationals, which brings new technology and management skills, raising productivity and dynamic efficiency. Wage restraint, such as limiting wage growth to that of neighbouring countries, also keeps unit labour costs down.

On the other hand, tax cuts reduce government revenue and may increase the budget deficit, which is a concern for a country like Belgium with a national debt close to 100% of GDP. Firms may use higher profits for dividends rather than investment, and FDI depends on many factors such as political stability and confidence, not just tax. Wage restraint may reduce consumption and living standards, and other countries may respond with their own tax cuts, so the relative

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

advantage is lost.

A third measure is improving infrastructure such as transport links, ports and broadband. Better infrastructure reduces transport and communication costs for firms and makes trade quicker and more reliable, lowering costs per unit. Belgium's location and the port of Antwerp make good logistics especially important. However, infrastructure projects are very expensive, may be delayed or go over budget, which is a form of government failure, and benefits take many years to appear.

A fourth measure is deregulation and increasing competition, for example reducing bureaucracy for start-ups and opening network industries to competition. Lower barriers to entry force firms to reduce x-inefficiency and costs, and greater access to finance supports entrepreneurship and innovation. However, large firms with monopoly power can earn supernormal profits to fund R&D and benefit from economies of scale, so more competition may reduce dynamic efficiency in some industries, and deregulation can reduce consumer and worker protection.

A government could also try to reduce the external value of its currency to make exports cheaper. However, Belgium is in the eurozone, so it cannot set its own interest rates or devalue, which limits its options to supply-side measures. A weaker currency would in any case raise import costs and may cause cost-push inflation, so the gain in price competitiveness may only be temporary.

In conclusion, the most effective measures for a developed country are long-term supply-side policies that raise productivity, especially education, training and investment in R&D and infrastructure, because they improve both price and non-price competitiveness permanently. Lowering labour taxes may have a faster effect in Belgium, where high labour costs are the

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

main weakness. However, all measures involve time lags and opportunity costs, and since competitiveness is relative, success depends on what rival countries are doing. A combination of measures that is financially sustainable is therefore likely to be most effective.

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

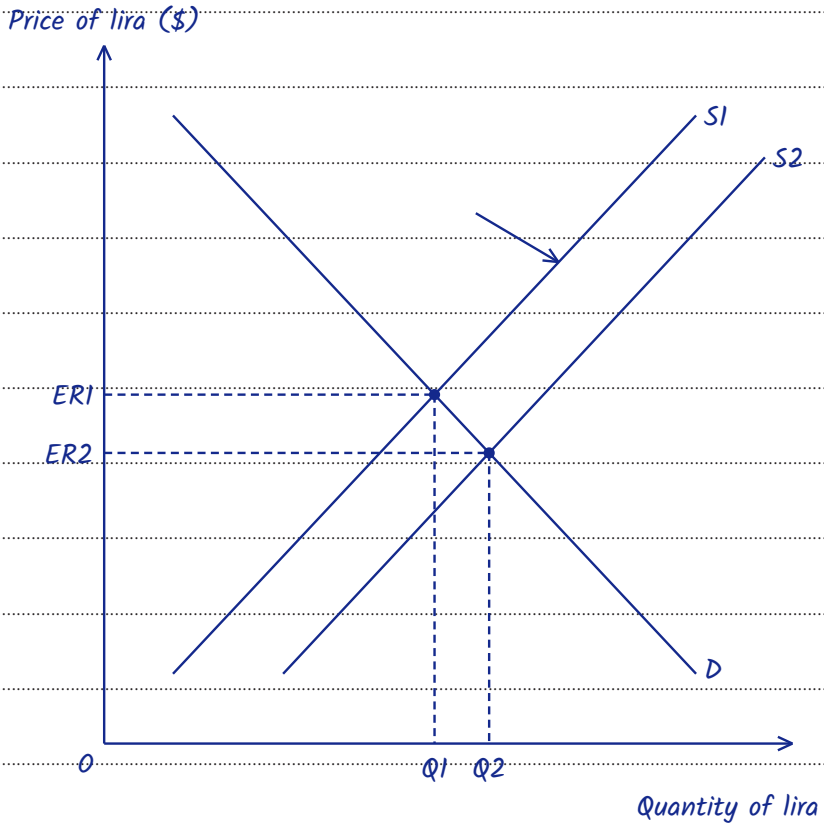
stemup.co.uk

Write the answer to your SECOND chosen question here.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 8** ☐ **Question 9** ☐ **Question 10** ☒

A depreciation is a fall in the value of a currency against other currencies in a floating exchange rate system. Between January and August 2018 the Turkish lira depreciated by nearly 40% against the US dollar. This was caused by a fall in demand for lira, as investors lost confidence due to high inflation, a large current account deficit and political tension with the USA, and by an increase in the supply of lira as investors sold Turkish assets. As shown in the diagram, the exchange rate falls from ER1 to ER2.



The first effect is on the current account. After the depreciation, Turkish exports become cheaper in foreign currency and imports become more expensive in lira, so Turkey's price competitiveness improves. The volume of exports rises and the volume of imports falls, so the current account deficit, which was about 5.5% of GDP in 2017, should narrow. Tourism, an

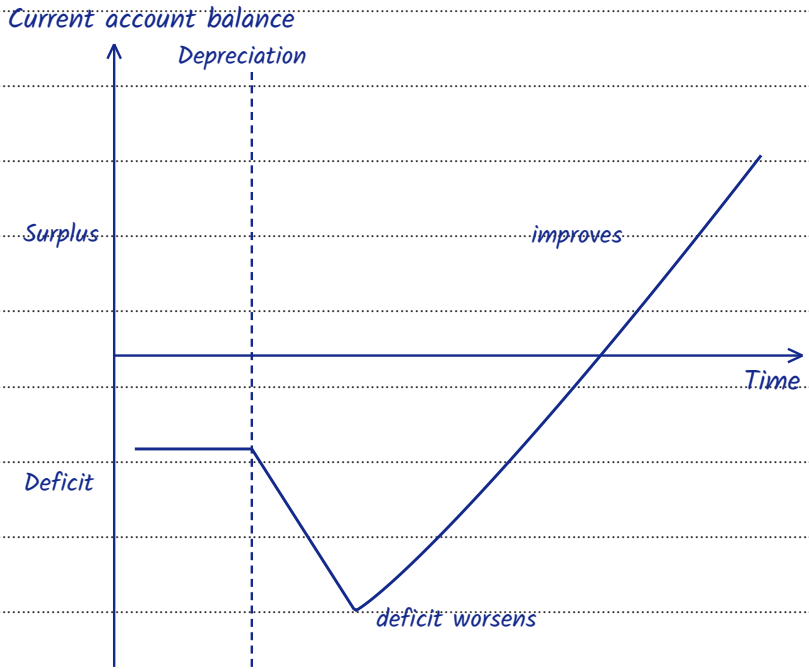
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

important export for Turkey, also becomes cheaper for foreign visitors.

Higher net exports (X – M) increase aggregate demand, since exports are an injection and imports a withdrawal from the circular flow. Through the multiplier effect, real GDP rises by more than the initial increase in net exports, so economic growth increases. As labour is a derived demand, firms in export industries and tourism employ more workers, so unemployment falls. Inward FDI may also rise, since Turkish assets and labour are now cheaper for foreign firms.

However, the effect on the current account depends on the price elasticities of demand for exports and imports. According to the Marshall-Lerner condition, a depreciation only improves the current account if PEDx + PEDm > 1. In the short run demand is price inelastic, because contracts are fixed and consumers take time to switch, so the deficit may initially get worse before it improves. This is the J-curve effect, shown below.



Also, a depreciation does not improve non-price competitiveness, such as quality and design, and

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

the improvement depends on the state of the world economy; if Turkey's main trading partners in the EU are growing slowly, demand for its exports may not rise much.

A major negative effect is higher inflation. Turkey imports much of its energy and raw materials, so a 40% depreciation sharply increases the lira price of imports. Firms' costs rise, shifting SRAS to the left and causing cost-push inflation, while higher AD adds demand-pull inflation. Turkish inflation rose to about 25% in late 2018, reducing real incomes and eroding the gain in price competitiveness. However, the inflationary effect depends on whether firms pass on higher costs or cut profit margins, and on whether productivity rises.

The depreciation also increased the cost of servicing foreign currency debt. Many Turkish firms had borrowed in dollars and euros, so a weaker lira raised the lira value of their debts, causing bankruptcies and reducing investment and confidence. To defend the lira and reduce inflation, the central bank raised interest rates to 24% in September 2018, which reduced consumption and investment. As a result, Turkey fell into recession at the end of 2018, so AD may fall rather than rise, as other components of AD more than offset the rise in net exports.

The effects also depend on the size and duration of the depreciation. A fall of nearly 40% in eight months is very large, so its effects are significant, and sudden falls create uncertainty that may reduce FDI rather than attract it. In the long run, if the lower exchange rate is maintained, Turkey's current account did improve, moving close to balance in 2019, and tourism grew strongly, which suggests the J-curve effect was eventually achieved.

In conclusion, a depreciation can improve a country's current account, growth and employment in the long run, provided the Marshall-Lerner condition holds and there is spare capacity. However, for Turkey the short-run effects were mainly negative because of high inflation, foreign currency

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

debts and falling confidence. The overall effect depends on the elasticities of demand, the size of the depreciation and how the government and central bank respond.

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

TOTAL FOR SECTION C = 40 MARKS

TOTAL FOR PAPER = 80 MARKS

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

BLANK PAGE

stemup.co.uk

BLANK PAGE

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

stemup.co.uk

Pearson Edexcel International Advanced Level

Time 2 hours

Paper reference WEC14/01

Economics

International Advanced Level
UNIT 4: Developments in the global economy

Source Booklet

Do not return this Booklet with the question paper.

Turn over ▶

P65836A

©2021 Pearson Education Ltd.

1/1/1/1/1/1

P 6 5 8 3 6 A

Pearson

stemup.co.uk

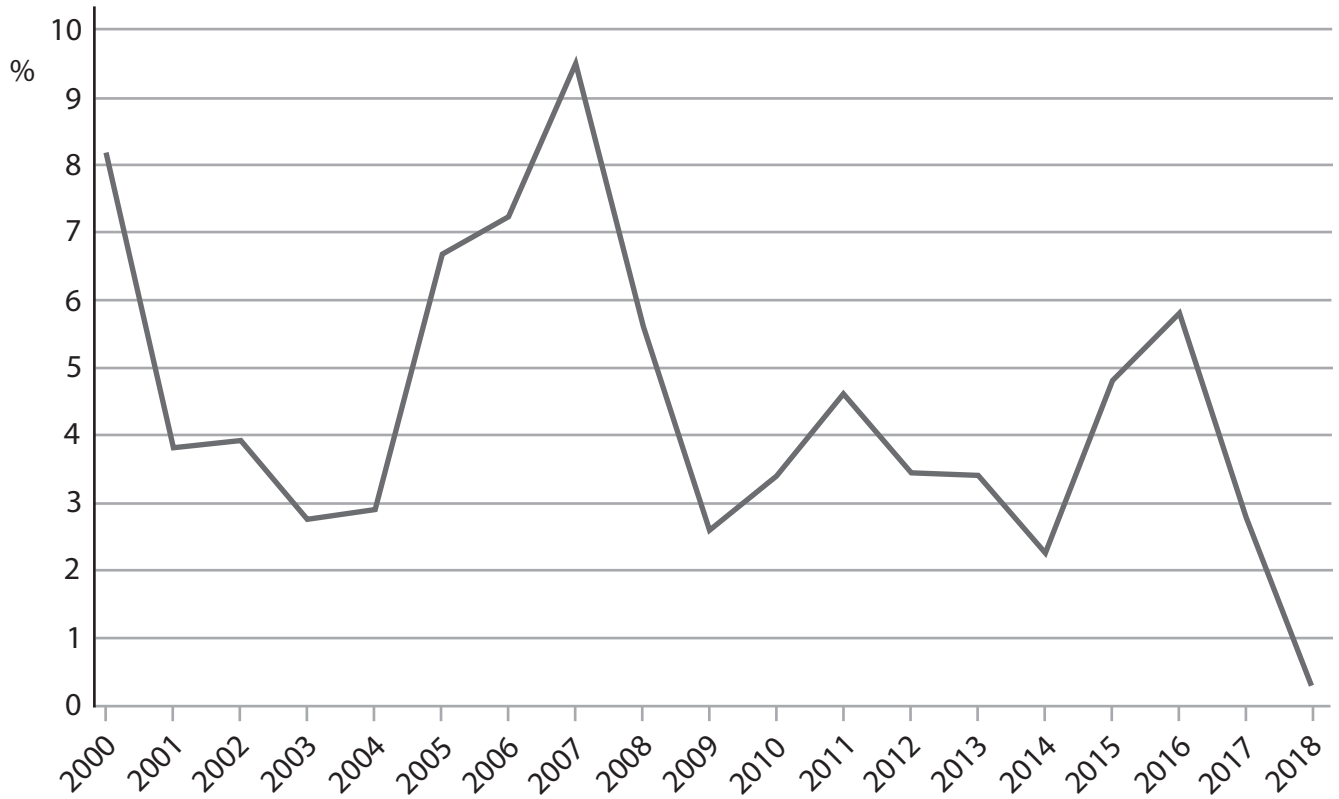
Sources for use with Section B.

The European Union (EU)

Figure 1 Annual real GDP growth rate (%), 2000–2018



Figure 2 Annual inward foreign direct investment to the EU (% of GDP), 2000-2018



stemup.co.uk

Extract A Economic growth

The European Union (EU) is a customs union. Many EU countries experienced strong economic growth after 2012, four years after the global financial crisis of 2008. After some years of low domestic demand since the crisis, firms in the EU were able to take advantage of increasing consumer spending. In 2018 household expenditure rose by 2% and the EU benefited from an expansion in global trade.

The EU's economic recovery was also as a result of increased domestic investment. Between 2015 and 2018 the European Central Bank's (ECB) €2.5 trillion quantitative easing programme gave firms greater access to credit. The ECB has also indicated that it could extend this programme. This would reduce fears of economic uncertainty and the impact of a global economic slowdown.

Despite the evidence of economic recovery, there is concern that the future rate of economic growth in the EU might be much lower. Rising oil prices are expected to reduce foreign direct investment. Moreover, spending on research and development is significantly lower than in most Asian countries. There is also a shortage of skilled labour in the technology sector. Finally, there is a worry that the EU's rate of economic growth could also decline as a result of the slowdown in China, following its trade war with the USA.

Extract B Trade agreement

In July 2019 the South American customs union, Mercosur, and the EU announced they were close to agreeing a free trade deal. If concluded it would be the largest ever trade agreement negotiated by the EU in terms of tariff reductions.

The deal would provide a rare moment of agreement in global trade. It would come at a time when US President Donald Trump is threatening to increase trade barriers with China and the EU. A trade agreement with Mercosur has more significance as the EU seeks to position itself as a leading promoter of global free trade.

However, the EU remains concerned about the agreement. The negotiations have discussed sensitive economic matters for both trading blocs. These include the prospect of greater competition for Mercosur's car manufacturers and for the EU's beef farmers.

There has also been disappointment amongst EU countries about the lack of co-ordination between Mercosur's largest agricultural exporters. These countries include Argentina, Brazil, Paraguay and Uruguay. This problem was partly blamed for the failure to secure a trade agreement in 2018.

stemup.co.uk

BLANK PAGE

Acknowledgements

Figure 1 based on data taken from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2018&locations=EU&start=2000

Figure 2 based on data taken from https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2018&locations=EU&start=2000

Extract A adapted from https://www.ft.com/content/e802da62-c555-11e8-8670-c5353379f7c2

Extract B adapted from https://www.ft.com/content/6e0b64f4-8edb-11e9-a1c1-51bf8f989972