

Pearson Edexcel International Advanced Level

Time 2 hours

Paper
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Economics

International Advanced Level

UNIT 4: Developments in the global economy

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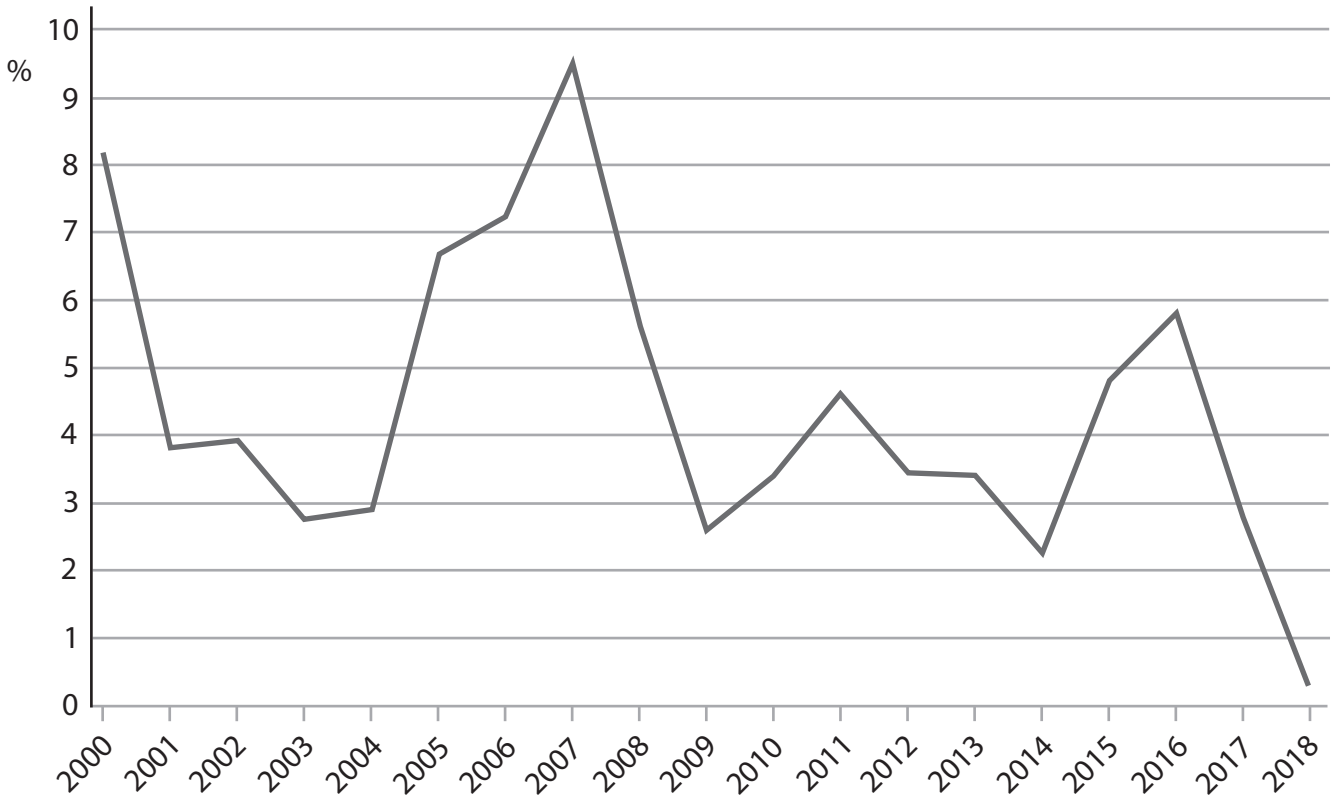
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The European Union (EU)

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



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



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. 5

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. 10

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. 15

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. 5

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. 10

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. 15

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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>