H

ST. ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS – 2018 (JC2)
General Certificate of Education Advanced Level
Higher 2

ECONOMICS **9757/01**

Paper 1 **27 August 2018**

2 hours 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name and class on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

Start Question 1 and 2 on a fresh sheet of paper.
At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **7** printed pages and **1** blank page.

Answer all questions

Question 1: Steel Industry in India

Table 1: World Steel Output and Consumption (million tonnes)

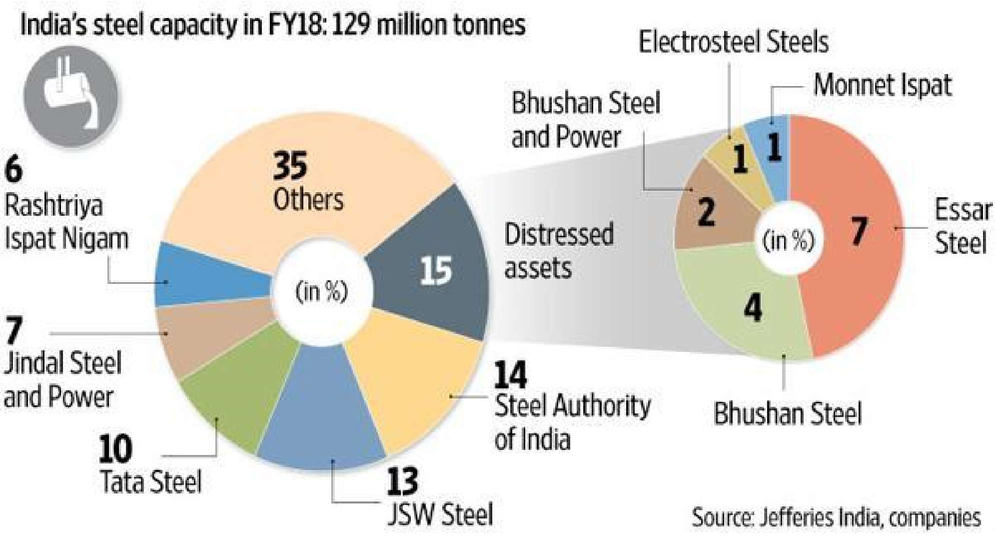
	2014	2015	2016	2017
Output	1,669	1,620	1,627	1,689
Consumption	1,546	1,500	1,516	1,587

Source: World Steel Association

Figure 1: World Steel Prices (USD/tonne)

Source: Tradingeconomics.com

Figure 2: Key Steel Producers in India



Extract 1 Steel industry gets protection

India's Steel Minister Narendra Singh Tomar said that additional steps will be taken to protect domestic steel industry, which is facing a bad patch, in wake of cheap Chinese imported steel. "China was trying to dump its cheap steel in India and as a result of it, the domestic steel industry was in distress. To protest domestic industry, we enhanced import duty and imposed safeguard duty. But these steps were not enough and we will be taking additional steps in this regard", said Tomar.

Steel ministry along with the Finance and Commerce ministries are engaged in a dialogue to work out the steps that need to be taken for protecting domestic steel industry in the near future, according to media reports. "China is offering steel at half price compared to domestic industry in India. The way China is working, it appears (that) an economic war was on," he said.

Giving relief to domestic steel producers against cheap in-bound shipments, the government on Friday imposed a minimum import price (MIP) on 173 steel products ranging between $341 and $752 per tonne. The minimum price will remain in place for six months only.

The Minister further said state-run steel production centres are being expanded and modernised and four new steel plants were being set up in Jharkhand, Odisha, Chhattisgarh and Karnataka.

Source: realtyplusmag.com, 01 Feb 2016, www.thehindubusinessline.com, 05 Feb 2016

Extract 2: 'Iron and steel industries are economy's backbone'

NAGPUR: Iron ore and steel industry is one of the basic industries of the country and plays an important role in strengthening the economy.

Delivering a talk on the 'Indian iron ore industry-an overview', CS Gundewar, controller general, Indian Bureau of Mines said that India was the fourth largest producer of steel in the world. Iron and steel was one of the largest industries supporting the country's economy.

At present India produces 65 million tonnes steel, but as per the 'National Steel Policy', the country is expected to raise this production to 180 million tonnes by the year 2020. But this, he said, would be possible only by exploring new mines. Though India has large resources of iron ores with estimated capacity of 28.52 billion tonnes, magnetite reserves could not be exploited due to the presence of these ores in the 'eco-fragile' zones mainly in Western Ghats. Gundewar also stressed on the need for more scientific and environment conscious mining by using eco-friendly technologies.

Source: Timesofindia.indiatimes.com, 15 May 2013

Extract 3: What is making Indian steel expensive?

A World Steel Dynamics (WSD) report has ranked India ahead of most countries, except those from the Commonwealth of Independent States, in terms of the cost curve. Yet, the sector is reeling from cheap imports and high inventory levels.

According to WSD data for January this year, production cost for hot-rolled coils in India was $349 a tonne, compared with $428 in China, $429 in South Korea, $448 in Japan and the global average of $418. Add to it the taxes, freight and the cost of capital, and the picture isn't really rosy for domestic steel makers, companies claim.

"Our internal freight rate is two-three times higher compared to China," says Sushim Banerjee, director-general of the Institute for Steel Development and Growth.

Logistics costs from Bellary to Delhi would be $60, while for the same distance in China, a producer would pay only $18, says Jayant Acharya, director (commercial and marketing), JSW Steel.

Former Tata Steel former managing director, J J Irani, says, "Most modern steel plants are shore-based, as the cost of transporting ores in large carriers is much cheaper than hauling it in trains. Korean and Japanese plants are all shore-based. They also import ores rather than mine ores."

Adapted from www.business-standard.com, 24 Sep 2015

Questions

(a) **(i)** Describe the trend of world steel prices from Jan 2016 to Dec 2017. [1]

(ii) With reference to Table 1, explain a possible reason for the apparent contradiction between the data and the trend in world price of steel in **(a)(i)**. [3]

(b) **(i)** Using an example, explain what is meant by a price floor. [2]

(ii) With the use of a diagram, explain how a minimum import price could achieve the Indian government's intended objective. [4]

(c) In view of the current market structure in the Indian steel industry, discuss the possible impact of the Indian government's removal of the minimum import price after six months on consumers and producers of steel in India. [8]

(d) **(i)** With the use of an example, explain what is meant by comparative advantage. [2]

(ii) Assess the options that are available to the Indian government to secure India's comparative advantage in steel production. [10]

[Total: 30]

Question 2: The Debate on Globalisation

Table 2: Current account balance of various economies (US$, billions)

	2011	**2012**	**2013**	**2014**	**2015**	**2016**
India	-62.5	-91.5	-49.1	-27.3	-22.5	-12.1
U.S.	-465.9	-426.2	-349.5	-373.8	-434.6	-451.7
China	136.1	215.4	148.2	236	304.2	196.4

Source: *World Bank*

Table 3: China's inflation rate (annual %)

Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Inflation rate (%)	5.41	2.64	2.63	2.0	1.44	2.0

Source: *World Bank*

Extract 4: China eyes improved India ties in case of Sino-U.S. trade war

China is currently facing down a list of import tariffs levied by the Trump administration, agitated by the country's $375 billion trade surplus with the United States. In response, it has hinted at relaxing rules on some American imports and suggested dialogue rather than escalating a potential trade war.

That is not all, however. China is now taking steps to protect itself if a trade war does come to pass, and is looking to India as a potential ally, although India's government is not all too happy with its own China trade deficit. China wants to treat other countries, especially major partners, well in case U.S. tariffs force Chinese exporters to depend more on markets outside the United States, analysts say. India is a prime target. Beijing knows India finds the trade relationship uneven, experts say, increasing the urgency to please it.

"Indian officials see China pursuing a 'beggar-thy-neighbour' policy and undermining India's manufacturing sector by dumping cheap, subsidised goods in the Indian market while importing raw materials from India," says Mohan Malik, a professor at the Asia-Pacific Centre for Security Studies in Honolulu, Hawaii. India has filed the largest number of anti-dumping cases in the World Trade Organisation (WTO) against China, he notes.

A closer trade relationship with India means more opportunities in the future, as India is expected to be the fastest-growing economy for the next decade. India's GDP, the world's fourth-largest, is growing at around 6.5% -- close to China's own rate of acceleration.

However, China has cause to fear India's economic expansion as Indian wages are generally lower than Chinese equivalents, keeping manufacturing costs down, says Stuart Orr, professor of strategic management at Deakin University in Australia. India would also not be burdened by U.S. tariffs aimed at China. "If India increases its imports from the U.S., the doors will be open for India to export more to the U.S. as well," Orr says. "As China's wage rates continue to rise, China has every basis for fearing an India with a developed manufacturing capability, fuelled by the demand of more exports to the U.S.," he says.

Source: *Forbes*, 3 April 2018

Extract 5: China's vanished current-account surplus will change the world economy

The State Administration of Foreign Exchange (SAFE) said on Friday that China had recorded a deficit of US$28.2 billion in its current account for the first three months of 2018, in what is the first quarterly deficit since the second quarter of 2001. Economists said it could signal a fundamental shift in China's international payment position.

Ding Shuang, the chief China economist with Standard Chartered in Hong Kong, wrote in a note that China has run a current account surplus on an annual basis in the past 25 years and "people tend to take China's surplus for granted". However, "a moderate shock, against the backdrop of intensifying trade frictions, can push China's current account into deficit," he wrote.

The merchandise trade surplus dropped 35 per cent year-on-year to US$53.4 billion in the first three months of this year, SAFE said. Meanwhile, the service trade deficit, including tourism, was US$76.2 billion, resulting in an overall current account deficit, according to China's official balance of payment figures.

Ding forecasts that China's current account will likely return to a surplus in the coming months, but the surplus will be just 1% of GDP this year and 0.5% next year. The trade ruckus with the U.S. could reinforce the downward trend.

Adapted from *South China Morning Post*, 4 May 2018 and *The Economist*, 17 May 2018

Extract 6: Globalisation or de-globalisation?

A cursory glance at economic preferences of people around the world point at two prominent trends. Firstly, those in advanced countries are increasingly interested in de-globalisation.

The term de-globalisation is used to highlight the trend of several countries wanting to go back to economic and trade policies that put their national interests first. These policies often take the form of tariffs or quantitative barriers that impede free movement of people, products and services among countries. The idea behind all this protectionism is to shield local manufacturing by making imports costlier. The present talk around 'trade war' and 'de-globalisation' cropped up after the U.S., in March, imposed 25 per cent and 10 per cent duty on steel and aluminium imports, respectively, from certain countries, citing national security and job creation as the triggering factors.

The second trend, on the other hand, is that less developed countries have become vanguards of interconnected economy, as it provides them, through the expansion of markets and infusion of foreign capital and technology, with the chance to develop economically. The proponents say globalisation represents free trade, which promotes global economic growth, creates jobs, allows labour to move from country to country to market their skills and makes companies more competitive.

An IMF Working Paper looked at how globalisation affects the distribution of incomes across and within countries. "In rich economies, globalisation still represents a source of economic growth, but the expected gains are lower than in poor and emerging market economies, where globalisation increases economic well-being and reduces poverty. While in the average developing economy the poor as well as the wealthy benefit from globalisation, in many advanced economies globalisation often has little effect on the incomes of the poor," they claimed. This is a point that explains why a majority of people in economically advanced countries are rallying against globalisation, leading to protectionist trade practices.

The economists have an advice for the governments. “Government policies matter in making the benefits of globalisation more inclusive. Investments in education that raise skill levels, as well as taxes and transfers that spread the benefits more broadly, can help globalisation fulfil its promise of generating gains for all,” they argued.

Adapted from *Forbes*, 6 May 2015 and *The Asian Age*, 25 June 2018

Questions

(a) Using Table 2, compare the current account balance of India and the U.S. from 2011 to 2016. **[2]**

(b) How far do Tables 2 and 3 show an improvement in China’s economic performance from 2011 to 2016? **[5]**

(c) With reference to Extract 4, explain the potential macroeconomic impact of U.S. tariffs on both China and India. **[5]**

(d) Extracts 4 and 5 mention some of the challenges faced by the Chinese economy in recent times. **[8]**

Using the data and your own relevant knowledge, evaluate **two** policy options the Chinese government may consider in overcoming **any two** of these challenges.

(e) With reference to data where appropriate, assess the extent to which world economies should pursue de-globalisation. **[10]**

Total: 30 marks

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