

Paper 1 Theme II: Global Economy

Growth in the Global Economy - Examples for Essay Writing

US Financial Aid & Assistance

Under the Marshall Plan, the USA provided US\$13 billion aid, in the form of loans and grants, to kickstart recovery and prepare Western Europe to become a key driver of the global economy. The liquidity from the Marshall Plan stimulated demand in Europe. Of the \$13 billion allotted by mid-1951, \$3.4 billion had been spent on imports of raw materials and semi-manufactured products.

The USA launched the Technical Assistance Programme (TAP) to raise productivity in Western Europe in 1949 and in Japan in 1955 to close the technological gap. The TAP functioned as a conduit to disseminate state-of-the-art technologies, technical knowledge, and managerial sciences. In particular, the USA lent American specialists to Europe and allowed their European counterparts to visit and observe production processes in the USA.

Multinational Corporations

American MNCs raised the number of foreign affiliates from 7500 in 1950 to over 23000 in 1966. US firms' investments in Europe and Japan increased from \$2 billion in 1950 to \$41 billion in 1973. These American MNCs advanced the development of European and Japanese economies by bringing technical know-how in areas like automation and computing to Europe and Japan.

Half of the world's Foreign Direct Investment (FDI) of about US\$200 billion originated from the USA. By 1969, American MNCs alone produced approximately \$140 billion worth of goods, more than any economy except the USA and Soviet Union.

International Organisations & Arrangements (Bretton Woods)

The International Bank for Reconstruction and Development (IBRD) functioned as the lending arm of the World Bank. It performed the role as a long-term financier of development and construction aid. The World Bank provided low-interest loans to member states to support development projects while easing poverty issues. From 1948 to 1952, developing economies received 47% of the loans but well above 90% from 1970 onwards.

The International Monetary Fund (IMF) acted as a holder of a buffer stock of currencies to tide members over difficult periods when they faced balance of payment deficits and were unable to pay for its imports with sufficient exports. The US dollar was used as the basis for the new monetary system. From 1958 to 1971, one ounce of gold was equivalent to USD\$35.

GATT provided a forum to facilitate trade negotiations involving signatory countries. The first few meetings (known as 'trade rounds' were organised on a bilateral level. Bilateral agreements, under the most-favoured-nation clause, would then apply to all other signatories.

Role of Governments (Keynesian/Mixed Economics)

In West Germany, Erhard's currency reforms that contributed to the attainment of pre-war industrial levels in West Germany. In June 1948, the currency reform was planned to replace Reichsmarks with Deutsche marks. In doing so, the contraction of money supply will increase the value of money and discourage the existence of a black market.

In France, Jean Monnet implemented the 'Modernisation and Re-equipment Plan' to spur economic recovery ('Monnet Plan'). The Plan aimed to raise productivity and national production. It emphasised expansion and modernisation by targeting specific sectors, such as steel, electricity and rail transport.

The European Coal and Steel Community (ECSC) was formed in 1952, comprising Belgium, France, Italy, Luxembourg, the Netherlands and West Germany. It facilitated the creation of a common market for coal and steel among its member states. With freely set market prices, free movement of products and without custom duties or taxes. The Treaty of Paris contributed to the abolition of discriminatory railway tariffs, which promoted intra-regional trade.