
INTERNATIONAL AS ECONOMICS

Unit 2 The National Economy in a Global Environment

Source Booklet

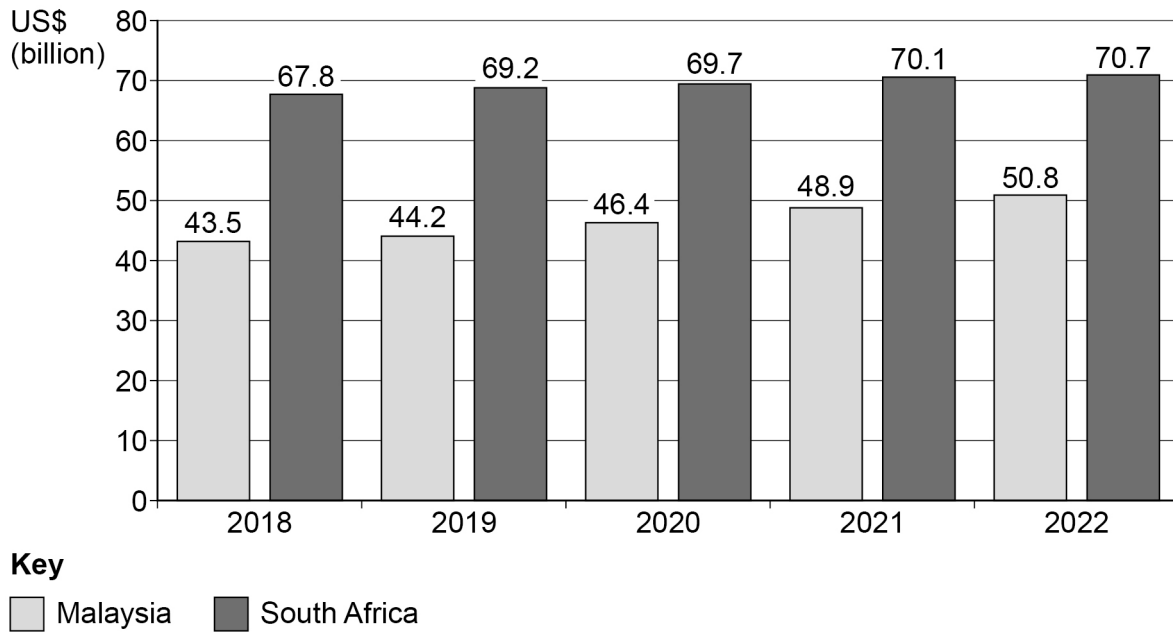
- Extract A:** Real government spending on goods and services and annual growth in real GDP in Malaysia and South Africa, 2018 to 2022
- Extract B:** The economic impact of the global pandemic in South Africa
- Extract C:** Government economic policies to recover from the global pandemic

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Extract A: Real government spending on goods and services and annual growth in real GDP in Malaysia and South Africa, 2018 to 2022

(i) Real government spending on goods and services (US\$ billion) in Malaysia and South Africa, 2018 to 2022



Note: Government spending on goods and services includes the wages of government workers but does not include capital investment.

(ii) Annual growth in real GDP (%) in Malaysia and South Africa, 2018 to 2022

	2018	2019	2020	2021	2022
Malaysia	4.8%	4.4%	−5.5%	3.1%	8.7%
South Africa	1.5%	0.3%	−6.3%	4.9%	2.0%

Extract B: The economic impact of the global pandemic in South Africa

The global pandemic caused many countries to experience both demand-side and supply-side shocks. These shocks reduced economic activity and, in many cases, led to a negative output gap. Most economies are recovering, but some governments now face a combination of high inflation and lower employment. Employment is affected by aggregate demand, the supply of labour (the total number of hours of work people in the economy are willing to work at each wage rate) and their skill level. 1 5

The pandemic caused high levels of illness in South Africa. The government used 'lockdown' controls (limits on the activities of consumers and producers) to stop the disease spreading. Consumers could only leave their homes to buy essential goods and services, and many businesses had to close. When the lockdown controls were removed, there was a sudden rise in aggregate demand but businesses found it difficult to return to their normal levels of supply. As a result, like many other countries, South Africa suffered from demand-pull inflation after the economy came out of lockdown. 10

Inflation fell after 2022, but other problems remain. South Africa's real GDP is now back at its 2019 level but the number of jobs is around half a million lower than in 2019. Women and young people have been affected most by the fall in employment. 15

Extract C: Government economic policies to recover from the global pandemic

Many countries increased government spending during the global pandemic to protect their economies. Some are keeping government spending high and hope this will produce a large multiplier effect. For example, the United States used expansionary fiscal policy with high government spending to increase economic growth after the pandemic. A change in government spending can lead to a larger change in real national income, especially if the economy is below its normal capacity level of output. 1 5

During 2020, GDP in Poland fell by only 2%. This fall was much smaller than in most other European countries and Poland recovered more quickly. This led to some cost-push inflation as unemployment is very low in the country. The government is responding with supply-side policies aimed at increasing productivity and reducing costs of production for firms. Supply-side policies can produce growth and increase a country's normal capacity level of output. For example, India has grown by investing in education and training and reducing business taxes. 10

Malaysia is one of the most successful economies in Asia. In the past, the country had fast economic growth due to strong demand for its exports, especially electrical items and other manufactured goods. However, the private sector was badly affected by falling world demand for its exports during the pandemic. The distribution of income became more unequal. Families with low incomes are most likely to suffer when there are economic shocks. 15

The Malaysian government now aims to encourage growth in exports. It believes this is the best way to increase economic growth. The government cannot fully control world demand for Malaysia's exports, but it has policies to improve education, training and health. The government has promised to help private firms to increase their capital investment and improve productivity. This should make Malaysia's exports more competitive. The government also plans to keep tight control of monetary policy and help keep the exchange rate stable. This may increase export demand and encourage Malaysian companies to export more goods. 20 25

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