

Question 2

Is Growth Sustainable for Asia?

Extract 4: Asian Economies Heading Towards Full Recovery in 2010

The global recession, which started late 2008, hit Asia hard as its economies were mainly powered by manufacturing sector that exports most of the products to industrialized economies. Thanks to swift government response -- including reduction of interest rates, decreasing bank reserve requirements and stimulus spending -- Asian economies led the global recovery from the worst recession in decades. The Asian Development Bank (ADB) said the region's GDP would grow by 4.5 percent last year, a rate higher than many other parts of the world.

Experts, however, also warned that early signs of growth will not necessarily translate to a long term recovery, especially as export-reliant Asian economies were still hinged on the performance of developed countries in 2010. And there are no indications yet that the crisis that crippled the U.S. and Europe is finally over. The raft of weak economic data released in the United States this week points to a prolonged patch of slow growth in the world's largest economy.

Dominique Strauss-Kahn, chief of International Monetary Fund (IMF) said China and India will continue to drive the regional economy. Indonesia is expected to lead the recovery for ASEAN countries. The IMF has raised its estimation for Indonesia's GDP growth rate to 5.5 percent this year. Malaysia, the Philippines and Thailand will record GDP growth around 3 percent in 2010 and Singapore around 4 percent. A question is thus raised for Asian governments in 2010 on how and when to implement their exit strategies – the unwinding of previous policy and regulatory guidelines.

Adapted from English.news.cn, 2010

Extract 5: Rebalancing Growth

Asia must look at boosting domestic demand to cut its reliance on foreign consumers, especially in the hard-hit United States, IMF chief Strauss-Kahn said. "Asian countries themselves have a big enough market to generate the demand now developed countries fail to," said Zhao Xiaoyu, Vice-President of ADB, "but this requires countries to make concerted efforts under regional cooperative platform."

On Jan. 1, China's Free Trade Agreement (FTA) with ASEAN came into effect, an important step for Asian's cooperation that could spur much-needed regional investment. The China-ASEAN Free Trade Area (CAFTA), the world's largest free trade area of developing countries, covers a population of 1.9 billion and accounts for about 4.5 trillion U.S. dollars in trade volume.

China's Deputy Commerce Minister Yi Xiaozhun said China's investment in Southeast Asia would rise rapidly as firms become more eager to go abroad to invest.

Under the FTA, the average tariff on goods from ASEAN countries to China is reduced from 9.8 percent to 0.1 percent. The six original ASEAN members -- Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand -- slashed the average tariff on Chinese goods from 12.8 percent to 0.6 percent. "Both China and ASEAN should make full use of investment funds and other resources and step up infrastructure construction to meet the need of further trade cooperation," Yi said.

Adapted from English.news.cn, 2010

Table 1: GDP Growth Data for Selected Countries

	Nominal GDP (US\$ billions)			Real GDP Growth (%)		Forecasted GDP growth (%)
	2008	2009	2010	2009	2010	2011
United States	14296.9	14043.9	14582.4	-2.7	2.9	2.5
United Kingdom	2567.5	2173.2	2246.1	-4.9	1.3	1.5
Japan	4879.9	5033.0	5479.9	-6.3	5.1	-0.6
China	4521.8	4991.3	5878.6	9.2	10.3	9.0
India	1213.8	1380.6	1729.0	9.1	9.7	8.6
Malaysia	221.8	193.1	237.8	-1.7	7.2	5.5
Singapore	189.4	183.3	222.7	-0.8	14.5	4.8
South Korea	931.4	834.1	1014.5	0.3	6.2	4.2
Thailand	272.6	263.7	318.8	-2.3	7.8	4.3

Source: The World Bank Data (various years)

Table 2: Price and Job Data for Selected Countries (2009)

	United States	Japan	China	Singapore	Malaysia	South Korea	Thailand
Consumer Prices (%)	-0.4	-1.4	-0.7	0.6	0.6	2.8	-0.8
Unemployment Rate (%)	9.3	5.0	4.3	5.9	3.7	3.6	1.2

Source: The World Bank Data (various years)

Extract 6: Emerging Markets 'Risk' Overheating

Emerging market economies*, growing almost three times faster than their developed counterparts, need to speed up spending cuts and interest rate increases as they fight inflation and overheating, the World Bank said yesterday. While developed nations contended with high unemployment and a European debt crisis that poses risks to global growth, many emerging economies have not yet taken advantage of their strong expansion to remove the fiscal stimulus enacted to cushion the global recession.

Emerging economies now account for almost half of global crude-oil demand and China absorbs 40 per cent of the world's metal supplies, contributing to the increase in prices observed since the recovery. In addition, China contributed the largest national increment in global oil consumption of about 10.4%. The rise in commodity prices and the strong capital inflows have contributed to faster inflation, which in developing countries was close to 7 per cent in April from a year earlier, more than 3 percentage points higher than in July 2009, according to the report.

Adapted from My Paper 9 June 2011

An *emerging market economy (EME)* is defined as an economy with low to middle per capita income. These economies have embarked on economic development and reform programs, and have begun to open up their markets and "emerge" onto the global scene. EMEs are considered to be fast-growing economies.

Questions

- (a) Explain the difference between nominal Gross Domestic Product and real Gross Domestic Product. [2]
- (b) Using Extract 6, account for the difference in the growth rates between the emerging market economies and the developed nations. [4]
- (c) To what extent can it be concluded from Tables 1 and 2 that Singapore's economy performed worse in 2009 than South Korea? [5]
- (d) With the help of AD/AS diagram, explain how the 'swift government response' helped the Asian economies to recover from the global recession in 2009. [5]
- (e) Assess the need for Asian economies to focus on 'exit strategies' after 2010 as mentioned in Extract 4. [6]
- (f) Do you agree with the advice given by the IMF chief in Extract 5 on what the Asian economies should do to achieve sustainable growth? [8]

[Total: 30]

Questions & Possible Answers:

a	<i>Explain the difference between nominal Gross Domestic Product and real Gross Domestic Product.</i>	[2]
	<ul style="list-style-type: none"> Define both concepts. State the difference: Nominal GDP is the valuation of total final output produced expressed in current prices whereas real GDP is the valuation of the same output adjusted for price changes (eg. inflation) expressed in terms of base year prices. 	
b	<i>Using Extract 6, account for the difference in the growth rates between the emerging market economies and the developed nations.</i>	[4]
	<ul style="list-style-type: none"> Identify/State the difference: Emerging economies grew almost 3x faster. Account/ Give reasons for the differences: For emerging economies: Govt use expansionary policies that triggered the “strong expansion” of economic activities and employment of resources in the EMEs. The resultant increased employment and economic activities would lead to significant increases in national output and incomes in the next time period; For European / Developed counterparts: The crippling European/developed economies implies the inability to use govt initiated exp policies would be limited by financial constraints (“European debt crisis”) and the economic expansion and its impact on growth (of the same magnitude of the EMEs) would be dampened by high unemployment. Hence the slower growth. <i>Maximum of 2m if there is no case evidence given or students do not compare the situations in both economies.</i> 	
c	<i>To what extent can it be concluded from Tables 1 and 2 that Singapore’s economy performed worse in 2009 than South Korea?</i>	[5]
	<p><i>Note:</i></p> <ul style="list-style-type: none"> <i>Though the data were from the same source (The World Bank), there were some inconsistencies in the information presented in the tables. Students were expected to use whatever data they deem appropriate to reason out their conclusion pertaining to which of the two countries performed worse. Students may also use these data inconsistencies to question the validity of any conclusion formed.</i> <p><i>Yes:</i></p> <ul style="list-style-type: none"> Singapore performed worse than Korea in terms of real GDP growth (-0.8% vs 0.3%); higher unemployment rate (5.9% vs 3.6%) <p><i>No:</i></p> <ul style="list-style-type: none"> Singapore performed better than Korea in terms of lower consumer prices (0.6% vs 2.8%). This implies a lower fall in purchasing power of earned income (with real GDP not lagging too far behind nominal GDP). <p><i>Limitations:</i></p> <ul style="list-style-type: none"> In addition, ambiguity of definition of the term “performance” makes arriving at a conclusion non-definitive. There may also be a lack of information to help form a more precise conclusion – eg. trade volume, population changes to deduce per capita GDP, Gini coefficient for income inequality, etc. <i>Maximum of 2m if students give a one-sided argument; max of 4m if there is no case evidence given though balanced arguments are given.</i> 	

d	With the help of AD/AS diagram, explain how the ‘swift government response’ helped the Asian economies to recover from the global recession in 2009.	[5]						
	<ul style="list-style-type: none"> • Provide a brief description or definition of “global recession” • Identify elements of the ‘swift government response’: Expansionary MP (cut in i/r and fall in bank reserve req) and Exp FP (stimulus spending) • Explain how these affects the economy using the AD/AS framework: Brief explanation (with examples) of the Exp MP & FP mechanism is required. (Diagrams are not required but may be useful.) The elements lead to increases in components AD (via mainly C, I and G) and subsequent increases in NI and employment. AS may increase as well depending on the exact nature of the stimulus spending by the govt. • Students may comment that the probability of minimal time lag in decision making & implementation added to the “swiftness” of the recovery of the Asian economies. 							
e	Assess the need for Asian economies to focus on ‘exit strategies’ after 2010 as mentioned in Extract 4.	[6]						
	<ul style="list-style-type: none"> • Explain the meaning of “exit strategies” – “unwinding of previous policy & regulatory guidelines” (Ext 4). <p><u>Context:</u></p> <ul style="list-style-type: none"> • The exp policies implemented in response to the global recession in 2008 have led to Asian economies recording healthy growth rates with some above-trend ones in 2010 (Ext 4). This despite US and Europe not overcoming the crisis that had hit their respective economies. However, the impact of EMEs’ growth has contributed “close to 7%” increase in inflation in April 2011 (Ext 6) which may have repercussions on the rest of the world – including those that have yet to (fully) recover. <p><u>Thesis (Focus on exit strategy):</u> Reasons:</p> <ul style="list-style-type: none"> • Need to stop using expansionary policies as economies have already rebounded • Need to control inflation & prevent overheating • Avoid the debt crisis of the developed nations - expansionary FP may result in unsustainable govt deficits and incur debt if govt borrows to finance expansionary policy. <p><u>Anti-thesis (Need not focus on exit strategy)</u></p> <ul style="list-style-type: none"> • Growth is not confirmed as it still hinged on their future performance (“not necessarily translate to long term recovery”) (Ext 4); • May slide back to recession due to weak growth from European & American markets (“export-reliant Asian economies” and “prolonged patch of slow growth in the world’s largest economy”) (Ext 4) <table border="1"> <tr> <td>L1</td><td>Largely one-sided argument with limited explanations.</td><td>1-3</td></tr> <tr> <td>L2</td><td>2 sided arguments with adequate explanations and case evidence to support 2 views.</td><td>4-6</td></tr> </table>	L1	Largely one-sided argument with limited explanations.	1-3	L2	2 sided arguments with adequate explanations and case evidence to support 2 views.	4-6	
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f	Do you agree with the advice given by the IMF chief in Extract 5 on what the Asian economies should do to achieve sustainable growth?	[8]									
	<ul style="list-style-type: none"> IMF chief advised Asian economies to “look at boosting domestic demand” (ie. regional demand) and intra-regional demand and “cut reliance on foreign consumers” (from developed economies) (Ext 5). <p><u>Agree:</u></p> <ul style="list-style-type: none"> China and India can be new export markets – 2010 GDP growth of 10.3% & 9.7% respectively (Table 1) suggests strong buying potential; increased regional cooperation and FTAs (Ext 5) would lead to lower consumer prices and increased mobility of resources (including investment funds) as well as US\$4.5 trillion in trade volume from a regional consumer market population of 1.9 billion. (Ext 5) Developed countries high U (9.3%, Table 2), Debt crises (Ext 4 and 6) implies lower demand for Asian exports. <p><u>Disagree:</u></p> <ul style="list-style-type: none"> lose trading partner for manufacturing (main) exports (Ext 4); forecasted GDP growth for US in 2011 is 2.5% (Table 1); different stages of development and growth (table 1) do suggest that there is still potential demand in developed/industrialized economies/markets that could be tapped as a source of growth for Asian economies Other challenges: high commodity prices (extract 1); competency of govt, uncertain global conditions, etc <table border="1"> <tr> <td>L1</td><td>Largely one-sided argument with limited explanations or inaccurate/incomplete identification of the advice given by IMF chief.</td><td>1-3</td></tr> <tr> <td>L2</td><td>Able to give economic reasoning well substantiated by case evidence to support their 2-sided arguments.</td><td>4-6</td></tr> <tr> <td>E</td><td>Able to discuss future challenges/uncertainties faced by the Asian economies as affecting their analysis of the advice.</td><td>1-2</td></tr> </table>	L1	Largely one-sided argument with limited explanations or inaccurate/incomplete identification of the advice given by IMF chief.	1-3	L2	Able to give economic reasoning well substantiated by case evidence to support their 2-sided arguments.	4-6	E	Able to discuss future challenges/uncertainties faced by the Asian economies as affecting their analysis of the advice.	1-2	
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