

2024 International Trade Tutorial Worksheet: Case Study Question 2

2020 A Level H2 Economics: The Dangers of a Trade War

- (a) With reference to Table 4, state the two components of Singapore's current account, other than the goods and services balance. [2]

Note: 'state' would mean literally stating without the need for explanation

The two components of the Singapore's current account, other than the goods and services balance is the primary income balance and secondary income balance.

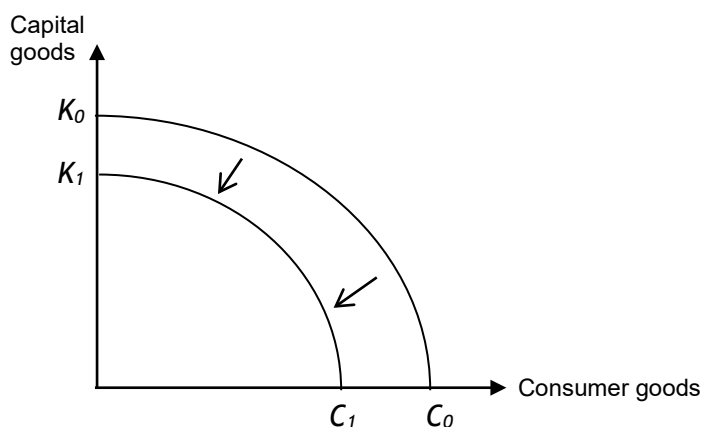
- (b) Using a production possibility curve diagram(s), explain the likely impact of the change in labour force described in Extract 6 upon China's economic growth. [2]

Identify the changes in China's labour force as in Extract 6

- "falling birth rates" and "ageing population"

Explain the changes:

- Fewer birth to replace the retiring workers → **shrinking labour force**
- Composition of labour force is also mostly ageing → elder workers may have lower quality of labourforce as economy advances (**drop in productivity**) → lower overall **quality of labour**
- The **decrease in the quantity and quality of labour** resource → lower the **maximum amount of goods the economy can produce**
- China's production possibility curve will **shift inwards** from C0K0 to C1K1 as China's **productive potential decreases** → **falling potential economic growth**



Cambridge report (FOR TEACHER'S REFERENCE ONLY)

Most candidates showed good understanding of production possibility curves and explained the impact of the change in the labour force upon China's economic growth. Diagrams were accurately drawn and had appropriate axes in most cases. Stronger responses showed how the impact of China's 'ageing population and shrinking labour force' would lead to a shift in China's production possibility curve to the left as China's productive potential declined.

- (c) With reference to Extract 7, explain why it might be claimed that a floating exchange means that the Chinese economy 'was well placed to withstand external shocks'. [4]

- China adopting a floating exchange rate would mean that China's exchange rate will be determined by the demand and supply of Chinese Yuan in the foreign exchange market
- With the US imposing significant tariffs on a wide range of Chinese imports, **the demand for Chinese goods and services by Americans will fall, leading to a large decrease in demand for Chinese yuan in the FOREX market causing the Chinese yuan to depreciate**
- With a depreciation of the Yuan, **Chinese goods and services will now be cheaper in foreign currency, China's exports will now be more price competitive** as foreigners require less of their currency to purchase a unit of Yuan.
- This can help to **improve China's X-revenue, assuming that the demand for Chinese's X is price elastic. This will improve China's BOT**, even though USA imposed tariffs on China, helping China to withstand external shocks.

Cambridge report (FOR TEACHER'S REFERENCE ONLY)

This question was less well done with many candidates, showing confusion over the implication of a floating exchange rate for China's economy. Many stated correctly that a floating exchange rate would be determined by market forces, but then went on to explain how exchange rate intervention by the Chinese monetary authorities would be used to offset external shocks to the Chinese economy.

- (d) Explain two factors that will determine the impact upon the US balance of trade if China raises tariffs on imports from US. [4]

This was a common last topic question in the year of examination 2020.

Factor 1:

PED for the US imports into China.

If the PED for this US imports is generally price elastic, the higher tariffs imposed on the US imports will lead to a more than proportionate drop in the quantity demanded. This means the **overall M-spending by China on US imports will fall, leading to a fall in US's X-revenue, worsening the US balance of trade.**

Factor 2:

Composition of China's imports spending as a % of US's trade balance

With the fall in X-revenue from China, whether it will lead to an overall worsening of US's trade balance is depending on the **proportion of that as a percentage of US's trade balance**. Based on the Extract 7, it is mentioned that the value of China imports from the US is far less, hence it may unlikely to lead to a significant drop in export revenue for the USA. So overall US's trade balance is unlikely to worsen significantly.

- (e) Explain how supply-side policies aimed at Singapore's labour market could 'make the economy more resilient' and consider how likely they are successful. [8]

Question analysis:

Command	"Explain how" supply-side policies works (from Extract 8) for Singapore's economy to be more resilient – i.e. to achieve economic growth in the midst of the global trade war between US and China and the shifts in global and regional trade pattern.
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	<p>The supply-side policies in Extract 8 to focus on:</p> <ul style="list-style-type: none"> • recycle factors of production from less-productive to more-productive sectors • re-training workers for entry into newer markets • increase foreign workers in productive parts of labour market <p>“consider how likely” the policies can work for Singapore</p>
Concept	ADAS framework, multiplier effect
Context	Singapore labour market

Introduction:

- With rising trade tension between US and China, some economists believe that it would slowdown the growth of major economies, including China (Extract 8). This can have adverse impact on Singapore's economy given these are her major trading partners, such as slower / weaker exports-growth since household incomes from China and US may be slowing down.
- Hence, to help Singapore's economy to remain resilient, one of the ways that Singapore's government would be focusing on would be to focus on **Supply- side policies to encourage greater efficiency in the labour market.**

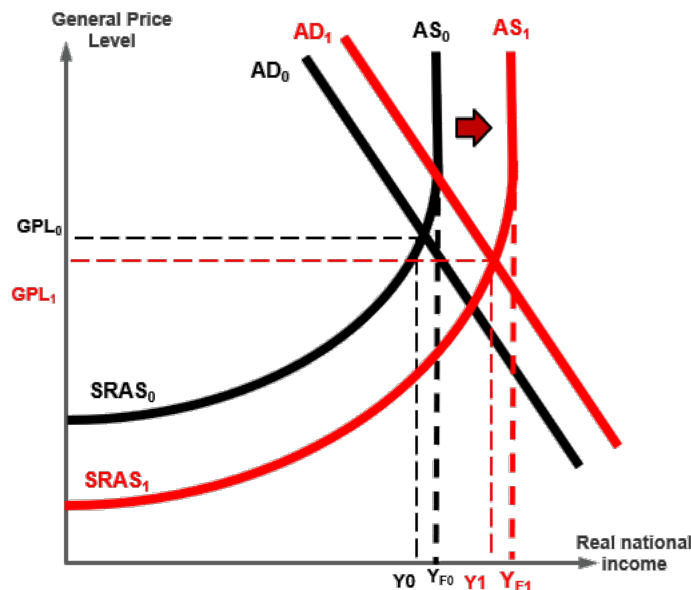
R1: Explain how supply-side policies works to achieve economic growth

(Amid the global trade war between US and China and the shifts in global and regional trade pattern)

Economic analysis of supply-side policies:

1. Re-training workers for entry into newer markets
 2. Recycle factors of production from less-productive to more-productive sectors
 3. Increase foreign workers in productive parts of labour market
- Better quality of labour force through retraining → gain more skills and hence are more productive → more productive means that the output per input increases and this can lead to falling unit cost of production per output if the productivity growth outweighs the wage growth → firms can produce more with lower unit cost → SRAS increase (shift right) → firms are more willing and able to produce more goods and services, hence increasing RNY → achieving actual economic growth
 - Lower unit COP may also means firms are more willing and able to pass on the cost savings to the consumers by lowering the prices of the goods and services, as seen by the fall in GPL from GPL0 to GPL1.
 - Increase labour supply in productive sector can also bring down wages, according to the demand and supply price adjustment process. → contributes to a further fall in unit COP.
 - At the same time, the more productive workforce together with the lower unit COP would also be able to attract investors to invest into such productive sectors which have higher potential returns (earn higher future profits) → (I) increase → AD increase (AD_0 to AD_1) → higher RNY → actual Economic growth (assume economy is not at full capacity yet)

- **Multiplier effect:** The higher AD leads to a fall in inventories, signals to producers to increase production, which will lead to them hiring more workers and invest more → further rise in AD via induced C and I → *(the cycle continues until all initial injection is leaked out of the economy as withdrawal)* multiplied increase in RNY → actual economic growth
- With investment (I) into raising productive sectors, qualitative improvement in the resources of economy and increase in foreign workers in productive parts of labour market, quantitative improvement of labour resource → both can increase in productive capacity of economy, rise in LRAS (AS_0 to AS_1) → potential economic growth (Y_{f0} to Y_{f1})
- With the increase in productive capacity → more resources are available to accommodate future rise in AD, keeping inflationary pressures low and a continuous rise in RNY.



This will help Singapore to be more resilient as even if the trade wars caused disruption to the prices of imported raw materials and the lower external trade volume, the fall in SRAS and AD can be mitigated through domestic factors such as rise in (I), rise in SRAS and LRAS by focusing on raising the productivity in her labour market.]

Below are some examples of Supply-side policies aimed at the labour market for students' reference.

(Note that having knowledge of some Singapore supply-side policies suffice but students do not need to cite the exact details of each of the policies):

- **Re-training of workers to enter newer markets**
 - **Skills-Future Credit**
 - one-time subsidy given to all Singaporeans (25 and above) to defray their course fees making learning of new skills more affordable
- SGUnited **Traineeships** (SGUT) programme

- government co-funds 80% of the qualifying training allowance for host companies offering traineeship opportunities targeted at recent graduates
 - **Continued Education and Training (CET)**
 - training courses are designed in partnership with industry
 - provides opportunities for those out-of-school to continue to learn and be trained with new skills that are relevant to current industries' needs
 - SGUnited **Mid-Career** Pathways Programme - Company **Attachment** / Company **Training**
 - government co-funds 80% of the qualifying training allowance for host companies offering full-time attachment programme for mid-career individuals to gain industry-relevant experience, develop new skills and boost employability
 - **Increase foreign worker expertise**
 - to import expertise and raise the skill level of the labour force to meet the labour needs of the newer and more-productive markets
- to develop and expand the pool of expertise through on-the-job imparting of skills to local workers

R2: Explain the limitations of these supply – side policies that can impact the success of the policies

- Supply-side policies that involve subsidies given to firms to enhance the productivity of the firms → **requires significant amount of government funding**. If the funds are limited, the opportunity cost incurred can be very high as other sectors such as transport and healthcare may suffer a drop in funding.
 - In cases where government that resort to borrowing to fund these supply- side policies → led to crowding out event → fall in (I) → negate rise in AD → actual EG may be marginalised
- Whilst the government can provide for the labour force the means to and the opportunities to re-train and upgrade their skills to raise their productivity and contribute to the expanding sectors, the government have **no control over the respond of the labour force, the success of these policies are less predictable**.
 - Depends on the receptivity of the labour force to be re-trained extensively
 - the mindset of labour force to into new sectors that they have no experience in or they have no knowledge in especially pertinent to Singapore as the labour force is an ageing one
- Skills training **takes time** and it is not immediately clear that workers are able to transfer their skills and knowledge acquire to be more productive at work.
 - Able to keep the economy resilient only in the long run at best but may not see much impact in the short run

Overall conclusion / evaluation:

Provide an opinion on whether Singapore's economy is likely to be resilient or not given the limitation of the policies

- The Singapore government is highly committed to building economic resilience through supply-side policies targeting the labour force. It is likely these policies will be overall successful **in the long run**, as the **trust** between Singapore's population and the government is **high** which allows for **ease of implementation** of these policies.
- Secondly, Singapore **tends to have accumulated past reserves which can help finance these subsidies on skills training, which results in lower opportunity cost and avoid the issue of crowding out.**
- **Furthermore**, if these supply-side policies work in the long run, it can help to **bring in higher corporate tax and income tax revenue in the future, which can eventually help to offset the current spending.**

Level	Descriptors	Marks
L2	Explain how supply-side policies work to build resilience via fall in unit COP, rise in LRAS higher AD Supply side policies are aimed at labour market	4-6
L1	Missing gaps in economic explanation on how supply-side policies work	1-3
E2	Effectiveness of these policies are clearly explained and an overall recommendation on the effectiveness is made	2
E1	Effectiveness of the policies are stated, rather than explained.	1

Cambridge report (FOR TEACHER'S REFERENCE ONLY)

This was a well answered question. Candidates displayed good knowledge and understanding of the broad aims of supply side policy and were able to put this into the context of those policies aimed at Singapore's labour market. Stronger responses explained how these specific policies would make the Singapore economy more resilient in the face of the possible escalation of the trade war between the United States and China. There was also good evaluative comment when considering whether these policies were likely to be successful, with many candidates explaining that the success of the policies depended upon factors such as the time required for these policies to take effect, the high cost of re-training and whether the Singapore labour force would be receptive to extensive re-skilling. Overall this was very well answered, although some weaker responses described supply side policies that focused upon policies which aimed to develop infrastructure instead.

- (f) Discuss whether an open economy such as that of Singapore would gain or lose from an ongoing US-China trade war. [10]

This was a common last topic question in the year of examination 2020.

Question analysis:

Command	<ul style="list-style-type: none"> • Explain how an open economy can gain when major economies (US- China) having trade war • Explain how an open economy can lose out when major economies (US- China) having trade war
Concept	ADAS framework, costs and benefits of protectionism
Context	Singapore's economy

Introduction:

Unpack the nature of Singapore

- Singapore is a **small country lacking in natural resources**.
- A small country also means that Singapore has a **small domestic market**. For Singapore to achieve sustained economic growth, it will have to be **export-dependent**. Singapore will have to be **open and support free trade** in the global trading system.

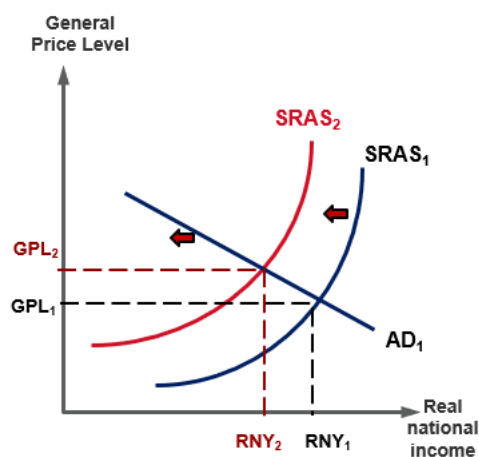
Explain the issue Singapore faces

- In view of the trade war between US and China, patterns of trade have changed.
- The trade war has **disrupted global supply chains, driving up global input prices**.
- However, it may also result in **opportunities for Singapore** to trade more actively with each the two major economies.

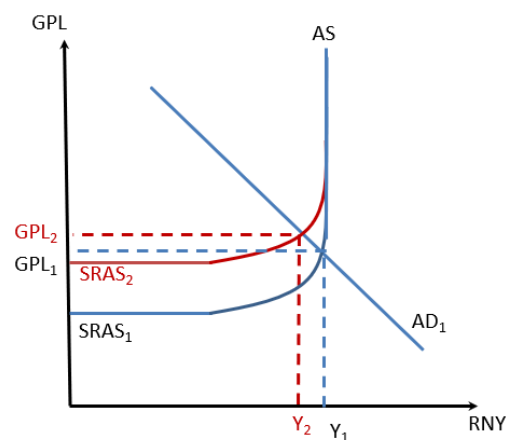
R1: Singapore as a small and open economy may tend to lose from the ongoing trade war

- **Disrupted supply chains → rising cost of imported raw materials** (e.g. steel) → higher unit COP → SRAS falling (shift left, $SRAS_1$ to $SRAS_2$) → pass on average cost increase to consumers in terms of higher GPL, firms also cut down production as its more expensive to produce → lower demand for labour (derived demand) as national output fell from RNY_1 / Y_1 to RNY_2 / Y_2
 - **Effect on Singapore's economy:** fall in actual EG, Higher imported inflation, higher unN
- Consumers withhold spending given their incomes falling and in view of rising prices (movement along AD) → **material SOL may fall** with lesser accessibility to goods and services.
- Prolonged trade war can also cause negative impact on US and China in terms of higher GPL and falling production and income levels (due to less investors and less volume trade betw the two countries) → buy less of Singapore's X → **SG's BOT in terms of X-revenue, falls. Especially dire because Singapore exports amounts to 173% of SG's GDP** (Extract 8)

Either

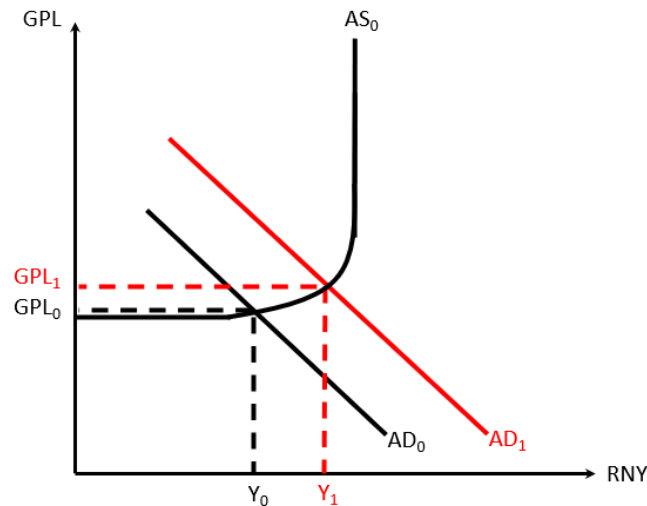


Or



R2: Singapore as a small and open economy may gain from the ongoing trade war

- **Potential change in patterns of trade** by China and US towards Asia, including Singapore (Extract 8) → **trade diversion to Asia**: Instead of buying from China / US, the **two major economies may increase trading with Singapore by buying more goods and services from Singapore** (e.g. computer chips from Singapore) → **boost SG's X revenue and improve SG's BOT**
- Foreign investors may also turn towards Singapore as a place to invest in view of the stability and potential higher returns due to better productive labour force → **boost FDI inflow** → **benefits domestic firms through transfer of skills and knowledge while raising competitiveness of domestic firms** → rise in (I) → rise in AD (AD₀ to AD₁).



- With multiplier process (likely that Singapore has spare capacity due to supply-side policies) → rise in RNY is likely to outweigh the rise in GPL → overall economic growth and improve SOL

Overall conclusion:

Explain whether Singapore is more likely to gain or lose during times of US- China Trade War:

- 1) **How long the trade war will last** → longer, more lasting effects on global supply chains → Singapore may lose out more
- 2) **How much government intervention Singapore has** → put in place supply side policies to lift our labour force productivity → help to mitigate the losses slightly
- 3) **State of global economy** → falls in confidence to trade in view of trade war → global economy can potentially slip into cyclical downturn → badly affects Singapore's trade volume

In essence, short term pains on Singapore economy but the possible mitigating factors Singapore puts in place such as the supply-side policies and free trade agreements with other countries can help to reduce the losses and potentially can even gain from the trade wars.

Level	Descriptors	Marks
L3	Explain both losses and benefits on Singapore in view of the trade war Sufficient explanation using economic analysis	4-7

	Adequate use of case evidence (Ext 8)	
L1	<p>Only explain either losses OR benefits on Singapore in view of the trade war</p> <p>Insufficient / missing explanation</p> <ul style="list-style-type: none"> • Missing gaps in economic explanation • Listing of losses / benefits instead of explaining 	1-3
E2	<p>Evaluate in terms of extent of losses / gains</p> <p>AND</p> <p>Overall recommendation on losses or gains is made</p>	2-3
E1	Some attempt at evaluating (stating rather than explaining)	1