

2024 International Trade Tutorial – Essay Q4 Answer

[2019 A' Levels Question 6]

Globalisation has been a major influence on Singapore's economic performance. The uncertainty and instability happening around the world in recent years could threaten the economic benefits that globalisation brings.

Source: BBC News, Globalisation, Key Facts: The Global Economy

(a) Explain two different factors that have enabled globalisation to occur. [10]

Question Analysis:

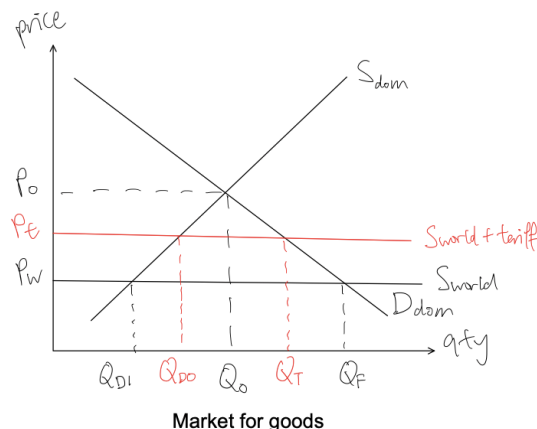
Command	Explain <ul style="list-style-type: none">Start: Two different factorsEnd: Globalisation
Concepts	Globalisation
Context	Not given

Introduction:

Globalisation refers to the development of an increasingly global economy characterised by free trade of goods and services, international flows of capital, and labour mobility. Factors driving globalisation include government policies and technological advancements.

R1: Government Policies

Governments around the world have increasingly accepted globalisation as an engine of economic growth and have implemented policies to enable greater trade and movement of investment. According to the theory of comparative advantage, countries can benefit by exporting products they have a relative cost advantage in (i.e. can produce at a lower opportunity cost than other countries) and importing the goods they have a relative cost disadvantage in. Through specialisation and trade, there will be a higher world output and all countries would mutually benefit from higher levels of consumption than before (countries can now consume beyond their production possibilities curve). Recognising this advantage of trade, governments around the world have signed more Free Trade Agreements (FTA), which has resulted in the removal or lowering of trade barriers such as tariffs. For example, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership was signed in 2018 allowing for free trade between 11 countries including Singapore, Australia, Mexico, and Vietnam. The following diagram shows the impact of removing trade barriers:



Before the signing of FTAs, these countries imposed tariffs on imported goods, shifting the world supply curve from S_{world} to $S_{\text{world} + \text{tariff}}$ raising the price of imports as indicated by P_t . With the tariff in place, domestic firms produce Q_{D0} , and $Q_{D0} - Q_T$ quantity of the goods consumed in the economy are imported. With the removal of tariffs, imports are now cheaper, as reflected by P_w . Without the tariff, only Q_{D1} goods are produced by domestic firms while imports have increased to $Q_{D1} - Q_F$. This increase in imports shows that trade volume has increased, contributing to greater integration between economies and giving rise to globalisation. It also becomes easier and more attractive for firms to invest and expand overseas, resulting in greater flow of FDI and capital between countries.

R2: Advancements in technology

Technological advancements have resulted in faster and lower cost of transportation and communication. Supply chains can be globally fragmented according to the pattern of comparative advantage. Firms can source for/import their raw materials or components from different parts of the world. Low transport costs allow countries to maintain their comparative advantage even with transport costs factored in, therefore enabling countries to benefit from specialisation and exchange of goods and services. Lower cost of transportation and communication enables firms and multinational corporations to expand overseas, taking advantage of markets and lower costs of different places. This leads to FDI being an important source of AD and source of potential growth for many countries such as Singapore.

Marking Scheme:

Level	Knowledge, Application, Understanding and Analysis	Marks																																				
L3	<ul style="list-style-type: none"> Well-developed analysis on both requirements: <ul style="list-style-type: none"> Good use of relevant economic concepts in analysis. No major conceptual inaccuracies. Start and end point are clearly explained with no missing links in elaboration. <table border="1"> <thead> <tr> <th>Annotation</th><th>Level</th><th>Mark out of 10</th></tr> </thead> <tbody> <tr> <td>A+A</td><td>L3</td><td>10</td></tr> <tr> <td>A+C or C+A</td><td>L3</td><td>8-9</td></tr> <tr> <td></td><td></td><td></td></tr> <tr> <td>A+K or K+A</td><td>L2</td><td>7</td></tr> <tr> <td>C+C</td><td>L2</td><td>6-7</td></tr> <tr> <td>A+0</td><td>L2</td><td>6</td></tr> <tr> <td>K+C or C+K</td><td>L2</td><td>5-6</td></tr> <tr> <td></td><td></td><td></td></tr> <tr> <td>C+0</td><td>L1</td><td>4</td></tr> <tr> <td>K+K</td><td>L1</td><td>2-4</td></tr> <tr> <td>K+0</td><td>L1</td><td>1-2</td></tr> </tbody> </table>	Annotation	Level	Mark out of 10	A+A	L3	10	A+C or C+A	L3	8-9				A+K or K+A	L2	7	C+C	L2	6-7	A+0	L2	6	K+C or C+K	L2	5-6				C+0	L1	4	K+K	L1	2-4	K+0	L1	1-2	8-10
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L1	<ul style="list-style-type: none"> Descriptive answer without any or with minimal economic reasoning. Major conceptual errors. 	1-4																																				

(b) Discuss the most appropriate policy measures that Singapore government should take in the face of countries retreating from globalisation. [15]

Question analysis:

Command	Discuss = Explain + Evaluation <ul style="list-style-type: none"> Start: policy measures
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	<ul style="list-style-type: none"> • End: overcome challenges posed by other countries 'retreating from globalisation' <p>Note to students: A second policy must be included in your analysis (inferred by the words "most appropriate")</p>
Context	Singapore
Concepts	<ul style="list-style-type: none"> • DD/SS analysis • PED and PES concepts (if relevant)

Introduction:

In recent years, although technology continues to improve, government policies have been leaning towards protectionism and in some cases, restrictions to the inflow of foreign direct investment. The US-China trade war is an example of countries retreating from globalisation in the form of free trade. Being small and open, Singapore has no choice but to continue to embrace globalisation. The retreat from globalisation makes it harder for Singapore to export goods and services and in some cases, the country has also faced the difficulty of importing due to export bans by foreign countries. All these apply even more pressure for Singapore to be resilient while it continue to depend on foreign markets for exports, imports and foreign direct investment.

R1: Signing more free trade agreements to sustain exports and diversify import sources.

As countries adopt more restrictions on imports, it will be harder and costlier for Singapore to export and import goods and services. The small and open economy may inevitably suffer from a fall in its external demand and/or experience imported inflation, should there be protectionist policies such as tariffs or export bans being implemented by its trade partners.

To minimise the potential negative impact, Singapore will have to continue to sign free trade agreements (FTAs) with other countries by being pro-active in establishing regional and global trade links, particularly through bilateral trade ties to diversify its export and import markets. This way, the diversification of export demand and import supply will help to counter potential decreases in export demand and stabilise import cost even if Singapore's trade partners were to impose tariffs that would hurt the country's export revenue or export bans that would raise domestic producers' imported cost. For example, in May 2023, Singapore and Kazakhstan inked four agreements, including one that will give Singapore firms greater access into Kazakhstan's services sectors and protect investors' interests.

E1: The example of Kazakhstan illustrates the importance of Singapore being open to trade with both developed and developing countries. Singapore cannot favour only developed countries and neglects developing countries. By fostering free trade with developing countries, there can be demand for more technologically-advanced products and services which Singapore has comparative advantage in. Such free trade ties in fact benefit Singapore's consumers too because there will be greater inflow of products from Kazakhstan. As Singapore improves foreign market access, the domestic market will also see greater inflow of imports and foreign firms. This requires domestic firms to toughen up to deal with foreign competition.

R2: Strengthening of domestic competitiveness and economic resilience via supply-side policies.

If its trade partners implement trade restrictions such as tariffs, Singapore's exports will become less competitive in those markets. It will then require even more in terms of quality and price competitiveness for Singapore to sustain its export revenue. There is thus a need for ongoing restructuring of production in the country, requiring more innovation and labour efficiency. Supply-side policies aimed at improving technology and innovation should thus be implemented to reap cost reduction and quality improvement which will help Singapore's exports remain price competitive and boost its demand in the long run, hence helping to sustain export revenue even in the light of protectionist measures being implemented by its trade partners. To continue to attract FDIs, supply-side policies aimed at boosting the country's infrastructure will also go a long way at reducing start-up cost for businesses.

Singapore is also beefing up domestic food supply as part of its domestic resilience approach. The '30 by 30' is long term goal to build up domestic agri-food industry's capability and capacity to sustainably produce 30% of nutritional needs by 2030. This will help build a more resilient food future, particularly in the face of countries adopting export bans on their food production.

E2: Inevitably there will be labour displacement as the government encourages firms to adopt more cost-efficient and technologically intensive production. Structural unemployment becomes a constant labour market challenge. Hence the need for social security approach to help at-risk labour cope with loss of jobs. The imposition of export bans for food supplies has caused rising cost of living. This also necessitates the government ensuring the population, particularly low income households, is supported with various supports to cope.

Conclusion: Given the small and open nature of Singapore's economy, Singapore is more likely to suffer negative impact if countries continue to prioritise domestic and national security considerations and not considering globalisation as a win-win approach. However, with the right policies in place, Singapore will be able to minimise these negative impacts. Singapore's approach is two-pronged. The country proactively works on opening and maintaining free trade links with many countries while at the same time strengthening domestic capacity for greater global competition and domestic resilience. The resilience here incorporates both leveraging domestic demand when exports slack and supporting individuals and families at risk of poverty when affected by job loss and economic restructuring. Though the signing of FTAs may seem more appropriate in the short term since supply-side policies take time to take effect, the government must not reduce its focus on strengthening the country's competitiveness and economic resilience through the use of supply-side policies.

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Evaluation																							
E3	<ul style="list-style-type: none"> Takes a clear overall stand (a summative conclusion) that is comprehensively justified by providing convincing evaluative comments on the relative importance of the requirements covered in the body 	4-5																					
E2	<ul style="list-style-type: none"> Takes a clear overall stand which is only partially justified as <ul style="list-style-type: none"> Only one of the requirements is well evaluated with supportive arguments presented in the answer and is linked to the context of the question Evaluates both requirements but the overall stand is unclear 	2-3																					
E1	<ul style="list-style-type: none"> Provides an evaluative statement for 1 requirement <p>Note to students: An opinion is not a statement. Tips: Use normative words such as best, more, less, large/small extent.</p>	1																					