

- 6 (a) Account for changes in Singapore's pattern of trade with the rest of the world. [10]**
(b) Assess the relevance of protectionism in today's globalized world. [15]

Part (a)

1. Introduction

Patterns of trade – direction, volume, and composition of trade between countries

Describe Singapore's patterns of trade

2. Explain the Supply-side factors that account for changes in SG's patterns of trade

Changes in comparative advantages:

→ Globalization and uneven technological improvements result in increasing productive efficiency in different economies → affects both *direction* and *composition* of trade

→ Changes in trade policies (protectionism) / Signing of Free Trade Agreements

→ Changing factor endowments in economies worldwide

3. Explain the Demand-side factors that account for changes in SG's patterns of trade

→ Strong economic growth in key and regional export

→ Changes in intra-industry trade due to outsourcing and decentralized manufacturing supply chains → changes in *composition* and *volume* of trade

→ Changes in socio-political climate and consumers' tastes and preferences

4. Conclusion

Changes in the pattern of trade are largely attributed to supply-side factors, most notably the Theory of Comparative Advantage. With increasing globalization, any changes that result in relative changes in opportunity costs of production will shift comparative advantage from Singapore to another country, and vice versa. Demand-side factors play a role in determining the *composition* and *volume* of trade.

Part (b)

- 1. Protectionism :** Aims to protect domestic employment and production by switching domestic consumers' expenditure away from imports to domestic substitutes. Comes in the form of tariffs, quotas, subsidies, others. **Globalization :** Increased volume and speed of trade, capital and financial flows, and mobility of labour worldwide.

2. Thesis: Protectionism is relevant as it alleviates the problems of globalization

→ Protection is relevant as it prevents/alleviates unemployment in the economy. Globalization results in increased cyclical and structural unemployment. Protectionism is relevant if it is use in industries that have lost comparative advantage to create allowance for workers in sunset industries to engage in retraining/upgrading to facilitate move into new employment

→ Protectionism is relevant if it develops infant industries – protecting industry that could become increasingly efficient over time in line with providing retraining/upgrading of employed factors

→ Protectionism is relevant against unfair practices in trade as economies vie to gain comparative advantage unfairly with increasing globalization. With increasing globalization, some economies resort to unfair practices such as the provision of export subsidies and the enactment of currency devaluation in other to gain comparative advantages in export production.

Anti-thesis: Protectionism has limited relevance

- ➔ Protectionism is not the best solution for unemployment. Problem of structural unemployment is deep-seated: the irrelevance of skills should be met with upgrading and retraining to improve efficiency – protectionism is a waste of resources and is especially irrelevant if firms do not improve productive efficiency or gain comparative advantage in production. Furthermore, with increasing globalization, consumer welfare is expected to increase with lower prices, and forceful and increasing imposition of tariffs will only lead to greater welfare loss for the consumers. As such, protectionism is not relevant in light of globalization as there are better methods to alleviate its problems.
- ➔ In the long run inefficient firms will be driven out of the market. Unfair practices such as export subsidies will eventually be unsustainable if countries are unable to keep up with increasing efficiency and price competitiveness globally. There is thus no need to engage in protectionist measures.
- ➔ Protectionism breeds retaliation → leads to overall fall in (X+M) worldwide and hence should not be used.

Synthesis & Conclusion

It is likely that protectionism is irrelevant with increasing globalization. Globalization has other challenges that need to be tackled and benefits that need to be harnessed. Protectionism is just a short-run stop gap in the hope that workers can develop relevant skills and that industries as a result will become increasingly efficient, but it is arguably better to directly develop and train their skills and capabilities (supply-side policies) and at the same time allowing competition to drive out inefficient firms. With less protectionism worldwide, there could be increasing X+M and this is where substantial gains from trade can be reaped.