

## **2024 International Trade Tutorial – Essay Q3 Suggested Responses**

### **[2022 A Level Question 6]**

Singapore's Prime Minister has stated that Globalization will be under pressure but it is imperative for countries to cooperate, for business to operate across many geographies, to tap resources, to bring skills and talents and experiences together, and then serve markets all around the world.

**a) Explain the benefits and costs of globalisation to Singapore. [10]**

#### **Question Analysis:**

|          |   |
|----------|---|
| Command  | Explain <ul style="list-style-type: none"><li>• Start: Globalisation</li><li>• End: Singapore's macroeconomic aims, benefits and costs to economic agents such as consumers</li></ul> |
| Concepts | Globalisation, benefits and costs, AD/AS analysis, macroeconomic aims   |
| Context  | Singapore   |

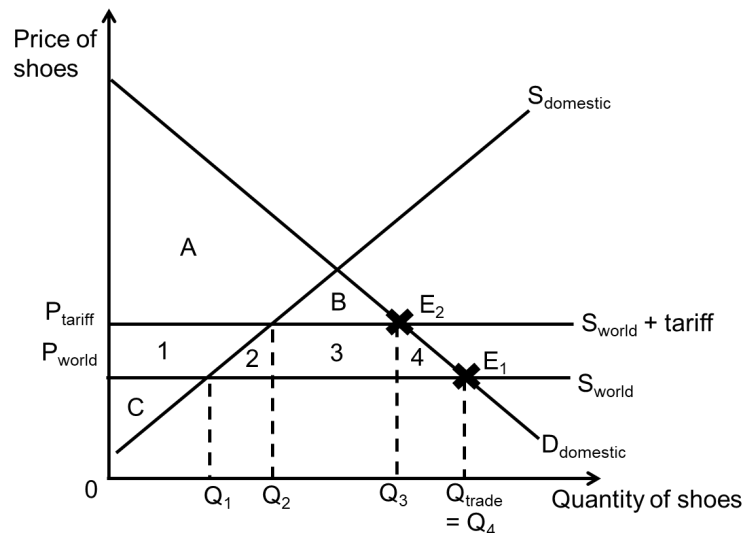
#### **Introduction:**

Globalization refers to the development of an increasingly global economy. It is characterised by free trade of goods and services, free flows of capital, and labour mobility. As a small and open economy, Singapore has greatly benefited from globalisation but there has also been costs incurred as a result.

#### **R1: Benefits – Higher Economic Growth and Employment**

Globalization allows countries to exploit their comparative advantage. Comparative advantage refers to the ability of a country to produce a specific good or service at a lower opportunity cost than others. As a small economy, it is necessary for Singapore to tap on external demand to boost its economic growth. By specializing in producing tech-intensive and capital-intensive goods and services, Singapore can exploit its comparative advantage to export those goods and services to other countries and import goods that others produce more efficiently. Recognising the benefits from specialisation and trade, countries such as Singapore have actively signed more from Free Trade Agreements which allow for free trade to take place without tariffs being imposed. As shown in the diagram below, compared to when tariffs are imposed, free trade requires domestic producers to sell at a lower price,  $P_{world}$ , which brings about a larger quantity demanded at  $Q_4$ . Domestic consumers benefit from their ability to enjoy imported goods priced at a lower price ( $P_{world}$  compared to  $P_{tariff}$ ), hence raising their consumer surplus.

**Figure 4: Market for Shoes with Tariffs**



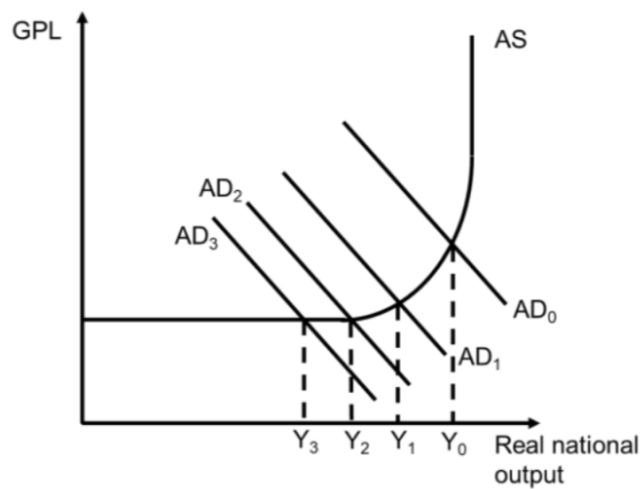
The increase in Foreign Direct Investment facilitated by globalization also raises capital flow into Singapore. Singapore's Aggregate Demand (AD) thus increases. Assuming that spare productive capacity is available, producers are prompted to increase production when faced with an unplanned fall in their inventory of stocks, in turn increasing the employment of workers, given that labour is a derived demand. This triggers the onset of the multiplier process where households earning higher income will consume more goods and services, raising AD further, and firms again experience an unplanned fall in their inventory of stocks. All in all, Singapore's real national income increases by a multiplied extent, coupled with an increase in employment.

### **R2: Costs – Contagion Effect**

The contagion effect in globalization refers to the transmission or spread of economic shocks or crises across different countries or regions due to their interconnectedness and interdependence in trade, investment, and financial activities. In terms of export revenue, the contagion effect can have negative impacts on Singapore's economy. If Singapore's trading partners experience an economic crisis or downturn, it can lead to a decline in its domestic demand for goods and services, including imports from other countries. This decrease in import demand can result in a decrease in export revenue for Singapore. This is because the economic turmoil reduces the consumer purchasing power and reduces overall demand for imported goods.

Assuming no change in imports, Singapore's aggregate demand would fall as net export revenue is a component of AD where  $AD = C + I + G + (X - M)$ . A fall in AD, represented by a leftward shift of the AD curve, leads to an unplanned rise in inventory; thus, firms reduce production. The fall in production results in a fall in derived demand for labour thus giving rise to demand-deficient unemployment. Real national income decreases by a multiplied extent. In sum, an economic shock in other countries could result in negative economic growth and rising unemployment in Singapore.

Note to students: R2 can also be about Singapore experiencing cost-push inflation when global commodity prices increase.



### Marking Scheme:

| Level      | Knowledge, Application, Understanding and Analysis  | Marks          |       |                |     |    |    |            |    |     |            |    |   |     |    |     |     |    |   |            |    |     |     |    |   |     |    |     |     |    |     |      |
|------------|---|----------------|-------|----------------|-----|----|----|------------|----|-----|------------|----|---|-----|----|-----|-----|----|---|------------|----|-----|-----|----|---|-----|----|-----|-----|----|-----|------|
| L3         | <ul style="list-style-type: none"> <li>Well-developed analysis on both requirements: <ul style="list-style-type: none"> <li>Good use of relevant economic concepts in analysis.</li> <li>No major conceptual inaccuracies.</li> <li>Start and end point are clearly explained with no missing links in elaboration.</li> </ul> </li> </ul> <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>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>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 |
| 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            |       |                |     |    |    |            |    |     |            |    |   |     |    |     |     |    |   |            |    |     |     |    |   |     |    |     |     |    |     |      |
| L2         | <ul style="list-style-type: none"> <li>Lacking in any one of the L3 criterions.</li> </ul>  | 5-7            |       |                |     |    |    |            |    |     |            |    |   |     |    |     |     |    |   |            |    |     |     |    |   |     |    |     |     |    |     |      |
| L1         | <ul style="list-style-type: none"> <li>Descriptive answer without any or with minimal economic reasoning.</li> <li>Largely irrelevant answer.</li> <li>Major conceptual errors.</li> </ul>  | 1-4            |       |                |     |    |    |            |    |     |            |    |   |     |    |     |     |    |   |            |    |     |     |    |   |     |    |     |     |    |     |      |

Cambridge report (FOR TEACHER'S REFERENCE ONLY)

This was the least popular question in **Section B**. There were a small number of good responses to the question, but a large proportion of candidates gave generalised responses that were poorly focused on globalisation, which was the main context of the question. A large proportion of responses were limited to a discussion of how, in an export dependent economy such as Singapore, a growth in exports leads to economic growth. Many gave a generalised explanation of the benefits and costs of trade, which lacked an explanation of the underlying economic reasons that might support the discussion. There were relatively few strong responses that made good and clear use of underlying economic analysis to support their discussion of both the benefits and costs of globalisation.

(a) Stronger responses showed a good understanding of the underlying economic reasons that supported an explanation of the benefits and costs of globalisation. For example, some candidates explained how exploitation of comparative advantage leads to clear benefits to support the economic integration of two economies. Other stronger responses explained how the signing of free trade agreements, FTAs, through the removal of tariffs has led to benefits for both the economies involved. These explanations were supported by appropriate diagrams. 'Contagion effect' in which economies were seen as being vulnerable to economic problems in their trading partners (e.g., recession, inflation) was the most commonly identified 'cost of globalisation'. Mid-range responses were more generalised in approach and gave several potential benefits and costs of trade but were not supported by reference to the underlying economic analysis. Weaker responses were brief and made generalised assertions which largely consisted of statements such as economies would benefit or incur costs as a result of the free movement of goods, labour and capital.

**b) Discuss the most appropriate policy measures that the Singapore government should take to increase the benefits and reduce the cost of globalisation. [15]**

**Question analysis:**

|          |   |
|----------|---|
| Command  | Discuss = Explain + Evaluation <ul style="list-style-type: none"><li>Start point – government policy measures</li><li>End point – increase benefits and reduce costs of globalisation</li></ul> <p>Note to students: A second policy must be included in your analysis (inferred by the words “the most appropriate”)</p> |
| Context  | Singapore   |
| Concepts | <ul style="list-style-type: none"><li>DD/SS analysis</li><li>PED and PES concepts (if relevant)</li></ul>   |

**Introduction:**

Given that globalization brings both benefits and costs, it is important that the Singapore government implements appropriate policies that can help the country reap maximum benefits and minimize potential costs.

**R1: Free Trade Agreements**

Singapore can engage in more free trade agreements (FTA) to increase the benefits and reduce the cost of globalization. A FTA is a treaty between two or more countries that eliminates or reduces barriers to trade, such as tariffs or quotas, to promote economic integration and cooperation.

FTAs provide Singapore’s exporters with greater access to larger and more diverse markets. This allows them to tap into new consumer bases and expand their customer reach. By diversifying their exports across different markets, exporters reduce their dependence on a single market, hence lowering the risk of being negatively impacted by the economic conditions of a specific country or region.

Free trade agreements eliminate or reduce tariffs, quotas, and other trade restrictions, making it easier and cheaper for exporters to sell their goods and services in foreign markets. By lowering trade barriers, Singapore can attract more investment and encourage businesses to export a wider range of products, including non-traditional or niche goods that may have been uncompetitive due to high tariffs or import restrictions.

Free trade agreements often require countries to harmonize their trade-related regulations and standards, making it easier for businesses to comply with regulations and access foreign markets. This increased competitiveness helps Singapore’s exporters to expand their product range and improve their quality standards to meet the demands of diverse markets. By diversifying their exports, companies can distribute their risks and mitigate the impact of any market disruptions, geopolitical conflicts, or economic downturns in certain regions.

Being a small and open economy, signing more FTAs would also allow Singapore to diversify its import sources, bringing about reductions and stability in domestic producers’ imported costs.

**E1:** FTAs could also bring about detrimental effects although FTAs can be beneficial to Singapore. Free trade agreements may lead to job displacement in certain industries, especially those that face competition from foreign companies with lower labor costs. This can result in unemployment

and wage stagnation for workers in affected industries, causing overall economic growth to not be inclusive.

## **R2: Supply-side policies to improve comparative advantage**

Singapore can continually work towards improving or changing its comparative advantage so as to remain competitive in the global market. Supply-side policies that focus on improving factors such as technology, education, and infrastructure can help improve comparative advantage by enhancing the competitiveness and attractiveness of domestic industries in the global market. Supply-side policies can include investment in research and development, innovation, and technological adoption. This helps industries become more technologically advanced and efficient, which can lower production costs and improve the quality of goods and services. By leveraging technology, industries can increase their productivity and become more competitive in the global market, ultimately leading to improved comparative advantage. Supply-side policies that prioritize education and skills development can enhance the quality and productivity of the workforce. By investing in education systems, vocational training programs, and lifelong learning initiatives, economies can ensure their workers acquire the necessary skills to meet industry demands. Highly skilled workers contribute to increased innovation, efficiency, and productivity, which can enhance the comparative advantage of industries. Supply-side policies that focus on improving infrastructure, such as transportation networks, telecommunications, and energy systems, can improve the efficiency of production and distribution processes. Enhanced infrastructure reduces costs, improves connectivity, and expands market access for industries. This can help local industries become more competitive by enabling them to reach wider markets and exploit economies of scale, leading to an improved comparative advantage.

**E2:** There are some limitations that the Singapore government should consider when implementing supply-side policies. It takes time for the effects of supply-side policies to materialize. Investments in technology and lifelong learning may not yield immediate results, as it takes time for businesses and individuals to adopt and benefit from them. This time lag can limit the effectiveness of these policies in addressing immediate economic challenges. Moreover, the implementation of supply-side policies can be expensive. Investing in technology and providing lifelong learning opportunities require significant financial resources. Policymakers may face budget constraints and challenges in allocating funds to these policies, which can limit their scope and impact. Finally, Supply-side policies may exacerbate income inequality. Investments in technology and lifelong learning primarily benefit those who already have the necessary skills and resources to take advantage of them. This can lead to a widening gap between those who are able to benefit from supply-side policies and those who are left behind, further polarizing society.

## **Conclusion**

To increase the benefits and reduce the costs of globalization, the Singapore government can implement various policy measure. Having said that, the government should invest in social welfare programs to mitigate the negative impacts of globalization, such as unemployment or income inequality. This can be achieved through expanding unemployment benefits, providing job training and retraining programs, and implementing progressive taxation to redistribute wealth. Overall, a holistic approach involving investment in social safety nets and education will help Singapore maximize the benefits and minimize the costs associated with globalization.

## **Cambridge report (FOR TEACHER'S REFERENCE ONLY)**

*There were only a few good responses to this question. These candidates separated policies that were focused on increasing the benefits of globalisation from those focused on reducing the costs. It was therefore clear which policy measures were targeted at increasing benefits, and which at reducing costs or which might achieve both outcomes. For example, stronger responses*

*explained that signing more FTAs would increase the benefits by giving access to more export markets (increasing the benefits), while reducing the costs of imports. Supply-side policies such as R & D would lead to improvements in an economy's comparative advantage, thereby leading to gains in the benefits from globalisation.*

*Mid-range responses were more generalised such as stating that the signing of more FTAs would lead to increased benefits and reduced costs, without explaining how these increased benefits or reduced costs were achieved. Several candidates argued that Singapore should sign more FTAs to increase benefits but then argued that import tariffs were required to reduce costs. Another type of mid-range response explained how trade policies might lead to economic growth, with little or no reference to globalisation. In particular, there was limited or no reference to the reduction in costs of globalisation. Finally, several responses appeared to be 'rehearsed' responses on protectionism without a clear link to globalisation. While there were a few good evaluative judgements, the majority were poorly focused on the context of the question.*