6	Globalisation has made our world more interconnected than ever before and presented a wealth of opportunities. Yet, globalisation has also presented an uneven distribution of its benefits and costs.		
	(a)	Explain the factors that have fuelled globalisation.	[10]
	(b)	Globalisation has presented an uneven distribution of its benefits and costs. Discuss the reasons for this.	[15]

Suggested answers to part (a)

(a) Explain the factors that have fuelled globalisation. [10]

Introduction: Define globalisation and briefly describe the main factors that have fuelled globalisation

Globalisation is the increased integration and interdependence of economies. It can be categorised as **economic globalisation**; the greater integration of goods and services (via trade), labour and capital markets and **geographical globalisation**; the reduction in travel times between locations and the rapid (electronic) exchange of information. Knowledge and production previously confined to certain geographical areas may now cross borders and be made available because of the communication and transport technological innovations.

Body 1: Explain how trade liberalisation led to increase trade flows based on the theory of CA.

One main factor that facilitates globalisation is **trade liberalisation and the promotion of free trade based on the Theory of Comparative Advantage.** The theory of comparative advantage posits that economies can mutually benefit from specialisation and exchange of goods they have a lower opportunity cost in producing. For example, between Thailand and Singapore, Thailand's vast amount of arable land and large number of rice farmers meant that it has resources that are more suited for the cultivation of rice over Singapore. In the cultivation of rice, Thailand has a **lower opportunity cost** as compared to Singapore as Singapore does not have the similar factor endowments that are suitable for rice cultivation. On the other hand, Singapore would have a lower opportunity cost in the production and manufacturing of electronic goods because of its skillful labour force and level of technological adoption. If Thailand devotes its resources to the cultivation of rice and Singapore devotes its resource to the production of electronic goods, both countries would be more efficient in their production. **With subsequent exchange,** that is, Thailand to export rice and import electronic goods, while Singapore would import rice and export electronic goods, **both countries could exploit their differences in relative opportunity cost** and **consume a combination of goods outside what they possibly could if they produce both goods on their own (consume beyond their PPC)**.

The greater amount as well as variety of goods available for consumption among other potential gains from free trade have led to increasing liberalisation of trade and capital markets, facilitated by governments moving towards policies such as Free Trade Agreements (FTAs) to reduce trade barriers (removing import tariff and quotas). These led to greater economic integration amongst economies and the trend of globalisation.

Body 2: Explain how development in communication technology has led to increased intergration

The revolutionary break-through in information and communication technology (ICT) and development in transport technology have also provided the drive for global integration by facilitating trade.

Development in communication technology has facilitated the transmission of information over geographical borders quickly and efficiently. This allows transnational firms to coordinate their operations worldwide via different avenues such as video conferences & emails. The implication is that firms such as Toyota and Apple Inc. are **able to set up plants worldwide by tapping on the comparative advantages in production of different types of goods in different countries** to improve their productivity and efficiency. These firms are also able to outsource part of the production process yet maintain control over them with the ease of communication. This "**slicing up of the value chain**" results in increased flow of intermediate goods as well as capital amongst the economies leading to higher degree of globalisation.

Body 3: Explain how development in transport technology has led to increase intergration

Last but not least, **developments in transport technology** have caused transportation cost and time for goods and people to shrink tremendously increasing mobility of goods and factors of production. These have enhance economies trade network and aid in the increase in trade volume. For example, sea transport has become more efficient with new technology such as (automated cargo handling and faster vessels). Better navigation system also enhanced the safety and efficiency of sea transport. The reduction in time for sea transport and cargo handling has helped to transport goods and documents for firms faster.

Conclusion: Summarise Salient Points
Not only has these technologies enhance the benefits of trade, they are essential enablers of trade, without which, there would not be as much integration amongst world economies.

Syllabus 9757

Level of Response Marking Scheme (LORMS)		
L3	For a well-developed answer that clearly explains factors that fuelled globalisation based on economic reasoning (e.g. Theory of Comparative Advantage) Answers are well-supported with appropriate examples.	8 – 10
L2	For an undeveloped answer that attempts to explain factors which fuelled globalisation. Answers are descriptive and lacks economic reasoning (e.g. Theory of Comparative Advantage). Answers are supported with some example.	5 – 7
L1	For an answer that is irrelevant and contains conceptual error.	1 - 4

(b) Globalisation has presented an uneven distribution of its benefits and costs. Discuss the reasons for this. [15]

<u>Introduction</u>

Globalisation brings about several benefits and costs to the economy. Increasing trade, capital and labour flows will benefit an economy in terms of higher economic growth, higher employment opportunities and increasing SOL while at the same time they may also lead to rising income inequity, structural unemployment and environment degradation.

At the same time, there is an uneven distribution of benefits and costs between countries (LDCs vs DCs, small country vs large country) and within a country and there is a need to consider the reasons behind the differences in distribution. The reasons could stem from:

1) Factor immobility: Geographical, occupational.
2) Unfair trade practices
3) Nature of economy
4) Lack of laws/enforcements/Less established banking sector/corporate governance

<u>Reason 1: Factor immobility</u>

One of the reasons that would limit the benefits within the domestic markets would be **factor immobility**. Factors of production (land, labour, capital) are not perfectly mobile within a country. As a country specialises in the production of a good, it will eventually be forced to utilise resources which are less suited to the production of the good. For example, as Singapore specialises in the production of pharmaceutical products, it will be forced to use labour that lacks the relevant skills and knowledge needed.
As such, in reality, a country's PPC would be concave to the origin. This reflects the law of increasing opportunity costs, whereby the opportunity costs of producing each successive unit of pharmaceutical products rises. The increase in opportunity cost would limit the extent of specialisation and thus reduces the full benefits of specialisation and exchange.

a) <u>Occupational immobility</u>

In addition, Globalisation has merely hastened the speed at which countries (like SG) move up the value-added chain, shedding jobs in sunset industries (low value added manufacturing industries) but creating jobs in sunrise industries (high value added, technological based industries.) Hence, in this aspect, since employees in the sunset industries <u>may find themselves without a job and because their skill sets are not suitable for the sunrise industries (occupational mobility),</u> these lower skilled workers may not benefit from globalisation. Thus, in this aspect, there could be structural unemployment and widening income gaps when the lower skilled workers are displaced and this problem is also exacerbated by the influx of foreign labour.

Also, ↑ openness and trade → allow for offshoring to occur → differences in the demand for high-skilled workers (higher) and low-skilled workers (lower) → differences in the wages of these 2 groups of workers → income gap ↑→ worsens **inequity** across countries

b) Geographical immobility

The benefits of globalisation are not evenly distributed as it depends on the accessibility of job opportunities and trade flows. For instance, some rural areas of China which do not tap on global markets due to poor transport and communication (geographical immobility) networks may not be able to reap the benefits of globalisation and this could worsen the rural-urban income gaps.

Linking back to the question

Hence, within a country, different groups of workers and firms may benefit differently from globalisation and this depends heavily on the effectiveness of government policies in ensuring that the pool of labour is able to flexibly adapt to changes in comparative advantages and has fair access to employment opportunities across the country with increasing globalisation.

Reason 2: Unfair trade practices

With globalisation and free trade, countries have access to international markets and hence, some countries to be exposed to unfair trade practices like Dumping. The problem is more pertinent if there are no proper regulations in place to protect the domestic industries.

Dumping refers to the sale of a good overseas (exports) below its cost of production or at prices which are lower in foreign countries than in domestic markets. FTA would introduce foreign competition (imports) to domestic market. These imports could be heavily subsidised by the foreign countries or government such that the prices could be lower than those of the domestic products. This is perceived to be dumping into the domestic market.

A reason for dumping could be to force out domestic firms so as to consolidate monopoly power. Once monopoly power is established, the foreign firms could charge higher prices to reap supernormal profits. Hence, while consumers could enjoy lower prices in the short run, the consumer welfare could be eroded in the long run.

Furthermore, foreign competition could jeopardise the development of home industries before the industries could realise its potential. These infant industries could have the potential to be more efficient compared to the foreign firms. The hampering of the development of these industries could precipitate long run welfare loss. Production of commodities, especially strategic goods, makes a country overly dependent on other countries.

Linking back to the question
Hence industries which experienced dumping by other countries may suffer more from free trade and globalisation and thus globalisation brings about an uneven distribution of benefits and costs to different industries.

Evaluation
The extent of costs faced by these industries is also dependent on the type of government policies that are put in place

For instance, some countries like China have put in place anti-dumping measures on synthetic rubber from the US and EU as dumping has caused substantial damage to its domestic industry.

While there are gains to be realised from specialisation, countries should still embark on diversification programme to promote self-sufficiency and independence in the provision of strategic goods to some extent.

Reason 3: Nature of economy

With globalisation and the increasing openness to trade, open economies like Singapore could be more vulnerable to external shocks. ↑ openness and trade. Singapore was one of the first to be hit during the global financial crisis in 2009 where we experience a ↓ X → ↓ AD → ↓ RNY by a multiplied amount → worsen actual growth and increasing unemployment. In addition, ↓ X-M → worsen current account and hence BOP position.

The extent of the costs (worsening actual growth, increasing unemployment and worsening BOP) could differ from country to country as it depends on the significance of the net exports to the country's GDP. Countries like China which have large domestic markets and have consumption-led growth may not be as negatively affected by an external crisis as compared to countries like Singapore. Hence, the distribution of costs and benefits could be uneven.

The extent of imported inflation also depends on how reliant a country is on imported raw materials. Greater reliance breeds greater susceptibility and hence such countries are more prone to suffer from volatile prices externally.

Reason 4: Lack of laws/enforcement

LDCs and DCs may benefit differently from globalisation as there could be differences in the way policies are enacted and enforced.

a) Capital outflows due to lack of government regulations/laws

With globalisation there could be ↑ capital mobility. If FDI are footloose (unrestricted in locations and could move out easily, this is dependent on the government regulations in place) and withdraw capital in times of negative outlook → worsen long term capital flow and capital and financial account → worsen BOP. Hence, if there are lack of laws to govern the flow of short term capital (hot money) and long term capital (FDI), it could be destabilising to an economy. Since capital investment is likely to be more scarce in developing countries than in developed ones, returns to investment in many developing countries are likely to be higher at home than abroad. Hence, developing countries could be more severely affected by outflows of capital.

b) Pollution problems

In addition, with increasing FDI and offshoring practices by foreign firms, developing countries could suffer from rampant pollution (since factories and heavy industries are often relocated to developing countries as cost of production is much lower than the home country). Hence, without proper laws and regulations, the pollution problem could be more severe.

Evaluation

This persistence and severity of the problem is highly dependent on the effectiveness and appropriate enforcement of government policies.

Conclusion

Globalisation has presented an uneven distribution of its benefits and costs and the government plays a significant role in ensuring that the costs are minimised and benefits are maximized to achieve sustainable and inclusive growth.

Ultimately, the most significant reason behind the uneven distribution of benefits and costs could be **the effectiveness and enforcement of various policies** implemented to address the costs of globalisation. For instance, in dealing with competition for jobs amongst locals and foreigners, Singapore has implemented the **Dependency Ratio Ceiling (DRC)** to put a cap on the number of foreign workers that could be hired (ratio depends on the type of industry). This effectiveness of policy is also dependent on appropriate enforcement by the government. Also, the Singapore government has adopted Skills Future as a policy to improve the skills of workers to keep them relevant in the changing economy. Thus with effective policies, countries would be able to enjoy a greater extent of benefits from globalisation.

Also, the reasons can be multi-causal:

1) **Depends on the nature of economy**. Ultimately, different countries would enjoy different distribution of benefits and costs of globalisation. For a small economy like Singapore with limited natural resources and small domestic size, the benefits of globalisation will outweigh the costs as Singapore has little choice but to look outward for imported raw materials and for further growth. The continuous economic growth led by trade enjoyed by Singapore in the last 50 years is a testament to the overall net benefits of globalisation.

2) **Outlook of the world economy:** If global economy outlook is poor, it may increase anti-trade sentiments amongst countries as governments turn towards protectionist measures to boost domestic economy given that the external driver of growth through exports is less useful. Countries that can diversify their pool of trading partners and maintain greater trade flows will be able to fully benefit from international trade. But more often than not, even with the most effective government policies and proper enforcement, there are external conditions that are not within a government's control and it depends significantly on the agility of the economy and workforce to adapt

Mark Scheme:

Level	Knowledge, Application/Understanding and Analysis	Mark
L3	For a well-developed answer that uses appropriate analysis and framework to discuss the reasons for an uneven distribution of benefits and costs of globalisation, with good usages of examples.	8 – 10
L2	For an under-developed answer that comprises the reasons for an uneven distribution of benefits and costs of globalisation, with limited usages of examples.	5 – 7
L1	For an under-developed answer that shows superficial discussion of the reasons for an uneven distribution of benefits and costs of globalisation. Answers lack clarity and are largely erroneous. Mere listing of benefits and costs which does not address the question.	1 – 4

E3	For an answer that arrives at an analytically well-reasoned judgement about whether the benefits of globalisation outweighs the costs. Answers are able to address the idea of "uneven distribution" and have considered several parameters for which distribution is often uneven within a country and/or across countries. Ranking of reasons is necessary to attain this level.	4 – 5
E2	For an answer that makes some attempt at a judgement about the reasons for the uneven distribution of benefits and costs.	2 – 3
E1	For an answer that gives an unsupported judgement about the reasons for the uneven distribution of benefits and costs.	1