Question 2: The Impact of a Global Pandemic on Globalisation

Suggested Mark Scheme:

(a) Describe the trend in global trade as a percentage of GDP from 2011 to 2020. [2]

General trend: Global trade as a percentage of GDP is decreasing from 2011 to 2020. [1]
Refinement: However it increased from 2016 to 2018. [1]

(b) With reference to Extract 4,

(i) Using AD/AS analysis, explain how Singapore's monetary policy can increase national output. [4]

- Singapore adopted a zero percent appreciation, allowing the Singapore dollar to depreciate. [1]
- The depreciation of Singapore dollar would make exports cheaper in terms of foreign currency. [1]
- This increases exports competitiveness, leading to an increase in export revenue and aggregate demand. [1]
- As aggregate demand increases, firms respond by increasing production, resulting in an increase in GDP. [1]

Note: impact on imports not needed for this question. Use of elasticity concepts also not required.

(ii) Explain one possible unintended consequence of "further monetary easing". [2]

- Further monetary easing involves further depreciation of the Singapore dollar, which would increase the price of imports in terms of Singapore dollars. [1]
- As the price of imports increases, imported raw materials become more expensive. This leads to an increase in cost of production and imported inflation. [1]

(c) (i) Using the concept of price elasticity of demand, explain the impact of imposing rice export restrictions on a domestic rice producer's revenue. [4]

- Rice export restrictions prevent rice producers from exporting to other countries, and thus increase the domestic supply of rice [1]
- Increase in supply of rice   surplus of rice at the current prices   downward pressure on price [1]
- The demand is price inelastic (PED < 1) since food is a necessity in most rice producing countries [1]
- The decrease in price due to the rising supply leads to a less than proportionate increase in quantity demanded.
- The loss in revenue due to decrease in price outweighs the gain in revenue due to increase in quantity sold, thus there is an overall decrease in revenue for rice producers. [1]

Note: for answers that explain a fall in demand due to a smaller market, maximum of 2 marks since PED concept is not used.

(ii) Discuss the impact on the economy in countries such as Vietnam and Cambodia of imposing export restrictions. [8]

Introduction:

- The export restrictions are imposed with the main objective of lowering the prices of commodities and food for the domestic economy.
- Such restrictions can have both positive and negative effects on an economy.

Requirement 1: Positive impact of export restrictions

- As explained in (ci), export restrictions increase the supply of important commodities and food in a domestic economy. This helps to reduce prices of food and other raw materials.
- Thus food and commodities will be more affordable to domestic households. With an increase in purchasing power, material standard of living improves.
- In addition, with cheaper raw materials, cost of production for firms is reduced. As firms are more willing and able to produce at each price, there is an increase in SRAS. Firms pass on the cost savings to consumers resulting in a lower general price level.   Lower and more stable inflation rate

Requirement 2: Negative impact of export restrictions

- As firms are not allowed to export overseas, they have a smaller consumer base to sell to. They are only able to sell domestically at a lower price, leading to a loss in revenue.
- Thus firms may experience a loss of profits.
- With lower export revenue, there is also a fall in AD, especially if the country is reliant on exports. The fall in AD results in an unplanned increase in stocks for firms. Firms respond by cutting down production, leading to a fall in GDP.
- With lower output, firms demand less labour, especially in export industries. Some workers may be laid off and there may be an increase in demand deficient unemployment.
- In the long run, market share may be lost as other countries that produce the same commodities can increase production to meet the global demand. The country's trade reputation may also be damaged. Other countries may choose to find more stable sources to import from. Thus, export revenue may remain lower even after the export restrictions are removed.

Evaluation:

- As extract 5 mentions, export restrictions are a "knee jerk" reaction to a crisis. They may be necessary in the short run to ensure a stable supply of food and other necessities in a country.
- However, export restrictions are likely to be more harmful in the long term as it leads to a loss of export revenue.
- The extent of harm depends on the nature of the country. For a country that is reliant on exports for economic growth, export restrictions are likely to be more harmful for the economy.

Level	Descriptors	Marks
L2	• Balanced answer that considers both the positive and negative impacts of export restrictions. • Answer uses economic analysis and tools such as AD/AS analysis to explain the impact on the economy. • Both requirements should be analytical to score 6 marks. • Good use of evidence and reference to the extracts.	4 - 6
L1	• Answer may be one sided, explaining either positive or negative impacts. • Answer may have insufficient economic analysis / be more descriptive.	1 - 3

	• Answer may be theoretical and lack application to the context.	
E2	Well-reasoned judgement using at least one criteria, such as short / long term or nature of the economy	2
E1	Judgement is not well substantiated / the substantiation and reasoning is not convincing.	1

To be discussed during standardisation:

A + A	6
A + C	5
C + C	4
C + K / A + 0	3
K + K / C + 0	2
K + 0	1

(d) Discuss whether the COVID-19 pandemic will slow down or accelerate the rate of globalisation. [10]

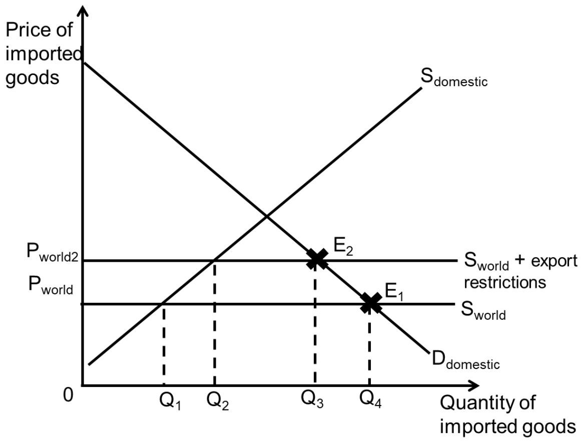
Note to markers: Students are expected to explain why and how globalisation may slow down, with analytical explanation.

Introduction:

Globalisation refers to the development of an increasingly global economy, characterised by increases in trade of goods and services, international flows of capital, and labour mobility. Given the trend in global trade, globalisation has slowed down in the past decade. The COVID-19 may have further slowed down the rate of globalisation.

Requirement 1: The COVID-19 pandemic may have slowed down the rate of globalisation.

- Why countries may trade less: Countries are wary of vulnerable global supply chains. With disruptions to the global supply chain, countries are not able to import important commodities and necessities from their usual sources. This could lead to high imported inflation due to the decreased supply of commodities. Thus, countries may switch to domestic production for increased stability instead of relying on trade for such commodities.
- How global trade may be reduced: Use of measures such as export restrictions will reduce total world trade (as shown by figure 1).



Export restrictions decrease the world supply and increase the price of imports. Thus the world supply curve shifts to S_{world} + export restrictions. This reduces the quantity of imports from Q_1Q_4 to Q_2Q_3.

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- Why investments may fall: In addition, to reduce vulnerability to external shocks, firms may decide to re-shore their businesses. For example, US firms such as Delta Children (Extract 6) considered moving their production back to the US to avoid supply shortages caused by COVID-19 measures implemented in China. The

shortages result in higher cost of production and loss of profits for the firms. If more firms re-shore their businesses to stabilise their profits, there could be a decrease in FDI globally.

- Why labour movements may fall: The COVID-19 restrictions have also “brought international travel to a standstill” (Extract 6). With travel restrictions in place to prevent the spread of the virus, people are less able to travel and take up job opportunities overseas.

Evaluation of above points:

- Countries may choose not to use export restrictions in the long term, since it would reduce export revenue and result in slower economic growth. Thus the export restrictions may only lead to a short term, temporary, fall in global trade.
- Firms may choose to diversify and shift their production to different countries rather than re-shore. For example, Delta Children chose not to re-shore as the US has high labour costs and lack of suppliers. Instead, firms may choose to move some production to South East Asia. Thus, while the direction of FDI may change, there will not be a fall in the flow of investments globally.

Requirement 2: The COVID-19 pandemic may have accelerated the rate of globalisation.

- The pandemic has accelerated digitalisation: Use of technology will make it easier to invest and work in other countries. For example, the virus has sped up the adoption of communication technology so that workers are able to work from home or remotely. With such technology and better internet connections, cost of communications are lower and international transactions can occur more easily, thus increasing foreign direct investments.
- The pandemic may increase free trade: As COVID-19 caused contractions in many economies, some economies may rely on trade to recover from the recession and ensure a more stable economy. For example, some import reliant countries may diversify their supply chains to prevent future supply chain disruptions. To do so, they may sign free trade agreements with more countries, leading to an increase in trade. In addition, free trade will allow export reliant countries to increase export revenue, aggregate demand, and economic growth to recover from the recession.
- Thus, once the pandemic stabilises, trade and investments are likely to increase, accelerating the rate of globalisation.

Overall Evaluation

- COVID-19 may slow down the rate of globalisation, especially in the short run. In the short run, countries adopt stricter measures as they prioritise public health over economic growth. However, in the long run, the development of vaccinations and the stabilisation of the virus will allow more countries to open up once again. As countries relax their COVID-19 restrictions, trade, investments, and labour flows are likely to continue increasing.
- Short term measures such as export restrictions or travel bans are likely to be very detrimental to economies, and are likely to be removed in the long term.
- While countries are wary of supply chain disruptions, the lower cost of obtaining goods overseas significantly outweighs the risk of supply chain disruptions. Countries may increase domestic production or diversify to reduce the risk to external shocks, but are unlikely to reduce trade significantly.
- As seen from figure 1, global trade was already on a downward trend before the pandemic hit. Thus, the slowdown in globalisation is likely caused by other factors, such as trade wars and conflicts between countries.

Level	Descriptors	Marks

L2	• Balanced answer that discusses the possibilities of globalisation slowing down and accelerating as a result of the pandemic. • Answer uses economic analysis and tools to explain the impact on globalisation. • Good use of evidence and reference to the extracts.	4 - 7
L1	• Answer may be one sided, explaining either a slow down or acceleration of globalisation. • Answer may have insufficient economic analysis / be more descriptive. • Answer may be theoretical and lack application to the context.	1 - 3
E2	Well-reasoned judgement using at least one criteria, such as short / long term	2 - 3
E1	Judgement is not well substantiated / the substantiation and reasoning is not convincing.	1

To be discussed during standardisation:

A + A	7
A + C	5 - 6
C + C	4
C + K / A + 0	3
K + K / C + 0	2
K + 0	1