

2014 Y6 H1 Prelims II Macro Essay

Despite the increased pace of globalisation, protectionism has been undertaken by nearly every region of the world as economic growth slowed or stalled during an economic crisis.

(a) Explain why protectionism is undertaken by governments around the world. [10]

(b) Discuss the view that problems associated with globalisation have outweighed the benefits in the case of Singapore. [15]

Suggested Mark Scheme – (a)

Knowledge, Understanding, Application & Analysis		
L3	Developed explanation of at least 3 reasons why protectionism is undertaken, with examples to illustrate (preferably recent e.g. rather than generic elaboration of points); All points are consistently elaborated 'Developed' → Explanation explicitly states the benefits that can be enjoyed by countries which undertake protectionism or the negative consequences that results if protectionism is not undertaken i.e. link to economic variables such as employment, income, BOP, export revenue etc.	8-10
L2	Undeveloped explanation of 3 reasons why protectionism is undertaken, contains only generic elaboration/ examples; Points are not consistently elaborated nor well structured 'Undeveloped' → superficial & generic; little reference to current e.g.; no explicit link to how undertaking protectionism affects various economic variables	4-8
L1	Smattering of valid points	1-3

Suggested Mark Scheme – (b)

Knowledge, Understanding, Application & Analysis		
L3	Developed discussion of how problems associated with globalisation may or may not outweigh benefits in the case of Spore 'Developed' → Clear, detailed explanation of problems & benefits associated with globalisation, with explicit link to the impact on relevant economic variables.; Current e.g. of Spore provided with good elaboration & reference to context	9-11
L2	Undeveloped discussion OR developed explanation for one side 'Undeveloped' → Superficial/ generic explanation of problems & benefits associated with globalisation i.e. asserted rather than linked explicitly to economic variables such employment, BOP, NY, AD etc.; limited e.g. of Spore with little reference to context	4-8
L1	Smattering of valid points OR one-sided answer	1-3

Evaluation		
E2	Able to form a judgment on the issue after looking at both sides. For e.g., students are able to take into consideration the fact that Spore's nature does not really give her much choice in her stand on globalisation/ project into the future and suggest the general direction that the government should be heading towards if she hopes for benefits to continue outweighing problems	3-4
E1	Able to make some comments on whether problems outweigh benefits, but statements tend to be generic and superficial	1-2

Suggested answer points – (a)

INTRODUCTION

- Protectionist measures distort market forces in order to give a competitive advantage to the domestic industries of an economy
- E.g. import tariffs, import quotas, administrative restrictions, exchange control and export subsidies
- Countries adopt protectionism so as to enjoy the benefits it gives/ prevent negative consequences if they do not

DEVELOPMENT

- For 10 marks, it is suffice to give **3** points/ arguments for protectionism
- (1) Governments may undertake protectionist measures during periods of recession
- negative growth rates, declining incomes and loss of jobs
 - protectionist measures so as to restrict the amount of imports into her country
 - income that is generated in the economy is spent on domestically produced goods instead of leaked out as import expenditure
 - mitigates the negative impact of a recession
- Provide e.g. to illustrate above point e.g. during 2008/9 global financial crisis, what did governments around the world do in this aspect
- (2) Governments may also undertake protectionism because they want to protect infant industries in their economy
- Infant industries refer to newly emerging or just established industries in their early stage of development
 - perceived by the government to have comparative advantage (CA) in the production of certain goods, but are currently too small to be able to produce goods at a cost low enough to compete with well-established foreign producers
 - Need protection so that they can be competent enough to handle foreign competitors even though the former may truly have CA in the production of certain goods
 - Provide e.g. to illustrate above point
- (3) Governments undertake protectionism could be because they wish to protect domestic producers against dumping
- Dumping occurs when goods are sold in overseas markets at a price below marginal cost with the aim of driving out domestic competitors in these markets and subsequently establishes monopoly power
 - Foreign producers can 'dump' in another country if she is heavily subsidised by her government, enabling her to undercut rivals abroad
 - Protectionist measures are justified so that domestic country can compete on equal grounds with foreign trading partners

CONCLUSION

- In sum, governments around the world undertake protectionism for various reasons, some of which may not be very valid based on economic theory. Regardless the reason, there are short-term benefits to be reaped by the country
- This helps ensures a certain level of domestic employment, income generation or even improvement in the balance of payments.

***Other reasons for protectionism are also accepted as long as they are well explained with e.g.**

Suggested answer points – (b)

INTRODUCTION

- Globalisation refers to the closer integration of countries and peoples of the world through the ease of movement of goods and services, capital and labour
- Facilitated by the enormous reduction in the costs of transport and communications; breaking down of trade barriers via the formation of trading blocs and deregulation of financial markets, which allowed funds to flow more freely across financial markets around the world

DEVELOPMENT

- Exposes Singapore to external shocks (i.e. global boom or recession) will thus have an impact on both her goods and financial markets
- E.g. 2009 global financial crisis
 - drop in demand for Singapore's exports of goods and services, causing her to fall into a recession
 - Since exports constitute a large percentage of GDP, this led to a substantial fall in Singapore's GDP and a rise in cyclical unemployment, especially in export related sectors
- 'Contagion effect' led many financial institutions and investors to withdraw their funds from Singapore
 - As a result, Singapore suffered short term and long term capital outflows which adversely affected her financial account.
- E.g. US adoption of Quantitative Easing
 - huge influx of funds into Singapore in pursuit of assets with higher returns
 - Fuel inflationary pressures in Singapore for several quarters
- Easier for firms to relocate their operations to countries where production costs are much cheaper
 - Hastened the pace of industrial development and caused changes to Singapore's comparative advantage (CA)
 - E.g. some firms have relocated their manufacturing plants to Malaysia & Indonesia in order to tap on their relatively abundant and cheap labor
 - Increases unemployment in the short term, especially among the lower skilled
 - Greater likelihood of structural unemployment
- Rising income disparity → skilled workers working in industries that cater to international markets are better able to command higher wages compared to workers in the declining industries
 - income disparity is compounded by the availability of low skilled foreign workers who are 'direct competitors' to Singapore counterparts

Benefits are still enjoyed by Singapore in this process e.g.

- Greater access to more overseas markets such as China, India and the Middle East, enabling Singapore firms to export to more countries
- Easier for Singapore to source for and obtain cheaper supplies of raw materials. This is especially important given that she is resource scarce and thus need to import not just final goods and services but also inputs
- Greater flows of investment and capital across borders since FDI facilitates the transfer of technology and expertise
- Implication on AD and AS
- Singapore firms now find it easier to invest/ venture overseas to take advantage of growth opportunities
- As globalisation also helps facilitate the movement of labour, this benefits Singapore since it allow us to augment our labour force to meet her growth needs

CONCLUSION

- In sum, for the benefits of globalisation to really outweigh the problems, the government may need to adopt more aggressive efforts to help those affected so that the subsequent generations can reap the gains
- Embracing globalisation remains more of necessity than a choice for Spore