

**Suggested Answers to 8819 Paper 1 Case Study 2
(The key to ASEAN centrality)**

(a) (i)	Compare the change in Malaysia's balance of trade in goods with that of Singapore between 2008 and 2011.	[2]
	<ul style="list-style-type: none"> Both countries experienced a trade surplus between 2005 and 2011. However, while Malaysia showed a steady increase in trade surplus, Singapore's trade surplus decreased in 2009. 	
(ii)	How far does the balance of trade in goods of these two countries support their growth rates shown in Table 4?	[4]
	<ul style="list-style-type: none"> Thesis: <ul style="list-style-type: none"> Positive growth rates experienced by both countries can be supported by their trade surplus, since an \uparrow in $(X-M)$ will \uparrow AD and NY. Anti-thesis: <ul style="list-style-type: none"> However, despite experiencing trade surplus in 2009, both countries still experienced a fall in growth rates. Even with an increase in trade surplus for Malaysia in 2009, it does not lead to an increase in growth rates. Overall stand: <ul style="list-style-type: none"> Balance of trade is able to support the countries' growth rates to a large extent. However, as growth can be contributed by other components apart from trade performance, we need more data to fully account for the countries' growth rates. <p><u>OR</u></p> <ul style="list-style-type: none"> Balance of trade is able to support the countries' growth rates to a large extent. However, as 2009 was a recession year, poor performance in other non-trade sectors could have contributed to the negative growth rates despite both countries' trade surplus. 	
(b)	With reference to the data, account for the observed change in the value of S\$ from March 2009 to March 2011.	[2]
	<ul style="list-style-type: none"> From March 2009 to March 2011, S\$ is appreciating in terms of US\$. This could be due to the MAS's gradual and modest appreciation policy in response to the sharp increase in inflation rate from 0.6% to 5.3% as shown in Table 5. <p>Note: Students could also argue that the appreciation is caused by an increase in demand for Singapore's exports (Table 4), hence causing an increase in demand for Singapore dollar.</p>	
(c)	Extract 6 suggests that infrastructural development should be made a priority in the Asian region.	
(i)	Using AD-AS analysis, explain the macroeconomic impact of government spending on infrastructure.	[4]
	<ul style="list-style-type: none"> Key point 1: Investing in infrastructure would \uparrow AD and hence \uparrow national income as well as employment <ul style="list-style-type: none"> \uparrow in I would \uparrow AD, raising national income in the short run. In addition, employment is created (Extract 6), particularly in industries that are involved in the planning and building of infrastructure (e.g. construction industries) <p><u>OR</u></p> <ul style="list-style-type: none"> With urbanisation on the rise within ASEAN (Extract 6), \uparrow in I is necessary to support the development of cities, especially in terms 	

	<p>of developing good transport systems and housing → jobs created (Extract 6), particularly in industries that are involved in the planning and building of such infrastructure (e.g. construction industries) → raise household income and hence ↑ C and AD, thus bringing about increase in economic growth in the short run</p> <p><u>OR</u></p> <ul style="list-style-type: none"> ○ ↑ in I would also attract FDI that are looking for alternative investment destinations (Extract 7). As the infrastructure helps in reducing overall start-up cost for these foreign firms, the ↑ in FDI would ↑ AD and drive greater economic growth and employment in the long term. • Key point 2: Investing in infrastructure would ↑ LRAS and hence ↑ productive capacity <ul style="list-style-type: none"> ○ In the long run, the building of infrastructure would increase the country's productive capacity and this is represented by an ↑ in LRAS. 	
(ii)	Evaluate the appropriateness of this suggestion for countries which are agricultural exporters in ASEAN such as Thailand and Vietnam.	[4]
	<p>Thesis 1: Appropriate for supporting agricultural export sector</p> <ul style="list-style-type: none"> • Greater government spending in infrastructure such as ports and transport network will help to raise overall efficiency, particularly for exports of perishable agriculture → raises export revenue and thus help to boost growth and employment <p>Thesis 2: Appropriate for generating growth and employment in non-agricultural sectors</p> <ul style="list-style-type: none"> • Other ASEAN countries such as Singapore and Malaysia are now mainly focusing on services and manufacturing as their twin engines of growth (Extract 7) → their move from lower value-added industries to higher value-added industries has raised their competitiveness in the region and brought about greater growth and employment • This highlights the need for agricultural exporting countries to do the same → infrastructural development increases their capacity in restructuring their economy and moving up the value-added chain by diversifying into these non-agricultural sectors <p>Anti-thesis 1: Inappropriate because the type of infrastructure invested may not be relevant to growing the economy</p> <ul style="list-style-type: none"> • For instance, if a science park was built, its effectiveness is likely to be limited given the lack of R&D activities in these agricultural exporting countries <p>Anti-thesis 2: Inappropriate because agricultural exporting countries may not have the fiscal resources to support such investment</p> <ul style="list-style-type: none"> • Particularly true for governments in agricultural exporting countries which may not generate large government revenue since most households in the countries pay little tax out of the income they generate from farming <p>Overall:</p> <ul style="list-style-type: none"> • The appropriateness depends on the type of infrastructure being built and what its usage is intended for → greater appropriateness if infrastructure is used to support the current agricultural export sector as compared to the use for economic restructuring which carries more uncertainties 	

(d)	Comment on whether economic integration would improve ‘the gap in living standards between the richest and poorest countries’ in ASEAN.	[6]						
	<p>Introduction:</p> <ul style="list-style-type: none"> Briefly explain how economic integration is facilitated → removal or reduction of tariffs, relaxation of trade borders etc (Extract 5 and 7) Briefly explain benefits brought about by economic integration → jobs creation, growth etc Briefly explain why there is such a huge gap in living standards between the richest and poorest countries in ASEAN → very much due to differences in the nature of their economy (Extract 7) → economies that focus more on higher valued-added industries (such as services and manufacturing) tend to experience more growth unlike economies that are driven by mainly primary industries → e.g. Singapore versus Cambodia To improve the gap, the poorest countries must try to maximize all possible economic benefits brought by economic integration → after all, the richest countries will not be willing to compromise their growth and development for the sake of narrowing this gap <p>Thesis: By raising growth and employment via economic integration, standard of living would improve in the poorest countries, thus helping to reduce the gap in living standards</p> <ul style="list-style-type: none"> Economic integration allows for greater volume of trade and FDI within and outside of ASEAN (Extract 5 and 7) → helps to promote job creation and growth → ↑ household income would raise purchasing power and hence C → ↑ SOL for all ASEAN economies <p>Anti-thesis 1: Differences in existing infrastructure, business climate and institutions between the richest and poorest countries (Extract 7) could lead to richer countries gaining more</p> <ul style="list-style-type: none"> For instance, Singapore has more developed port facilities compared to poorer countries such as Cambodia and Laos (Extract 7) → Singapore may thus benefit from a greater increase in external demand → Higher growth and improvement in SOL for richer countries → Gap in living standards widens <p>Anti-thesis 2: Differences in economies’ degree of openness could continue to widen the gap in living standards</p> <ul style="list-style-type: none"> Since economic integration is bringing about greater external demand, economies that are less involved in trade or less open to FDI may lose out more than others → For instance, big agricultural exporting economies such as Thailand and Vietnam (Extract 7) may reap higher export revenue than agrarian societies such as Cambodia and Laos → Gap in living standards widens <p>Overall stand:</p> <ul style="list-style-type: none"> If governments in the poorest countries are willing to embrace and support the economic integration, the gap in living standards between the richest and poorest countries is likely to improve However, if governments are resistant towards economic integration due to reasons such as fear of greater export competition, the gap in living standards may widen instead <table border="1" data-bbox="331 1960 1310 2027"> <thead> <tr> <th></th><th>Level Descriptors</th><th>Marks</th></tr> </thead> <tbody> <tr> <td>L3</td><td>• Two-sided and developed analysis on how</td><td>5-6</td></tr> </tbody> </table>		Level Descriptors	Marks	L3	• Two-sided and developed analysis on how	5-6	
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		<p>economic integration may not improve the gaps in living standards</p> <ul style="list-style-type: none"> Well-supported with data 		
	L2	<ul style="list-style-type: none"> Two-sided but undeveloped analysis on how economic integration may or may not improve the gaps in living standards One-sided but developed explanation Limited use of data 	3-4	
	L1	<ul style="list-style-type: none"> Vague explanation and skeletal answer Many conceptual errors in analysis 	1-2	
(e)	<p>Consider the view that the benefits brought by the ASEAN Economic Community (AEC) in creating ‘a single market’ are likely to outweigh its costs for Singapore.</p>			[8]
	<p>Introduction:</p> <ul style="list-style-type: none"> Explain what it means by creating ‘a single market’ – removal of most (if not all) pre-existing trade barriers as well as allowing greater cross-border movements of factors of production (e.g. labour) Briefly explain its purpose – to enhance economic integration within and outside ASEAN, to promote equitable development across all ASEAN countries (Extract 5 and 7) Briefly explain Singapore’s role – exporting technological and infrastructural services to other ASEAN countries (Extract 6) <p>Thesis 1: Singapore economy could benefit in terms of trade</p> <ul style="list-style-type: none"> With the simplification of trade procedures and removal of trade barriers (Extract 5 and 7), Singapore can now export a greater volume of goods and services than before → ↑ X revenue, growth and employment → in addition, exporting to new ASEAN economies helps in diversifying Singapore’s trading partners → this increases resilience of the economy against fluctuations in external demand from the US and European countries. The steady growth rates of Malaysia and Philippines Table 5 indicates the potential of market in these countries for Singapore. With the ↑ in ASEAN countries’ demand for infrastructural investment, Singapore can tap on this opportunity to export services such as logistics and accounting services (Extract 6) in which Singapore already has significant comparative advantage <p>Thesis 2: Singapore’s consumers can also benefit in terms of variety and pricing</p> <ul style="list-style-type: none"> Greater consumer choices → foodstuffs that cannot be produced locally (due to lack of factor endowments) can now be easily imported → ↑ consumer welfare ↓ in prices due to either greater competition between domestic firms and foreign exporters or firms choosing to produce in countries with lower cost of production e.g. India and Vietnam → ↑ consumer surplus <p>Anti-thesis 1: Nevertheless, the off-shoring of domestic firms could negatively impact Singapore’s economy</p> <ul style="list-style-type: none"> Although firms’ cost of production is lowered by off-shoring to other countries with lower wage costs, it may lead to unemployment and capital 			

	<p>outflow → impact is even more significant if these firms choose to relocate and withdraw all FDI and operations from Singapore</p> <p>Anti-thesis 2: Singapore may also face greater competition especially in terms of FDI</p> <ul style="list-style-type: none"> Other ASEAN countries are able to offer lower costs of production especially in terms of wages → this could reduce Singapore's FDI competitiveness <p>Anti-thesis 3: In addition, greater labour inflow into Singapore may lead to problems such as unemployment and worsening of SOL</p> <ul style="list-style-type: none"> Skilled labour from countries such as the Philippines can now enter Singapore and compete with the local labour force (Extract 5) → if job creation is not able to keep up with the increase in supply, downward pressure on wages of skilled labour could be exerted Also, the increase in labour size could pose problems such as overcrowding in public places → worsen SOL <p>Overall stand: Whether benefits outweigh costs is dependent on the role played by the Singapore government</p> <ul style="list-style-type: none"> With reference to anti-thesis 2: the government could provide infrastructure or continue to offer a stable political and economic climate so as to maintain her FDI competitiveness → also, the type of FDI Singapore attracts is inherently different from that of low wage countries (capital and knowledge intensive vs. labour intensive) With reference to anti-thesis 3: the government has already put in place foreign labour controls to better manage possible influx of skilled labour <p>Note: It would not be possible to bring in all possible thesis and anti-thesis arguments, students need to select which they can develop with most support and elaboration.</p> <table border="1"> <thead> <tr> <th></th><th>Level Descriptors</th><th>Marks</th></tr> </thead> <tbody> <tr> <td>L3</td><td> <ul style="list-style-type: none"> Two-sided and developed answer on both costs and benefits Well-supported with data </td><td>5-6</td></tr> <tr> <td>L2</td><td> <ul style="list-style-type: none"> One-sided and developed answer without reasoning why benefits may outweigh costs or the reverse Two-sided and undeveloped answer Limited support with data </td><td>3-4</td></tr> <tr> <td>L1</td><td> <ul style="list-style-type: none"> For a superficial or irrelevant answer </td><td>1-2</td></tr> <tr> <td>E2</td><td> <ul style="list-style-type: none"> Reasoned judgement </td><td>2</td></tr> <tr> <td>E1</td><td> <ul style="list-style-type: none"> Unreasoned judgement </td><td>1</td></tr> </tbody> </table>		Level Descriptors	Marks	L3	<ul style="list-style-type: none"> Two-sided and developed answer on both costs and benefits Well-supported with data 	5-6	L2	<ul style="list-style-type: none"> One-sided and developed answer without reasoning why benefits may outweigh costs or the reverse Two-sided and undeveloped answer Limited support with data 	3-4	L1	<ul style="list-style-type: none"> For a superficial or irrelevant answer 	1-2	E2	<ul style="list-style-type: none"> Reasoned judgement 	2	E1	<ul style="list-style-type: none"> Unreasoned judgement 	1	
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