

PJC 2014 H1 Economics Preliminary Examination
– Suggested Answers for Q4 Essay

Question 4:

It has been claimed by some politicians that globalisation was the underlying cause of today's economic problems and that protectionism was the answer.

(a) Explain any two economic problems that may be caused by globalisation. [10]

(b) To what extent is protectionism the best answer to these economic problems? [15]

Interpret the Question – Part (a)

a) Explain any two economic problems that may be caused by globalisation. [10]

What is the cue word?
 (what are the skills required for this question?)

Explain

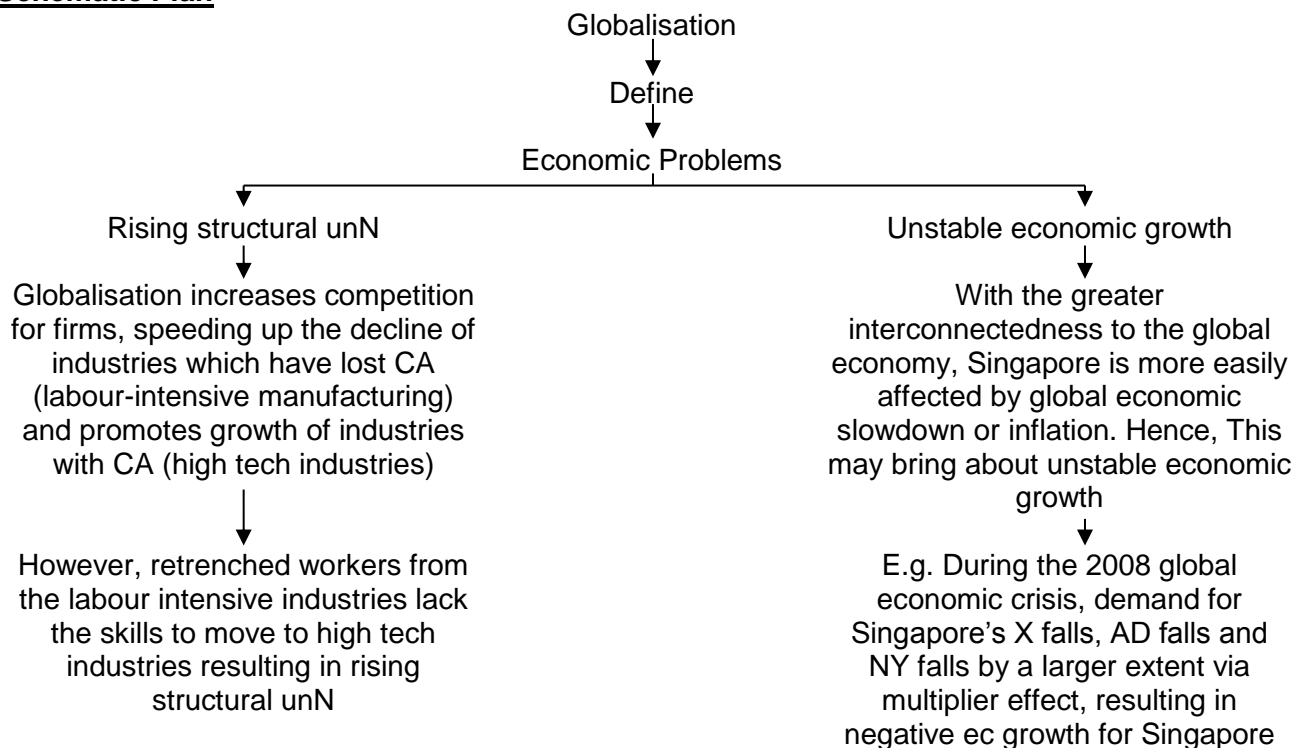
What is the concept word?
 (what are the concepts required to answer this question?)

Economic Problems of Globalisation

What is the context word?
 (what is the context for this question?)

Can give examples of any economies such as Singapore, developed country or developing countries.

Schematic Plan



Introduction (GIST)

Introduction	Globalization refers to the increasing integration of economies around the world through greater flows of trade and foreign direct investment across international borders. Two of the economic problems that globalization may cause are rising structural unemployment and a more unstable economic problem.
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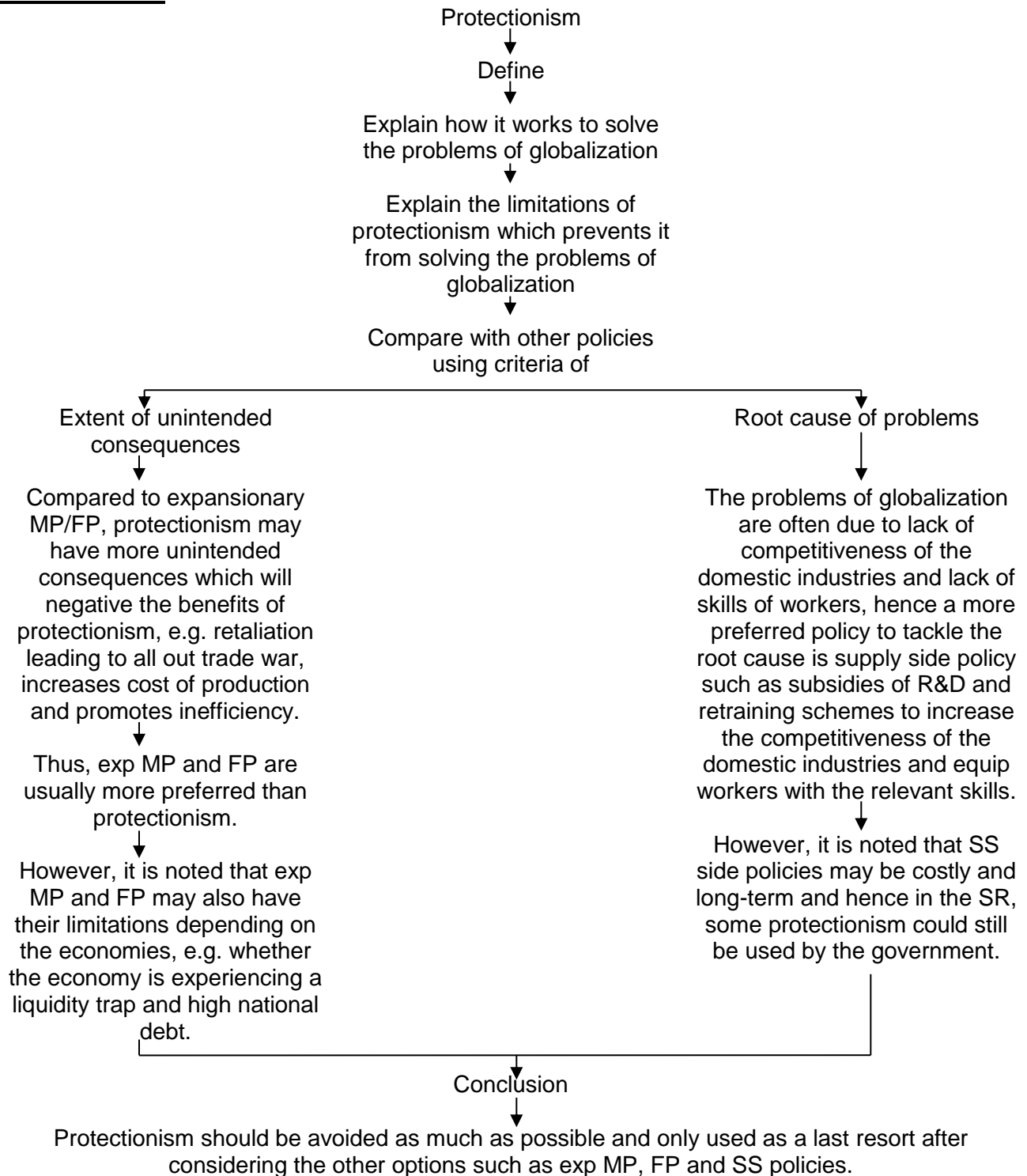
Body (PEEL)	
What is the most important point?	
State the Point (P)	P: Globalization may bring about rising structural unemployment.
Explain the point with clear causal links (E) Elaborate the point with examples/diagram	Taking the case of Singapore, with increased imports, in industries where she has lost comparative advantage such as low skilled manufacturing, domestically produced goods face competition from cheap imports from India, China and Vietnam. This has caused these domestic import competing industries to shut down, and as these firms shift production overseas to low cost countries, they would retrench many low skilled workers. The growth of high skilled industries in light of Singapore's comparative advantage means many job opportunities for high skilled but the low skilled workers do not have the skills to take up these jobs. Hence this skills mismatch suggests structural unemployment has been a problem caused by globalization. This problem could be worse due to problem of ageing population which makes it more difficult for the older and less educated workers to be retrained and re-employed through the government retraining schemes. Rising structural unemployment is also one of the main causes of rising income inequality in Singapore between the skilled and unskilled workers.
Link back to Qn	Thus, globalization may bring about rising structural unemployment which affects many developed economies such as Singapore.
What is the second most important point?	
P	P: Due to greater inter-dependence, globalization may also bring about more unstable economic growth for many economies, particularly small and open economy such as Singapore.
Explain the point with clear causal links (E) Elaborate the point with examples/diagram	With greater reliance on exports (X is >200% of Singapore's GDP), global economic fluctuations can negatively impact Singapore's economy. For example, during the global financial crisis and Euro Debt crisis, the sharp fall in exports to US and Europe caused Singapore to experience a deterioration of her BOP due to the worsening of her current account. Internally, the fall in AD causes her equilibrium national to fall by a larger extent via the multiplier effect. As the AD falls below full employment, real GDP fell and firms employ fewer workers due to a fall in output. The problem could be more severe for Singapore as she could not afford to rely on the domestic sector to drive growth due to the nature of her economy.

	On the contrary, when there is strong global economic growth, Singapore will enjoy a sharp increase in exports demand and AD. If the AD at full employment, there will only be a nominal but not a real increase in GDP as the country experiences rising inflation.
Link back to Qn	Hence, globalization will bring about undesirable and unstable economic growth for an economy.

Conclusion (SR)	
Conclusion	<p>S: Thus, globalization is said to bring about many economic problems such as rising structural unemployment and unstable economic growth.</p> <p>R: Hence, it is necessary for the government to respond with appropriate policies to minimize these problems brought about by globalization.</p>

Interpret the Question – Part (a)		
b) To what extent is protectionism the best answer to these economic problems? [15]		
<u>What is the cue word?</u> (what are the skills required for this question?) To what extent Absolute word → need to compare with 2 other policies	<u>What is the concept word?</u> (what are the concepts required to answer this question?) Protectionism Economic Problems of Globalisation	<u>What is the context word?</u> (what is the context for this question?) Can give examples of any economies such as Singapore, developed country or developing countries.

Schematic Plan



Introduction (GIST)	
Introduction	Given the economic problems of globalization, many politicians have called for protectionism as a quick fix to the problems of globalization. Protectionism refers to the sheltering of domestic industries from foreign competition through trade barriers such as tariffs and non-tariff barriers such as quotas and subsidies. However, this is at most a short-term policy which does not deal with the root causes of the problems and has many unintended consequences. Hence, there are other better policies such as fiscal, monetary and supply side policies depending on the root cause of the economic problem and nature of the economy.

Body (PEEL)	
What is the most important point?	
State the Point (P)	P: Protectionism such as tariff has often been used as a policy to solve the economic problems caused by globalization.
Explain the point with clear causal links (E) Elaborate the point with examples/diagram	<p>Tariffs, as a tax on imports, will raise the price of imported goods to consumers, therefore reducing the quantity demanded for them, and increasing demand for local produced goods.</p> <p>Hence, by reducing import expenditure and raising domestic consumption, this will raise the AD of the country and hence via the multiplier effect, the real national income of the country will rise assuming the economy operates below full employment. Hence, protectionism has been commonly used by countries to solve the problem of negative rate of economic growth caused by globalization.</p> <p>In addition, by protecting declining domestic industries from competition from cheaper imports with the use of tariffs, e.g. US imposing tariff on the cheaper steel and textile imports, this will help to maintain the demand for goods produced by domestic industry even though it may have lost its comparative advantage, thus preventing the industry from reducing its output and demand for workers leading to rising structural unemployment.</p>
Link back to Qn	Hence, protectionism is often used to solve the problems caused by globalization.
What is the second most important point?	
P	However, the use of protectionism to solve the problems of globalization may have many unintended consequences causing it not to be the best policy.

<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>Protectionism may trigger retaliation by the other trading partners hence minimizing its effects in promoting higher growth and employment. E.g. when US impose tariffs against its textile imports, its trading partners may respond by imposing tariffs on US exports. Retaliation often results in a fall in net exports as the fall in exports may be greater than the fall in imports as the protected industry such as textile industry in US may have already declined and hence when US imposed protectionism on China's textile, US retailers will continue to source for imported textile from other parts of the world such as Vietnam and Indonesia.</p> <p>In addition to retaliation, protectionism may also bring about beggar-thy-neighbour effect whereby it makes the trading partners poorer and hence the trading partners (e.g. China) will have a lower purchasing power to buy the exports from the country that imposes protectionism (e.g. US).</p>
<p>Link back to Qn</p>	<p>Thus, with a fall in net exports, AD and national income of the protecting country will fall instead and hence the economic problem of a fall in economic growth cannot be solved through protectionism.</p>
<p>What is the third most important point?</p>	
<p>P</p>	<p>In view of the unintended consequences of protectionism, there are other more effective policies to address the unstable economic growth caused by globalization.</p>
<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>A better policy to address the unstable economic growth caused by globalization is fiscal or monetary policies. In times of a fall in economic growth due caused by a global slowdown, countries will be better off implementing expansionary fiscal policy or monetary policy. During the recent global financial crisis in 2008/9, the coordinated expansionary fiscal policy the various major economies such as USA, UK, China and Japan led to a global recovery. As countries increase its government expenditure, this increases the AD and real national income via the multiplier effect. At the same time, a fall in interest rate reduces the cost of borrowing and led to an increase in consumption and investment expenditure which further boosted the increase in AD. This is better than the protectionism as it helps to avoid an all-out trade war which will definitely worsen the economic growth.</p> <p>However, it is noted that expansionary fiscal and monetary policies are not without their limitations. Due to the aggressive use of fiscal policies, many governments such as US, UK and Japan are currently facing a huge debt burden and this will restrict their ability to continue to use expansionary fiscal policy in the long run. Furthermore, the repeated rounds of increasing money supply has caused interest rates of many of economies to be close to zero which is at the liquidity trap, making expansionary monetary policy ineffective as well. Thus, given these limitations, countries may sometimes have no choice but to opt for some short-term use of protectionism to reduce some of the economic problems caused by globalization.</p>
<p>Link back to Qn</p>	<p>Hence, given the many unintended consequences of protectionism, the other policies such as fiscal and monetary policies should be used instead. However, given the limitations of fiscal and monetary policies, some short term use of protectionism may still be pursued although long-term use of protectionism is not justified given the unintended consequences which will negate the benefits</p>

	of protectionism.
What is the fourth most important point?	
P	Furthermore, protectionism often does not address the root cause of the economic problems of globalization hence making other policies more effective in reducing the economic problems of globalization.
<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>This is particularly true in the case of structural unemployment which is often due to the problem of mismatch of skills between skills required by the new industries with comparative advantage and the skills possessed by the unemployed workers. E.g. in US, there are still ample jobs available in the high tech industries that are created but many unemployed workers lack the skills to take up jobs in these industries. Thus, a more effective policy to address this problem of structural unemployment is definitely not protectionism but supply-side policy to equip the unemployed workers with the relevant skills to take up jobs in these new industries. Hence, the government should work closely with the new industries and set up training centre to retrain the workers and encourage the new industries to take up these unemployed workers after their training stint. This would be a better policy as the economy will be allocating its scarce resources efficiently by focusing on its industries with comparative advantage rather than preserve those industries which have lost its comparative advantage artificially through protectionism.</p> <p>However, it is to be noted that supply side policies are long-term, costly and requires the close cooperation between the government and the industries for the policies to work.</p>
Link back to Qn	Thus, some short-term protectionism may sometimes be justified to protect a declining industry caused by the forces of globalization to prevent massive unemployment and to allow time for the workers to be retrained and place in the new industry.

Conclusion (SR)	
Conclusion	<p>In conclusion, protectionism is not the best policy to solve the economic problems of globalization as it has many unintended consequence and often does not address the root cause of the economic problems.</p> <p>However, given the limitations of the other measures, protectionism sometimes is still used as a short term solution to the economic problems of globalization.</p>