

**Q6. Explain the trend towards globalisation and discuss the view that globalisation is the main cause of economic problems in Singapore. [25]**

**Interpret the Question**

**What is the cue word?**

(what are the skills required for this question?)

*Explain trend – factors to explain*

*Discuss – A two sided answer is required with evaluative comments*

**What is the concept word?**

(what are the concepts required to answer this qn?)

- Trend towards globalization – 4 reasons
- Globalisation as main cause of economic problems – trade flows, capital flows, financial flows, labour flows → economic problems (macro/ micro aims)

**What is the context word?**

(what is the context for this question?)

*Singapore - examples required from Singapore context*

**Schematic Plan**

**Explain trend towards globalisation**

Theory of CA and global supply chain

Reduced transport costs

Reduced communication costs/ internet

**Discuss the view that globalisation is the main cause of economic problems in Singapore**

Intro: Overview of economic problems in SG (inflation, structural unemployment, income inequity)

↑net financial inflows + ↑net capital inflows  
⇒ Demand-pull inflation (thesis)  
Eg QE in US/ EU & FDI such as MBS & RWS

↑net capital inflows + ↑net X  
+ ↑Labour inflow  
⇒ Structural unemployment + Y inequity (thesis)

**Counter-argument:**

- May be due to government policies (eg loose immigration policy) → ↑DD(housing)
- Depends on effectiveness of government policies

**Counter-argument:**

- Could be due to trade-offs in macroeconomic policy (Y inequity and inflation) and limitations of existing policy
- ↓Labour inflow may not necc address the problems

**Conclusion**

**Introduction (GIST)**

Introduction

(G - definition) Globalisation is the process of the deeper economic integration, with greater flows of trade, capital, labour and information/ technology. (I/S/T) There are several factors that led to trend towards globalisation, including more firms and countries seeking to enjoy benefits explained by Theory of Comparative Advantage and via global supply chain, fall in transport costs and fall in communication costs/ internet.

**Body (PEEL)**

What is the most important point? - **Theory of CA and global supply chain**

State the **Point (P)**

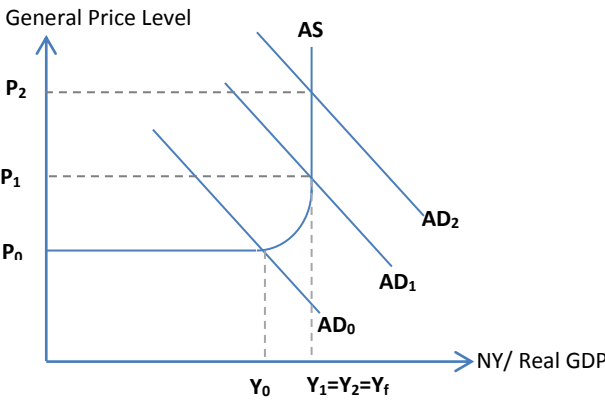
In seeking the benefits as highlighted in Theory of CA such as stronger economic growth, lower prices and hence better material standard of living (SOL), countries open their borders for more capital and trade flows.

<p><b>Explain the point with clear causal links (E)</b></p> <p><b>Elaborate the point with examples/diagram</b></p>	<p>At the same time, firms increase foreign direct investments to various countries, to produce different parts of the production at different countries, to tap on the comparative advantage in various countries, to reduce cost of production and hence, increase profits. Hence, extraction and low-skilled manufacturing processing would be produced in countries with substantial land and labour endowment, such as extraction of metals in Australia and assembly in China. On the other hand, highly capital-intensive and knowledge-intensive processes such as R&amp;D and engineering services are produced in countries with substantial capital endowment and technology, such as engineering services in Germany and innovation/ design in USA. Hence, through a global supply chain, firms produce different parts in different countries, such as the iPhone with parts being produced in Japan, Germany, USA, South Korea, China, etc, at lower costs and lower prices, benefiting consumers all over the world.</p>
<p><b>Link back to Qn</b></p>	<p>Hence, the increase capital flow, trade flow and technology/ info flow led to increased economic integration, with global supply chains for global markets. Thus, any one country could affect others substantially. For example, the recent flooding in Thailand led to supply problems throughout the entire global supply chain for Toyota and reduced output for many car manufacturers and countries which could not get the parts from Thailand. Thus, due to the benefits sought for Theory of CA and global supply chain, countries open their borders for trade via reduction in trade barriers, in hope to benefit as indicated in Theory of Comparative Advantage, with economies more inter-connected than ever before.</p>
<p>What is the second most important point? - <b>Reduced transport costs</b></p>	
<p><b>P</b></p>	<p>High transport costs would reduce the benefits from trade, as the high transport costs could erode any benefits and differences in comparative advantage in production between countries.</p>
<p><b>Explain the point with clear causal links (E)</b></p> <p><b>Elaborate the point with eg/ diagram</b></p> <p><b>Link back to Qn</b></p>	<p>Thus, with 'containerisation' and larger and more fuel efficient ships such as super-tankers, the reduced transport costs enable firms to reap lower cost of production via comparative advantage in many countries, thereby reaping benefits from trade. Hence, the reduced transport cost could encourage trade between countries with purchases from other countries that could sell at cheaper prices and FDI.</p> <p>Furthermore, with reduced transport costs, there is greater labour flow as it is cheaper and easier to travel to work overseas (and travel between work and home over countries more frequently).</p>
<p>What is the third most important point? - <b>Reduced communication costs/ internet</b></p>	
<p><b>P</b></p> <p><b>Explain the point with clear causal links (E) Elaborate the point with eg /diagram / Link back to Qn</b></p>	<p>With easier and more pervasive use of internet in last 2 decades, this increase the information flow between countries, resulting in greater ease in seeking cost savings and differences in CA (esp using e-commerce).</p> <p>This results in greater trade and investments. More importantly, job seekers could seek job opportunities from other countries, resulting in increased labour flow. For example, with the recent European Crisis and high unemployment in these countries, many young professionals had sought work in Latin America, Asia and Africa.</p>

**2<sup>nd</sup> part of the essay** - discuss the view that globalisation is the main cause of economic problems in Singapore.

### **Introduction (GIST)**

	(G) Despite the substantial benefits and trend towards globalisation, many stressed that globalisation is the main cause of economic problems around the world. (I/S/T) This may be the case for Singapore. Singapore faces inflationary pressures, volatile economic performance, structural unemployment and income inequity. Often, many blamed globalisation as the main cause of economic problems in Singapore.
--	---

<b>1st most important point – Inflation</b>	
P	As Singapore is a financial hub in Southeast Asia, open to financial /investment flows and trade, globalisation may be a major cause for inflation in Singapore.
Explain the point with clear causal links (E)	With openness in financial/ investment flow, the quantitative easing in the US and EU since 2009 with reduced interest rates and lower rate of return on financial assets such as bonds led to surge in financial inflows into Singapore for the relatively more attractive returns. This led to substantial increase in availability of funds in Singapore's financial system, with fall in market-determined interest rates in Singapore. With the increased availability of funds and reduced interest rates, this led to reduced cost of borrowing and hence, massive credit creation and speculative demand via increase in credit consumption such as mortgage loans and credit purchases on large ticket items and investments.
Elaborate the point with examples/diagram	<p>Coupled with the surge in net capital investments such as FDI for the opening of Marina Bay Sands (MBS) and Resorts World Sentosa (RWS) in 2009-2010, the Singapore economy is already near / at <math>Y_f</math>. The increase in credit creation and speculative demand with rise in C and I via the multiplier process led to increase in <math>AD_0</math> to <math>AD_1</math> and hence further increase in income-induced consumption and rise in AD to <math>AD_2</math>, due to surge in financial inflow only led to demand-pull inflation as there is limited spare capacity. Hence, general prices increased as prices of goods and services increased from <math>P_0</math> to <math>P_2</math> in Figure 1.</p>  <p>Fig 1: Demand-pull inflation due to surge in net financial inflows</p>
Link back to Qn	Thus, globalisation, with a surge in net financial and capital flows, is the main cause for sustained price increase and hence demand-pull inflation in Singapore recently.
<b>2nd most important point – Counter-argument for Inflation</b>	
P	However, it can be argued that due to domestic factors and policies could have contributed on the economic problems, rather than globalisation alone.

<p><b>Explain the point with clear causal links (E)</b></p> <p><b>Elaborate the point with examples /diagram</b></p> <p><b>Link back to Qn</b></p>	<p>With short-sighted concern on the possible recession due to global financial crisis in 2008, the government zealously sought for substantial increase in FDI for RWS and MBS, to ramp up AD via fiscal incentives and commitment on infrastructures (such as tax rebates/ tax holidays, train station at venue, etc). In addition, with an ambitious policy to increase population to 6.9m, the loose immigration policy and surge in foreign workers led to substantial increase in demand for housing, fuelling surge in speculative demand in housing and demand-pull inflation, rather than low interest rates and net financial inflows alone. Hence, government policy and other domestic factors could be the main cause of economic problem, while <b>globalisation could be the <u>contributing factor rather than the main cause</u> for economic problem.</b></p> <p>In addition, whether or not globalisation is the main cause of economic problems in Singapore, it also hinges on the <b>effectiveness of government's policies in stamping out the economic problem.</b> For example, tougher loan conditions for investment property, additional stamp duties and increase in land sales from its land reserves and the government through targeted price/ income policy in specific markets and monetary controls could effectively reduce the expected returns on such speculative investments in property and hence reducing demand-pull inflation led by the surge in net financial inflows.</p> <p>Globalization may not be the main cause of inflation in recent years as it <b>allows us to access cheaper imports which would have been more costly if we have produced on our own.</b> In addition, the easing of commodity prices in recent years due to the global recession has helped to keep our inflation rate low.</p>
--	--

*Note: For inflation, students may use imported cost-push inflation (thesis) and appreciation policies (for counter-argument) instead. For imported cost-push inflation, other supply-side policies such as SPURS are not accepted as a counter argument.*

<b>3rd most important point – Structural Unemployment and Income Inequity</b>	
<b>P</b>	Due to globalisation, Singapore has experienced substantial rise in structural unemployment and income inequity.
<p><b>Explain the point with clear causal links (E)</b></p> <p><b>Elaborate the point with examples /diagram</b></p> <p><b>Link back to Qn</b></p>	<p>With the <b>rise in FDI and exports in pharmaceutical, aerospace and tourism</b>, the demand for Singapore dollar has increased, with substantial strengthening of the Singapore dollar. The appreciation in Singapore dollar has led to the loss of export competitiveness of pre-existing industries such as electronics and precision engineering, as its exports become relatively more expensive to those manufactured in China and Vietnam, also known as Dutch Disease. Twenty years ago, Singapore produced half of the world's hard disk drive. However, with appreciation and the loss of comparative advantage to other countries such as Malaysia and Vietnam, these industries move out of Singapore, with Singapore's last foundry and hard disk drive manufacturing plant Western Digital is also moving out of the country by next year. The fall in output and structural change led to substantial fall in demand for labour in manufacturing, especially blue-collared workers, as labour is the derived demand for output. Due to lack of relevant skills to move to new industries such as pharmaceutical, research and tourism, many remained unemployed, with high structural unemployment.</p> <p>Coupled with the substantial influx of foreign workers in Singapore, due to the tight labour market from rise in investments and exports, the influx of low-skilled workers from neighbouring countries (↑labour supply) could lead to fall in wages for low-skilled workers. On the other hand, those few skilled in IT industry for apps/ e-commerce and aerospace engineering had an increase in income as there is a shortage of skilled labour in these new sunrise industries. Thus, <b>globalisation led to structural unemployment for low-skilled workers in manufacturing and high income disparity between skilled and unskilled workers, resulting in worsening income inequity.</b> The above-mentioned inflation could also led to even greater fall in purchasing power of these low-income households compared to high income households, as a larger percentage of the income is spent. Thus, real wage for low-skilled workers fell in recent years. Thus, globalization could be the main cause of economic problem in Singapore.</p>

<b>4th most important point – Counter-argument for Structural Unemployment &amp; Income Inequity</b>	
P	However, it can be argued that while globalization contributed to the economic problem of structural unemployment and income inequity, it is, however, due to <b>limitations of existing policies to address them</b> and <b>possible trade-offs in macroeconomic policies, or other factors</b> .
<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/ diagram</p> <p>Link back to Qn</p>	<p>Higher unemployment can again be due to domestic factors such as the push for higher productivity that cause some firms to restructure and leave the country resulting in rising unemployment. With Skills and Productivity Upgrading and Resilience Scheme (SPURS) and WDA trainings available to help structurally unemployed, the economic problem due to structural unemployment can be reduced. Any structural unemployment could be due to aversion to training especially for older and less literate workers (with limited English language proficiency). An ageing population may also be the cause of rising long-term unemployment as it is harder for the older workers to be retrained and adapt to new workplace and possibly discrimination by firms towards older workers. Hence, while globalisation can cause structural unemployment, the structural unemployment could be due to the <b>limited effectiveness / reach of policies to address the problem</b>.</p> <p>Notwithstanding the possible income inequity due to rise labour flow (and globalisation), <b>reduction in labour flow does not necessarily absolve Singapore from the economic problems, but instead led to other economic problems</b>. Aware of the income inequity and political backlash in recent general election results, the Singapore government has curbed the foreign labour population through direct controls, via reducing the ratio of foreign labour allowed for each sector. The reduction in total number of foreign labour into Singapore (via labour outflow greater than inflow) would lead to severe labour shortage, especially for jobs which most Singaporeans do not do (eg cleaners, maintenance officers, shift work like nurses), resulting in higher domestic wages and hence, domestic cost-push inflation. <b>Hence, sheltering Singapore from globalisation may cause other economic problems instead</b>. In this instance, the main cause of economic problems was due to the structure/ nature of Singapore economy with limited factors of production (particularly labour) and <b>most possibly trade-offs in macroeconomic policies (income inequity and inflation)</b>. <b>Hence, the policy adopted by the government to reduce demand-pull inflation and improve economic growth could result in income inequity</b>. Thus, globalisation is not the main cause in many instances.</p>
<b>Conclusion (SR)</b>	
Conclusion	<p>There are several economic problems Singapore economy face – inflation, income inequity and volatility in economic growth. <b>Arguably, globalisation could have a major role in leading to some of the economic problems</b>, for example external-led demand-pull inflation, volatility in economic growth and imported cost push inflation.</p> <p>However, there are <b>other major contributing factors</b>, including the government policies, the state of the economy, structure of the economy and trade-offs in macroeconomic policies. <b>In most instances, globalization may only be a contributing factor, amplifying the effects of the underlying strengths and problems in the economy</b>.</p> <p>Whilst globalisation may have contributed to the economic problems faced by the Singapore, it is noteworthy to mention that Singapore has benefitted significantly from globalisation, from a developing struggling young nation to a developed modern city-state. Sheltering Singapore from globalisation does not necessarily bring about lesser economic problems.</p>