

**Suggested Answers to 9732 H2 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 5?	[4]
		<p>Thesis:</p> <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. <p>Anti-thesis:</p> <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. <p>Overall stand:</p> <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. OR 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)		Using AD-AS analysis, explain why 'infrastructure should be the most important priority' for ASEAN.	[4]

	<ul style="list-style-type: none"> • Key point 1 (Increased AD): 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> ◦ With urbanisation on the rise within ASEAN (Extract 6), \uparrow in I is necessary to support the development of cities, especially in terms of developing good transport systems and housing \rightarrow jobs created (Extract 6), particularly in industries that are involved in the planning and building of such infrastructure (e.g. construction industries) \rightarrow raise household income and hence \uparrow C and AD, thus bringing about increase in economic growth in the short run <p><u>OR</u></p> ◦ \uparrow 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 \uparrow in FDI would \uparrow AD and drive greater economic growth and employment in the long term. • Key point 2 (Increased LRAS): Investing in infrastructure would \uparrow LRAS and hence \uparrow 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 \uparrow in LRAS. 	
(d)	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.	[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 \rightarrow \uparrow X revenue, growth and employment \rightarrow in addition, exporting to new ASEAN economies helps in diversifying Singapore's trading partners \rightarrow 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 \uparrow 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 outflow → impact is even more significant if these firms choose to relocate and withdraw all FDI and operations from Singapore <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. This applies to next question too.</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 </td><td>5-6</td></tr> </tbody> </table>		Level Descriptors	Marks	L3	<ul style="list-style-type: none"> • Two-sided and developed answer on both costs and benefits 	5-6	
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			<ul style="list-style-type: none"> • Clear and explained reasoning on why benefits may outweigh costs or the reverse • Well-supported with data 			
		L2	<ul style="list-style-type: none"> • One-sided and developed answer without reasoning why benefits may outweigh costs or the reverse • Two-sided but undeveloped answer • Very 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		
(e)		In view of ASEAN's economic integration plans, discuss whether monetary policy remains the most appropriate policy for Singapore to achieve its domestic macroeconomic aims.				[10]
		<p>Introduction:</p> <ul style="list-style-type: none"> • ASEAN offers some trade and growth opportunities for Singapore but one the greatest challenges is Singapore's higher costs. • Singapore has distinct comparative advantage in skills, technology and wide spectrum of financial and business services. • For trade-dependent Singapore, achieving domestic macroeconomic aims goes hand in hand with the aim of achieving healthy trade and balance of payments positions. <p>Thesis: Singapore's monetary policy of 'modest and gradual appreciation' is very appropriate for achieving price stability, remains one of the prerequisites for Singapore's macroeconomic performance, especially in the context of lower-cost ASEAN region.</p> <ul style="list-style-type: none"> • Modest and gradual appreciation of Sing dollar for most years, except for 2009 when the economy experienced recession. This exchange rate policy helps curb imported inflation in Singapore as Singapore is import-dependent → keeping domestic costs more stable → price stability fosters price competitiveness and conducive environment for production and investment → ability to generate AD for full employment, economic growth and healthy balance of payments. • With greater ASEAN integration, price stability becomes even more important because to be able to export to these countries and for domestic businesses to compete with goods and services from them, price is a very important basis in competition. Evidence – Table 3 – inflation rate rising over the years especially from 2010 to 2011 <p>Anti-thesis 1: Singapore's export competitiveness is potentially harmed by the appreciation-centred exchange rate policy</p> <ul style="list-style-type: none"> • Trade-off of export competitiveness from exchange rate appreciation -price of exports will be higher in terms of foreign currencies, leading to possible fall in export earnings. This is especially so Singapore's services industries as their businesses do not have high import content and yet their export prices are inflated by the exchange rate appreciation. • With greater openness of markets within ASEAN and costs being generally lower in the member countries, this can pose further threat to Singapore's attractiveness as location for FDI. <p>Anti-thesis 2: Monetary policy is never meant to be the sole approach for attainment of domestic macroeconomic aims. Also, the policy in recent times has been considered to be no longer appropriate for Singapore economy due</p>				

	<p>to the increasing importance of services in the country's exports.</p> <ul style="list-style-type: none"> • The need for other policies such as supply side measures on continuous improving labour skills and technological capacity so that Singapore can continue to compete for markets and FDI • Fiscal policy is a very important policy, both as a counter-cyclical approach to achieve full employment (deficit during recession of 2009 and surplus in other normal times) and a supply-centric policy through the types of taxes and spending in the budget. <p>Overall stand:</p> <ul style="list-style-type: none"> • While the government (MAS) currently holds the belief that the appreciation-centred monetary policy remains to be a relevant economic policy for Singapore to achieve price stability and hence the path to other macroeconomic aims, this policy has been raised as no longer appropriate due to changing production composition of Singapore economy. • What remains important for Singapore economy is the ongoing need to sharpen competitiveness in skills and technology because these are the areas of edge that Singapore needs to sustain in order to compete better in the context of more open and integrated ASEAN. <table border="1"> <tr> <td>L3</td><td>Developed answer on the need to reconsider exchange rate policy and offering an alternative policy approach</td><td>7-8</td></tr> <tr> <td>L2</td><td> <ul style="list-style-type: none"> • Undeveloped or theoretical answer on the need to reconsider the policy options • Developed answer but solely evaluating exchange rate policy without consideration of Singapore's context </td><td>4-6</td></tr> <tr> <td>L1</td><td> <ul style="list-style-type: none"> • Superficial answer </td><td>1-3</td></tr> <tr> <td>E2</td><td>Some judgement on the appropriateness of the exchange rate policy</td><td>2</td></tr> <tr> <td>E1</td><td>Unreasoned judgement</td><td>1</td></tr> </table>	L3	Developed answer on the need to reconsider exchange rate policy and offering an alternative policy approach	7-8	L2	<ul style="list-style-type: none"> • Undeveloped or theoretical answer on the need to reconsider the policy options • Developed answer but solely evaluating exchange rate policy without consideration of Singapore's context 	4-6	L1	<ul style="list-style-type: none"> • Superficial answer 	1-3	E2	Some judgement on the appropriateness of the exchange rate policy	2	E1	Unreasoned judgement	1	
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