



RAFFLES INSTITUTION
2014 YEAR 6 Preliminary Examination
Higher 2



ECONOMICS

9732/01

Paper 1: Case Studies

3 September 2014

2 hours 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

DO NOT open this booklet until you are told to do so.

Write your name, index number and CT class on all the work you hand in.

Write in dark blue or black pen on both sides of the paper.

You may use a soft pencil for diagrams, graphs or rough working.

Do not use paper clips, highlighters, glue or correction fluid.

Answer **all** questions

Begin answering each question on a fresh sheet of writing paper.

At the end of the examination,

- Fasten your answer to each question **separately**
- Fasten a cover sheet with your answers from Case Study 1
- Fasten a cover sheet with your answers from Case Study 2

You are advised to spend several minutes per question reading through the data before you begin writing your answers.

This document consists of **8** printed pages



Raffles Institution

Answer **all** questions

Question 1 Tourism and Hospitality Industry

Table 1: Tourism Industry Performance for Singapore

	2010	2011	2012	2013
Total visitors (000)	11,641.7	13,171.3	14,496.1	15,567.9
Region (000)				
Americas	524.8	563.7	616.4	641.5
Mainland China	1,171.5	1,577.5	2,034.2	2,269.9
Europe	1,373.5	1,401.5	1,537.3	1,591.2
Tourism Receipts (\$m)	18,931	22,277	23,081	23,469
Number of Tourist Hotels	96	98	101	117
Standard Average Room Rate (\$\$)	217.9	247.1	261.7	257.8
Room Revenue (\$\$m)	2,091.0	2,643.5	2,818.4	2,928.3

Source: <http://www.singstat.gov.sg/statistics/>

Extract 1: Singapore Tourism Board pushes for quality tourism

For the long-term sustainable growth of Singapore's tourism industry, Singapore Tourism Board (STB) is promoting high-quality tourism by embarking on a series of customised marketing campaigns catered to different consumers, while it continues to strive to establish industry competencies to help upgrade the skills of workers in the F&B and hotel industries. In the meantime, Singapore pushes to restructure its economy by raising productivity and reducing its reliance on foreign workers. Challenges to the tourism industry include higher foreign worker levies, rising rentals and wages, coupled with an appreciating Singapore dollar.

STB's target of 17m annual visitors by 2015 implies an increase of 6.6% per annum. While emerging markets like Mainland China remain the top 3 on lists of visitor arrivals to Singapore, visitors from China have dropped 27 percent in the five months through May 2013 from a year earlier, due to slower economic growth on the mainland and the impact of a new Chinese law that clamps down on cut-price shopping tours. This is further exacerbated by the continuing strengthening of the S\$ exchange rate against the Yuan and a sales tax that Chinese tourists don't encounter in neighbouring Hong Kong.

The STB aims to offer more innovative experiences to cater to the ever-changing needs of the customers. The opening of the new cruise ship terminal Marina Bay Cruise Centre Singapore (MBCCS) in October 2012 allows Singapore to tap into the increasing number of people in Asia who are taking leisure trips on luxury vessels and allows Singapore to become a cruise gateway to Asia. STB has extended its Cruise-Fly products to the MBCCS. Together with the expansion of networks and partnerships with other airlines, more passengers will be able to enjoy convenient, seamless transfers to and from Changi Airport.

The push for medical and education tourism continues as Asian economies continue to grow. With the novelty effect of the integrated resorts wearing off, and Singapore facing stronger competition from neighbouring economies, new tourist attractions such as the River Safari and the National Art Gallery are being introduced. The opening of the MBCCS will also help support regional cruises which are well received among South East Asian travellers, who dislike long haul flights or have tighter budgets. Singapore's travel and tourism landscape is likely to remain positive.

Source: adapted from Bloomberg 2014 & other various sources

Extract 2: How competitive is Hong Kong against its competitors?

This demand elasticity analysis provides insights into Hong Kong's competitiveness as an international tourist destination in comparison with its neighboring competitors: Macau, Singapore and South Korea. The study recognizes that differences between markets should be taken into consideration in evaluating a destination's competitiveness. Overall, this study finds that Hong Kong has a competitive advantage over Macau. However, Singapore and South Korea appear to be in a better competitive position than Hong Kong.

Source: www.elsevier.com – Tourism Management

Table 2: Short-run own-price elasticities by source market

Hong Kong	-1.209
Macau	-1.598
Singapore	-0.876
South Korea	-0.518

Source: How competitive is Hong Kong against its competitors?

Table 3: Short-run cross-price elasticities by source market

Hong Kong with respect to the price of South Korea	0.560
South Korea with respect to the price of Hong Kong	0.279

Source: How competitive is Hong Kong against its competitors?

Extract 3: Mainlanders buoy Hong Kong GDP

Hong Kong's Gross Domestic Product (GDP) is likely to have grown above 3% year on year. The number was helped by solid domestic demand, which contributes over two-thirds of Hong Kong's GDP. Hong Kong has benefited from a wave of spending from mainland Chinese who go there on vacation and to shop. Data shows the number of mainland tourists grew by about 20% each year between 2008 and 2012. The share of mainland tourists relative to all visitors rose to about 72% in 2012, up from 57% in 2008.

About a third of all retail spending, a major contributor to local demand, comes from visitors. Last year, mainland Chinese made HK\$119 billion (US\$15.2 billion) of retail purchases, up from HK\$43 billion in 2008, according to data from the census department. In 2012, local residents spent HK\$287 billion.

Source: Adapted from Wall Street Journal 2013

Extract 4: Too much, too fast

Calls have been made to review Hong Kong's tourism policy. Tourism is not an industry per se but a collection of interrelated industries, which sell products and services to tourists as well as to a range of other customers: hotels, tour operators and travel agents, airlines, etc. Until recently, all tourism was seen as beneficial. It is inevitable that large numbers of outsiders have consequences beyond creating employment and income. Inbound tourism contributed around 2% of Hong Kong's GDP in 2008, 4% in 2011 and 5% in 2012. About 50 million tourists come to Hong Kong every year. Hong Kong's resident population is 7.1million and the sheer number of tourists is creating demand that has not been planned for. A shortage of manpower during peak seasons like Chinese New Year has exacerbated the problem.

Hong Kong is struggling to absorb the impact of these tourists. Shopping centres are dominated by high-price goods that are no longer relevant to the daily needs of local people. Prices of

services, accommodation and property are being driven up by what the outsiders pay, rather than "real" demand. Famous local shops and eateries are being turfed out due to higher rentals for chain stores that cater mainly to monied tourists. This is driving out small businesses, narrowing job opportunities, while benefiting mainly landlords, big retailers and seasonal workers.

The effect is now being felt beyond the shopping centres, with tourists swamping campsites, Repulse Bay and country parks, dominating areas that are also places for local recreation. Any tourism incurs costs, whether it is in the allocation of resources such as land, the disposal of waste, traffic congestion or general pollution.

Benefits from tourism must be sustainable and seen in the context of what is good for the lifestyle of Hong Kong residents. Hong Kong cannot keep building new attractions to keep its visitors keen and happy. An example is the huge area of land set aside for tourism activities and hotel development at Kai Tak, 6 hectares of land to be developed along the waterfront; and the proposal to build a border shopping town for tourists who just want to shop. A rational reassessment of the best use of such land is needed. Setting aside the land for community use or as open space would improve the quality of life for local residents.

The contribution of tourism to the Hong Kong economy, at about 5 per cent of gross domestic product, is actually quite small. Hong Kong should develop its other sectors, instead of tourism. Calls to avoid low-quality, low-yield mass tourism and more focus on medical and eco-tourism may be a solution. Meanwhile, there are calls for the government to curb the influx and limit the number of tourists.

Source: Adapted from South China Morning Post, accessed 20 April 2013

Questions

- (a) Compare the trends in the number of visitors from the different regions to Singapore [2]
between 2010 and 2013.
- (b) Using Extract 1, comment on the possible relationships between air travel and the [4]
cruise industry.
- (c) To what extent would a hotel owner in Singapore benefit from developments in [8]
Singapore's travel and tourism sector?
- (d) (i) With reference to Table 2, explain why all the 'own price elasticities' are [2]
negative.
- (ii) Explain one possible reason why the demand for South Korea as a holiday [2]
destination is less price elastic than that for Macau.
- (e) Using Table 3, explain the values shown in the table for the cross price elasticities for [2]
Hong Kong and South Korea.
- (f) Discuss the view that Hong Kong should 'avoid low-quality, low yield mass tourism and [10]
focus on medical and eco-tourism'.

[Total: 30]

Question 2 Myanmar, a New Emerging Economy

Table 4: Myanmar, Trade in Goods with World

Period	Imports (Million €)	Exports (Million €)
2009	5,072	4,239
2010	7,502	4,868
2011	9,836	5,974
2012	13,232	6,435

Source: European Commission

Table 5: Myanmar, Trade with European Union

Items	Exports (Million €)					Imports (Million €)				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Vegetable products	7	10	14	15	19	1	0	0	1	1
Products of the chemical or allied industries	0	0	0	0	0	23	19	33	31	50
Footwear, hats and other headgear	2	2	4	3	1	0	0	0	0	0
Optical and photographic instruments, etc.	0	0	0	0	0	4	5	13	13	34

Source: European Commission

Table 6: Gross Domestic Product (GDP) and its Components in selected Economies (% of Total), 2012

	Myanmar	Singapore
Total GDP (US\$ billion) 2012	54.53	272.8
Composition:	%	%
Private consumption	80.8	39.2
Government consumption	3.8	9.7
Gross fixed investment	17.0	27.0
Exports of goods and services	18.9	200.7
Imports of goods and services	-20.4	-178.5

Source: CIA World Factbook

Extract 5: Opportunities and Challenges to Myanmar's opening up

Myanmar has recently opened itself up to the outside world after long years of self-imposed isolation. While many observers remain uncertain whether the ongoing reforms are real or just cosmetic, it is undeniable that Myanmar is moving towards greater openness. In this process, the influx of foreign direct investment has had an immense impact on the country and the people, for better and for worse. Myanmar is a country blessed with abundant natural resources. From precious stones and raw materials to natural gas, the country has always been of interest to foreign investors. Now that Myanmar is embracing an open-door economic policy, foreign direct investment could stimulate the economy and improve the livelihood of the people.

McKinsey reported last month that Myanmar's Gross Domestic Product (GDP) could quadruple to about US\$200 billion (S\$250 billion) in 2030 from US\$45 billion in 2010 with an annual growth rate of 8 per cent. That may help to lure foreign direct investment inflows totaling US\$100 billion.

The Myanmar government has already begun adjusting its policy towards foreign direct investment. It has allowed more political freedom and loosened controls over the economy, luring in large conglomerates such as the Ford Motor Company and Coca-Cola. Newly elected opposition member of the government, Ms Aung San Suu Kyi has appealed to investors and potential investors "to put a premium on respect for the law, on environmental and social factors, on the rights of workers, on job creation and on the promotion of technological skills". She believes that this approach will lead, in the long run, to greater benefits for all concerned.

Myanmar's labour force, numbering 31 million, could gain the most from incoming capital investment. Unemployment in the country could be as high as 37 per cent, with more than a quarter of its 60 million people living in poverty. Foreign direct investment does not just mean more jobs, it also gives workers the opportunity to learn new skills. This is particularly so in core industries with high growth potential and higher productivity.

But not everything that flows from foreign investment is good. The appropriation of land for large projects such as gas pipelines, and the impact of dam construction on Myanmar's major rivers, involving the relocation of villagers without adequate compensation, are often cited as negative effects stemming from foreign direct investment inflows.

While the opening up of Myanmar's economy has created many business opportunities, it has also generated a myriad of economic and social problems. These problems will not be fixed overnight. But they require tough action on the part of the government to minimise the exploitation stemming from foreign direct investment.

Source: Adapted from The Straits Times, accessed 19 June 2014

Extract 6: Effects on neighbouring countries of Myanmar opening up

Thailand has benefited from open access to Myanmar's natural resources – more than half of Bangkok's electricity supply relies on gas piped from its western neighbour. Thai companies have also moved into property development and service industries there, hence benefitting from Myanmar's opening up. However, while this increased openness has resulted in significant benefits for its neighbouring countries, it has also undeniably resulted in costs for the countries involved. For one, Myanmar is drawing away a steady stream of tourists, one of Thailand's mainstay service industries, and is targeting close to 1m visitors in 2014, up from about 300,000 in 2011.

Other south-east Asian countries are not spared either. Myanmar, with a labour force that is largely unskilled and with wages as low as 700Kyat (<US\$1) a day for a worker in a garment factory, it could compete with many of the other neighbouring low-cost manufacturing destinations, such as Vietnam and Thailand. Increasingly, garment factories in these two neighbouring countries have been scaling down their operations in the face of such stiff competition.

Notwithstanding the challenges posed for its neighbouring countries, the International Monetary Fund (IMF) said in January that it saw "high growth potential" for Myanmar. Citing stronger commodity exports and higher inward investments, the IMF estimated Myanmar's economic growth of 5.5% in the 2011-12 fiscal year, which could potentially be a silver lining for its neighbouring countries.

On the other hand, inflation, projected at 4.2% for the 2011 financial year, is on the rise and is expected to pick up to 5.8% or higher given the likely increase in foreign investment and aid flows. This could in turn damage Myanmar's export competitiveness, while transferring the rise in prices to its trading partners. As for Myanmar's own companies: "We're jittery," says one local executive with a pharmaceuticals importer. "Big foreign investors have economic scale and access to markets – they can easily overwhelm us ... We have had discussions with the government about this; we can't compete with multinationals."

Source: Adapted from Financial Times, accessed 18 April 2012

Questions

- (a) (i) Describe the trend of Myanmar's trade balance with the world from 2009 to 2012. [2]
- (ii) Using a relevant diagram, explain how Myanmar's exchange rate is likely to be affected by its trade balance. [4]
- (b) Explain how the theory of comparative advantage is reflected in the trade flows between EU and Myanmar in Table 5. [4]
- (c) Compare the likely size of the multiplier in the two economies as shown in Table 6. [2]
- (d) *"...the opening up of Myanmar's economy has created many business opportunities, it has also generated a myriad of economic and social problems."* [8]
- In light of the above, discuss whether opening up of her economy is beneficial to Myanmar.
- (e) With reference to the data where relevant, evaluate appropriate policies you would recommend to the policy makers of the countries affected by the opening up of the Myanmar economy. [10]

[Total:30]

Copyright Acknowledgements:

Question 1	Table 1	© Singstat
Question 1	Extract 1	© Bloomberg 2014 & Various Sources
Question 1	Extract 2	© www.elsevier.com – Tourism Management
Question 1	Table 2 & 3	© www.elsevier.com – Tourism Management
Question 1	Extract 3	© Wall Street Journal 2013
Question 1	Extract 4	© South China Morning Post 20 th April 2013
Question 2	Table 4 & 5	© Singstat
Question 2	Table 6	© CIA World Factbook
Question 2	Extract 5	© Straits Times 19 June 2014
Question 2	Extract 6	© Financial Times 18 April 2012