

Discuss the view that signing more FTAs is the best approach to sustain economic performance in an economy [25]

Thinking Map:

Stage 1: Understanding Question Requirements

Question 6:

Command Word	Discuss which requires thesis and anti thesis on whether signing FTA is the best approach to sustain economic performance in an economy.
Content Word	Signing FTA Sustained economic performance
Context Word	Policies must be contextualised to different economies
Comparison	Best – implies a need to compare with other policies to suit different economies

	Introduction
	<p>A Free Trade Agreement (FTA) is a legally binding agreement between two or more countries to reduce or eliminate barriers to trade, and facilitate the cross border movement of goods and services between the territories of the Parties.</p> <p>Sustained economic performance could imply sustained achievement of macroeconomic goals over time. It could mean sustained rate of growth which can be maintained without trade-offs with other goals of the government.</p>
Thesis	<p>Yes, signing more FTAs is the best approach to sustain economic performance in an economy</p> <ul style="list-style-type: none"> - The pursuit of free trade policy, such as signing of FTAs could be the best approach to sustained economic performance in small and open economies such as Singapore. - These economies are import dependent (relies on imports for survival) as well as export driven (relies on X for growth). Hence

expanding trade linkages with rest of the world promotes connection to **new markets** and firms in these countries investors stand to enjoy a myriad of benefits like tariff concessions, preferential access to certain sectors and faster entry into these new markets. This promotes sustained economic performance with the achievement of macroeconomic goals such as healthy BOP, economic growth, low cyclical unemployment etc to be achieved. Especially necessary for small economy with a small domestic market like Singapore based firms to invest overseas in order to gain access to a larger foreign market and earn more revenue.

- Best approach in sustaining economic performance when existing trading economies such as US and EU are suffering from debt problems and recession. Trade expands new markets, **mitigate exposure of these economies to external economic risks** with **diversifying of trading partners** (decoupling effect) → thereby enjoying sustained demand for X and incoming FDI → macroeconomic goals achieved.
- Using free trade diagram and AD/AS analysis, explain how
 - FTA reduces trade barriers such as tariffs → increases exports of exporting country to importing country → increase in X → increases AD → increases actual growth → reduces cyclical unemployment.
 - FTA expands domestic, regional and international markets → enable investment and sharing knowledge, increasing trade opportunities and improving the competitiveness of enterprises unlocks new areas of growth As an advanced developing economy, Singapore is still developing the SMEs, FDI from other countries are necessary to drive competition in the industries and to enhance technological transfer which enhances the fixed capital investment simultaneously.
 - Small economy with a lack of natural resources, only equipped with human resources. Therefore essential to ensure long term growth via fixed capital investments. This will ensure that not all resources will be fully utilized in the short run, both the current and future goals sustained. Furthermore with more fixed capital investments from improved access by capital, it encourages an improvement in productivity that enhances an increase in output in the long run and reduces unit cost of production in the short run.
 - AD increases in SR, SRAS falls in SR and LRAS in LR → sustained economic performance
 - Also, BOP is improved with increase in X and FDI.
- Eg: GULF COOPERATION COUNCIL-SINGAPORE FREE TRADE AGREEMENT (1 Sep 2013 enters into force)
 - Gulf Cooperation Council (GCC), consisting of six countries

	<p>in the Middle East – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE)</p> <ul style="list-style-type: none"> ○ Singapore is the first non-Middle East country to have a FTA with the GCC ○ <u>Benefits (Increase TRADE)</u> <ul style="list-style-type: none"> ▪ Approximately 95% of all GCC tariff lines will qualify for tariff-free concessions. An additional 2.7% of tariff lines will qualify for the same tariff-free concessions by 2018. ▪ S\$3.98 billion worth of Singapore goods will qualify for immediate tariff-free treatment, while S\$49.1 million worth of Singapore goods will qualify after 2018. Major sectors that will benefit from the elimination of tariffs are telecommunications, electrical and electronic equipment, petrochemicals, jewellery, machinery and iron and steel-related industries. ○ <u>Benefits (Increase INVESTMENT)</u> <ul style="list-style-type: none"> ▪ Services: The GSFTA allows Singapore-based companies, Singapore Nationals and Permanent Residents to hold majority stakes in key sectors of the GCC markets. In particular, Singapore gained enhanced access in UAE, Saudi Arabia and Qatar for construction services, computer and related services, environmental services and professional services, such as legal, architectural, engineering, urban planning. ▪ Singapore has Investment Guarantee Agreements (IGAs) in force with five out of six GCC countries, giving stronger protection to investments made in the markets on both sides. Singapore is currently negotiating an IGA with Qatar.
Evaluation	<ul style="list-style-type: none"> - Time lag as policy is carried out in phases and development takes time. Hence medium term policy. - Selected sectors so impact could be limited to them - Impact depends on closeness to the economies in terms of trade and investment linkages i.e GCC is an important trading partner to Singapore as The GCC is currently Singapore's fifth largest trading partner and accounts for 35% of Singapore's oil imports. - More FTA may not be good. They should be focused on regions that are emerging and developing and beneficial to the economy. - Persistent development in the fixed capital investments without improving on the skills of the labour may also lead to structural unemployment especially when FTA brings about changes in comparative advantage of the economy. This is especially true in the case of Singapore as an open economy with exposure to rapid industrial evolutions.

<p>Anti the sis – Other policies are needed to enhance benefits of FTA to achieve sustained economic performance .</p>	<p>FTA improves access to markets in terms of trade and capital but other policies are needed for the benefits of FTA to be realized and economic performance to be sustained. For example, with rising competition by emerging economies and the enhanced mobility of capital investment, FDI will be attracted to wherever the profits are and would not persistently stay and contribute to growth in the economy. → other policies could affect firm's profitability and are needed to ensure continued competitiveness of the economy.</p> <ul style="list-style-type: none"> - Fiscal Policy <ul style="list-style-type: none"> o Increase in G to improve infrastructure to facilitate incoming FDI and trade o Competitive tax rates to attract FDI o Explain FP using AD/AS framework - Exchange rate policy <ul style="list-style-type: none"> o Explain either depreciation during recession or appreciation during recovery in Singapore's case.
<p>Anti the sis 2- Other policies needed to manage conflicts of goals brought about by FTA.</p>	<p>Excessive increase in AD brought about by X and FDI can pose risks of demand pull inflation and structural unemployment to economies growing at a fast pace.</p> <ul style="list-style-type: none"> - Supply side policy needed in the long run to manage <ul style="list-style-type: none"> o Structural unemployment (retraining policies) o Demand pull inflation (PIC to enhance innovation and technology in Singapore) - Microeconomic policies <ul style="list-style-type: none"> o Taxes on pollution
<p>Evaluation</p>	<p>Supply side policy might not be effective as the skills taught might not be relevant to the particular industry or work that was done resulting in no improvement in the productivity of the labour.</p> <p>Time lag (LR policy)</p>
<p>Conclusion</p>	<p>Generally, FTA could be the best approach for sustained economic performance for open economies that are reliant on trade and FDI for growth. However,</p> <p>(Any Conclusion that is logical and makes economic sense can be accepted)</p>

Level	Descriptor	Marks
3	<p>For an answer that is well-developed and balanced, with detailed analysis and contained application to relevant situations with examples on the view that signing more FTAs is the best approach to sustain economic performance in an economy.</p> <p>Answer has a clear structure to answer the question. The answer also must address how economic performance can be sustained and which economies has FTAs as the best approach to achieving it.</p>	<p>18-21</p> <p>15-17</p>
2	<p>For an answer that has underdeveloped analysis on a balanced view that signing more FTAs is the best approach to sustain economic performance in an economy. At least one other policy explained.</p> <p>Most of the analysis is accurate but underdeveloped with ideas not organized properly to answer to the question directly.</p> <p>Max 10 for one sided answer</p>	<p>12-14</p> <p>10-11</p>
1	<p>For an answer that shows some knowledge but does not indicate that the meaning of the question has been properly grasped. This answer contains basic conceptual errors or has an inadequate development of analysis.</p> <p>For an answer that is mostly irrelevant and contains only a few valid points made incidentally.</p>	<p>6-9</p> <p>1-5</p>

Levels	Evaluative Descriptor	Marks
2	Judgement based on the analysis, relating to the context and the core question requirement.	3-4
1	Mainly unexplained judgment with a lack of relation to the context.	1-2