Section B

Answer **all** questions in this section.

Question 2

Globalisation and Economic Growth

Table 3: GDP Growth Rates (%)

Country/Year	2010	2011	2012	2013
Brazil	7.6	3.9	1.8	2.7
India	10.3	6.6	5.1	6.9
South Africa	3.0	3.2	2.2	2.2

Table 4: Current Account Balances (US$ in millions)

Country/Year	2010	2011	2012	2013
Brazil	-47,273	-52,480	-54,246	-81,108
India	-54,515	-62,518	-91,471	-49,226
South Africa	-5,492	-9,073	-19,678	-21,194

Table 5: Inflation Rates (%)

Country/Year	2010	2011	2012	2013
Brazil	5.0%	6.6%	5.4%	6.2%
India	12.0%	8.9%	9.3%	10.9%
South Africa	4.3%	5.0%	5.7%	5.4%

Source: *World Bank*

Extract 6: Falling BRICS

By the standards of the developed world, the BRICS economics – comprising Brazil, Russia, India, China and South Africa are still surging. But their growth rates are a fraction of what it once was – thanks to stagnation on the developed world, in particular the Eurozone.

India's economy will grow by the lowest in a decade this year. Reforms undertaken by Finance Minister Palaniappan Chidambaram, including reduced fuel subsidies, faster privatisation, curbing the budget and current account deficits, and easing of restrictions on foreign investment in retail and airlines will take time to bear fruit. Meanwhile, corporate chiefs grumble privately about the difficulties of doing businesses.

South Africa's economic growth has been badly hit by strikes in the mining sector last year. 50 lives were lost, and it cost the industry massively. Unsurprisingly, the current account deficit worsened and the currency depreciated. South Africa's growth had already been sluggish since the 2008 global economic crisis. With a third of manufactured exports shipped to Europe, it is exposed to the current Eurozone crisis. It is also adversely affected by infrastructure constraints and poor investor sentiment.

Among the BRICS economies, Brazil is most affected by the Eurozone crisis. But some of its problems are self-inflicted. A softening of commodity prices, global risk aversion coupled with a crackdown by Brazil on capital inflows, contributed to an appreciation of its currency against the US dollar, making local industries uncompetitive. At the same time, a consumer credit boom was losing steam and investors were becoming more cautious about a perceived increase in government intervention in the economy. Industries struggled due to of high costs, rising wages and weak productivity gains.

Source: Adapted from *Financial Times*, 25 March 2013

Extract 7: Threats to Growth in Developed Economies

Among the advanced economies, two patterns seem to emerge: the United States, Canada, and Japan are expected to grow at a gentle pace, while the prospects for the euro zone are more uncertain, especially as tight credit conditions limits domestic demand.

The potential consequences of a withdrawal of fiscal stimulus and eventual halt of quantitative easing in the United States, the aggressive yet still incomplete financial and structural measures adopted in Japan, and the persistent unemployment and economic recovery challenges in Europe are factors that could put future economic performance at risk. In emerging markets, it is uncertain how protests in Brazil and Turkey, the credit crunch in China, and the potentially volatile capital flows to emerging and developing markets will affect growth in these economies.

Policymakers everywhere need to ensure that public finances are sustainable in the longer term. Globally, unemployment or the threat of it remains one of the main challenges to long-term social sustainability, which is a key to longer-term competitiveness, and thus to sustainable growth.

Educational reforms and the right set of investments to enhance competitiveness will be crucial for the economic transformations that can lead to sustained higher growth over the longer term. It is imperative that competitiveness features high on the economic reform agenda of both advanced and emerging and developing economies.

Source: Adapted from *Global Competitiveness Report*, 2013-2014

Extract 8: Confronting the Challenges of Globalisation

Economic and financial crises are recurring features of our globalised economy. Singapore's best defence is to build and maintain strong fundamentals. We were able to make a quick recovery from the Asian Financial Crisis and Global Financial Crisis because of fiscal prudence in the past and an appropriate monetary policy stance. The important lesson is that structural changes need to be undertaken ahead of time, before major weaknesses manifest themselves. With a faster pace of globalisation and technological change, new patterns of specialisation are emerging more quickly, and any competitive advantage an economy may enjoy is short-lived. Hence, we must create and seize opportunities to grow, and to restructure our economy early.

China's shift to a more consumer oriented economy, and its growing middle class will open up many opportunities for economies in the Asian region. Robust domestic demand within ASEAN will continue to drive its growth, especially with rising urbanisation. Ongoing regional integration efforts within ASEAN, which Singapore strongly supports, will boost intra-regional trade and investment. Singapore's linkages with India have also grown since the signing of our trade agreement. We can further expand services exports, particularly in sophisticated financial and business services. Our growing investment in research and development (R&D), higher education and continuing education will enable us to move into more innovation-driven, higher value-added activities.

Our biggest domestic challenge in the coming years is our ageing population and the tightening labour market as we reduce foreign labour inflow. We must restructure towards productivity-driven growth, and it would be less painful for us to do this now, when we have some policy and fiscal headroom to manage the pace, rather than later. We need to provide time for firms, especially the Small and Medium Sized Enterprises, to adjust; and ensure transitional support for households.

Source: Adapted from *Speech by Heng Swee Keat, Minister for Education, at the Annual Dinner of the Economic Society of Singapore (ESS)*, 6 August 2013

Questions

(a) With reference to Table 3, compare India's economic slowdown with that of South Africa between the periods 2010 and 2013. [2]

- -While both economies slowed, they still experienced growth throughout (1m)
- India's economy slowed down at a faster rate.(1m)

(b) **(i)** Explain how inflation rates may affect a country's balance of payments. [2]

-Export revenue will increase; import expenditure decrease (1m)
-Assuming PEDx>1, BOT worsens, BOP worsens (1m)

Note to markers: Award max 1m if answer is vague in reference to export volume, or value; or if no mention is made of PEDx; or if wrongly uses M-L condition instead of PEDx.

(ii) To what extent does the data in Table 4 and 5 supports the above explanation? [2]

Is generally observed, hence to a large extent (1m)
Only exceptions in specific time periods, for e.g. in India between 2010 and 2011 (1m)

Note to markers: Award max 1m for a vague conclusion, for example 'to some extent' – use of the term 'generally observed' is acceptable.

(c) Comment on the view that economic stagnation in the developed world was responsible for the slowdown in economic growth in Brazil, India and South Africa. [6]

Thesis:

- Developed economy's economic slowdown, real NY falls, demand less goods including imports
(Cite evidence of reliance of some BRICS economies)

Anti-Thesis:

- Explain how domestic factors in BRICS economies lead to their own economic slowdown.
(Cite explanations from extracts on at least 2 economies)

L1 (1-3)	Answer is one-sided and/or contains little or no economic analysis
L2 (4-5)	Answer is relevant, presents both sides of the argument
L2 (6)	Answer is relevant, presents both sides of argument; as and a substantiated judgement

(d) Explain how "tight credit conditions limit domestic demand" in Eurozone economies. [4]

- Explain that 'tight credit conditions' refer to high cost of borrowing OR inability to get loans (1m)
- Household consumption of certain items falls (1/2m)
- Firms investment falls (1/2m)

(e) Analyse how China's "growing middle class will open up many opportunities" to Singapore. [6]

- *Explain how growing middle class will lead to rising income levels and demand for exports (2m)*
- Explain that Singapore's exports of higher value added goods and services will increase (2m)
- Explain how this brings benefits to Singapore – economic growth, job creation (2m)

Note to markers: Award 2m for each of point above is sufficiently well explained.

(f) Assess the importance of "fiscal prudence in the past and an appropriate monetary policy stance" in helping Singapore to overcome economic crises. [8]

L1 (1-3)	Answer is one-sided and/or contains little or no economic analysis and/or is not relevant to the case study.
L2 (4-6)	Answer is relevant to the case study, presents both sides of the argument, and contains economic analysis.
E (1-2)	Judgement is explained.

Thesis: Explaining how fiscal prudence and monetary policy can help Singapore overcome economic crises.

Anti-thesis: Limitations of policy

Synthesis: Other policies (must be linked to limitation and well substantiated to get E2)