

## Question 6

As globalisation connects people and economies, the consequences are not always what was expected - or welcome.

Assess the extent to which the above statement is true for Singapore. [25]

### Suggested answer outline:

#### Introduction

- Define globalization—increased integration of economies through greater flows of trade, capital and labour.
- Effects of globalization differs due to reasons such as nature of economies and availability of policies to mitigate the unexpected and negative consequences of globalization

Explain and analyze how globalization has affected Singapore (expected and unexpected effects)

#### **Trade**

- Phenomenon of globalization is driven by theory of CA. Theory of CA states that trade will be mutually beneficial if there is a relative difference in opportunity cost of production and countries trade according to CAT.
- With globalization, Singapore is able to gain access to more export markets→ increase the consumer base we serve→ demand for Singapore's exports rise→ rise in AD→ real GDP increase→ national income rise by multiplier times via multiplier process and employment increase as well
- With a small domestic market, Singapore cannot depend on C and I to support AD and drive economic growth→ Hence, she must be export oriented and globalization will benefit Singapore to a large extent (expected benefit)
- In addition, as Singapore is a small country, she is not endowed with natural resources→ import reliant→  
With globalization, Singapore is able to diversify our sources of imports→ cushions her from adverse external shocks and increase consumer welfare (can bring a greater variety and cheaper imports)→ another expected benefit
- On the other hand, being highly globalized will make Singapore very vulnerable to external shocks and bring unexpected consequences→ during 2008/09 global recession, Singapore was one of the most seriously affected nations→ our X fell significantly, leading to rapid rise in UN (unexpected negative consequence)
- *However, as our government has always been prudent in their spending, Singapore was able to implement policies such as Jobs Credit Scheme to prevent UN from rising too fast. The Jobs Credit Scheme is a short term subsidy aimed at reducing the cost of retaining workers for firms and this reduce the rapid increase in retrenchment of workers)Thus, the unexpected consequences of globalization applies to Singapore only to a small extent*
- *In addition, the Singapore government has also taken measures to reduce our susceptibility to external shocks in future. For instance, we have tried to reduce dependence on our visible trade balance by encouraging SMEs to venture overseas (increase net factor income from abroad that also could contribute to economic growth) and also restructuring towards a higher value added and knowledge based economy.*

#### **Capital**

- Globalisation will result in higher flows of capital such as FDIs between countries→ this will increase I in the domestic economy→ the influx of FDIs also raises demand for goods and services from complementary industries such as banking, logistics and transport (Spillover benefits)→ the firms in complementary industries will then expand operations by increasing I to respond to a rising demand for their goods and services→ this will lead to a significant rise in AD→ real GDP increases→ higher employment and multiplied increase in national income via multiplier process (expected benefit)

- With higher influx of FDIs, there will be transfers of technologies and knowledge to the domestic economy→increase productivity→ rise in productive capacity of the economy→ rise in potential growth and the increase in AS also allows for an increase in non-inflationary economic growth (expected benefit)
- For a small country like Singapore with no natural resources, it is extremely challenging for us to expand AS on our own→ heavily dependent on FDIs for capacity building→ globalization brings benefits for Singapore to a very large extent
- On the other hand, being more globalized also entails higher competition for our industries→ Greater need for constant restructuring and innovation→ sectors that cannot compete will either relocate to more cost competitive regions or outsourcing parts of their operations→ jobs will be lost as a result→ workers displaced may not possess relevant skills and knowledge to take up the opportunities presented in the expanding industries→ mismatch of skills and job requirements occurs→ occupational immobility rises (unexpected effect)
- *However, the unexpected consequences are mitigated by the Singapore government's supply side policies→ Singapore government is committed to help Singaporeans learn and upgrade through life→ SkillsFuture was introduced recently to promote constant skills upgrading and retraining of workers→ allows workers to always gain updated and relevant skills and knowledge required by firms→ reduce occupational immobility and makes workers more employable, throughout their lives→ Hence, unexpected consequences of globalization applies to Singapore only to a small extent*
- *Though possessing the ability to implement SS side policies extensively currently, it must be noted that supply side policies depend very much on the availability of government funds and may result in tradeoffs such as depletion of resources and possibility of budget deficit in future. To ensure sustainability, firms in Singapore are strongly encouraged to take up a more proactive role in developing and training their own staff.*

## Labour

- Globalization has allowed Singapore to gain access cheaper foreign workers for industries such as construction, healthcare and F&B. Cheaper foreign workers allow our firms to lower their COP, making them more competitive and generates economic growth.
- Apart from cheap foreign workers, Singapore also endeavor to attract top foreign talent and professionals→ these foreign talent raises productivity and plays a vital role in helping us to attract quality FDIs→ our productive capacity rise when we bring in more top foreign talent
- On the other hand, with an influx of cheap foreign workers, the average wage of the lower skilled workers will be depressed. To attract top foreign talent, higher wages will have to be offered→ results in rising income inequality.
- Globalisation also increases labour mobility→ Singapore can suffer from brain drain as well→ affects our internal capacity building efforts
- *However, the Singapore government has in place policies like SkillsFuture to reduce income inequality→ SkillsFuture ensures workers are always supported whenever they need to upgrade and improve themselves→ can gain access to better paying jobs→ reduce income inequality*
- *Secondly, the imposition of Workfare has made income inequality a less serious problem in Singapore. Workfare is a scheme that tops up low income workers' CPF accounts to ensure that essential goods and services such as healthcare and housing are always affordable and accessible. This promotes equity and reduces income inequality.*
- *Note that policies adopted requires huge amount of spending by the government and may lead to budget constraints and opportunity costs incurred.*

## Conclusion (Justify why unexpected consequences of globalization apply to Singapore to a small extent)

- Despite unexpected consequences of globalization affecting Singapore, she has always been able to weather the storms. For instance, during the 2008/09 global recession, Singapore was the first to recover and it validated the effectiveness of her government policies in mitigating the unexpected negative consequences of globalization
- Economic data over the past few years such as sustained economic growth, low UN and healthy BOP all point to the fact that we have managed to maximize our gains from globalization while also having in place a set of comprehensive measures to cope with the unexpected negative consequences of globalization.