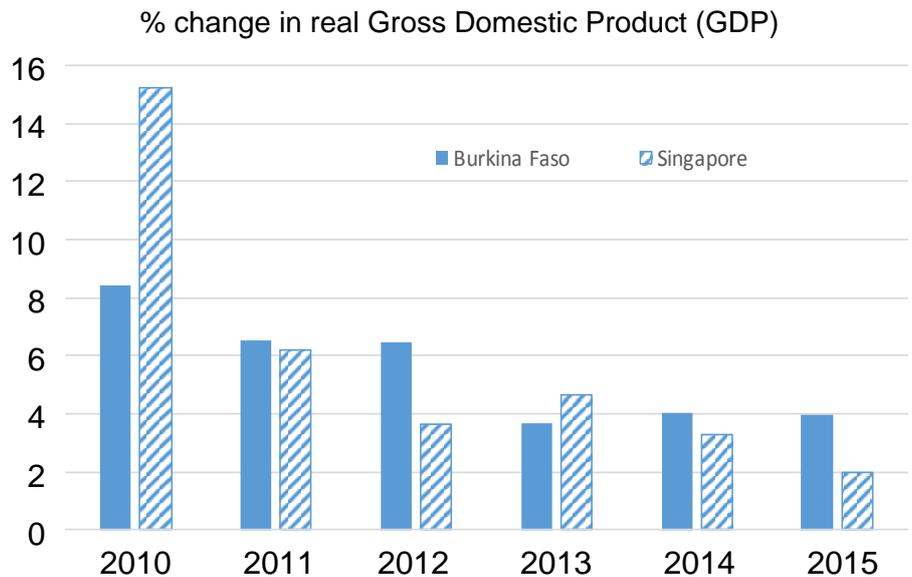


Question 2 Economic opportunities and challenges for Singapore and Africa

Figure 4: Annual growth rate in Burkina Faso and Singapore 2010-2015



Source: World Bank

Table 1: GDP per capita of Burkina Faso and Singapore (current US\$)

Country	2010	2011	2012	2013	2014	2015
Burkina Faso	574.5	665.8	673.0	709.1	713.5	613.0
Singapore	46,569	53,093	54,451	55,617	56,007	52,888

Source: World Bank

Extract 6: Africa still important for Singapore investments

Two African countries have signed investment treaties with Singapore to open up more bilateral business and investment opportunities. One of which is the Burkina Faso-Singapore bilateral investment treaty. The agreements aim to protect the interests of investors from the countries involved and to increase investment flows between Singapore and the two African countries. Singapore's bilateral trade with Burkina Faso rose 15 per cent between 2012 and last year to \$2.54 million.

The crops that are used for Burkina Faso exports include sesame, shea nuts, cotton, and ground nuts. Other crops grown that are used to feed the people in this country are sorghum, maize, rice, and pearl millet. Interestingly, livestock used to be a viable source of income for the people with strong Burkina Faso exports but today, this has deteriorated dramatically.

"The recently signed treaty between both countries has not come into force as it is pending ratification. In light of the recent political unrests in Burkina Faso, we expect a delay in the ratification process," a spokesperson of the Ministry of Trade and Industry told TODAY.

Chief operating officer of Singapore Business Federation (SBF) Mr Victor Tay agreed, saying: "Burkina Faso is just one of Africa's 53 countries, and most of them remain politically stable. Over 10 of our members are currently operating in the country, and none of them have left."

"Like investing in BRICs, the potential of Africa is a long term picture, and I don't expect the recent incident to cast a looming shadow over that outlook," he said.

Burkina Faso is one of the several countries in Africa that Singapore is eyeing as the next frontier for Singapore companies to expand in the region, which is seeing very rapid economic growth on the back of its huge population and rich natural resources. The International Monetary Fund has projected last month a 5.75 per cent GDP growth for sub-Saharan Africa next year despite the shocks of Ebola outbreak.

This will mean opportunities for Singapore companies to export expertise in areas such as logistics, urban solutions such as in water and waste treatment and human resources, which Singapore has a lot of experience in, to the rapidly developing economies there, Deputy Prime Minister Mr Tharman Shanmugaratnam noted during the Africa Singapore Business Forum in August.

Source: Todayonline, 10 November 2014

Extract 7: Tap Africa for business opportunities

Singapore firms have been encouraged to seize business opportunities in fast-emerging Africa as global economic trends favour the continent. Deputy Prime Minister Tharman Shanmugaratnam suggested that Africa could present major openings as production costs rise in China's transformed economy.

"China has dominated manufacturing, particularly low-cost manufacturing, but China is becoming much more expensive and wages are rising quickly," he said yesterday. China's inflation rate is soaring, especially in the coastal provinces where the factories are. As a result, many companies are shifting manufacturing out of China - a trend that Africa can capitalise on.

Standard Chartered Bank's CEO for Europe, the Middle East, Africa and the Americas, Mr V. Shankar, told The Straits Times on the sidelines of the forum that companies considering doing business in Africa tend to worry about the security issues there, the lack of infrastructure and the "sheer pain" of getting to the continent.

Source: The Straits Times, 28 August 2014

Extract 8: Singapore retains spot as second-most competitive economy

Singapore retained its position as the world's second-most competitive economy this year despite concerns about business costs and tightening labour policies, according to the World Economic Forum (WEF) yesterday.

The WEF said Singapore fared well across all 12 factors assessed in the study, such as infrastructure, health and education, and technological readiness. The country scored especially well in terms of goods and labour market efficiency and financial market development, it added. "Singapore possesses world-class infrastructure, with excellent roads, ports and air transport facilities," the WEF said. "Its economy can also rely on a sound macroeconomic environment and fiscal management – its budget surplus amounted to 6.9 per cent of Gross Domestic Product (GDP) in 2013."

The WEF said Singapore's competitiveness is enhanced by its strong focus on education, which has translated into a steady improvement in higher education and training. Singapore's private sector is also becoming increasingly sophisticated and more innovative, the WEF added, "although room for improvement exists in both areas, which are the keys to Singapore's future prosperity".

Productivity is further enhanced by a business sector that offers excellent on-the-job training opportunities, however both citizens and private companies would also need to be more willing and proactive at adapting the latest technologies.

Mizuho economist Vishnu Varathan said that the Singapore Government's productivity push is necessary for the economy but might take some time.

Source: The Straits Times 04 Sep 2014

Questions

(a)	Using Figure 4, compare the growth performance of Burkina Faso and Singapore over the period 2010 to 2015.	[2]
<p>Command word: Compare</p> <p>Similarity: [1]</p> <ul style="list-style-type: none"> • Both Burkina Faso and Singapore experienced positive growth over the period 2010 to 2015. • Both Burkina Faso's and Singapore's positive growth rate experienced general decreasing trend over the period 2010 to 2015. <p>Difference: [1]</p> <ul style="list-style-type: none"> • Burkina Faso generally experienced a larger positive growth over the period 2010 to 2015 than Singapore. • Singapore's positive growth rate experienced a larger general decreasing trend over the period 2010 to 2015 compared to Burkina Faso. <p>Note: Students are required to have 1 similarity and 1 difference for 2 marks.</p>		
(b)	(i) Define Gross Domestic Product.	[1]
<p>Command word: Define</p> <p>Gross Domestic Product (GDP) measures the total monetary value of all final goods and services produced within a country over a given period of time. [1]</p> <p>Note: Must have 'final' and 'within'.</p>		
	(ii) Explain how Gross Domestic Product and living standards are related.	[3]
<p>Command word: Explain how</p> <p>There is a positive relationship between Gross Domestic Product and living standards. [1]</p> <p>When GDP increases, living standards will improve, ceteris paribus, GDP per capita will increase, assuming population remains constant or increase at a slower rate. Disposable income of households will increase and households will be more willing and able to consumer more goods and services which increases their material standard of living. [1]</p> <p>As household can now consume more sanitation, healthcare and education, household life expectancy and literacy level will increase which also increase non-material standard of living. [1]</p> <p>Note: Students can also argue how GDP may have negative impact on non-material</p>		

	standard of living.	
(c)	Comment on the impact of the political unrest mentioned in Extract 6 on Burkina Faso and the other African nations.	[6]
	<p>Command word: Comment</p> <p>Due to the political unrest in Burkina Faso (Extract 6), firms' and households' optimism of Burkina Faso's economic condition will worsen which result in households being less willing and able to consume goods and services while firms become less willing to investment in Burkina Faso. Due to the fall in consumption and investment, Burkina Faso's aggregate demand (AD) will decrease as $AD=C+I+G+(X-M)$. This will result in a negative economic growth and higher unemployment in Burkina Faso.</p> <p>Due to the political unrest in Burkina Faso, optimism of other African nations may also worsen due to fear of political unrest spreading to neighbouring African nations. Hence, these countries may also face similar fall in AD which would lead to recession (negative actual economic growth) and an increase in unemployment.</p> <p>However, the political unrest in Burkina Faso might lead to other African nations, especially those which are further away, being relatively more attractive to investments as firms divert their investment from Burkina Faso to neighbouring African nations, resulting in an increase in AD. An increase in AD would lead to actual economic growth and a fall in unemployment those countries.</p> <p>Possible comments:</p> <ul style="list-style-type: none"> • The short term impact of the political unrest in Burkina Faso will be larger than the long term impact as mentioned that "the potential of Africa is a long term picture". • The impact of the political unrest in Burkina Faso on other African nations are likely to be small as will be larger than the long term impact as mentioned that "Burkina Faso is just one of Africa's 53 countries, and most of them remain politically stable". • The impact would also depend on the degree and how long the unrest is. • Impact on other African nations surrounding Burkina Faso would be larger than those further away. <p>Note:</p> <ul style="list-style-type: none"> • Students to recognise that there will be negative impact on Burkina Faso's economy no matter how little the impact is on AD. • Students can recognise either the positive and negative impact on the other African nations. • 4 marks maximum if students explained but did not comment on the impact on Burkina Faso and other African nations. Possible comments includes long term, short term, magnitude and likelihood. 	
(d)	Discuss whether China should be concerned with her level of inflation.	[6]
	<p>Command word: Discuss whether</p> <p>Inflation is the sustained inordinate increase in the general price level.</p> <p><u>Should be concerned:</u> China should be concerned with her level of inflation as it would lead to a fall in purchasing power of her households. With the same amount of nominal income, households can now buy fewer units of goods and services which reduces their material standard of living.</p> <p>China should be concerned with her level of inflation if the cause of inflation is higher</p>	

	<p>cost of production. This leads to a fall in SRAS, ceteris paribus, and results in a fall in real national income. Real income of average household will fall, unemployment rate may increase and material SOL will decrease.</p> <p><u>May not be overly concerned:</u> China should NOT be overly concerned with her level of inflation if the cause of inflation is excessive aggregate demand. Specifically, if the rise in AD is due to rise in investments (by firms or government), the ensuing rise in LRAS should ease off any inflationary pressure in due course. In addition, the rise in productive capacity to meet the rise in AD will also bring forth higher income for the average household in the future, thereby raising the material SOL, albeit only in the long run.</p> <p>Other points: Inflation will also lead to negative impact on savings, exports and imports.</p>									
	<table border="1"> <thead> <tr> <th>Level</th> <th>Knowledge, Application, Understanding, Analysis</th> </tr> </thead> <tbody> <tr> <td>L3 (5 – 6)</td> <td>2-sided, well-developed discussion of the positive AND negative impacts of inflation.</td> </tr> <tr> <td>L2 (3 – 4)</td> <td>1-sided, well-developed discussion of the positive OR negative impacts of inflation. 2-sided, basic discussion of the positive AND negative impacts of inflation.</td> </tr> <tr> <td>L1 (1 – 2)</td> <td>Listing of points without explanation.</td> </tr> </tbody> </table>	Level	Knowledge, Application, Understanding, Analysis	L3 (5 – 6)	2-sided, well-developed discussion of the positive AND negative impacts of inflation.	L2 (3 – 4)	1-sided, well-developed discussion of the positive OR negative impacts of inflation. 2-sided, basic discussion of the positive AND negative impacts of inflation.	L1 (1 – 2)	Listing of points without explanation.	
Level	Knowledge, Application, Understanding, Analysis									
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L1 (1 – 2)	Listing of points without explanation.									
(e)	Using the concept of opportunity cost, explain why Singapore companies should export urban solutions services to the African nations.	[4]								
	<p>Command word: Explain why</p> <p>Opportunity cost is the next best alternative forgone when a choice is made. [1]</p> <p>Singapore has comparative advantage over African nations in the area of urban solutions. [1]</p> <p>This is because of the different factors of production Singapore and the African nations have. Firms in Singapore are more familiar with urbanisation issues due to the rapid urbanising transition over the past 50 years. They also have access to a sizeable pool of higher-skilled labour than firms in African nations do. [1]</p> <p>Given the above, Singapore opportunity cost of producing urban solutions would be lower than African nations as Singapore gives up less of other goods such as agriculture products than African nations when Singapore produces urban solution services. Hence, Singapore ought to produce and export urban solutions to African nations. [1]</p>									
(f)	Assess the factors that would determine whether steady improvement in higher education and training will help Singapore achieve future prosperity as mentioned in Extract 8.	[8]								
	<p>Command word: Assess</p> <p>“future prosperity” can be interpreted as ‘sustained economic growth’.</p> <p>Steady improvement in higher education and training will increase the quality of labour as well as increase the supply of Skilled labourers in Singapore, resulting in increase in productive capacity of Singapore, an increase in Long Run Aggregate Supply. Thus, steady improvement in higher education and training can help Singapore achieve potential growth and contribute to sustained economic growth.</p> <p>When Long Run Aggregate Supply increases, there will also be actual growth as real</p>									

output will increase, assuming ceteris paribus.

Factors to be discussed include:

- Attitudes and mind sets of firms and labour force.
- Availability of government budget.
- Whether the increase in LRAS is accompanied with an increase in AD or demand for higher-skilled workers.
- Changing economic conditions, structural change, relevance of higher education and training.
- Current state of economy, how close is the economy to the full employment output.
- Time lags

Evaluation:

Other than potential growth or an increase in LRAS, Singapore would also require other policies that may influence or increase AD to help Singapore achieve sustained economic growth as potential growth it alone is not enough.

Singapore's 'future prosperity' would also depend on the changing world economic conditions as Singapore is a small and open economy. Singapore is heavily dependent on imports and exports from growth, this is unlikely to change in the future, therefore future event affecting our trading partners will directly impact whether Singapore can achieved sustained economy growth or 'future prosperity'.

Level	Knowledge, Application, Understanding, Analysis
L3 (5 – 6)	3 factors/points well-explained on whether steady improvement in higher education and training will help Singapore achieve future prosperity.
L2 (3 – 4)	2 factors/points well-explained on whether steady improvement in higher education and training will help Singapore achieve future prosperity. 2-3 factors/points somewhat explained on whether steady improvement in higher education and training will help Singapore achieve future prosperity.
L1 (1 – 2)	Explained how steady improvement in higher education and training will help Singapore achieve future prosperity.
E2 (2)	Justified evaluation with respect to Singapore.
E1 (1)	Unjustified evaluation, stating of evaluation without justification.

[Total: 30]

