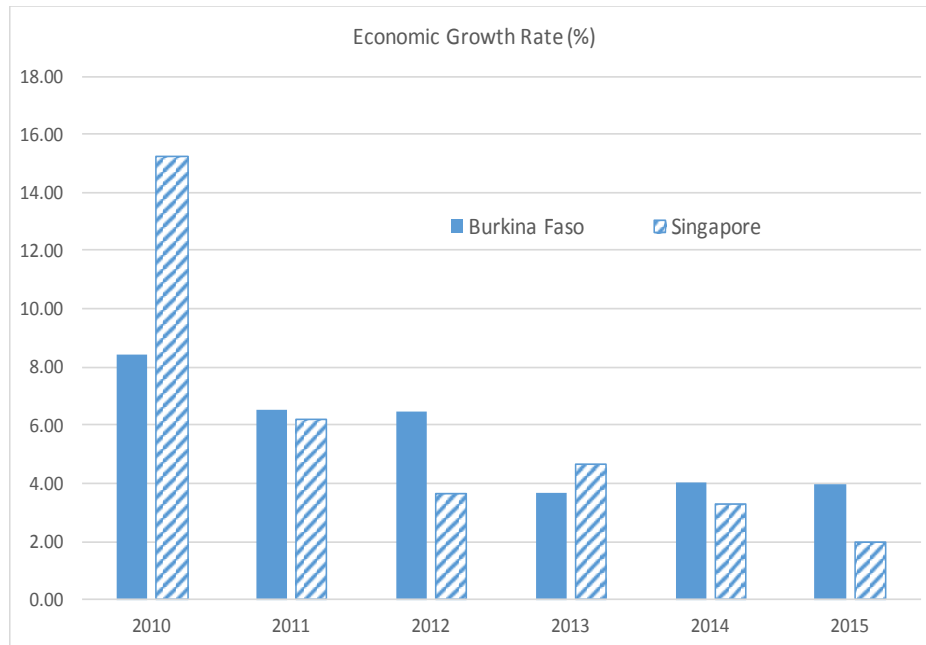


Question 2 Singapore and Africa

Figure 1: Economic Growth Rate 2010 – 2015



Source: World Bank

Table 3: GDP per capita (current US\$) 2010 – 2015

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

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-based Olam International, for example, may stand to benefit from such an agreement as it seeks more investments in Africa. Olam will be specializing in crops used for Burkina Faso's exports such as sesame, shea nuts, cotton and ground nuts. Singapore's bilateral trade with Burkina Faso rose 15 per cent between 2012 and last year to \$2.54 million.

"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, 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 and human resources 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 – they're trying to move up the value curve as well," he said yesterday. As a result, many companies are shifting manufacturing out of China – a trend that Africa, with its rapidly growing middle-class consumer market, should capitalise on, he said.

Singapore companies have a role to play in Africa's future too, especially in areas such as port and airport services and urban solutions such as in water and waste treatment, which Singapore has a lot of experience in, Mr Tharman said.

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.

Singapore's trade with Africa has grown at a compound annual rate of close to 12 per cent over the past five years, reaching \$14 billion last year. Investments by Singapore firms have reached \$20 billion to date.

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 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".

These are also the two areas in which top-ranked Switzerland does particularly well. "Switzerland's top-notch scientific research institutions, along with other factors, make the country a top innovator," said the WEF.

"Productivity is further enhanced by a business sector that offers excellent on-the-job training opportunities, both citizens and private companies that are proactive at adapting the latest technologies, and labour markets that balance employee protection with business efficiency." The report comes as the global economy seems to be finally leaving behind the worst crisis of the past 80 years. But the WEF said the recovery is moving at a less decisive pace than it has after previous downturns.

Mizuho economist Vishnu Varathan said the Swiss approach shows that the Singapore Government's productivity push is necessary. Efforts to narrow the income gap and improve social mobility could also help Singapore score better in such international studies, he added. Singapore has been strengthening social safety nets for years, especially for healthcare and retirement adequacy for low income workers and retirees who do not qualify for the Pioneer Generation Package, and pensioners.

CIMB economist Song Seng Wun, however, said that Singapore should be more concerned about the possibility of slipping in the rankings.

"Giving businesses access to the resources that they need will still be the main challenge going forward," he said. "The risk of a policy misstep from a further tightening of labour policy could cause businesses to change their minds about Singapore. That, to me, is the higher possibility than for us to move up to No. 1."

Source: The Straits Times 04 Sep 2014

Suggested Answers

(a)	Using Figure 1, 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. 	
(b)	Explain how GDP and living standards are related.	[2]
	<p>Command word: Explain how</p> <p>There is a positive relationship between Gross Domestic Product and living standards. [1]</p>	

	When GDP increases, living standards will improve, ceteris paribus, GDP per capita will increase, assuming population remains constant. Disposable income of households will increase and households will be more willing and able to consume more goods and services which increases their material standard of living. [1]	
(c)	Explain how the political unrest mentioned in Extract 6 might affect other African nations negatively.	[3]
	<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>	
(d)	Using Extract 7, explain the type of inflation China is facing which could have led to companies shifting out of China.	[2]
	<p>Command word: explain</p> <p>Evidence: "wages are rising quickly"</p> <p>As most goods and services produced in China still require the use of labour, rising wages implies that cost of production would have risen. [1] This would lead to a fall in SRAS, and hence, ceteris paribus, cost-push inflation. [1]</p>	
(e)	<p>Using a diagram, explain how an influx of foreign direct investments may affect Burkina Faso's currency exchange rate.</p> <p>Price of Burkina Faso's currency in S\$</p> <p><u>Increase in Demand for Burkina Faso's currency</u></p>	[3]
	<p>Diagram [1]</p> <p>An influx of foreign direct investments will result in an increase in the demand for Burkina Faso's currency. [1]</p> <p>This will result in a shortage at the original value S\$0.2 and upward pressure on its price and hence, Burkina Faso's currency is likely to appreciate. [1]</p>	

(f)	With reference to the data, comment on how the pattern of trade between Singapore and Africa may change over time.	[8]
	<p>Command word: comment Key words: pattern of trade, change over time</p> <p><u>Introduction</u> Pattern of trade is measured by either volume or composition of goods traded between Singapore and Africa and is determined by demand and supply factors. A country is said to have comparative advantage in the production of a good when the country can produce the good at a lower opportunity cost than another country. Singapore and Africa are expected to trade based on their comparative advantages.</p> <p>Africa's factor endowment: huge population and rich natural resources Exports to Singapore: agriculture products</p> <p>Singapore's factor endowment: skilled labour Exports to Africa: expertise in areas such as logistics, urban solutions and human resources</p> <p><u>Body</u> (any one demand and one supply reason)</p> <p>Demand reasons</p> <ol style="list-style-type: none"> 1) Changes in income levels (or economic growth) <ul style="list-style-type: none"> - Extract 6: "Burkina Faso is one of the several countries in Africa, which is seeing very rapid economic growth on the back of its huge population and rich natural resources". Rapid growth can result in imports of more goods from other countries such as Singapore. This increases the volume of Singapore's exports/Africa's imports. 2) Changes in taste and preference <ul style="list-style-type: none"> - As income levels rise based on the above point, affluent consumers from Africa will import more luxury goods from Singapore. This increases the volume of Singapore's exports/Africa's imports. <p>Supply reasons</p> <ol style="list-style-type: none"> 1) Investments in Africa countries to boost their factor endowment – e.g. Olam's investment in Africa <ul style="list-style-type: none"> - Firms that see Africa's potential will invest in them. They will then outsource certain production functions to them. In Olam's case, agriculture production of grains since it is cheaper to produce in Africa. This will then raise the production level and imports to Singapore from Africa. This will increase the level of imports from Africa to Singapore. 2) Shift in trade from other countries such as China <ul style="list-style-type: none"> - Extract 7 "China has dominated manufacturing, particularly low-cost manufacturing, but China is becoming much more expensive and wages are rising quickly" – as China loses CA in low-end manufacturing, Africa will attract investments. Hence Africa has CA in production of goods in the manufacturing industry and Singapore will increase her imports from Africa and reduce its imports from China. <p>Other possible points to consider:</p> <ol style="list-style-type: none"> 1) Possible problems that trade may not increase. <ul style="list-style-type: none"> - Reasons such as Ebola outbreak and political unrest could hamper trade between the two countries. It could also reduce the expected 	

profits that firms enjoy and reduce the level of investments to African countries. As such, firms may not have set up as many offices in Africa as a cheap production outpost. Consequently, Singapore may not experience a significant increase in imports from Africa.

2) Trade with other countries continues.

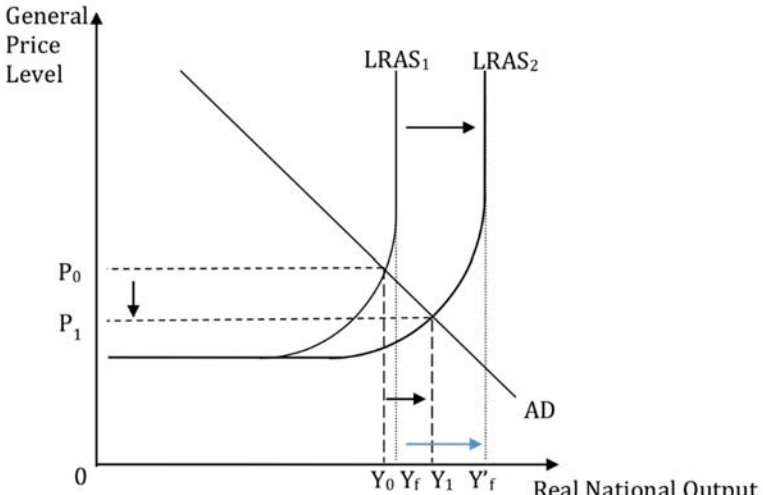
- Despite the fact that China has become much more expensive, trade with China may remain strong due to contractual agreement or familiarity in dealing with suppliers and consumers. It also depends on how fast companies shift manufacturing out of China to Africa. If companies faced with problems shifting investment to Africa, then it is more likely that trade between Singapore and Africa will be hampered as output is likely to increase slower than expected.

3) Similar to the above points, limitations such as “security issues there, the lack of infrastructure and the “sheer pain” of getting to the continent” could also hamper the level of investments in Africa. This will result in slower change in the pattern of trade between Singapore and Africa as a result.

Judgement

Changes in trade pattern depends generally on the level of investments by firms in Africa. In turn, investments depend on the expected returns and it could be affected by recent security and other issues that affects Africa. If measures are in place to boost investments or to mitigate negative impacts, then the trade pattern between Singapore and Africa would increase in terms of volume and change in terms of composition.

Level	Knowledge, Application, Understanding, Analysis
L3 (5 – 6)	Sufficient scope to explain the change in the pattern of trade between Singapore and Africa. Answers backed by economic analysis.
L2 (3 – 4)	Sufficient scope to explain the change in the pattern of trade between Singapore and Africa. Answers backed by limited economic analysis.
L1 (1 – 2)	Superficial analysis application of the change in trade pattern.
E2 (2)	Justified evaluation with reference to the reason for a change in trade pattern.
E1 (1)	Unjustified evaluation.

(g)	<p>In Extract 8, the WEF said that Singapore's competitiveness is enhanced by its strong focus on education. Assess whether Singapore should rely primarily on a steady improvement in higher education and training to achieve sustained economic growth.</p>	[10]
	<p><u>Introduction</u> How a steady improvement in higher education and training can achieve sustained economic growth.</p> <p>Higher education and training can lead to an increase in LRAS as the quality of labour improves. This increases the productive capacity as full employment output level rises in the LR. As LRAS rises, firms will increase investments and help to boost national output.</p>  <p>From the diagram above, as Singapore's LRAS rises, this will cause potential growth as national income rises from Y_0 to Y_1. This comes with a corresponding increase in the full employment output from Y_f to Y'_f.</p> <p>Thesis:</p> <ol style="list-style-type: none"> 1. Singapore is able to retain its position as the world's second-most competitive economy this year despite concerns about business costs and tightening of labour policies. <p>Singapore's strong labour policies help to boost its competitiveness. According to the WEF, Singapore fared well in all 12 factors in the study, such as in infrastructure, health and education. This suggests that Singapore can continue to maintain its economic growth and attract investors based on a highly competitive economy.</p> <ol style="list-style-type: none"> 2. Singapore's macroeconomic environment and fiscal management is strong. It has strong budget surplus which amounted to 6.9% of GDP in 2013. This implies that Singapore has resources to continue to use supply-side policies to improve its competitiveness. This will then help to attract more investments and boost its exports. 3. From the extract, an economist mentioned that "The Swiss approach shows that the Singapore Government's productivity push is necessary". Hence the "productivity push" can continue to ensure that Singapore remains competitive and continues to achieve potential growth. 	

Anti-Thesis:

1. Singapore's private sector is also becoming increasingly sophisticated and more innovative. Private sector innovation may be important in achieving potential growth. As firms innovate, production methods improve and this will help to boost its productive capacity and increase exports. This will also help to achieve potential growth.
2. A more innovative private sector can also help to improve Singapore's comparative advantage in higher-end manufacturing sectors. This can help to boost Singapore's output of goods and services for exports, and thus, actual economic growth.
3. Singapore may need to move beyond relying primarily on a steady improvement in higher education and training. When comparing Singapore's competitiveness with Switzerland's, Switzerland's "top-notch scientific research institutions, along with other factors, make the country a top innovator". Singapore may need to boost not just training in workers, but to develop its own research institutions so as to constantly stay relevant to the global demand for high quality goods and services.
4. Singapore may need to encourage a business sector that "offers excellent on-the-job training opportunities" to help boost productive capacity as training of workers is more applicable to their jobs. Workers usually become even more efficient in this way than when training is provided by the government.

Judgement

Whether Singapore should rely primarily on a steady improvement in higher education and training to achieve sustained economic growth depends on various conditions necessary for it to work. For instance it may depend on firms' expected gains from investments in Singapore or the government's important role in attracting more firms into Singapore, or other external shocks that may hamper the steady improvement in higher education and training.

Level	Knowledge, Application, Understanding, Analysis
L3 (6 – 8)	Well-explained discussion on whether Singapore should rely primarily on a steady improvement in higher education and training to achieve sustained economic growth. Excellent application of concepts of potential and actual growth to achieve sustained economic growth.
L2 (3 – 5)	Sufficient discussion on whether Singapore should rely primarily on a steady improvement in higher education and training to achieve sustained economic growth. Some use of economic concepts of potential and actual growth to achieve sustained economic growth.
L1 (1 – 2)	Smattering of reasons with no clear focus on the question and/or weak analysis of concepts/evidence from the extract.
E2 (2)	Justified evaluation with respect to the conditions necessary to achieve sustained growth.

	<table><tr><td>E1 (1)</td><td>Unjustified Evaluation.</td></tr></table>	E1 (1)	Unjustified Evaluation.	
E1 (1)	Unjustified Evaluation.			

[Total: 30]