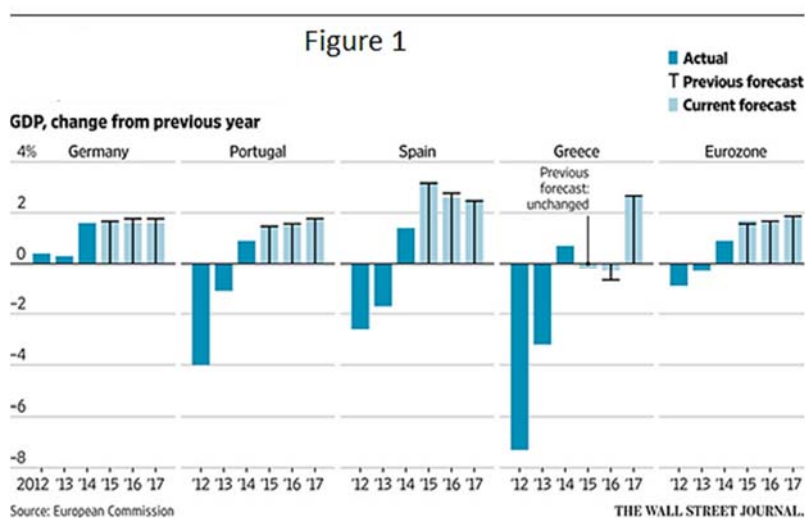


Question 2 Concerns Over China's Slowdown

Extract 5: EU Sees Weaker Growth in Eurozone and Wider EU as China Slowdown Weighs



Growth in the Eurozone and the wider European Union will be slightly weaker this year than previously forecast, the European Commission predicted Tuesday, warning that the economic slowdown in China and other emerging markets, geopolitical tensions and uncertainty ahead of the U.K. referendum on EU membership could weigh on the economy. The EU's economists also cautioned that the impact of factors that have been supporting growth in the region, such as low oil prices and a weaker euro, could start to fade. Fundamental problems in many of the bloc's economies, including high levels of private debt and unemployment, continue to hold back the recovery, they said. The EU economy expanded 1.7% in 2015.

Wall Street Journal May 3, 2016 (Adapted)

Extract 6: How Exposed Is Europe To A Chinese Economic Slowdown?

China has become one of the EU's key external trading partners in goods. It ranks second overall in terms of total trade and in particular has been a key source of demand for exports in recent years. At a time when the Eurozone is struggling, it should not be under-estimated as a source of external demand and cheap inputs. While it is important in terms of goods trade, total trade in services is relatively limited.

It is clear from the above that Europe does have some exposure to China. Any slowdown in China and emerging markets more broadly might hamper the fragile economic recovery which is in place in the Eurozone. Additionally, while China is one of the EU's largest external trade partners, it ranks fairly low for most individual countries in terms of trade as much of their trade is with other EU states or the US.

Germany has brushed off concerns that turmoil in China could impact its economy with a spokeswoman for the Economy Ministry saying the "immediate consequences" should be "limited". One of the reasons behind this could be that net exports have actually been a less important driver of German economic growth than domestic consumption since 2012. Germany has also shown impressive export flexibility in the face of crisis – when Eurozone demand for its exports halted it was able to shift towards China and other markets; it could yet try to pull off such a move again. For example, it has shown some success in tapping into the nascent US recovery with exports growing quickly in past few months. Similarly, the surprisingly impressive recovery in Spain has been driven

by consumption and domestic demand rather than net exports, let alone demand from Asian markets.

FORBES Aug 25, 2015 (Adapted)

Extract 7: China's Slowdown Could Be a Plus for U.S. and Europe in the End

China's slowdown is blamed for causing everything from global market turmoil to falling sales of crocodile-skin handbags. Yet the slowest growth in 25 years in the world's second-biggest economy is proving a boost for consumers and companies in Western Europe and the U.S., according to Neville Hill, an economic analyst in London.

When China grew at double-digit rates, its voracious demand for materials drove up commodity and energy prices. That hurt the buying power of consumers in Western economies and weighed on corporate sentiment as rising costs hurt profits.

Now, that situation is being reversed. Plunging commodity prices are boosting European and American shoppers and spurring corporate earnings growth. "China is exporting deflation, but for the West it is good deflation rather than bad deflation in that the cost of the stuff we buy has gone down, but the price we receive for our labour has gone up," Hill said.

BLOOMBERG 4 Nov 2015 (Adapted)

Extract 8: China's slowdown will hit Singapore hardest: ANZ warns

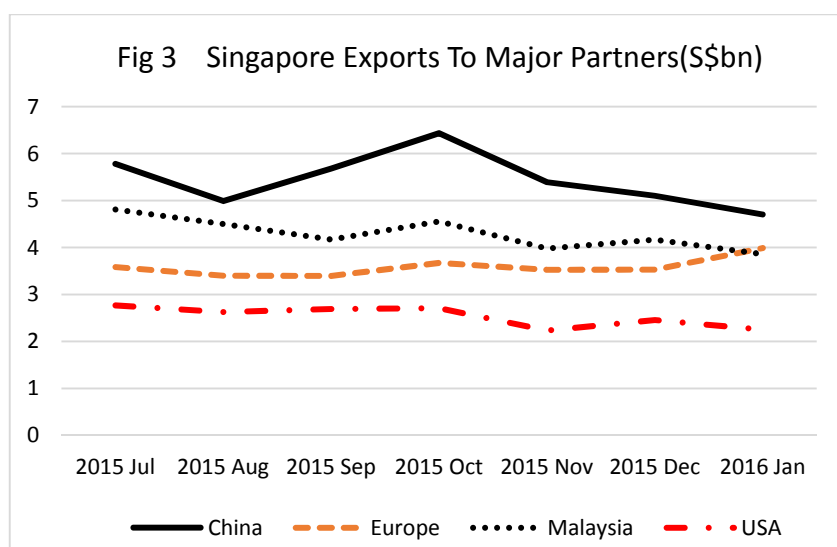
The slowdown in China will hit Singapore faster and harder than any country in the region, economists from Australian bank ANZ have warned.

Other economists were not as dire in their prognoses, but agreed that the open nature of the local economy and the strong trade, investment and tourism links between the two nations mean that slower growth on the mainland will have a direct and broad-based impact on businesses and jobs here. "Singapore's economy has been on a structural shift - getting more dependent on China - over the last 10 to 20 years," said DBS economist Irvin Seah. Unlike its Asean neighbours, Singapore does not have a big domestic market to act as a buffer against weaker demand from China, said Mr Seah.

But DBS and HSBC take a slightly more positive view. "Singapore's manufacturing sector is already in recession, but domestic services are holding up relatively well," said HSBC economist Joseph Incalcaterra. He noted that services exports, even those to China, are still growing.

Other than slower growth, Chinese import demand is also sliding, partly because of the weak yuan, said Barclays economist Leong Wai Ho. This could have a larger-than-expected impact on China's trading partners and suppliers in Asia, which will hit Singapore factories and worsen the ongoing manufacturing recession, he added.

Straits Times Jan 12, 2016 (Adapted)



Extract 9: Singapore must prepare for economic slowdown: PM Lee

WITH the global economy facing cyclical headwinds, Prime Minister Lee Hsien Loong has warned that Singapore must brace itself to handle a possible downturn.

Advances in technology, meanwhile, is also disrupting industries and displacing workers at all levels, be they blue-collar workers in the factories or professionals such as lawyers and doctors.

"We know our direction, (which is) to improve productivity so that we can sustain higher wages for all. But we need to review specific measures - how to help our domestic sectors grow, how to attract investments and help companies develop new markets, and how to make best use of the foreign workers and talent that we need in Singapore," he said.

Overall, Singapore is in a better position than most other countries to tackle the tough challenges ahead. Mr Lee highlighted the Republic's strengths such as a well-educated population, an ethos that is outward-looking, a tech-savvy society and competent unions.

Business Times OCT 27, 2015 (Adapted)

Table 1 Singapore: Selected Indicators

Indicators (Quarter-on-Quarter)	2015 1Q	2015 2Q	2015 3Q	2015 4Q	2016 1Q
Change in GDP At 2010 Market Prices (%)	0.2	-1.6	2.3	6.2	0.2
Workers made redundant in Manufacturing	950	870	920	2,480	1,790
Workers made redundant in Services	1,930	2,100	2,120	2,360	2,530
Net Exports Of Goods And Services (bn)	29.4	26.9	25.6	29.9	25.7
CPI (Base Year 2014 = 100)	99.9	99.7	99.4	99.2	98.9
Tourism Receipts (S\$m)	5,314	5,039	6,039	5,385	na

Department of Statistics Singapore

Questions

a i	Compare the economic growth of the countries shown in Fig 3 from 2012 to 2015.	2
ii	Account for the economic growth trend of Eurozone over the same period.	3
b i	Explain why economists consider deflation to be undesirable	3
ii	With the aid of a diagram, explain why the London analyst used the term “good deflation” in Extract 7.	4
c	In view of the current economic conditions, Monetary Authority of Singapore announced a policy change to zero appreciation of currency in January 2016. Comment on the appropriateness of this policy for the year 2016.	8
d	With reference to the data where appropriate, discuss the view that China’s economic slowdown will impact Singapore more than Europe.	10
Total		30

Suggested Answers

a i	Compare the economic growth of the countries shown in Fig 3 from 2012 to 2015.	2
	<p>Increasing trend for all countries (1 mark)</p> <p>Germany’s economic growth was always positive compared to other countries</p> <p style="text-align: center;">OR</p> <p>only Greece is forecasted to have negative growth in 2015 compared to other countries (any one reason 1 mark)</p>	
a ii	Account for the economic growth trend of Eurozone over the same period.	3
	<p>Eurozone growth is generally increasing for the same period. (1mark)</p> <p>This can be due to low oil prices or weak Euro currency .</p> <ul style="list-style-type: none"> • Explain how low oil price lead to growth (2 marks) <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> • Explain how weak Euro contributes to growth (2 marks) <p>(diagram not needed)</p>	
b i	Explain why economists consider deflation to be undesirable.	3
	<p>Define deflation – sustained/persistent decrease in GPL (1 mark)</p> <ul style="list-style-type: none"> • If the consumers expect that, the fall in price will continue they will tend to delay purchases as they wait for lower, more attractive prices → This in turn causes falling output and investment → producers may start retrenching workers leading 	

	<p>to rising unemployment.</p> <ul style="list-style-type: none">During inflation borrower’s gain but during deflation they lose as the value of debt is higher.Easier for employers to control real wages when there is positive inflation however, it is difficult to cut wages when there is deflation. <p>(well elaborated any one reason (2 marks)</p>																																											
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	<ul style="list-style-type: none">Evidence (Extract 7 last para)Lower EG in China caused China to reduce demand for energy and commodities. This reduces the world price of energy and commodities and hence reduces cost of production for other countries. (2 marks) <i>(Cannot accept lower COP for other countries because of raw materials imported from China has become cheaper – the effect must be shown via reduced global prices of energy and commodities)</i>Illustrate using AD/AS model:AD/AS Diagram (1 mark)→AS increase → SRAS shifts downwards →GPL fall yet RNY risesGood deflation because although prices are falling there is increase in RNY .(1mark)																																											
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<p>Identify the possible problems faced by Spore in 2016 (can be from case study or outside)</p> <p style="text-align: center;">Table 1: Singapore: Selected Indicators</p> <table><tr><th>Indicators (Quarter-on-Quarter)</th><th>2015 1Q</th><th>2015 2Q</th><th>2015 3Q</th><th>2015 4Q</th><th>2016 1Q</th></tr><tr><td>Change in GDP At 2010 Market Prices (%)</td><td>0.2</td><td>-1.6</td><td>2.3</td><td>6.2</td><td>0.2</td></tr><tr><td>Workers made redundant in Manufacturing</td><td>950</td><td>870</td><td>920</td><td>2,480</td><td>1,790</td></tr><tr><td>Workers made redundant in Services</td><td>1,930</td><td>2,100</td><td>2,120</td><td>2,360</td><td>2,530</td></tr><tr><td>Net Exports Of Goods And Services (bn)</td><td>29.4</td><td>26.9</td><td>25.6</td><td>29.9</td><td>25.7</td></tr><tr><td>CPI (Base Year 2014 = 100)</td><td>99.9</td><td>99.7</td><td>99.4</td><td>99.2</td><td>98.9</td></tr><tr><td>Tourism Receipts (S\$m)</td><td>5,314</td><td>5,039</td><td>6,039</td><td>5,385</td><td>na</td></tr></table> <p>From Table 1 identify the problems Singapore is currently facing: low economic growth, falling tourism receipts, falling exports, increasing unemployment.</p> <ul style="list-style-type: none">The policy of zero appreciation of currency can help address this fall. Singapore			Indicators (Quarter-on-Quarter)	2015 1Q	2015 2Q	2015 3Q	2015 4Q	2016 1Q	Change in GDP At 2010 Market Prices (%)	0.2	-1.6	2.3	6.2	0.2	Workers made redundant in Manufacturing	950	870	920	2,480	1,790	Workers made redundant in Services	1,930	2,100	2,120	2,360	2,530	Net Exports Of Goods And Services (bn)	29.4	26.9	25.6	29.9	25.7	CPI (Base Year 2014 = 100)	99.9	99.7	99.4	99.2	98.9	Tourism Receipts (S\$m)	5,314	5,039	6,039	5,385	na
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Government generally uses a policy of modest appreciation to maintain price stability. However, with CPI falling in 2016 imported inflation is less of a concern, and slow growth is a more pressing issue.

- Zero appreciation means that MAS has taken the Singapore dollar off the path of modest and gradual appreciation and has completely flattened the slope of the band.
- Thus the policy of zero appreciation coupled with deflation will make our exports more competitive and can also make investments less expensive in terms of foreign currency. This will also encourage tourism as tourists need to spend less in terms of their own currency → increase X and I component of AD and hence cause RNY to increase ceteris paribus leading to economic growth.
- This will also address the unemployment problem arising in export sector.

Anti-thesis

- Structural unemployment (Ext 8) will not be addressed.
- **Zero appreciation of currency** may not be **sufficient** to address slowdown in major export markets, as X is about 200% of GDP.
- Other countries may have depreciated their currencies also therefore making Singapore relatively less competitive.
- The lower export prices may not be sufficient to counter the fall in demand from trading partners because of fall in income.

Evaluate :Suggest an alternative policy that can address the problems faced in 2016 (policies that addresses other components of AD e.g. I & C.)

- Refer to extract 5 - Need to “help our domestic sectors grow, attract investments and help companies develop new markets”
- Help domestic firms to expand – Fiscal policies like tax allowances for automation, grants for investing in technology, etc
- Attract Investments - LR Supply side policy to upgrade infrastructure, FP to reduce tax burden
- Develop new markets – Trade policy with other countries beside China – Europe seems a promising mkt according to Fig 2.: FTAs:
- Raise outward FDI to raise returns from foreign investment to reduce reliance on exports.
- Structural Une – training of PMETs, Career conversion programmes.

L2	<i>Two sided answer that looks at the effectiveness of zero appreciation of currency in the light of problems mentioned in the data.</i>	4-6
L1	<i>One sided discussion that explains the appropriateness of zero appreciation of currency Or superficial two sided explanation without case study references</i>	1-3
E	<i>One alternative policy suggestion that address the problems identified above</i>	1-2

d	<p>With reference to the data where appropriate, discuss the view that China's economic slowdown will impact Singapore more than Europe.</p>	10
	<p>Intro : Explain how China's economic slowdown will impact Singapore and Europe in terms of macro-economic variables like economic growth and employment.</p> <p>Thesis : China's economic slowdown will impact Singapore more than Europe because (Need to justify why the impact on Singapore is higher as well as explain why Europe may not be affected significantly)</p> <ul style="list-style-type: none"> • Spore has been getting more dependent on China in terms of trade, investment and tourism. (Evidence from Extract 4). Moreover Singapore doesn't have a big domestic market to buffer against fall in external demand (China being a major trading partner) <p>On the other hand the impact of China's economic slowdown on Europe may not be very significant because of the following reasons</p> <ul style="list-style-type: none"> • Europe conducts more trade with US and within Europe • Their main source of EG comes from domestic economy rather than exports eg. Spain, • Trade in services is limited • Evidence was seen in Germany's ability to adjust – shift to other markets like USA • Good deflation – rising real incomes and profits in Europe <p>Anti thesis: China's economic slowdown might impact Europe more than Singapore because :</p> <p>(Need to justify why the impact on Singapore may not be so significant as well as explain why Europe may be affected significantly)</p> <ul style="list-style-type: none"> • Europe's exposure to China is quite high – key trading partner. • Germany accounts for half of EU exports to China 	

- China provides cheap inputs - affect cost of production
- The forecast for the Eurozone countries is higher growth in figure 1.

Impact on Singapore may not be significant because

- Service sector is resilient.
- Service export to China is still growing.
- Good deflation will benefit Spore too
- Spore in a better position due to its well educated workforce and high tech population.

Judgement

In the short run, Spore may be in a better position to absorb the impact due to its ability to adjust quickly and low unemployment. Europe is saddled with high unemployment and high debt that makes adjustment difficult.

However, in the long run, Europe, with her large domestic market will be able to offset China's slowdown while Spore will still be reliant on Exports.

L3	<i>Well-developed and balanced answer that clearly discusses how China's economic slowdown will impact Singapore and Europe. Makes good reference to data.</i>	7-8
L2	<i>Underdeveloped answer that considers both Singapore and Europe but with gaps in explanation and analysis.</i> Or <i>Answer that discusses the impact of China's slowdown on either Singapore or Europe (two sided views)</i> OR <i>One-sided answer for both countries with reference to data.</i>	4-6
L1	<i>A sketchy answer that refers to some data to explain how China's slowdown affects either countries.</i>	1-3
E	<i>A well-developed evaluative judgment on the validity of the argument.</i>	1-2