

- 6 Globalisation has brought about greater exchanges of goods and services, capital and labour between countries. Some countries embraced it while other resisted it.

(a) Explain the reasons for increasing globalisation.

[10]

Suggested Answers:

Introduction: Define globalisation and briefly describe the main factors that led to globalisation

Globalisation is the increased integration and interdependence of economies. It can be categorised as **economic globalisation**; the greater integration of goods and services (via trade), labour and capital markets and **geographical globalisation**; the reduction in travel times between locations and the rapid (electronic) exchange of information. Knowledge and production previously confined to certain geographical areas may now cross borders and be made available because of the communication and transport technological innovations.

Body 1: Explain how trade liberalisation led to increase trade flows based on the theory of CA.

One main factor that facilitates globalisation is **trade liberalisation and the promotion of free trade based on the Theory of Comparative Advantage**. The theory of comparative advantage posits that economies can mutually benefit from specialisation and exchange of goods they have a lower opportunity cost in producing. For example, between Thailand and Singapore, Thailand's vast amount of arable land and large number of rice farmers meant that it has resources that are more suited for the cultivation of rice over Singapore. In the cultivation of rice, Thailand has a **lower opportunity cost** as compared to Singapore as Singapore does not have the similar factor endowments that are suitable for rice cultivation. On the other hand, Singapore would have a lower opportunity cost in the production and manufacturing of electronic goods because of its skillful labour force and level of technological adoption. If Thailand devotes its resources to the cultivation of rice and Singapore devotes its resource to the production of electronic goods, both countries would be more efficient in their production. **With subsequent exchange**, that is, Thailand to export rice and import electronic goods, while Singapore would import rice and export electronic goods, **both countries could exploit their differences in relative opportunity cost and consume a combination of goods outside what they possibly could if they produce both goods on their own (consume beyond their PPC)**.

The greater amount as well as variety of goods available for consumption among other potential gains from free trade have led to increasing liberalisation of trade and capital markets, facilitated by governments moving towards policies such as Free Trade Agreements (FTAs) to reduce trade barriers (removing import tariff and quotas). These led to greater economic integration amongst economies and the trend of globalisation.

Body 2: Explain how development in communication technology has led to increased intergration

The revolutionary break-through in information and communication technology (ICT) and development in transport technology have also provided the drive for global integration by facilitating trade.

Development in communication technology has facilitated the transmission of information over geographical borders quickly and efficiently. This allows transnational firms to coordinate their operations worldwide via different avenues such as video conferences & emails. The implication is that firms such as Toyota and Apple Inc. are **able to set up plants worldwide by tapping on the comparative advantages in production of different types of goods in different countries** to improve their productivity and efficiency. These firms are also able to outsource part of the production process yet maintain control over them with the ease of communication. This “**slicing up of the value chain**” results in increased flow of intermediate goods as well as capital amongst the economies leading to higher degree of globalisation.

Body 3: Explain how development in transport technology has led to increase intergration

Last but not least, **developments in transport technology** have caused transportation cost and time for goods and people to shrink tremendously increasing mobility of goods and factors of production. These have enhance economies trade network and aid in the increase in trade volume. For example, sea transport has become more efficient with new technology such as (automated cargo handling and faster vessels). Better navigation system also enhanced the safety and efficiency of sea transport. The reduction in time for sea transport and cargo handling has helped to transport goods and documents for firms faster.

Conclusion: Summarise Salient Points

Not only has these technology enhance the benefits of trade, they are essential enablers of trade, without which, there would not be as much integration amongst world economies.

Syllabus 9757

Level of Response Marking Scheme (LORMS)		
L3	For a well-developed answer that clearly explains factors which led to increasing integration amongst economies based on economic reasonings (E.g. Comparative Advantage) Answers are well-supported with appropriate examples.	8 – 10
L2	For an undeveloped answer that attempts to explain factors which led to increasing integration amongst economies. Answers are descriptive and lacks economic reasonings. Answers are supported with some example.	5 – 7
L1	For an answer that is irrelevant and contains conceptual error.	1 - 4

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Syllabus 9732

Level of Response Marking Scheme (LORMS)		
L3	<p>For a well-developed answer that clearly explains factors which led to increasing integration amongst economies based on economic reasonings (E.g. Comparative Advantage)</p> <p>Answers are well-supported with appropriate examples.</p>	7 – 10
L2	<p>For an undeveloped answer that attempts to explain factors which led to increasing integration amongst economies.</p> <p>Answers are descriptive and lacks economic reasonings.</p> <p>Answers are supported with some example.</p>	5 – 6
L1	For an answer that is irrelevant and contains conceptual error.	1 - 4

- (b) Evaluate why different countries may have different responses towards globalisation.
[15]

Question Approach:

The question requires students to first consider the **differing impacts** of globalisation on different countries before making value judgments on the **differing responses** these countries have towards globalisation. The impacts generally refers to the **benefits and the costs of globalisation**. Students can also consider other relevant reasons beyond cost and benefits. While these impacts must be linked to various economic objectives, the link between the impacts and hence responses must be clearly established. Responses to globalisation refer to policies to promote or impede globalisation. Last but not least, evaluative comments to justify the responses must be provided.

Suggested Answers

Introduction: Briefly describe the differing impacts of globalisation on countries and hence their differing stance towards globalisation.

Globalisation is a double-edge sword. While some countries have ride on the wave of globalisation and benefited, others have to bear associated costs of being more open to economic integration. Impacts of globalisation differ according to an economy's nature, stage of development as well as limitations of existing governing policies. Countries therefore response differently to globalisation; while some embrace globalisation, others turn protectionistic.

Body 1&2: Explain the differing impacts of globalisation and hence their differing responses to globalisation.

As mentioned in (a), globalisation has led to the increased flow of goods and services, factors of production and technology. This can bring about benefits such as increased economic growth, employment, and improvement in balance of payment position.

- Explain using AD-AS framework various impacts of increased trade, capital and labour flows.

E.g., The rise of East Asian economies is often attributed to globalisation and enhanced regional economic integration.

Increase in flow of goods and services and capital can increase the export volume and investment inflow of economies. The availability of more choices of goods and services from abroad would increase the demand of exports and hence export revenue of economies. This contributes to the aggregate demand and hence national output. Labour demand increases as firms step up production to match the increased in demand, hence reducing cyclical unemployment.

These positive impacts on economies meant that economies will response differently.

However, it can also bring about increase unemployment and worsening of balance-of-payment position.

- Explain possible negative impacts of greater trade, labour and capital flows.

Body 3: Evaluate the differing impacts of globalisation on small and open economy vs. large and less open economy and hence differing responses to globalisation.

Consider: Small & Open vs. Large and Less Open economies

Small economies can better benefit from globalisation as they stay open and gain access to bigger markets. E.g. Singapore. Reliant on trade for growth. On the other hand, large and less open economy such as USA may respond differently to globalisation as they have a large domestic market; they can hence rely less on external market. While Singapore need to stay open to trade and globalisation, USA has been turning protectionistic in recent years.

Policy responses to globalisation would differ between the two countries. While Singapore seeks to sign more Free Trade Agreements (FTAs) (the most recent being the EUSFTA), the US has pulled out from the monumental Trans-Pacific Partnership (TPP).

Evaluation: Yet, both are facing rising income inequality, partly attributed to increased globalisation as well.

Body 4: Evaluate the differing impacts of globalisation on developed and developing economies hence differing responses to globalisation.

Consider: Developed vs. Developing economies

Developing economies are more likely to benefit from globalisation especially with the increased capital flow and technological transfer, hence they are more likely to respond to globalisation positively. This enables developing economies to move up the differing stages of development. With greater economic growth and development, it can raise output, income and hence raise standard of living as more people are pull out of poverty.

Evaluation: Yet, even as developing countries open up their markets, there has been widespread criticism about developed economies ability to implement and adhere to negotiated trade obligations. Developed economies have been criticized for having **unfair trade practices** which limits the benefits of globalisation that developing economies can benefit from. Protectionist policies in industrialised countries prevent many producers in the Third World countries from accessing export markets. Also, developed economies also give subsidies to domestic producers while imposing high tariffs on foreign imports in order to undermine the foreign competitors from developing economies. This suggests that even different developing countries may choose to respond differently to globalisation because of the potential negative impacts. For example, in response to these unfair trade practices, economies may retaliate by rising trade barriers as well.

(Example: Critics of economic integration often point to Latin America as an example where increased openness to international trade had a negative economic effect. Many governments in Latin America (e.g. Peru) liberalised imports far more rapidly than in other regions. In much of Latin America, import liberalisation has been credited with increasing the number of people living below the USD \$1 a day poverty line)

Evaluation: Also, even if developing economies may benefit on the economic front, competition among developing countries to attract foreign investment leads to a "race to the bottom" in which countries dangerously lower environmental standards. This is because of the poor legislation to protect the environment and weak enforcement of environmental regulations that developing economies may have. This attracts firms in developed economies to offshore their businesses to these developing economies, which results in greater environmental degradation in developing economies. This causes negative externalities and results in sub-optimal resource allocation.

Evaluation: While some developing economies government have already begin implementing policies to prevent developed economies from exploiting them, some other developing economies are still likely to prioritise economic growth over other potential trade-offs such as environmental preservation and resource allocation efficiency because of the potential rise in material standard of living. As such, their response to globalisation would likely to differ not only from developed economies, but also from other developing economies which while also value economic growth, are also looking concern about environmental degradation and rising income inequality.

Body 5: Explain the constraints government may face in policy implementation in response to globalisation which results in differing response.

Even if economies face the same impacts of globalisation, responses may also differ because of policy limitations that government of different economies faces (Budget constraints and existing economic conditions).

Explain how policy measures in response to globalisation (to mitigate negative impacts of globalisation) may differ because of certain limitations.

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L3	For a well-developed and balanced answer which clearly explains the differing responses of different countries based on differing impacts of globalisation on different countries. Answer is well applied to different context and supported with appropriate examples.	8 – 10
L2	For an undeveloped answer which attempts to explain the differing responses of different countries based on differing impacts of globalisation on different countries. Answer is descriptive and not well applied to different contexts and/or supported by appropriate examples. Max 5 – For generic regurgitation of impacts of globalisation.	5 – 7
L1	For an answer that is largely irrelevant and may contain conceptual errors.	1 - 4
5m Reserved for Evaluation		
E3	For value judgements made with sound economic justifications. Justifications are appropriate and relates to prior analysis.	4 – 5
E2	For value judgements made with some economic justifications. Justifications made are not appropriately related to prior analysis.	2 - 3
E1	Judgements made incidentally.	1

Syllabus 9732

Level of Response Marking Scheme (LORMS)		
L3	For a well-developed and balanced answer which clearly explains the differing responses of different countries based on differing impacts of globalisation on different countries. Answer is well applied to different context and supported with appropriate examples.	9 – 11
L2	For an undeveloped answer which attempts to explain the differing responses of different countries based on differing impacts of globalisation on different countries. Answer is descriptive and not well applied to different contexts and/or supported by appropriate examples.	6 – 8

	Max 6 – For generic regurgitation of impacts of globalisation.	
L1	For an answer that is largely irrelevant and may contain conceptual errors.	1 - 5
4m Reserved for Evaluation		
E2	For value judgements made with sound economic justifications. Justifications are appropriate and relates to prior analysis.	3 - 4
E1	For value judgements made with some economic justifications. Justifications made are not appropriately related to prior analysis. For judgements made incidentally.	1 – 2