

## **Discuss how far government policies adopted in Singapore affect the economy's pattern of trade. (25)**

Pattern of trade of an economy refers to the composition, direction and volume of trade. Specifically, what goods an economy exports and imports, whom the economy trade with as well as the level of exports and imports. Government policies, primarily supply-side policies, trade policy and exchange rate policy, affect the economy's pattern of trade. However, there are other determinants for pattern of trade.

### Policies

#### Supply-side policies

Refer to policies that attempt to increase the productive capacity of the economy.

E.g. keeping the economy's corporate tax competitive can increase firms' incentive and ability to invest in new capital goods.

The use of these new capital goods might either bring about lower production costs or better products, thereby changing the composition and volume of trade.

#### Singapore's trade policy

##### Signing of FTAs

Lower trade barriers for Singapore exports, thereby changes the direction and volume of trade. The increase in volume will boost price competitiveness, due to firms better able to reap further economies of scale, which can further alter the pattern of trade.

#### Exchange rate policy

a managed float exchange rate regime whereby the Singapore dollar (S\$) is managed against a trade-weighted basket of the currencies of its major trading partners

The policy helps to maintain price competitiveness of exports.

E.g. specifically, a gradual appreciation of the Sing dollar is adopted in good times to keep out imported inflation

This managing of exchange rate does alter the volume of trade.

### Limitations

The examples above suggest government policies adopted in Singapore do affect the economy's pattern of trade. However, its impact depends very much on the effectiveness of these policies.

For instance, it may be increasingly difficult to maintain a competitive corporate tax rate given rising expenditure due to ageing population.

For trade policies, as Singapore has already signed FTA with most major trading partners, the room to exploit economies of scale in this aspect might be limited. Although, new trade relations can be established with countries further away, the higher transport costs might reduce the benefits of such an agreement.

### Other factors

Besides the effectiveness of government policies, there exists other factors that determine Singapore's pattern of trade. These include factor endowments, income of our trading partners and any other factor that might promote greater ease of movement of goods and services.

First, the pattern of trade, specifically the composition and direction of trade, is primarily determined by the comparative advantage of the economy, which is largely attributed to the country's factor endowment.

(Explain briefly the theory of CA)

Second, the economic performance of her export market. Singapore top export economies are China, Hong Kong, Malaysia, Indonesia and the United States. If these economies are growing strong, there will likely be more intermediate products and finished goods being exported to these economies. As such, the direction and volume of trade is likely to change.

Thirdly, technological developments. Advancement in modern transportation especially in aviation and shipping enables vast quantities of goods and commodities to be transported at lower cost, thereby making trade between distant markets became more economically viable. This in turn changes the direction and volume of trade.

### Conclusion

There are numerous policies that can affect pattern of trade. Some of which affect primarily the direction and volume of trade while others affect primarily the composition of trade. As observed, although the government policies currently affect the economy's pattern of trade, the influence is likely to be less significant in the time to come. Although other factors have been stated, the government can influence many of these factors to a certain extent.

	Knowledge, Application/Understanding and Analysis	
L3	For an answer that gives a developed explanation on government policies and how they affect pattern of trade and uses appropriate analysis to explain the extent. The analysis must include the concept of theory of CA.  For an answer that gives a developed explanation on government policies and how they affect pattern of trade and a descriptive explanation of the limitation of the policies in influencing pattern of trade and other factors.	15-20 (18)
L2	For an answer that gives a developed explanation on government policies and how they affect pattern of trade and a descriptive explanation of the limitation of the policies in influencing pattern of trade and other factors	9-14 (12)
L1	For an answer that gives a developed explanation on government policies. However, the link to pattern of trade is not that evident.	1-8 (5)