**Q6 The withdrawal of United States from the Trans-Pacific Partnership (TPP) and Britain's Brexit are outcomes powered by anti-globalisation sentiments. Some countries have adopted anti-globalisation measures such as imposing higher tariffs on imported goods, higher taxes on domestic firms moving abroad and implementing anti-immigration laws to address the challenges of globalisation.**

**Source: Adapted from MTI, 6 Feb 2017 & The Guardian, 9 November 2016**

a) **Explain the underlying reasons why some countries are embracing the move towards anti-globalisation. [10]**

b) **Discuss whether countries should adopt anti-globalisation policies to address the challenges of globalisation. [15]**

**<u>Suggested answers to part (a)</u>**

*(Students will need to explain 3 points on the disadvantages of globalisation – the 3 points chosen will need to cover the different aspects of globalisation, e.g. trade, capital and labour flows)*

**Introduction**

Anti-globalisation refers to the movement of countries adopting the move to make their countries less open to trade, capital and labour movement. Some countries are adopting this stance as opening the country up to globalisation has resulted in worsening trade balances, inability to grow their infant industries to develop comparative advantage, destabilising exchange rates due to capital movement and the loss of jobs for domestic workers. Countries which adopt anti-globalisation stance view the gains of globalisation to lack inclusiveness across countries.

**1. <u>To correct a severe trade deficit</u>**

Countries such as U.S are adopting anti-globalisation moves due to the worsening of their trade deficit. In 2016, U.S trade deficit totalled to an amount of USD $502 billion, which has hindered the U.S economic growth. The trade deficit could be a result of the loss of export competitiveness due to rising low-cost competitors from countries such as China, Thailand and Vietnam. Furthermore, in recent years, U.S has accused China of adopting unfair practices in manipulating and undervaluing their exchange rates to make their exports cheaper, resulting in U.S consumers switching away from domestic products towards cheaper alternatives from China. Hence, in order to correct the severe trade deficit, U.S adopted the stance to engage in protectionist measures to make foreign products relatively more expensive than locally produced products. This will steer U.S consumers to purchase local products instead, improving the U.S trade balance which will in turn improve the U.S economic growth, ceteris paribus.

## 2. Inability to grow infant industries to gain comparative advantage

This is an argument often put forth by developing countries. Infant industries are industries that have been identified as having the potential to possess comparative advantage in the future. An infant industry needs to grow and gain experience. It may have a potential comparative advantage that can only be developed behind a protective barrier such as tariffs. If the country achieves the comparative advantage, then markets in the world will stand to benefit and consumers will be able to enjoy lower prices and better quality. This will allow the country's long term economic growth goals to be met as well. Hence, countries faced by the pressure of strong competition from foreign companies finds it difficult to grow their infant industries and will need to adopt protectionist measures to protect their infant industries in the short run. This is also in view of the need to create a level playing field when many other countries are also giving export subsidies and undervaluing their exchange rates to create artificial comparative advantage for their domestic firms.

## 3. Capital flows destabilising the exchange rates

The free movement of capital into and out of the country has resulted in the destabilising of the exchange rates. With globalisation, there is reduced barriers on capital flow which resulted in greater ease of the influx and exit of 'hot money'. Due to the nature of 'hot money', it changes its investment destination quickly in search of higher returns. When there are news of uncertainty in a country, these 'hot money' will exit the country in huge amount. For example, the pessimistic news of U.S after the subprime crisis and Brexit have resulted in investors and speculators withdrawing their funds from these countries. This has resulted in a sharp depreciation of these countries' currencies, which is unfavourable in the eyes of the investors, sparking off greater uncertainty due to the volatility of the exchange rates. This forces the countries to consider adopting measures to reduce the capital movement of the 'hot money'.

## 4. Loss of jobs for domestic workers

With countries opening up due to globalisation, they are now faced with greater level of competition from abroad. Due to the rise of low-cost competitors, countries may find it more challenging to compete and are losing their competitive edge. This has resulted in some loss-making firms to shut down. The shutting down of firms has resulted in a rise in unemployment as there are loss of jobs for the locals. Furthermore, in the attempt to lower their cost of production, more local firms from the developed countries are choosing to outsource jobs which were previously managed by the locals to the workers from developing countries who can get the same job done at a lower wage, worsening the case of unemployment for the locals.

**Conclusion**

Thus, some countries are adopting the anti-globalisation stance to gain more time to develop new comparative advantage, reduce uncertainties for their economy and protecting the jobs of the locals.

| Level | Descriptors | Marks |
|---|---|---|
| L3 | Well-developed explanation with good use of economic concepts on the disadvantages of globalisation. Coverage of points include trade flows, capital flows as well as labour flows. | 8-10 |
| L2 | An explanation which discusses the disadvantages of at least 2 aspects of globalisation (trade, capital, labour flows) | 5-7 |
| L1 | A brief explanation about underlying reasons towards anti-globalisation. | 1-4 |

***Suggested answers to part (b)***

*(Students will need to discuss at least 2 of the policies mentioned in the pre-amble and recommend a more sustainable policy to address the challenges of globalisation.)*

**Introduction**

To address some of the challenges faced by globalisation mentioned in part (a), some countries are adopting the policies of imposing higher tariffs on imported goods, higher taxes on domestic firms moving abroad and implementing anti-immigration laws. While these policies may be able to resolve the challenges of globalisation in the short term, they are not sustainable in resolving the challenges in the long run.

**1. Imposition of tariffs on imported goods**

The imposition of tariffs lead to higher prices on imported goods and hence is considered an expenditure-switching policy to divert local consumers to purchase more of their domestic products. Assuming ceteris paribus, this will in turn lead to an improvement in the country's trade balance.

### How the tariff works

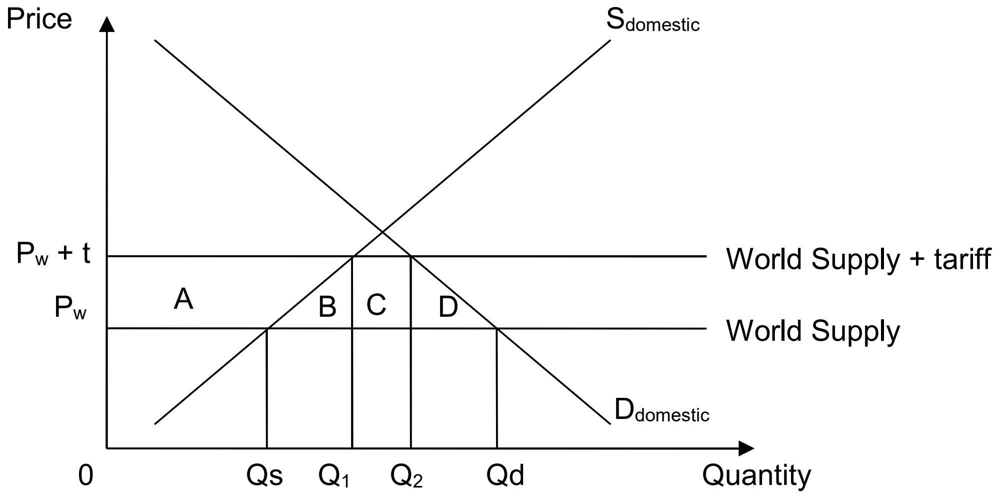
*Before the imposition of the tariff*

At the world price of $P_w$, consumption was Qd, of which 0Qs was of domestic production source and the remaining quantity QsQd is from imports.

*After the imposition of the tariff*

The market price rises by the full amount of the tariff to $P_w + t$. At the new price, domestic production increase to $0Q_1$ and imports are reduced to $Q_1Q_2$.

**Figure 1: Economic Effects of a tariff**




Reasons supporting the use of tariffs to correct the challenges of globalisation

- The tariff raises the domestic price and guarantees the domestic producers a bigger market, **domestic sellers** are better off as seen by the gain in **Area A.** With a fall in import expenditure, the imposition of tariffs is able to correct the country's trade deficit.

- The government also gains as the revenue collected by the **government** is shown by **Area C** which could be used to improve aspects of the economy.

Reasons against the use of tariffs to correct the challenges of globalisation

- **Domestic buyers** are worse off because of the higher price which forces them to cut down on the quantity demanded of the good. Furthermore, the variety of goods and services available to the locals will be considerably reduced, lowering the non-material standard of living.

- The restriction in trade can lead to deadweight losses of the **Areas B and D**.

- It is highly likely that other countries may retaliate, adopting similar anti-protectionist policies, against the country which imposes tariffs on their goods. This may result in the benefits mentioned above to be negated leading in a lose-lose situation for the countries involved.

## 2. Anti-immigration laws to restrict labour flows

Countries imposing the use of anti-immigration laws seek to restrict the labour flow of foreign workers into their countries in order to protect domestic jobs for their locals.

Reasons supporting the use of immigration laws to correct the challenges of globalisation

- Domestic jobs will be better secured for the locals and due to the fall in supply of foreign workers due to the imposition of the anti-immigration law, this will result in a higher wages for the domestic worker, improving their material standard of living.

- At the macro level, due to more locals being employed, the employment rate of the economy will improve.

Reasons against the use of immigration laws to correct the challenges of globalisation

- While more jobs are secured for the locals with the imposition of the immigration laws, this creates challenges for local firms which are trying hard to keep their costs of production low by hiring cheaper labour force from other countries. For example, U.S which recently implemented anti-immigration policies have resulted in some of their biggest tech giants commenting on the appropriateness of such policies in ensuring future growth of U.S companies. By hiring locals who are now commanding a higher wage from the firms, firms will now expect a lower level of profits to be earned and could lead to lower dynamic efficiencies in the future.

- Companies may now also be deemed as less competitive as firms choosing to maintain their profitability may raise their prices. At the global level, the goods will now be less competitive, resulting in a fall in exports revenue which will in turn lead to a fall in AD via the multiplier effect, lowering the country’s real national income. Hence, a conflict arises, where the aim of improving domestic employment may result in a worsening economic growth for the country.

- By imposing the immigration law to reduce the hiring of foreign workers, the country is also potentially closing doors to foreign talents who are able to contribute to the nation through specialised skills and knowledge. Some of the current companies have achieved significant growth over the years due to the contributions of foreign talents.

### 3. Higher taxes on domestic firms moving abroad

Reasons supporting the imposition of taxes on domestic firms moving abroad

In order to ensure more local jobs employment, countries such as U.S have imposed higher taxes on domestic firms moving abroad. The higher taxes will reduce the profitability of the domestic firms moving abroad and redirect them to focus on the domestic market instead, leading to greater employment of the locals.

Reasons against the imposition of taxes on domestic firms moving abroad

However, by restricting domestic firms from moving abroad through higher corporate taxes imposed, this will disincentivise offshoring where companies move abroad in search of opportunities to reduce their costs of production. This will translate to the goods and services produced to be more expensive and losing exports competitiveness if local workers are hired. This will especially be a significant issue faced by the developed countries.

### 4. Adopt Supply side policies to address the challenges of globalisation

Countries facing the challenges of globalisation should adopt the use of supply side policies rather than anti-globalisation policies due to the possible retaliations by other countries.

Investing in training programmes to upgrade the skillsets of workers

Governments could look into training programmes to enhance and upgrade the skillsets of their workers to provide better productivity which will translate to lower costs of production. By having a pool of productive workers, the improvement in labour productivity will lead to more competitive exports which will improve the trade balance of the country and eventually shifting AD to the right via multiplier process and achieving improvement in economic growth.

Investing in technological advancements to gain competitive edge

Countries should engage in forward planning and invest in technology to gain competitive edge in the years ahead. Singapore, for example, tries to overcome the challenges of globalisation by embarking on the journey towards a Smart Nation initiative and being one of the first movers in leveraging on cutting technologies integrated into society. This will attract investors who are interested in the prospects the technological advancements into the country. Singapore therefore tries to reposition herself from a value-added country towards an innovator where they value create services to compete with other countries.

Limitations on the use of supply side policies

In order to ensure an effective implementation of the supply side policies, countries must first have a healthy budget to invest in workers' upgrading and innovation. Countries that are currently facing a severe budget deficit may find it difficult to utilise their current resources into these areas. Furthermore, in order to ensure that the goals are achieved as planned, the country must have a forward looking government dedicated in ensuring the processes are carefully looked into and strategies effectively carried out as planned.

**Conclusion**

The use of anti-globalisation policies is mostly justifiable if a country is using it as a short-term strategy to correct immediate issues in the country such as a persistent trade deficit or job insecurity for the locals. The use of these policies will not be sustainable in correcting the issues in the long run as other countries are likely to retaliate such a move and may bring more harm than benefits to the global economy in the long run.

In the long run, countries should instead be adopting supply-side policies to better upgrade their workers and enhance their state of technology or quality of resources to better face the challenges of globalisation. This however is also subjected to the government's ability and budget to finance the implementation of the supply-side policies.

| **Level (Marks)** | **Descriptors** |
|---|---|
| **L3 (8 – 10)** | Answer provides a clear and detailed analysis of the policies to address the challenges of globalisation. |
| **L2 (5 – 7)** | Answer provides an undeveloped analysis of the policies to address the challenges of globalisation. |
| **L1 (1 – 4)** | Answer shows some knowledge of the policies to address the challenges of globalisation but with irrelevancies and errors. |
| **Evaluation** | |
| **E3 (4-5)** | For a well-explained judgement that is supported with economic reasoning. |
| **E2 (2-3)** | For an underdeveloped justification of stand made, one that is lacking in economic rigour. |
| **E1 (1)** | Mainly unexplained judgment based on analysis. |