

International Trade Overview

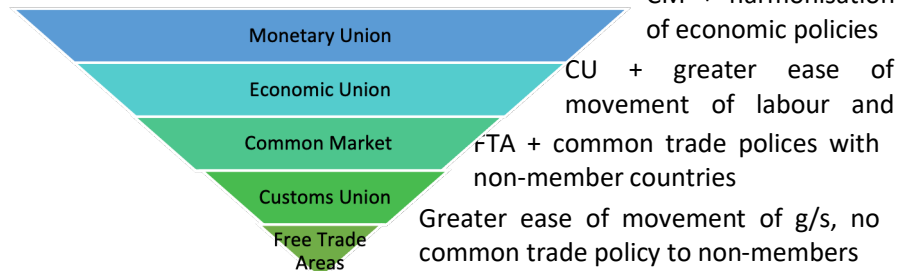
- Theory of Comparative Advantage
- Benefits of Trade
 - Cr: Pdt variety, better qly, lower px, higher Q
 - Pr: Decrease cop
 - Govt: Prevent monopoly, EG, low UnE, increase LRAS
- Cost
 - Factor immobility
 - Transport cost
 - Barriers to trade
 - No suitable TOT
 - Cop not constant
- POT (composition, direction, volume)
 - Influenced by DD and SS factors
- Protectionist measures
 - Import tariff
 - Import quota
 - Administrative restriction
 - Export subsidies
- Arguments
 - Protect infant industries
 - Prevent widespread UnE in declining industries and during recession
 - Protect against dumping
 - Strategic reasons
 - Reduce BOT deficit

Globalisation Overview

Globalisation is the closer integration of economies and people of the world through the ease of movement of goods and services, capital and labour across borders.

Causes of Globalisation	Singapore Context
<ol style="list-style-type: none"> 1. Developments in ICT 2. Developments in transportation 3. Opening up of markets to trade 4. Liberalisation of capital movement and deregulation of financial svcs 5. Growth of TNCs <p>Presents challenges and opportunities to economic agents and source/ host countries</p>	<p>Challenges to SG's economy:</p> <ul style="list-style-type: none"> • Small and open: vulnerable to economic shock • Increased pressure for economy to stay relevant and attractive • Skills gap and widening income gap <p>Policies of SG in view of globalisation:</p> <ul style="list-style-type: none"> • Neutral stance during recession • Maintaining and building FTAs • Close supervision of financial sector • Labour force and industrial relation to keep inflation low • Providing support for economically vulnerable groups like low skilled and old workers
Priorities of economic agents	
<p>Government: micro goals (AE, PE) , macro goals (Low infln, low UnE, EG, favourable BOP), high SOL</p> <p>Producers: profits (TR, TC), market share</p> <p>Consumers: price, qty, qlty, variety</p>	

Types of RTA:



Causes of Globalisation

Developments in Information Communication Technology	Developments in Transportation
<p>ICT refers to technologies that provide <u>access to information</u> through <u>telecommunications</u>.</p> <p>Increased connectivity of people in a fast and cost effective manner → making transferring of funds and data possible → facilitated international trade and investment in different geographical locations → integration of capital markets (e.g. development of electronic trading platform has allowed int investors to participate in other cties stock market)</p>	<p>Advancement in modern transportation → faster and standardised shipment → e.g. long-haul jumbo jets and shipping (i.e. use of containerisation) + trade between distant markets economically viable due to EOS reaped from larger scale operations → enabling vast quantities of goods and commodities to be shipped at low cost</p> <p>Ppl travel more quickly → facilitating doing of biz</p>
Opening up of markets to trade (Multilateralism and Regionalism)	Liberalisation of capital movement and deregulation of investment financial services
<p>Free Trade Agreement (FTA): <u>legally binding agreement between two or more participating cties to reduce or eliminate barriers to trade</u> (movement of g&s) and <u>investment</u> (movement of capital)</p> <p>WHO: Principles of most favoured nation and national treatment</p> <p>Regional Trading Arrangement (RTAs): agreements <u>between govts to liberalise trade</u> and possibly to <u>coordinate other trade related activities</u></p> <p>Trade creation: situation where economic integration leads to a shift in product origin from a <u>domestic producer whose resource costs are higher</u> to a <u>member producer whose resource costs are lower</u></p> <p>Trade diversion: situation where there is a shift in product origin from a <u>non-member producer whose resource costs are lower</u> to a <u>member cost whose resource cost are higher</u></p>	<p>Removal of capital controls → less restrictions on capital movement → easier for firms to locate, invest abroad and repatriate profits</p> <p>Financial deregulation: variety of <u>changes in the law</u> which allow banks and financial institutions <u>greater freedom in how they operate</u> → allow for larger flow of capital across countries + phasing out of stricter controls</p>
	Growth of TNCs
	<p>TNC: registered and operates in <u>more than one country at a time</u></p> <p>Outsourcing: <u>contracting of certain activities to an external provider</u></p> <p>Offshoring: getting <u>work done in a different country</u> usually to <u>leverage on cost advantages</u></p>

Impact on Movement of Goods and Services

Benefit	Cost
<p><u>Access to more markets (Trade Creation)</u></p> <p>FTA, → ↓ in trade restrictions like m/p tariffs → enlarge markets for industries in small economies + reap IEOS e.g. technical EOS: able to use more specialised machines, marketing EOS: able to buy raw materials in bulk → lowers unit cost → ↑ x/p competitiveness → further enlargement of x/p markets</p> <p>SG's small domestic market means domestic consumption insufficient to drive the economy. FTA with Gulf nations enable SG food manufacturers to reach out to consumers in Middle East.</p> <p>Thereafter, assuming M stays constant, boost NX, AD → k ↑ in NY + lower UnE in export related industries + improve current a/c position in BOP (illustrate with AD-AS diagram)</p>	<p><u>↑ risks of structural unE</u></p> <p>FTA → ↑ exposure to foreign competition + removal of protectionist measures enjoyed by dom industries → if dom industries producing g/s in direct competition with m/p cannot compete in terms of price and qly → ↓ market share in SR + driven out of biz in LR → structural unE unless they acquire relevant skills to transit to another industry</p>
<p><u>For dom consumers: wider choices, lower prices (AE)</u></p> <p>Gain access to wider range of products that cater to various tastes and preferences → improve consumer welfare, material SOL</p> <p>SG: small domestic mkt → not many firms in the mkt → few choices available. With globalisation, greater variety of goods</p> <p>Dom producers more exposed to foreign competition → prevents domestic monopolies from exploiting their market power → forced to keep their prices and costs as low as possible + to be dynamically efficient by engaging in R&D, aiming to produce better quality products to maintain their market share → ↑ productive capacity (LT EG) + AE</p>	<p><u>Then, ↑ income inequality</u></p> <p>Pace of industrialisation faster than rate of accumulation of human capital → DD for new skills outpace SS of workers with those skills</p> <p>Workers without relevant skills to transit to another job may suffer ↓ wages if they are forced to take up jobs that pay less than before</p> <p>In contrast, workers possessing relevant skills to take on jobs may enjoy ↑ wages, esp if those jobs make use of more advanced tech</p> <p>∴ Income inequality widens</p>

<p><u>For dom firms: cheaper m/p final g/s and raw material</u></p> <p>↓ m/p tariffs → cheaper m/p of raw materials → able to seek out lowest cost countries in the world for raw materials or production processes → ↓ COP → ↓ risk of cost-push inflation, maintains x/p competitiveness, esp if x/p have high m/p content</p> <p>SG: small in physical size means resource scarce → lack of FOP, alleviated due to globalisation</p>	-
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Impact on Movement of capital

Benefit	Cost
<p><u>FDI Inflow: Positive effect on macro-goals</u></p> <p>FTA → ↓ admin restrictions → encourage potential investors to set up plants / buy equipment in country → presence of MNCs generates biz opportunities for dom SMEs e.g. SMEs provide logistics services for MNCs / component parts to MNCs</p> <p>SR: ↑I → ↑AD, k↑NY + employment → actual EG, improvement in financial a/c, BOP position</p> <p>Transfer of technology and management skills: shares best practices with local firms as locals are recruited for high positions and mobility of workers from TNC to local firms → boosts productivity</p> <p>Transfer of technology is only noticeable in host country if technology is relevant to several firms and not just one firm/ sector. Also, it may be limited if investments made are <u>labour intensive</u></p> <p>LR: ↑I → ↑qty and qly of FOP → ↑LRAS → potential EG</p> <p>→ SG: small dom mkt, cannot depend on indigenous I for growth → globalisation helped I to flow into Sg to drive economy</p>	<p><u>FDI Inflow: Negative effects on macro-goals</u></p> <p>Worsen current a/c in LR due to significant repatriation of profits/ high import content of manufactured pdts</p> <p>If FDI is substitute for domestic production → can cause local firms to go out of biz → higher unE for locals</p> <p>Crowding out of dom investments → stifle efforts to develop home-grown industry → over-reliance on FDI for EG → more susceptible to international shocks esp since FDI known to be 'footloose' → high UnE</p> <p>→ Need for SG to remain attractive to MNCs by moving to higher value added activities in face of competition from developing and developed economies</p> <p><u>FDI Outflow: Negative effects on SOL</u></p> <p>Surge in FDI and rapid industrialisation → increased pollution, esp for (natural resource industries) in LDCs with less stringent anti-pollution standards → hurts env and non-material SOL</p> <p>Exploitation of labour - low pay, poor working conditions with absence of</p>

N.B. SG has CA in capital-intensive and knowledge based industries	international, legally-binding laws and safety standards → low non-material SOL
<p><u>FDI outflow: Improve material SOL</u></p> <p>Dom firms find it easier to venture overseas to stay profitable overall → outsourcing and offshoring of parts of production process to countries with CA → lower COP esp cost of labour → improves x/p competitiveness, sustaining profitability and hence operations in dom country → esp for SG with small dom mkt, offshoring of lower skilled jobs allows for firms to create new, higher level jobs back home → increases income of employees → higher purchasing power → higher material SOL</p> <p><u>FDI outflow: Improve BOP</u></p> <p>Increase factor income from abroad in the future → improves BOP current account</p>	<p><u>FDI Outflow: Structural UnE</u></p> <p>FTAs makes it easier / more cost effective for dom firms to outsource a particular stage of production process overseas / venture into member countries to set up factories → structural UnE</p> <p>→ upon signing the ASEAN-China FTA, Philips relocated their manufacturing plant out of SG to Indonesia to take advantage of lower COP</p>
<p>Evaluation:</p> <ul style="list-style-type: none"> • Increase in structural unE likely to be evident only in SR → countries restructure and industries find new areas of CA • To mitigate increase in structural UnE: Better social safety nets like unE benefits → less averse to trying new jobs/ equip the unE with new skills through retraining programmes/ progressive income tax and targeted transfers can be put in place to alleviate income disparity • In the LT, if sufficient jobs created, offsetting the initial loss and then gains from globalisation will materialise as predicted by the theory of CA 	

<p><u>ST hot money inflow: Improve macro-goals</u></p> <p>Increases Ms in economy → fall in i/r → (explain accordingly) → Increase C, I → increase AD, multiple increase in NY, EG, employment</p>	<p><u>ST hot money inflow: Adverse impact on banks</u></p> <p>Hot money flows can quickly turn into bust when global investors pull money out of economy suddenly (financial instability and unstable exchange rate) → large fall in asset prices, or Ms falls drastically → push up domestic i/r → borrowers and banks may have problems paying off their debt and banks end up with bad debts</p> <p><u>ST hot money inflow: Adverse impact on macro-goals</u></p>
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	Large increase in DD for country's currency → appreciation of exchange rate → (explain according) → -ve impact on BOP, fall in AD, affect actual EG of country
<p>Evaluation:</p> <ul style="list-style-type: none"> • May limit ability for an open economy to implement independent MP • To reduce problem associated with hot money flows, tough regulations and proper controls can be put in place when countries open their economies • To tackle vulnerability: Diversify trading partners by signing more FTAs → not overly dependent on any 1 country → prevents country from being too affected by the "contagion effect" i.e. something that happens in a country affects other countries due to interconnected nature of economies 	

Costs of ↑ trade and capital flows: ↑ vulnerability to adverse economic conditions

Member countries more interlinked via trade and capital flows → increase frequency of experiencing booms and busts i.e. recession in 1 member country can have contagion effect on others → ↓ x/p DD of another country + ↓ FDI in other countries. If substantial can lead to ↓ AD, NY, ↑ cyclical unE, ↓ FDI affects financial a/c position (bleak outlook) → esp for SG which is small and open e.g. US financial crisis in 2008 led to SG's worst recession

Impact on Movement of Labour

Benefit	Cost
<p><u>Outflow of labour: macro-goals of home ctry</u></p> <p>Higher remittances → improve current a/c and hence BOP + increases EG:</p> <p>PP of domestic HH increased → higher AD, multiple increase in NY and EG</p> <p>UnE decreases as workers migrate out of home country where employment opportunities are low (if home country is LDC)</p>	<p><u>Outflow of labour: macro-goals of home ctry</u></p> <p>No. of residents in home country falls → lower C, lower AD...</p> <p>High mobility of labour → brain drain if local talents choose to work overseas due to better job and career prospects → fall in labour SS → fall in AS → slow down country's potential EG (not so prevalent in SG)</p>
<p><u>Inflow of labour to host country allows for non-inflationary EG</u></p> <p>Increased pool of workers → reduce wage-push inflation → wages and COP remain competitive + increase in qly (if higher skilled workers from abroad pass their skills to locals, besides, FTs can increase level of competition domestically and spur more local workers to work harder → increase productivity) and qty of labour → increases productive capacity and LRAS → with increases in AD, non-inflationary, sustainable EG</p> <p><u>Inflow of labour to host country</u></p> <p>Increase in both residents and non-residents → support employment in other sectors → (not for SG)</p>	<p><u>Inflow of labour to host country reduces incentive to improve efficiency</u></p> <p>Ease of getting cheap low skilled workers prevents firms from employing more productive methods (no incentive to improve efficiency)</p> <p><u>Inflow of labour to host country causes widening income gap</u></p> <p>Increase in low cost foreign labour → lowly-skilled, lowly-educated workers may face unE</p> <p>Higher skilled workers may be affected to a smaller extent → due to global DD for talent</p> <p>Influx of both high and low skilled labour results in widening income gap: SS for low skilled labour increase → dampens wages for lower-skilled workers VS DD for highly skilled labour increase → wages increase</p>
<p>To mitigate: Increase FW levies / Continuing WTS to encourage workers to upgrade their skills and increase productivity</p>	

Glossary of EQs

(1) N2007: Discuss whether Singapore is among the economies that have the most to gain from globalisation. [25]

2POV

contrast with other economies of different characteristics: small and open vs big and less open

Structure:

- Benefit and costs
- In light of these characteristics, the benefits for SG is relatively high compared to her costs.
- As such, SG might have the most to gain

Evaluation on why SG has the most to gain:

- Characteristics of the SG economy
- Play down -ve effects of globalisation:

Economic analysis:

- How have greater movement of g&s, labour, capital benefitted SG?
- How have they caused problems for SG?
- Economy: NY, unE, GPL, BOP, effects on producers and consumers

(2) An economist stated 'trend towards globalisation leaves no room for protectionism'.

(a) Account for the trend towards globalisation (10m).

(b) Discuss whether you agree with the economist's view (15m).