J2 Intensive Revision

**CSQ 1 – Lesson 6 – Aims of Government & Policies**

**Concerns Over China’s Slowdown**

**Extract 1: EU Sees Weaker Growth in Eurozone and Wider EU as China Slowdown Weighs**

**Figure 2 : GDP changes in Europe**

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Source: European Commission

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](http://www.wsj.com/articles/david-cameron-to-announce-eu-referendum-date-after-cabinet-meeting-1455964352)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.

Source: Adapted from Wall Street Journal, 3 May 2016

**Extract 2: 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.

Germany has brushed off concerns that turmoil in China could impact its economy with a spokeswoman for the Economy Ministry [saying](http://uk.reuters.com/article/2015/08/24/uk-germany-economy-china-idUKKCN0QT0X820150824) 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](https://www.destatis.de/EN/PressServices/Press/pr/2015/08/PE15_305_811.html;jsessionid=37878B2AEC92D5379042C4D879A23B54.cae1) 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](http://www.forbes.com/sites/raoulruparel/2014/10/16/how-sustainable-is-the-spanish-recovery/) has been driven by consumption and domestic demand rather than net exports, let alone demand from Asian markets.

Source: Adapted from Forbes, 25 August 2015

**Extract 3: 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" Hill said.

China’s GDP growth is on pace to be the weakest since 1990. Xi’s government is [transforming](http://www.bloomberg.com/news/articles/2015-10-19/china-s-new-economy-won-t-pack-the-same-punch-for-global-growth) the $10 trillion-plus economy from one driven by debt-fueled investment and exports into a more sustainable one led by consumer spending and services. That shift means there is less demand for commodities.

Source: Adapted from Bloomberg, 4 November 2015

**Extract 4: 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.

Source: Adapted from Straits Times, 12 Jan 2016

**Figure 3:** **Singapore Exports To Major Partners(S$bn)**

Source: Department of Statistics, Singapore

**Extract 5: 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.

Source: Adapted from Business Times, 27 October 2015

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| **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 |

**Source: Department of Statistics Singapore**

**Answer all questions**

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| a | (i) | Compare the economic growth of the countries shown in Fig 2 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 3. | **[4]** |
| c | Using economic analysis, explain why there was a slowdown in China’s economy. | **[4]** |
| d | 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. | **[6]** |
| e | With reference to the data where appropriate, discuss the view that China’s economic slowdown will impact Singapore more than Europe. | **[8]** |
|  |  | **[ Total 30 marks ]** |

[Total: 30]