**Question 2: The Economies of India and Singapore**

**Figure 2: Gross Fixed Capital Formation1 of India and Singapore (annual percentage growth)**

14

12

10

8

6

4

2

0

-2

2011

2012

2013

2014

2015

2016

Year

India

Singapore

Percentage

***1****Gross fixed capital formation (GFCF) includes plant, machinery, and equipment purchases; and the construction of roads, railways.*

[Source: data.worldbank.org, accessed 27.08.18]

# Extract 8: Economic outlook for India and Singapore

The Indian economy has recorded strong growth in recent years, helped by trade gains, private consumption spending, positive policy actions including implementation of key structural reforms, and reduced external vulnerabilities. Inflation has remained low after the collapse in global commodity prices, a range of supply-side measures, and a relatively tight monetary stance.

Singapore has embraced a new growth model for a world of rapidly advancing digital technologies and automation. The strategy is to turn Singapore into a labour-lean economy with less reliance on foreign workers and growth based on innovation, digitalisation, and continuous investment in skills. Economic and social policies in the form of higher fiscal spending to make growth more inclusive and tackle population ageing have advanced appreciably in recent years and are still evolving, complementing the economic transformation drive.

[Sources: IMF Country Report, India, 22.02.17 and IMF Country Report, Singapore 22.06.17,

accessed 27.08.18]

# Table 2: Selected Statistics for India and Singapore, 2013 – 2016 Real GDP per capita growth, annual percentage, 2013-2016

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | 2016 |
| India | 5.1 | 6.1 | 6.9 | 5.9 |
| Singapore | 3.4 | 2.5 | 1.0 | 1.1 |

**Inflation, consumer prices, annual percentage, 2013-2016**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | 2016 |
| India | 11 | 6.7 | 4.9 | 4.9 |
| Singapore | 2.4 | 1.0 | -0.5 | -0.5 |

**Nominal wage growth, annual percentage, 2013-2016**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | 2016 |
| India | - | 13.4 | 10.4 | 10.3 |
| Singapore | 5.3 | 4.9 | 4.0 | 3.1 |

[Sources: data.worldbank.org, labour.gov.in and stats.mom.gov.sg, accessed 27.08.18]

# Extract 9: Chronic under-investment in Indian infrastructure

The traditional post-World War II East Asian2 growth model resembles a virtuous cycle based on: attracting foreign investments, building infrastructure and hiring cheap labour, and exporting manufacturing goods to the U.S. and other parts of the developed world. Chronic under-investments into India’s infrastructure, combined with foreign investment restrictions, however, have precluded India from adopting this traditional manufacturing export-led growth model so far. According to a June 2016 McKinsey report, India currently has an infrastructure investment gap equivalent to 0.5% of GDP; in addition, 25% of the country’s households lack access to electricity, 6% to clean water, and 82% to internet access.

*2East Asian economies consist of countries such as Japan, South Korea, China and Taiwan.*

[Sources: Forbes 22.03.17, accessed 27.08.18]

# Extract 10: India stumbles on business-friendly reforms

That India is pro-business but not necessarily pro-market is a frequent refrain. “The government wants to create jobs, not the environment in which job-creation flourishes,” says one investor. Special economic zones are set up sometimes to entice single companies. Even big foreign investors are essentially told what to do: Walmart can only open cash-and-carry stores closed to the general public, Amazon must sell mostly other merchants’ goods rather than its own, and so on.

Evidence of the mistrust of markets is abundant. Indian farmers need more fertiliser, but imports are taboo and price controls discourage investment in new factories. No matter: the government has leaned on Coal India and a power utility, of all companies, to try their hand at it. If venture capitalists are wary of funding Indian startups, the state will do it in their stead, badly. A government fund launched five months ago for this purpose has so far made just one investment.

[Source: The Economist 25.06.16, accessed 27.08.18]

# Extract 11: Disruptive change weighs on the Singapore economy

The slowdown in Singapore’s growth is the result of a confluence of short-term cyclical headwinds, as well as longer-term structural issues.

The world economy has yet to completely shake off the vestiges of the global financial crisis and continues to lack a strong growth driver. This is the result of an "absence of a meaningful rebound in consumer confidence globally, which is weighing on investment and hiring decisions", says CIMB Private Bank economist Song Seng Wun.

"Singapore is caught in that crossfire," he adds, noting that the Republic's key trading partners have all been grappling with their own sets of challenges. World oil prices had been fairly stable from 2010 until mid-2014, at around US$110 a barrel. But they have almost halved since, plunging the oil and gas industry into a crippling slump. Companies in Singapore have not been spared the effects of this protracted downturn

But some economists say the slowdown is not merely cyclical. Prime Minister Lee Hsien Loong said in his National Day Rally speech in August that disruptive change is the "defining challenge" facing Singapore's economy. Technology has transformed almost every industry - from food delivery to manufacturing. These developments have left both challenges and opportunities in their wake, most obviously in the labour market. There are thousands of jobs waiting to be filled in growing sectors like IT, precision engineering, education and healthcare. But many workers who have been laid off lack the necessary specialized skills required in these roles.

[Source: The Straits Times 30.10.16, accessed 27.08.18]

# Questions

1. With reference to Figure 2 and Table 2:
   1. Compare the gross fixed capital formation over the period 2013-2016 between India and Singapore. [2]
   2. Explain a possible reason for the trend of India’s gross fixed capital formation growth over the period 2013-2016. [2]
   3. Using a PPC diagram, explain an opportunity cost arising from a country’s decision to allocate more resources to investment spending. [4]
2. Explain the meaning of real GDP per capita. [2]
3. How far does the data in Table 2 allow one to conclude whether the average Indian or the average Singaporean is likely to experience a larger improvement in living standards over the period 2013-2016? [7]
4. Using AD/AS analysis, explain how a collapse in commodity prices (Extract 8) and a relatively tight monetary stance (Extract 8) have kept inflation low in India. [7]
5. Extract 11 suggests that slowing growth in Singapore is due to a ‘confluence of short- term cyclical headwinds, as well as longer-term structural issues’. Discuss the relative importance of cyclical and structural factors in causing growth to slow down. [9]
6. India has progressed towards a free-market economy that saw the government introduce policies that included a reduction of taxes and subsidies, removal of price controls and opening up domestic markets for foreign investment. The International Monetary Fund says India also needs active government intervention to increase infrastructure spending.

Assess the case for a greater reliance on the free market, rather than government intervention, to achieve economic growth and low unemployment. [12]

## [Total: 45]