5(b) Discuss whether the Sg govt should change its policies for managing the BOP.

Intro: BOP -> record of international transactions between residents in a country, and the rest of the world

-> 3 accounts

1. Current a/c (BOT, Y flows)
2. Capital a/c (I, hot money flows)
3. Financial a/c (I, hot money flows)

Thesis: Sg should not change its current policies to manage its BOP.

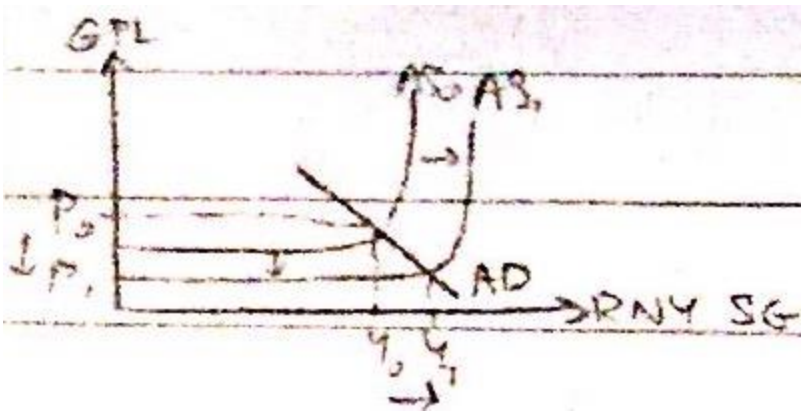
- Sg currently adopts ER policy
    - Modest gradual appreciation
    - Helps to moderate M Expenditure (When SGD appreciates, M become cheaper in terms of SGD)
    - Sg's X remain price competitive when other countries currencies appreciate more compared to SGD
    - Q demanded of SG's X increases, c.p. By MLC (x-m)↑, price of Sg's X cheaper in terms of foreign currency.
    - BOT improves, c.p. BOP improves.
    -
- Sg adopts SS-side policies to ↑ productive capacity of economy

    ↑ quality of labour

    ↓ COP

- Education & Retraining
    - Equip labour with relevant skills
    - ↑productivitiy & efficiency
    - ↑quality of labour -> productivity ↑ output/hour -> ↑AS, ↑productive capacity
    - NWC ensures ↑productivity > ↑wages -> ↓unit COP, AS↑
    - Outward shift of AS curves, ↓GPL, ↑RNY c.p.

**Link to ↑export competitiveness*



- ↓GPL P0 to P1
    - attracts FDI, productive workforce & skilled labour also attract FDI
    - ↑FDI, capital a/c improves, c.p. BOP improves

**Link to ↑export competitiveness*

Limitations: SS-side policies take a long time to see its effects, retraining is a long process

- ↑productive capacity due to ↑quality of labour not guaranteed
    - Poor employer support
    - Sloppy attitudes towards retraining programs

Therefore, ↑FDI may not be substantial -> limited improvements in K a/c.

Anti-thesis: Sgshould change its policies for managing the BOP.

- Modest & gradual appreciation
    - ↓A.G. during recessions (2008 global financial crisis)
    - SG appreciates against trade-weighted basket of currencies
    - Px of Sg's X in foreign currency ↑ , Qty demanded of Sg's X ↓
    - In recession, RNY other countries ↓ , dd for Sg's X ↓ because Sg X ↑ value-added goods -> YED > 0
    - If MLC (PEDx + PEDm > 1) holds -> Appreciation -> ↓ (x-m) -> BOT & BOP worsen, c.p.

*Shouldn't they change to a "zero" appreciation

- ↓corp. Trade during recession
    - Remain attractive to FDI
    - FDI ↑, k a/c improves, P.G ↑

- Sign more FTAs
    - Enlarge size of X market
    - (x-m) ↑ -> BOT improves -> BOP improves
    - *Eg. Sg hopes to sign FTA with canada*
    - Facilitate FDI inflow -> k a/c improves

Conclusion:

- Ultimately, Sg should change its policies when managing BOP, depending on the business cycle, whether Upswing / Downswing
- If global economic outlook is gloomy, change in policy is necessary to ↑ (x-m) to improve BOT position amidst a decline in (x-m) initially.
- Sg usually changes its policy (ER) to zero appreciation in order to mitigate (x-m) ↓ which critically worsens Sg's BOP position in SR.
- However, SS-side policies should remain unchanged
    - LR to take effect
    - ↑ productive capacity will attract FDI, improve k a/c in LR