



Worksheet 19.3

Helping Singapore become an Advanced Economy

Singapore is an economy which is operating at a level which is very close to its full potential. The island has no natural resources, very little spare land and a small but educated workforce. The recent global financial crisis highlighted Singapore's vulnerability to changes in the global economy. Singapore is very export dependent country with a large positive trade balance.

The latest government budget was announced here last week and the focus has shifted towards improving productivity in the economy to make it more resilient to these external shocks in the future. The shift has been from Demand Side Policies a year ago, at the depths of the recession, to Supply Side policies in the recovery phase.

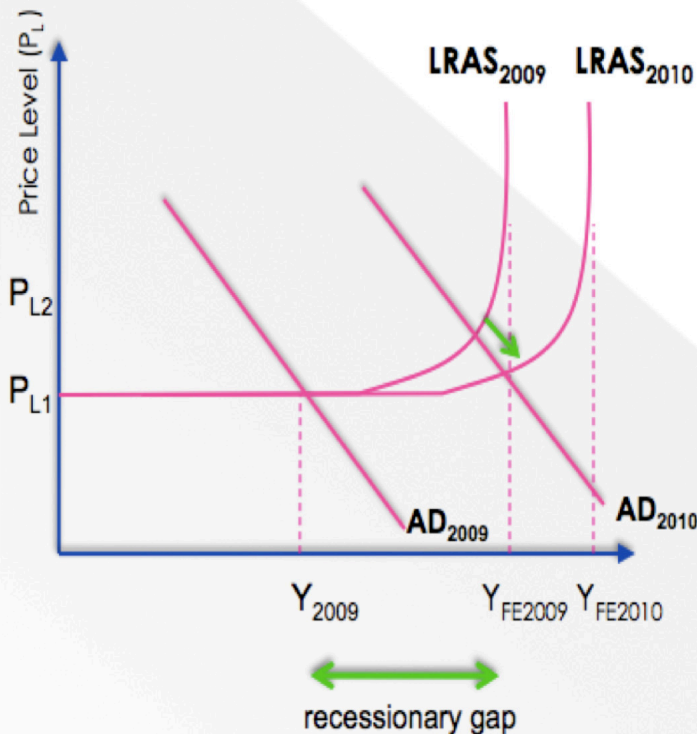
Singapore has always been considered one of the original Four Asian Tigers. The four tigers (Hong Kong, South Korea, Taiwan and Singapore) were economies with shared free market policies and outward looking, export orientated philosophies. All four countries were newly industrialized, and throughout the period between the 1960's and 1990's they all experienced exceptionally high rates of economic growth. More recently other countries tried to follow this model on a road to development.

The following story from [News Singapore](#) reports on the Singapore government's recent budget proposals which aim to make Singapore an advanced economy within a decade. Read [this article](#).

The Finance Minister is focusing on long-term growth and the health of the economy. This suggests that Singapore is using supply-side policies to increase the potential capacity of the economy and shift the Long Run Aggregate Supply curves towards the right. From a Keynesian perspective, supply side policies are effective when the economy is approaching its full potential. The policies are considered ineffective when the economy is a recession with depressed aggregate demand. This idea is illustrated below. (note: the same policies can also be illustrated slightly differently, using a neoclassical perspective of LRAS)



Supply and Demand Side Policies in Singapore



- As a result of supply side policies, the LRAS curve will be shifted to the right, but only the vertical part shifts. This is still a good thing because the productive potential of the economy has improved. A higher real national income can be achieved before the cost of inflation kicks in.
- These policies are only good when the economy is close to the full employment level (Y_{FE2010}) and cause a shift down the AD curve.
- When the economy was at Y_{2009} the government preferred demand stimulus and increased government spending. In 2010 they have favoured supply side policies.

Questions:

- Explain why in Singapore demand side policies were favoured during the recession, but now Supply Side policies are being introduced.
- Explain how one of the suggested policies will affect the labour market and therefore the level of aggregate supply in the economy.
- What does the finance minister mean by the phrase 'no one is left out as we push for inclusive growth' and how does the government support inclusive growth?
- Evaluate the short-run and long-run effectiveness of supply side policies to increase the level of Real GDP in Singapore.