

Inflation in fdi will lead
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Inflation is defined as the continuous increase in the general price level of goods and services in an economy.

In the case of Singapore, inflation can be caused both by domestic and external demand-pull and cost-push factors. Singapore mainly suffers from demand-pull inflation, which happens when the increase in aggregate demand (AD) continuously exceeds that of aggregate supply (AS), causing excess demand when the economy is near or at full employment. In other words, there is a rise in C, I, G and (X-M), which caused the rise in AD and the upward pressure on the general price level (GPL). Singapore's major source of demand-pull inflation is the rise in income of her trading partners, which lead to the rise of their households' purchasing power and causes an increase in the demand for Singapore's exports. When there is a rise in Singapore net exports, her AD rises, leading to the rise in the GPL. This can be seen when countries like the US recovered from the 2008 global financial crisis.

As the US is one of Singapore's main export market, and when the US' national income rises, the demand for Singapore's export rose. Since the value of Singapore's exports is more than twice the size of her domestic economy, there will be a significant impact on the AD and hence GPL. In addition, given a higher expected rate of return of investing in Singapore when external demand rises, and the fact that multinational corporations (MNCs) which produce in Singapore tends to be export-oriented, there might also be an increase in Foreign Direct Investment (FDI). An increase in FDI will lead to a rise in AD and hence on the GPL. Singapore can also face demand-

pull inflation from domestic causes. When the Singapore economy recovered from the 2008 financial crisis, the purchasing power of households rose.

Furthermore, with the influx of foreign workers coming into Singapore, this also increased the domestic C and AD, and hence GPL. Cost-push inflation occurs when prices are forced upwards by the increase in the cost of production not caused by excess in AD. If firms face a rise in unit costs, they will respond partly by raising prices, partly by passing the costs on to the consumer, and partly by cutting back on production. The causes of cost-push inflation are from the supply-side. The rise in costs may originate from wage-push, imported inflation and depreciating exchange rates. A source of cost-push inflation in Singapore would be the increase in global demand for raw materials or commodities such as food and oil. This increases the unit cost of production as these raw materials are the important factor of production, causing the AS to rise upwards and therefore raising the GPL in Singapore, leading to cost-push inflation.

For example, in 2012, the average crude oil price was at historically high levels because the OPEC restricted their oil production. This was a significant cause of Singapore's high inflation rate that year since demand for her imports is price inelastic, and with little or no substitutes to the imported raw materials like oil, the GPL in Singapore rises. Another cause of Singapore's cost-push inflation would be the government's efforts to cut down the inflow of foreign workers.

By tightening foreign labour policies, it will lead to the overall labour force to rise in a slower rate than the demand for labour, thus resulting in a labour

shortage and a rise in the wage rate. With the rise in the cost of production, AS shifts upwards and lead to cost-pull inflation.