GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

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Business Studies

International Advanced Level
Unit 4: Business in a Global Context

Tuesday 24 January 2017 – Afternoon
Time: 2 hours

Paper Reference
WBS04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ALL the questions in this section.

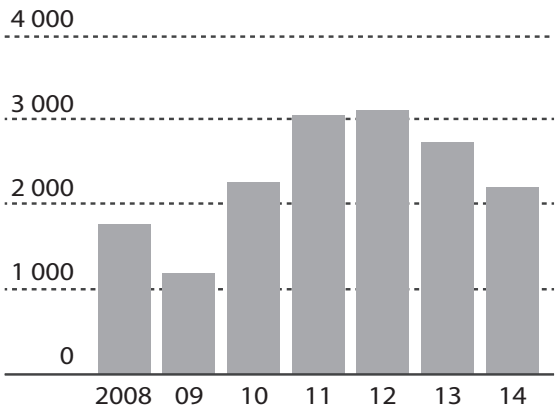
You should spend 60 minutes on this section.

Evidence A: China woes leave *Hyundai* digging deeper

Ten years ago, *Hyundai Heavy* and another South Korean business, *Doosan Infracore*, dominated the Chinese market for excavators with a combined market share of 40%. They achieved this by sharply undercutting the prices of Japanese and US competitors such as *Komatsu* and *Caterpillar*, and enjoyed increasing profits from the rapidly growing Chinese construction market. China's economic growth was a huge benefit for the South Korean economy, which sent 25% of its exports to China in 2014.

Hyundai Heavy Industries

Construction equipment sales



Sales in billions of KRW

But the Chinese market has changed dramatically for South Korea's makers of excavators. In 2014 *Hyundai* sold 3,743 excavators in China, down from its 2010 record of 18,467. *Doosan*'s sales fell from 22,093 to 6,905 over the same period. This large drop reflects a sharp slowdown in the Chinese construction market as developers respond to a surplus of unsold properties.

Sales of other construction equipment have been falling since 2012 as construction companies reduce investment. All manufacturers have suffered. In 2014, 84,573 excavators were sold in China, half the 2011 figure of 169,182.

South Korean manufacturers have suffered more than most. Their price-focused strategy left them exposed to a challenge from Chinese competitors who were able to charge customers even less. The leading one is *Sany Heavy Industry*, which has boosted its market share in China from 6.6% in 2009 to 17% in the first quarter of 2015.

Meanwhile, a reputation for quality has allowed Japanese rivals *Komatsu*, *Hitachi Construction Machinery*, and *Kobe Steel* to retain highly profitable positions at the top end of the excavator market, along with *Caterpillar*, which has doubled its market share in China to 11% over the past five years.

Hyundai and *Doosan*'s share of the Chinese excavator market has shrunk to 5% and 7% respectively, in the first quarter of 2015. This is following a similar pattern to *Samsung Electronics*' smartphone business, which has been squeezed in China between *Apple* at the top end of the market and Chinese rivals at the cheaper end.

Hyundai Heavy's effort to diversify its construction equipment markets has been complicated by world events: revenues from Russia have suffered from the recent collapse of its currency, the rouble, while previously healthy sales in Libya have been "completely blocked" since the overthrow of Muammer Gaddafi.

(Source: adapted from China woes leave Hyundai digging deeper, Simon Mundy © Financial Times 2015)

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Evidence B: *Fyffes* increases profit forecasts as price rises bear fruit

Fyffes is the world's oldest fruit brand and one of the largest fresh produce distributors in Europe and among the five largest globally.

Fyffes has increased its profit forecasts by as much as 20%, despite adverse exchange rates and after price increases on its fresh pineapples and bananas. The price rises were introduced at the beginning of the year to counter these unfavourable exchange rates. The Irish-based company is exposed to currency fluctuations through its global network and has been affected by the weak euro and relatively strong US dollar.

In a trading update, the company said it expected to make an operating profit of between €55m (£39m) and €61m (£43m) in 2015. This compares to an earlier forecast of €44m (£31m).

In 2014, a planned $1bn (£622m) merger between *Fyffes* and its American rival *Chiquita Brands* collapsed. The deal would have created the world's largest banana producer.

The banana market is worth $7bn (£4 354m) a year, with over 100 billion bananas eaten around the world. This makes bananas the fourth most important agricultural product behind wheat, rice and corn.

However, selling bananas is a low profit margin business. Suppliers are getting squeezed by the big retailers and their plantations are often affected by political unrest, natural disasters and bad weather.

(Source: adapted from Fyffes hikes profit forecasts as price rises bear fruit, Simon Mundy © The Telegraph 2015)

1 (a) What is meant by the term **economic growth**? (Evidence A, line 5)

(2)

(b) What is meant by the term **merger**? (Evidence B, line 11)

(2)

(Total for Question 1 = 4 marks)

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2 Explain **two** reasons why economic growth in overseas markets may be important for a business such as *Hyundai*.

(Total for Question 2 = 6 marks)

3 Analyse **two** possible reasons why the directors of *Fyffes* may have wanted to merge with *Chiquita Brands*.

(Total for Question 3 = 8 marks)

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4 Assess the importance of price in *Hyundai*'s marketing mix.

(10)

(Total for Question 4 = 10 marks)

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5 Assess the importance of changes in exchange rates for *Fyffes*.

(12)

(Total for Question 5 = 12 marks)

TOTAL FOR SECTION A = 40 MARKS

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SECTION B

Answer ALL questions in this section.

You should spend 60 minutes on this section.

Evidence C: Developing nations lose over US$100bn in tax revenue each year

The Group of Twenty (G20 – a forum of 20 major economies) hopes to finalise an Action Plan by the end of 2015 to agree a more progressive international tax system that requires multinationals to pay their fair share of tax.

Tax avoidance schemes can be very complex but the aim is simple: companies shift profits across borders to low or no-tax areas to avoid paying higher tax rates in the country where the profit is made. A number of multinational corporations have been accused of using these methods, which are permissible within existing national laws. One of the biggest tax avoiders is *Apple*, which is reported to have shifted an estimated AU$8.9bn (£4.9bn) in untaxed profits out of Australia over the last ten years.

Australia, like other G20 nations, has much to gain from global tax reform. But non-G20 countries also stand to benefit, especially the world's poorest economies.

It is difficult to assess how much money countries lose to tax avoidance, but international aid agency *Oxfam* estimates developing nations lose US$114bn in tax revenue each year. *Oxfam* G20 coordinator Claire Spoors says it has an especially serious impact on low-income countries. "Developing countries tend to be the hardest hit by tax avoidance by multinational corporations. The main reason being that developing countries are more reliant on corporate tax than developed countries."

(Source: adapted from Developing nations lose $100bn in tax revenue each year – will G20 reforms help? Roselina Press © Guardian News and Media Limited, 2014)

Evidence D: An update from Jeff Williams on Supplier Responsibility at *Apple*

In 2014 we conducted 633 supplier audits. As a result, over US$3.96 million was repaid to workers for excessive recruitment fees charged by labour brokers and nearly US$900,000 was paid to workers for unpaid overtime. Underage workers were sent back to school with full tuition and salary. We limit workweeks to 60 hours, with at least one day of compulsory rest every seven days. And all overtime must be strictly voluntary.

In 2014, over 2.3 million workers were trained on our Code and their rights. We invested millions of dollars to expand our Supplier Employee Education and Development (SEED) program. SEED now totals 48 classrooms in 23 facilities, equipped with iMac computers, iPad devices, education software, video conferencing systems, and more. Since 2008, over 861,000 workers have taken courses, free of charge, for personal development.

Tantalum, tin, tungsten, and gold are called conflict minerals because, in the Democratic Republic of the Congo (DRC) and adjoining regions, their extraction may finance or benefit armed groups associated with human rights violations. *Apple* is dedicated to using only conflict-free minerals in our products. *Apple* provided funding to six programs working to drive further change and promote economic development in the DRC and neighbouring countries. The results include successfully increasing the number of miners selling their materials through conflict-free channels.

We are vigorously enforcing our environmental standards – which often go well beyond what's required by law – across our supply chain. Whether it's saving half a billion gallons of freshwater through our Clean Water Program or educating managers through the Environment, Health & Safety Academy, we are working with our suppliers to preserve and protect the planet's precious resources for future generations.

(Source: adapted from *The Apple Progress Report 2015* www.apple.com – Jeff Williams is Apple's Senior Vice President of Operations)

Evidence E: *JLR* pinpoints Slovakia for new plant as it seeks cheap labour



Jaguar Land Rover (*JLR*) plans to expand production and has signed an agreement with the government of Slovakia to build a plant in the west of the country that would produce 300,000 vehicles a year.

The announcement ends speculation that the company might pick Poland, Mexico or Hungary as it looks to benefit from lower labour costs. *JLR* said that Slovakia was selected because it was also close to a strong supply chain and good logistics.

Up to 8,000 jobs in the new plant and associated industries will be created, adding to the 80,000 people already employed in the automotive industry. This will provide a further boost to the Slovakian economy, which is already the fastest growing in Central and Eastern Europe. Car production is the largest industry in Slovakia contributing 12% to the Slovak GDP, it also accounts for 41% of industrial production and 26% of Slovakia's exports. Slovakia's car output rose by more than 70% between 2008 and 2014 when almost one million cars were produced. *Volkswagen*, *Peugeot*, *Citroën* and *Kia* also operate there.

The decision to pick Slovakia is also seen as a precaution against the UK leaving the EU and fluctuations in exchange rates with the single currency.

(Source: adapted from Jaguar Land Rover eyes plant in Slovakia to drive global expansion, Alan Tovey © The Telegraph 2015)

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6 Evaluate the extent to which outsourcing and offshoring have a positive impact on overseas countries.

(20)

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(Total for Question 6 = 20 marks)

7 Evaluate the importance of the labour force to a multinational company such as *Apple* or *JLR* when choosing a production location.

(20)

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(Total for Question 7 = 20 marks)

TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 80 MARKS

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