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Pearson Edexcel
International
Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Business Studies

International Advanced Level
Unit 4: Business in a Global Context

Tuesday 23 January 2018 – 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

Manufacturers intensify their search for low cost alternative to China

Higher wages in mainland China have forced labour-intensive industries such as clothing to find cheaper locations, with Vietnam one of the beneficiaries.

The number of factories moving out of China in search of lower-cost options in Southeast and Central Asia is accelerating, as manufacturers face increased pressure to reduce unit costs. The strength of the yuan and lengthy shipping times were also given as reasons.

Japanese electronics giant *Panasonic Corp* announced in August 2015 that it would close its lithium-ion battery factory in Beijing and cut 1,300 jobs. Taiwan's *Foxconn*, a manufacturer for brands such as *Apple*, also announced in August that it would invest $5bn in India to build assembly plants. Meanwhile, South Korean tech giant *Samsung Electronics* will invest an additional $3bn in Vietnam to add to its existing facilities.

Foxconn's factory in Shenzhen employs more than 200,000 workers. Minimum monthly wages in the city have increased by more than 50% in the past four years.

Wages in China have increased dramatically since 2011. In each of the past two years wages in China have risen by more than 10%, increasing the average monthly salary to 2 030 yuan ($305). The minimum monthly wage in Vietnam is $145.

China's loss has become Vietnam's gain. Tariff cuts, expected after Vietnam enters the Trans-Pacific Partnership (TPP) agreement, are another attraction for manufacturers considering relocation. The TPP involves 12 countries: the US, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru. The TPP aims to deepen economic ties between these nations and increase free trade and growth by reducing and abolishing around 18,000 tariffs. Sources estimate that Vietnam's GDP could grow by an extra $36bn over the next ten years if the deal goes ahead.

It is estimated that in Vietnam, the basic production cost is about 30% less than in China. Vietnam is rapidly increasing its market share in manufacturing categories such as footwear, clothing and electronic products. Vietnamese exports of footwear to the US grew 24% in 2014, while China's rose by only 0.3%

(Source: adapted from © South China Morning Post Publishers Ltd)

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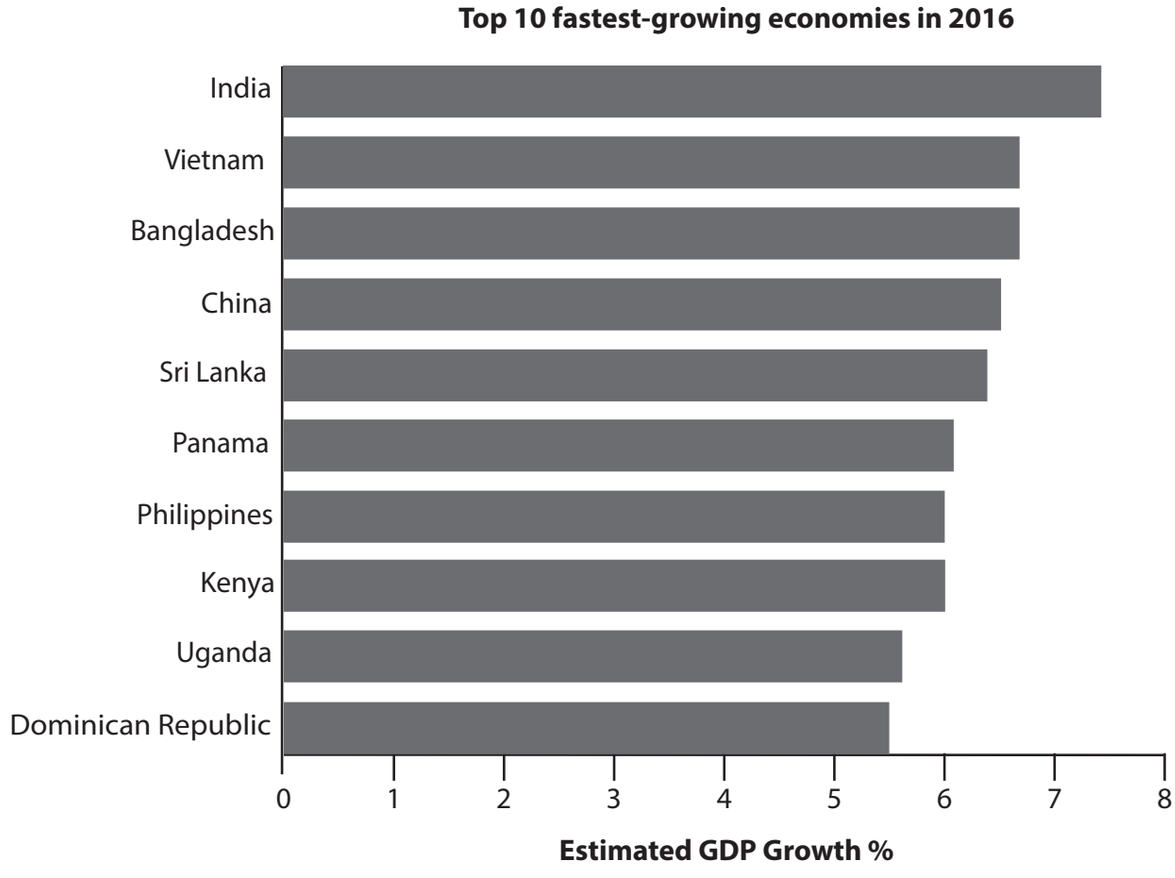
Evidence B

Vietnam's Economy Is an Emerging Market Standout

While growth slowed in the world's largest emerging economies, including Russia, Brazil and China, Vietnam's steady economic growth at nearly 7% in 2016 placed it among the fastest-growing markets in the world. Increasing domestic demand and foreign direct investment helped Vietnam counter the global problems affecting many other economies. Private domestic consumption rose by 9.3% and foreign direct investment surged by 17.4% to a record-high of $14.5bn by the end of 2015.

Vietnam has a communist government. Its draft economic plan for 2016 to 2020 shows a target of as much as 7% average annual expansion in GDP. The government is aiming to increase GDP per capita to $3 500 by 2020. Inflation will be kept below 5% and the budget deficit capped at 4% of GDP.



(Source: adapted from © Bloomberg L.P.)

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1 (a) What is meant by the term labour-intensive? (Evidence A, line 2)

(2)

(b) What is meant by the term inflation? (Evidence B, line 10)

(2)

(Total for Question 1 = 4 marks)

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2 Explain **two** indicators of growth that could be used to identify a growing economy such as Vietnam.

(Total for Question 2 = 6 marks)

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3 Vietnam is about to join the Trans-Pacific Partnership (TPP), a trade bloc.

Analyse **two** possible impacts of this for a business located in Vietnam.

(Total for Question 3 = 8 marks)

4 Assess the importance of low labour costs when businesses are deciding where to locate production.

(10)

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(Total for Question 4 = 10 marks)

5 Assess the potential impact on Vietnam of increased investment from multinational corporations (MNCs) such as *Samsung*.

(12)

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(Total for Question 5 = 12 marks)

TOTAL FOR SECTION A = 40 MARKS

SECTION B

Answer ALL questions in this section.

You should spend 60 minutes on this section.

Evidence C

Revlon* to buy *Elizabeth Arden

US cosmetics company *Revlon* has agreed to buy a rival cosmetics company *Elizabeth Arden* in an $870m takeover. The deal will bring together *Revlon*'s cosmetics and hair colour products with its rival's anti-ageing creams and celebrity licensed fragrances. The move will create a much bigger company with annual sales of $3bn. *Revlon* paid 50% more than *Elizabeth Arden*'s current share price.

Elizabeth Arden is based in Florida, USA, and is known for its luxury skincare products, especially anti-ageing ranges. Its brands include Prevage, Ceramide and its trademark Eight Hour range, which was launched in 1930 and is still *Elizabeth Arden*'s bestseller. Its fragrances include those licensed from celebrities including Britney Spears, Justin Bieber and Taylor Swift.

Revlon's strength is in hair colour and make-up, which are sold through mass retail channels and beauty salons in 130 countries. The takeover will expand the firm's presence around the world.

The deal is expected to generate $140m of cost savings by integrating the manufacturing and distribution networks of both companies, removing excess capacity and giving them greater purchasing power.

The beauty market is a tough business: the new company is up against New York-based *Estée Lauder*, and the world's largest cosmetics company, *L'Oréal*, based in Paris.

(Source: adapted from © Guardian News and Media Limited)

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Evidence D

A Global Niche Market Leader



Evans Consoles, a Canadian business, has gained recognition as a world leader in the design and manufacture of control rooms for airports and other complex control operations. The company's client list is impressive: *NASA, FBI, AT&T, Honeywell, Dubai Civil Aviation Authority, Deutsche Telekom* and *China Railway Corporation*, to name just a few. The US Federal Aviation Administration has awarded *Evans Consoles* a nationwide contract for all air traffic control towers.

Evans Consoles has even provided *Universal Pictures* with a state-of-the-art control room console for the film 'Fast and Furious'. *Evans Consoles* will be working with Hollywood producers on a number of future feature films.

Evans Consoles offers clients a completely personal service. All aspects of the control room are taken into consideration at the design phase: acoustics, lighting, temperature, traffic flow, and even floor covering. In order to remain at the forefront of evolving technologies, it invests heavily in R & D, spending over $500 000 annually.

(Source: adapted from © Business In Focus)

6 Evaluate the merits of expanding by takeovers for a business such as *Revlon*.

(20)

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(Total for Question 6 = 20 marks)

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7 Evaluate the benefits of operating in a global niche market for a business such as *Evans Consoles*.

(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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