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Candidate surname

StemUp Model Solution

Other names

Pearson Edexcel
Level 3 GCE

Centre Number

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Tuesday 4 June 2019

Morning (Time: 2 hours)

Paper Reference **9EB0/03**

Economics B

Advanced

Paper 3: The economic environment and business

You must have:

Insert (enclosed)

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.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- 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.

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Pearson

Answer ALL questions.

SECTION A

Read the following extracts (A to E) and Figures 1, 2, 3, 4 and 5 before answering Question 1.

Write your answers in the spaces provided.

Extract A

Swedish labour market 'tougher than ever'

The labour market in Sweden is under more pressure than any of the other countries included in a new global report and the situation is deteriorating each year. The *Hays Global Skills Index* is a 10-point scale where a score higher than 5 indicates that the labour market is under pressure. This year Sweden scored 7.0 out of 10, compared to last year's score of 6.8. 5

One of the key issues is a 'skills mismatch', meaning that while there are jobs available in Sweden and job-seekers, there is a shortage of people with the skills the labour market demands.

"Companies in the high-skilled industries are struggling to find the right talent and thus wages in these niche industries are peaking," Johan Alsen, Managing Director for *Hays Sweden*, explained in the report. He said that the upwards trend was expected to continue, at least in the short term, due to the lack of changes made to the Swedish education system which could tackle the skills shortage. 10

He also said, "At the same time, other parts of the Swedish labour market are becoming more fragmented as unemployment amongst the lower skilled remains at rather high levels. Wages are decreasing in these sectors as politicians aim to create more jobs for the less-skilled workforce." Vacancies in Sweden rose by 29% in the past year, the third largest rise of the countries included in the study. 15

Sweden's extremely high score of 9.8 in the 'skills mismatch' category shows how hard it can be for employers to find the right people for the job. It scored a 10.0 for 'wage pressure in high-skilled industries', meaning that in skilled sectors such as IT, it has led to a speedy rise in wages, in turn increasing the gap between wages in high-skilled and lower-skilled industries. 20

Sweden has been widely criticised over the past year for strict regulations on work permits for employees outside the EU. Hundreds of non-EU workers with jobs in Sweden, many of them working in the technology sector, have been ordered to leave the country over minor administration errors in their paperwork. 25

(Source adapted from: <https://www.thelocal.se/20171117/swedish-labour-market-tougher-than-ever>)

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Extract B

American factories could prosper if they find enough skilled workers

A widening skills gap means that over half of new manufacturing jobs in the decade to 2025 may go unfilled. A huge problem is that factories are struggling to find enough skilled workers. The Manufacturing Institute, an industry body, calculates that there will be nearly 3.5 million manufacturing job openings in America in the decade to 2025, but that 2 million may not be filled.

5

Much is being done to address a national shortage of skills. A coalition of research institutes, manufacturers and federal agencies launched the National Network for Manufacturing Innovation in 2014. This public-private partnership aims to speed up the development and adoption of such advanced techniques as 3D-printing and digital manufacturing, and to help train workers in these areas. Continued technological progress will keep manufacturing employment from returning to past levels. However, if firms can find enough skilled workers to use the machines, the sector's output could really take off.

10

(Source adapted from: American factories could prosper if they find enough skilled workers © The Economist - October 2017)

Extract C

The Global Competitiveness Index 2017–2018

Covering 137 economies, the Global Competitiveness Index 2017–2018 measures national competitiveness – defined as the set of institutions, policies and factors that determine the level of productivity.

Figure 1

Current ranking	Economy	Score	Previous ranking
1	Switzerland	5.86	1
2	United States	5.85	3
3	Singapore	5.71	2
4	Netherlands	5.66	4
5	Germany	5.65	5
6	Hong Kong SAR	5.53	9
7	Sweden	5.52	6
8	United Kingdom	5.51	7
9	Japan	5.49	8
10	Finland	5.49	10

(Source adapted from: <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>)



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Extract D

Sweden – selected indicators

Figure 2 - Unemployment rate

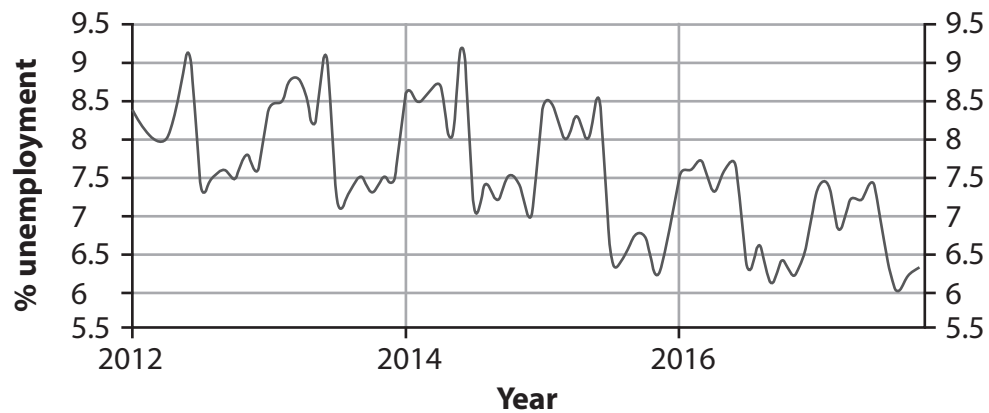


Figure 3 - Productivity

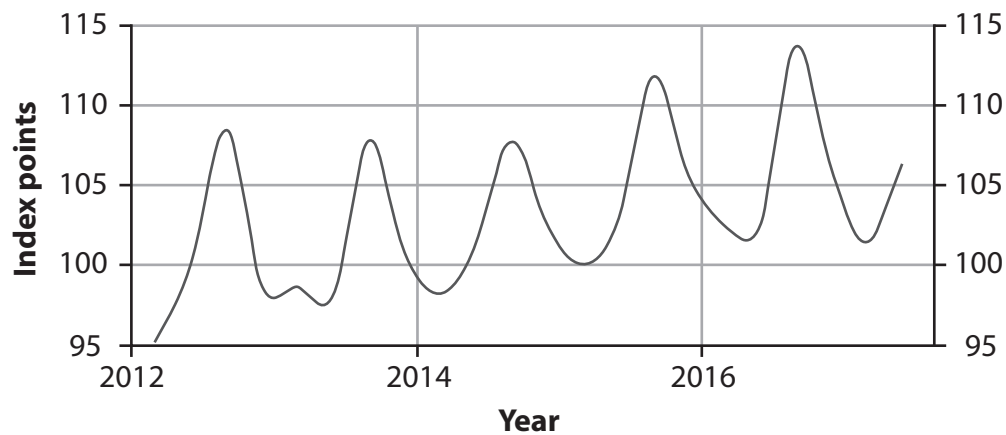
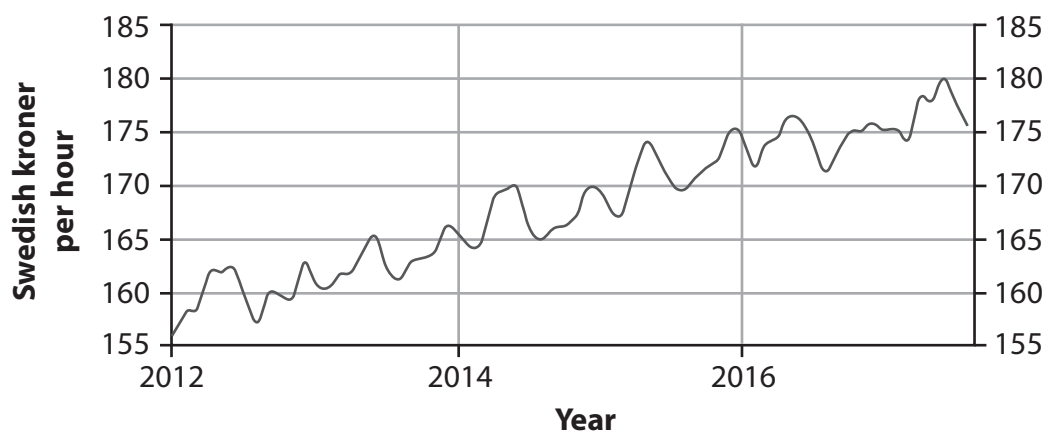


Figure 4 - Wages in manufacturing



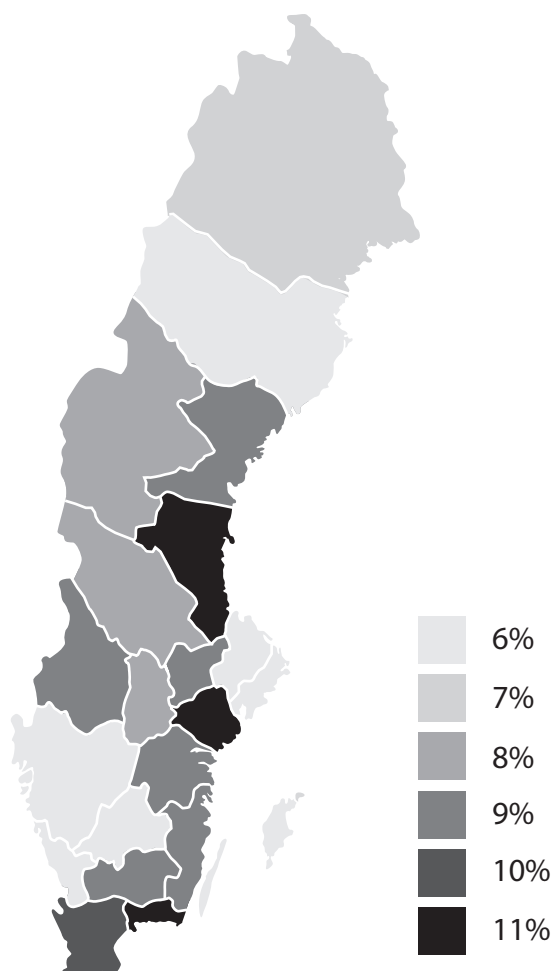
(Source adapted from: <https://tradingeconomics.com/sweden/>)



Extract E

Percentage unemployment in Sweden's counties as of January 2017

Figure 5



Where you live in Sweden can have a significant impact on your likelihood of being unemployed. While the unemployment rate for Sweden as a whole dropped to 7.8% in January 2017 compared to 8% the previous year, the statistics show that the rate varies between Sweden's 21 counties.

University city Uppsala and its surrounding county has the lowest unemployment rate in Sweden at 5.9%. A short drive north to Gävleborg sees the rate hit 11.4% – the highest in Sweden. Similarly, Stockholm is the county with the second lowest unemployment rate at 6%, but a short drive west to Södermanland sees the rate shoot up to the second highest in Sweden, 11%.

(Source adapted from: <https://www.thelocal.se/20170213/this-map-shows-where-youre-most-likely-to-be-unemployed-in-sweden>)

5



1 (a) Discuss the possible effect of migration on skills shortages.

(8)

Migration is the movement of people from one place to another, either internally (from region to region) or externally (between countries), for economic, political or social reasons. A skills shortage exists when employers have vacancies but cannot find enough job-seekers with the particular skills required, as in Sweden where the skills mismatch score is 9.8 out of 10.

Migrants tend to be young and of working age and come looking for work, so immigration increases the supply of labour. If migrants have the skills employers need, for example nurses, plumbers, carers or IT engineers, they fill vacancies directly. As my diagram shows, supply of skilled labour shifts from S_1 to S_2 , employment rises from Q_1 to Q_2 and the wage falls from W_1 to W_2 . This matters for Sweden, where wage pressure in high-skilled industries scores 10.0 and vacancies rose by 29%, so skilled migrants would ease the shortage, stop wages 'peaking' and help firms expand output. However, migrants may not have the skills that employers need, so they may simply add to the pool of low-skilled job-seekers, where Swedish unemployment is already high. Even skilled migrants may face barriers such as language, or qualifications that are not recognised, so the shortage is not filled quickly. Government policy also matters:

Sweden's strict work permit rules have forced hundreds of non-EU technology workers to leave, which makes the shortage worse. Emigration of skilled workers (a brain drain) can also create shortages in the country they leave.

Overall, migration can reduce skills shortages in the short run, but only if the migrants have the right skills and the rules allow them to work. It is not a substitute for long-term training and education reform.

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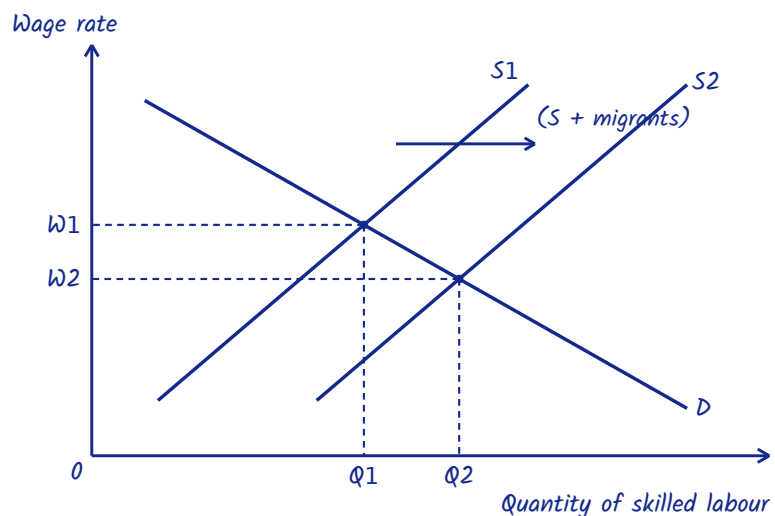
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(b) Assess the connection between productivity and wages.

(10)

Productivity measures the amount of output produced from a given amount of inputs.

Labour productivity is output per worker (or per hour worked) in a given time period.

Wages are the price paid for labour.

There is a strong connection between the two. If labour productivity rises, each worker produces more, so fewer resources are needed per unit and the average cost of production falls. A firm can then cut its price to gain a competitive advantage and increase sales, or keep the price the same and increase its profit per unit. Either way the worker has become more valuable to the employer (the marginal revenue product of labour has increased), so the demand for labour rises and the firm can afford to reward workers with higher pay, and must do so to keep them.

Extract D supports this. Swedish productivity rose from an index of about 95 in 2012 to peaks of about 113 in 2016 to 2017, while manufacturing wages rose from about 155 to about 180 kroner per hour, an increase of around 16% $((180 - 155) \div 155 \times 100)$. Both trends are upwards over the same period. Equally, workers with low productivity, such as the lower skilled in Sweden, tend to receive lower wages.

However, the connection is not automatic. Productivity is not raised by labour alone: much of the increase comes from technology, capital investment and innovation, such as 3D printing and digital manufacturing (Extract B). Technology can replace labour, reducing both the quantity of workers and the skills needed, so wages may fall in some jobs even as productivity rises. Figure 3 also shows productivity fluctuating sharply each year while wages rise fairly steadily, so in the short run the link is weak.

Wages also depend on other factors such as the demand for and supply of labour and imperfections in the labour market. In Sweden high-skilled wages are 'peaking' mainly



because of a skills shortage, not just productivity, while trade unions, professional bodies and minimum wage laws can push wages above the level that productivity justifies.

Conversely, monopsony employers can pay below it.

In conclusion, productivity and wages are closely connected in the long run, as Extract D shows, because productivity determines what firms can afford to pay. However, the strength of the connection depends on whether the gains come from labour or capital, and on the bargaining power of workers and the balance of supply and demand in each labour market.



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(c) Assess the impact skills shortages may have on international competitiveness.

(12)

International competitiveness is the ability of a country's firms to sell goods and services in global markets on price and on quality. A skills shortage occurs when employers cannot find enough workers with a particular skill, such as IT workers in Sweden (Extract A) or skilled factory workers in America, where 2 million of nearly 3.5 million manufacturing job openings to 2025 may go unfilled (Extract B).

First, a skills shortage raises costs. The demand for skilled labour is high but supply is limited and inelastic in the short run, so the wage rises sharply, as shown in my diagram (W_1 to W_2), with only a small rise in employment (Q_1 to Q_2). Sweden scores 10.0 for wage pressure in high-skilled industries. Higher wages raise unit labour costs; if firms raise prices to maintain profitability, domestic goods lose price competitiveness to cheaper foreign substitutes and exports fall.

Second, it restricts output. New industries that need new skills find it hard to recruit, so output is limited and the country lags behind rivals, which can be crucial in establishing a competitive advantage early. Extract B says that if American firms could find enough skilled workers, output 'could really take off'. Third, without the right skills, innovation and the adoption of new technology such as 3D printing are slowed, so productivity grows more slowly and non-price competitiveness also suffers.

However, the impact may not be overwhelming. Extract C shows that despite skills shortages, the United States is ranked 2nd and Sweden 7th in the Global Competitiveness Index 2017 to 2018, with scores of 5.85 and 5.52, close to Switzerland at 5.86. Competitiveness depends on many factors, such as institutions, infrastructure, the exchange rate and innovation, not only skills. Many rival countries also have shortages, so relative competitiveness may change little. Sweden did fall from 6th to 7th, though, which may be an early warning.

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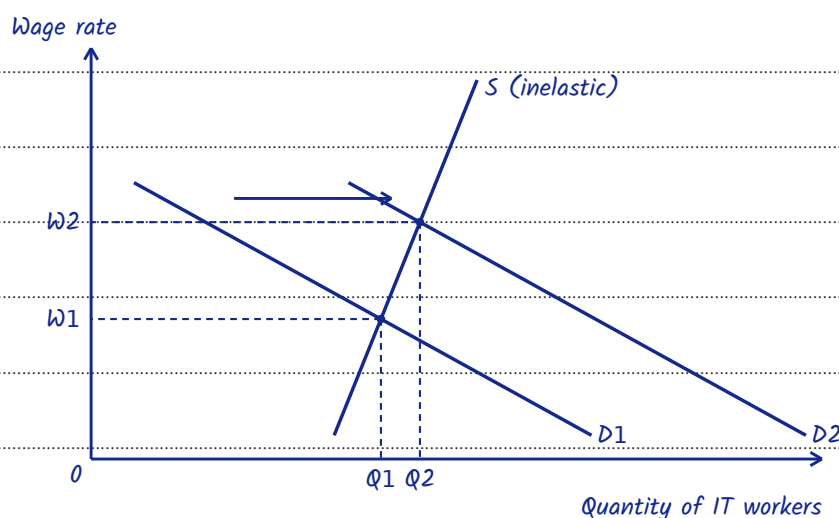
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Governments can also intervene. Supply-side policies such as education and training, encouraging technology subjects in schools, and re-skilling the unemployed increase the quantity and quality of skilled labour, as the National Network for Manufacturing Innovation aims to do in the USA. Migration may mitigate the problem in some countries, but it may make it worse in others that lose skilled workers.



Overall, skills shortages can damage international competitiveness through higher costs, lower output and slower innovation, especially in high-tech industries. The impact depends on how severe and long-lasting the shortage is and how quickly governments and firms respond. In the long run, if the Swedish education system is not reformed, the effect is likely to grow.



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(d) Evaluate the policy options the Swedish government might use to reduce unemployment.

(20)

Unemployment exists when people who are willing and able to work cannot find a job.

Figure 2 shows that Swedish unemployment fell from about 8 to 9% in 2012 to 2014 to between about 6% and 7.5% in 2017, and Extract E gives 7.8% in January 2017, so there is still a problem to solve. The government can use demand-side policies (fiscal and monetary) or supply-side policies.

With fiscal policy, the government could reduce taxation. Lower income tax increases disposable income, so consumption and aggregate demand rise; firms produce more output and, since labour is a derived demand, they hire more workers. The government could also increase spending, for example on education and health. This creates demand for new schools and hospitals, boosting construction, and then more teachers and health workers are needed, creating jobs and spending power. Through the multiplier, AD rises further. As my diagram shows, AD shifts from AD1 to AD2 and real GDP rises from Y1 to Y2, reducing cyclical unemployment.

Monetary policy could cut interest rates, making borrowing cheaper for consumers and firms, which stimulates consumption and investment and so AD, with the same effect.

However, demand-side policies only work if there is a lack of demand and spare capacity. Too much stimulus causes inflation (P1 to P2) and, with Sweden's wages already peaking in skilled sectors, demand-pull inflation is a real danger. Higher spending or lower taxes also increase the budget deficit, and monetary policy is limited if interest rates are already very low.

Extract A suggests the key problem is a skills mismatch, with Sweden scoring 9.8 for skills mismatch and 10.0 for wage pressure, while vacancies rose 29%. There are jobs and job-seekers, but the unemployed lack the skills employers want. This is structural unemployment, so supply-side policies are needed. The government could create training

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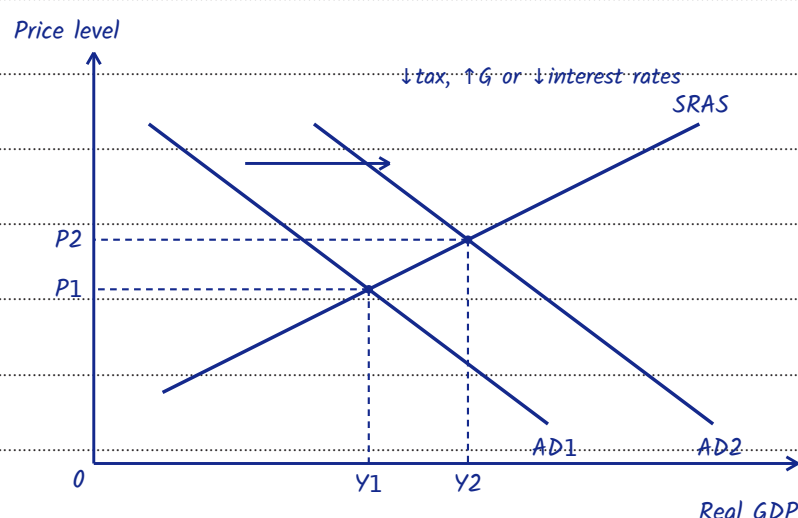
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programmes for the unemployed so they gain the skills needed in IT and high-tech industries, and reform the education system, since Extract A blames the lack of change in Swedish education for the shortage.

Extract E shows unemployment varies greatly by region, from 5.9% in Uppsala and 6% in Stockholm to 11.4% in Gävleborg and 11% in Södermanland. This suggests regional structural unemployment, best tackled by targeted supply-side policies, such as training centres, grants or tax incentives for firms that locate in the counties with the highest unemployment, and better transport links so workers can commute to nearby cities such as Stockholm and Uppsala.

Figure 2 also shows regular fluctuations every year, which suggests seasonal unemployment. The government might encourage alternative industries that employ



people in those months.

However, supply-side policies take time to implement and longer still to produce results.

A training course or education reform may take years to reduce unemployment, which does not ease the current problem. They are also costly and there is no guarantee that the unemployed will take part or that the training will match future skill needs.

In the short term, Extract A suggests relaxing the strict regulation of work permits for non-EU workers. This would fill skilled vacancies quickly, allowing firms to expand and



create further jobs for lower-skilled workers, while the long-term supply-side policies take effect. However, it may be politically unpopular and does not help the existing unemployed directly.

In conclusion, because Sweden's unemployment appears to be mainly structural and regional rather than cyclical, demand-side policy is likely to be the least effective and risks inflation. The best option is a combination: targeted supply-side policies on training, education and the worst-hit counties for the long run, with relaxed work permit rules as a short-term measure. Their success depends on how quickly they are implemented and on the state of the global economy.

(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS



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SECTION B BEGINS ON THE NEXT PAGE.



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SECTION B

Read the following extracts (F to H) before answering Question 2.

Write your answers in the spaces provided.

Extract F

Adidas's high-tech factory brings production back to Germany

Behind closed doors in the German town of Ansbach a new factory is taking shape. It will use robots and novel production techniques such as 3D printing. What is unique about this factory is that it will not be making cars, aircraft or electronics but trainers and other sports shoes – an \$80bn-a-year industry that has been offshored largely to China, Indonesia and Vietnam.

5

The Speedfactory, as the Ansbach plant is called, belongs to *Adidas*, a giant German sports goods firm. Production began in mid-2017, slowly at first and then increasing up to 500,000 pairs of trainers a year. *Adidas* is constructing a second Speedfactory near Atlanta for the American market. If all goes well, more Speedfactories will be opened in Germany and other countries.

10

Currently, trainers are made mostly by hand in giant factories in Asia, using division of labour, with people assembling components or shaping, bonding and sewing materials. Rising prosperity in many Asian countries means the cost of manual work outsourced to the region is rising. Labour shortages may become a problem.

15

Adidas's motivation for its Speedfactories, however, goes well beyond labour costs. People want fashionable shoes immediately, but the supply chain struggles to keep up. From the first sketch of a completely new pair of trainers to seeing the finished goods in the shops can take as long as 18 months. An order to replenish an existing design can take two or three months unless shoes travel by aircraft at a huge cost rather than in a shipping container.

20

The Speedfactory's main strength is to shorten the supply chain, and so the time taken to get the products to shops is less than a week, perhaps even to a day, once the trainer design is complete.

Adidas claims its new production system is extremely fast and highly flexible. Instead of ordering components that will be assembled into a new pair of trainers, the Speedfactory will instead make most of the parts itself from raw materials, such as plastics, fibres and other basic substances. The machines carrying out this work will be highly automated and use processes such as computerised knitting, robotic cutting and 3D printing.

25

(Source adapted from: *Adidas's high-tech factory brings production back to Germany* ©The Economist - Jan 2017)

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Extract G

Adidas leads the way as four companies win the 'Stop Slavery' Award

Adidas was revealed as the overall winner of the second Thomson Reuters Foundation Stop Slavery Award, which celebrates businesses that excel in efforts to identify, investigate and root out forced labour from their supply chains.

Global fashion retailer *C&A*, US technology company *Intel* and British mutually-owned retail and services group *The Co-operative Group* were the other winners of the annual award designed by Turner Prize winning sculptor Anish Kapoor. 5

With modern slavery increasingly dominating headlines worldwide, businesses are under increasing pressure from both governments and consumers to reveal what actions they are taking to ensure their supply chains are free from slavery. 10

About 25 million people globally were estimated to be trapped in forced labour in 2016, according to the International Labor Organization (ILO) and the human rights group, Walk Free Foundation.

Adidas, the world's second-biggest sportswear firm, was praised for its transparent audits, strong responsible sourcing guidelines, and robust tools to trace higher-risk supply chains. The sportswear giant was one of the world's first companies to create a role dedicated to fighting slavery, and uses technology to encourage workers to speak out about any abuses. 15

Intel, the world's largest computer chipmaker, was awarded for its innovation. The company has openly discussed its anti-slavery efforts, and refused new business with several suppliers who have failed to implement measures to combat forced labour. 20

(Source adapted from: <https://www.voanews.com/a/adidas-leads-way-as-four-companies-win-stop-slavery-award-/4117648.html>)

Extract H

Intel to move part of production from Malaysia to Vietnam

US-based chipmaker *Intel Corporation* will relocate a part of its production facility in Malaysia to Vietnam and China in an effort to cut labour costs. The relocation of the *Intel* plant in Kulim, Malaysia to facilities in Vietnam's Ho Chi Minh City and China's Chengdu will result in the layoff of 600 Malaysian workers at the plant. 5

Many technology corporations like *Samsung*, *LG*, and *Microsoft* have also been moving production bases to Vietnam due to its cheap labour and the strategic location of the country as a gateway to the Southeast Asian region.

(Source adapted from: http://www.chinadaily.com.cn/business/tech/2015-06/05/content_20921341.htm)



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2 (a) Discuss the benefits of division of labour for a manufacturer such as Adidas.

(8)

Division of labour is where the production process is broken down into separate tasks and each worker specialises in one part of it. In Adidas's Asian factories, workers specialise in assembling components or in shaping, bonding and sewing materials.

The main benefit is higher productivity. By repeating the same task, workers become quicker and more proficient, so output per worker rises. Time is not wasted moving between tasks or tools, and less time and money is spent training each employee, because they only need to learn one task. Higher productivity lowers average costs, so Adidas can either reduce the price of its trainers or increase its profit margin. This is important because Adidas operates in a competitive, \$80bn-a-year market with rivals such as Nike. Specialisation also makes it easier to use specialist machinery for each task, which links to the automation in the Speedfactory.

However, the benefits have limits. The work is repetitive and boring, so workers may become demotivated, which can lead to mistakes, poor quality and high labour turnover.

Labour is less flexible, so absence or illness is difficult to cover and production can slow or halt altogether, since each stage depends on the one before. With labour costs rising in Asia, the cost savings are also shrinking.

Overall, division of labour has brought large cost benefits to Adidas in mass production, but these depend on keeping workers motivated, and they are becoming less important as robots and 3D printing take over these tasks.

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Intel, Samsung, LG and Microsoft have all moved production bases to Vietnam.

(b) Assess the possible impact of this on the local labour force in Vietnam.

(10)

The move of Intel, Samsung, LG and Microsoft to Vietnam is foreign direct investment (FDI) by multinational corporations, attracted by cheap labour and Vietnam's strategic location as a gateway to South East Asia (Extract H). It will have both short-term and long-term impacts on the local labour force.

To begin with, construction work of all kinds is needed to build the factories, so local building firms, electricians and other specialist trades gain work. Once built, the factories need employees, providing jobs and incomes for local people, often at higher wages than in agriculture. The income from these jobs is spent with local businesses, which may prosper and create more employment in turn through the multiplier effect. Local suppliers of components and services may also expand.

In the long run, the labour force may gain new skills through technology transfer and training from firms such as Intel, and local managers and executives may be recruited, raising the skill level and productivity of the workforce. MNCs may also invest in infrastructure or CSR projects that benefit local people.

However, as Extract H suggests, the benefit can be short-lived. Intel has just closed part of its plant in Malaysia, with 600 local workers losing their jobs. The same could happen in Vietnam: as Intel, Samsung, LG and Microsoft all compete for workers, wages and costs will rise, which may cause them to look elsewhere for cheaper labour in years to come. The jobs created may be mainly low-skilled assembly work, with the high-skilled research and management roles staying in the home country, limiting the skills gained.

In addition, although these firms are reputable, some MNCs have exploited local labour forces with low pay, long hours and poor working conditions, and workers in rural areas

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may migrate to the cities, causing overcrowding.

Overall, the impact on the Vietnamese labour force is likely to be positive in the short to medium term through more jobs, higher incomes and new skills. The long-term impact depends on whether Vietnam uses this period to upskill its workforce so that it remains attractive once its labour is no longer the cheapest.



P 5 8 2 9 1 A 0 2 1 2 8

- (c) Assess the importance of having an ethical supply chain for a business such as Adidas or Intel.

(12)

A supply chain consists of all the stages from raw materials to the finished product reaching the customer. Much of it may be global and carried out by independent firms beyond the direct control of a business such as Adidas or Intel. Behaving ethically means following a moral code and doing the 'right thing' for all stakeholders, beyond what the law requires, for example ensuring there is no forced labour.

Adidas and Intel both have a strong track record here. Adidas won the Stop Slavery Award for its transparent audits, responsible sourcing guidelines and tools to trace higher-risk supply chains, and Intel refused new business with suppliers that failed to combat forced labour (Extract G).

An ethical supply chain is important for several reasons. It may be a matter of altruism; the owners and directors believe they have a moral duty to behave ethically, given that about 25 million people were in forced labour in 2016. It is also good marketing. Adidas sells sportswear to the public, particularly young people, many of whom are 'ethical shoppers', so a positive image increases brand loyalty and sales and allows a price premium. Behaving unethically can cause negative publicity and hit sales; Nike still suffers from past accusations of using sweatshops and exploiting labour.

Governments and consumers are also putting increasing pressure on firms to reveal their actions (Extract G), so an ethical supply chain reduces legal risk. It can also help firms to attract and keep staff and investors. Often it is a combination of all these reasons. However, putting ethical systems in place is time-consuming and costly. Supply chains must be audited, monitored and updated, which raises costs, and costs may be lower if the firm is less than scrupulous and uses the cheapest suppliers. Higher costs may reduce profitability, causing conflict with shareholders who want higher dividends. The importance also differs between the two firms: Intel sells chips mainly to other

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businesses, so consumer pressure is weaker than for Adidas, whose brand is highly visible to the public.

Overall, for firms such as Adidas and Intel, the long-term benefits of an ethical supply chain, in protecting brand image, sales and reputation, are likely to far outweigh the extra costs of maintaining it. Its importance is greatest for consumer-facing brands such as Adidas, where one scandal could cost far more than the audits.



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(d) Evaluate the importance of the labour force when choosing a location for production.

(20)

For many businesses the labour force is a large part of their operating costs, so they seek locations that minimise this cost while providing the skills they need. The labour force matters in terms of its cost, its skills and productivity, and its availability.

Outsourcing or offshoring production to a low-wage economy such as China, Indonesia or Vietnam has been a popular option, as with Adidas, whose trainers are made mostly by hand in giant Asian factories (Extract F). Lower labour costs reduce average costs, enabling a price reduction, which can be an important source of competitive advantage, or higher profit margins. Labour in overseas markets may also accept working terms unacceptable in home markets, such as the 60-hour working week reported in Apple's suppliers' factories.

The importance of cheap labour is shown by firms moving again as wages rise. Many businesses that outsourced to China are now moving to locations such as Vietnam as the cost of Chinese labour rises, and Intel is moving production from Malaysia to Vietnam and China to cut labour costs, laying off 600 workers (Extract H). Rising prosperity in Asia and possible labour shortages are one reason for Adidas's Speedfactories (Extract F).

However, the skills of the labour force may be just as important as, or more important than, its cost. That is why Dyson chose Malaysia rather than somewhere with slightly cheaper labour. The need for skilled and cheap labour combined has led many businesses to outsource IT and software to India, or accountancy to Argentina, despite qualified staff being available at home. For high-tech firms such as Intel, a productive, skilled workforce lowers unit labour costs even if wages are higher.

There are, however, many other factors that influence the choice of location besides labour. Adidas is building its Speedfactories in Germany and near Atlanta, close to its

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main consumer markets, because getting shoes from Asia can take two or three months, while the Speedfactory gets products to shops in less than a week. Speed to market and flexibility in a fashion market matter more than labour costs here. With highly automated equipment such as robotic cutting and 3D printing, less labour is needed, so its cost becomes much less important.

Access to markets also matters. Mexico has seen a large increase in FDI because it is in the NAFTA free trade area, giving cheaper and easier access to the lucrative North American market, and Nissan chose the UK for access to the EU. Cheap labour is available in many African countries, but political instability and corruption mean they are often avoided. Reliable infrastructure can be crucial: nearby access to deep-water ports influenced Nissan's choice of Sunderland, while FDI in India has sometimes been held back by an unreliable power supply. The ease of doing business, tax incentives and government attitudes also play a part, as with Dell in Poland. Vietnam attracts firms for its location as a gateway to South East Asia as well as its cheap labour.

In conclusion, the labour force is a very important factor, especially for labour-intensive production such as assembling trainers by hand, where cheap labour can be the deciding factor. For skill-intensive or highly automated production its cost matters less, and skills, closeness to customers and infrastructure matter more. A business will never choose a location based on one factor alone; it is a combination of factors, the importance of which depends on the product or service. As automation grows, as Adidas shows, the importance of cheap labour is likely to decline.



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Economics B

Advanced

Paper 3: The economic environment and business

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Investigating the Economic Environment and Business

Context

This year the context is **labour**.

Research

To prepare for this year's context, you should research:

- the role and importance of labour in production and economic systems
- labour markets: local, national and global
- employment and unemployment
- the impact of government and economic policies on labour
- the changing role of labour: past, present and future.