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Candidate surname <i>StemUp Model Solution</i>		Other names
Centre Number	Candidate Number	

Pearson Edexcel Level 3 GCE

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.

Turn over ►

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Answer ALL questions.

SECTION A

Read the following extracts (A to E) before answering Question 1.

Write your answers in the spaces provided.

Extract A

"GDP measures what GDP is supposed to measure. But it doesn't count everything that counts."

Matthew Yglesias

(Source: adapted from <https://www.weforum.org/agenda/2015/06/a-partial-defense-of-gross-domestic-product>)

Extract B

Why is the yuan's exchange rate with the US dollar important?

The US dollar/Chinese yuan exchange rate is an indicator of relative economic strength and has a direct impact on each nation's economy by affecting the value of imports and exports. In general, a stronger exchange rate makes a country's exports more expensive and makes imports, cheaper.

A weaker yuan against the US dollar would generally make Chinese goods exported to the US cheaper, increasing demand, while making US exports to China more expensive, reducing demand. As a result the US trade deficit would likely widen. A stronger yuan against the US dollar would have the opposite effect.

(Source: adapted from <https://www.scmp.com/economy/china-economy/article/3109340/us-dollar-yuan-exchange-rate-what-it-and-why-it-important>)

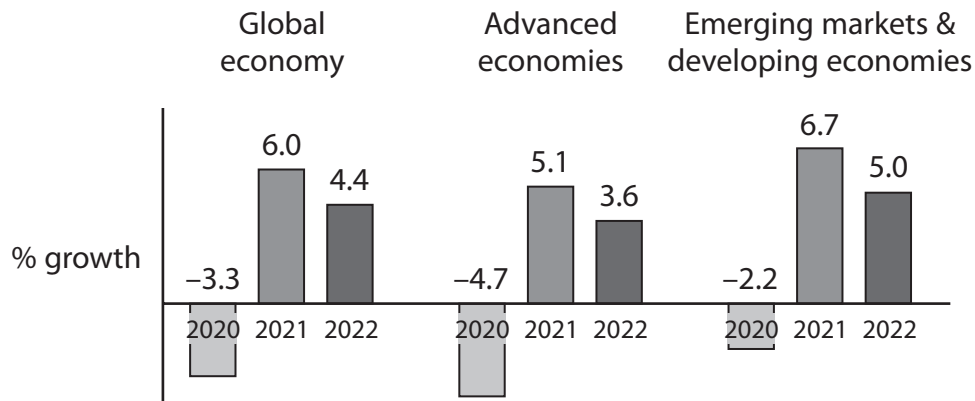
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Extract C

Global growth to accelerate

World Economic Outlook April 2021 Growth Projections



(Source: adapted from <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>)

The International Monetary Fund (IMF) has predicted that economic growth is likely to increase throughout 2021 and reach 6%. It is then expected to fall to around 4% in 2022. A report by the global investment bank, *Credit Suisse*, says that the predicted economic growth will be led by vaccine rollouts, expansionary fiscal policies and a broadening services recovery.

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The United States (US) is planning a \$1.9tn borrowing and spending fiscal policy to help the economy recover and create many new jobs. However, *Credit Suisse* warns that the risk of inflation is increasing and that the Federal Reserve may have to increase interest rates in 2023. *Credit Suisse* noted that fiscal policy in Europe had also been expansionary and that government support programmes were expected to continue until the end of 2021 to help private sector firms recover.

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(Source: adapted from <https://www.wealthbriefing.com/html/article.php?id=191680#.YNhJaTZKhVo>)



P 7 0 8 8 5 A 0 3 2 4

Extract D

'Hidden cost' of energy and transport could add up to \$25tn, research estimates

The 'hidden cost' of the world's largely fossil fuel-based energy and transport systems could add up to around \$25tn (£18tn) – the equivalent of more than a quarter of the world's entire economic output. That is according to new research in the journal *Energy Research & Social Science*. This estimates the hidden environmental, social and health costs associated with different forms of transport and electricity generation.

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The researchers say there are many negative externalities associated with these systems, that occur from production to end use. For example, the burning of fossil fuels for electricity generation not only drives damaging climate impacts, such as more frequent and severe extreme weather events, but also deadly air pollution.

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Global reliance on petrol and diesel vehicles is also fuelling climate change and air pollution, as well as an increased strain on our health systems through car accidents.

(Source: adapted from <https://www.independent.co.uk/climate-change/news/energy-transport-cost-fossil-fuels-b1805808.html>)

Extract E

What Germany can teach us about renewable energy

At the 12th Annual Petersberg Climate Dialogue conference in 2021, German Chancellor Angela Merkel urged all governments to continue investing to protect the climate. Over the past 20 years, Germany has embarked on a remarkable transition from coal and nuclear energy to renewable energy sources. The set of policies to encourage this rise of green energy is known as *energiewende* (energy transition).

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It has been expensive. Germany has spent a great deal of money on *energiewende* policies. This included billions for public transport development and aid for electric vehicles, as well as more spending on renewable energy infrastructure. Local and community projects like energy cooperatives have increased by 800% and it has created hundreds of thousands of jobs in the renewable sector. Nearly 50% of Germany's energy consumption now comes from renewable sources.

10

Energiewende is not without its downsides. Energy costs remain higher in Germany than other similarly developed nations due to the tax on electricity consumption. But this both reflects the negative externalities of energy production and encourages consumers to use energy more efficiently—from cutting out wasteful uses to buying more efficient appliances.

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(Source: adapted from <https://slate.com/technology/2021/05/germany-renewable-energy-energiewende-feed-in-tariffs-nuclear.html>)



- 1 (a) Discuss the usefulness of GDP as an indicator of growth.

(8)

GDP (gross domestic product) measures the total value of goods and services produced in an economy over a period of time, usually a year. Economic growth is an increase in real GDP, so a rise in GDP shows more output and higher national income, which suggests higher living standards for the population.

GDP is useful because it is widely measured, so growth rates can be compared over time and between countries. Extract C shows IMF data that global growth fell by 3.3% in 2020 but is forecast to recover to 6.0% in 2021, while emerging and developing economies are forecast to grow faster (6.7%) than advanced economies (5.1%). A change in growth rates also signals to the government when a change in policy is needed, such as the expansionary fiscal policy in the US.

However, GDP has weaknesses. Inflation distorts nominal GDP: a 3% rise in GDP with 2% inflation is only 1% growth in real terms, so real GDP must be used. A rise in GDP may not raise incomes for most people if the distribution of income and wealth is unequal. Some economic activity, such as the hidden economy or unpaid work, is unrecorded, making GDP inaccurate. As Extract A says, GDP does not count everything that counts: it ignores qualitative aspects of life such as health, leisure and the environment. Extract D estimates the hidden cost of energy and transport at \$25tn, which GDP does not deduct.

Overall, real GDP per capita is a useful starting point for measuring growth, but it should be used alongside other indicators, such as the HDI, to judge whether growth has really improved living standards.



(b) Assess the impact of exchange rate changes on economic growth for a country.

(10)

An exchange rate is the price of one currency in terms of another. A depreciation of a country's exchange rate can benefit growth if it is a major exporter such as China.

Extract B explains that a weaker yuan against the US dollar makes Chinese exports to the US cheaper in dollars, increasing demand for them. With more exports demanded, production increases, leading to more output and economic growth. Employment rises, and the additional incomes earned are spent, further increasing AD, output and growth through the multiplier effect, since net exports ($X - M$) are a component of AD.

An appreciation makes imports cheaper, as less domestic currency is exchanged for the same amount of foreign currency. This can be a benefit if imports are a significant proportion of input costs, such as energy or raw materials. Lower costs can feed through into a competitive advantage, more sales and a rise in output and growth.

However, both appreciation and depreciation can have a negative impact on growth. An appreciation makes exports dearer, so, as Extract B suggests, a stronger yuan would reduce Chinese exports and the US trade deficit would narrow. A depreciation raises import prices, which increases costs for firms. If growth becomes too rapid after a depreciation, inflationary pressures may build, leading the government or central bank to introduce contractionary policies, such as higher interest rates, which in turn reduce the rate of growth.

The impact also depends on the size of the change in the exchange rate and how long it lasts, and on the price elasticities of demand for exports and imports. For example, if the PED for exports is inelastic, the negative effects of an appreciation on export volumes are lessened, but a depreciation will raise export volumes only a little. The Marshall-Lerner condition must hold for a depreciation to improve the balance of trade, and the J-curve effect means the benefit takes time.



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In conclusion, exchange rate changes do affect growth, but the overall impact depends on how open the economy is, the elasticities involved and whether the change is temporary or sustained.



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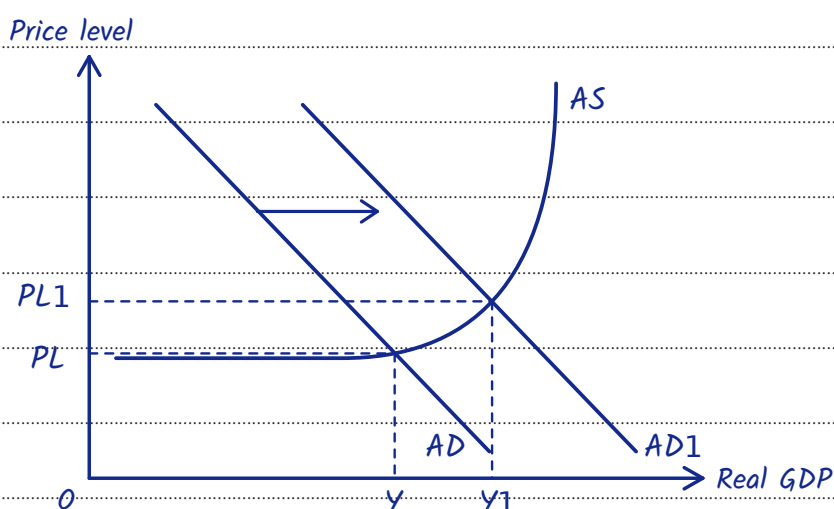
- (c) Using a suitable diagram, assess the use of fiscal policy to stimulate economic growth.

(12)

Fiscal policy is the use of government spending and taxation to influence the economy.

Economic growth is an increase in the output of goods and services (real GDP), which can be caused by an increase in any of the components of $AD = C + I + G + (X - M)$.

To stimulate growth, expansionary fiscal policy is used: taxes are reduced and/or government expenditure is increased. Lower taxes raise disposable income and post-tax



profits, so C and I rise. Higher government spending raises G directly. In my diagram this shifts AD to the right from AD to $AD1$, so real GDP increases from Y to $Y1$ and economic growth is achieved. The rise in output creates employment and incomes, which are spent, giving a multiplier effect. Extract C shows the US planning a \$1.9tn borrowing and spending programme to help the economy recover and create many new jobs, and the IMF predicts global growth of 6% in 2021, led partly by expansionary fiscal policies.

However, the diagram also shows the price level rising from PL to $PL1$, which represents inflation. This is the danger that Credit Suisse warns of in Extract C, suggesting the Federal Reserve may have to raise interest rates in 2023. Further stimulus would push AD towards the vertical part of AS , causing more inflation and little extra output. To avoid this, AS would also have to shift to the right, which needs supply-side policies



such as spending on education and infrastructure to be implemented alongside fiscal policy for sustainable growth.

Fiscal policy will be most effective when the economy has spare capacity and unemployed resources, as was the case in 2020 when global output fell by 3.3%, because AD then cuts the flat part of AS. Also, borrowing \$1.9tn adds to the national debt, which must be repaid through higher future taxes, and government borrowing may crowd out private investment. Time lags mean spending on projects takes time to take effect, and tax cuts may be saved rather than spent if confidence is low.

In conclusion, expansionary fiscal policy is effective in a recession with spare capacity, as in 2020, but its success depends on the multiplier and on supply-side policies to prevent inflation.



- (d) Evaluate the extent of the trade-off between economic growth and negative externalities.

(20)

Economic growth results from an increase in the output of goods and services, measured by real GDP. Negative externalities are costs imposed on a third party who is independent of the original economic transaction, so the social cost is greater than the private cost. A trade-off exists if achieving more of one objective means accepting more of the other.

By its nature growth means increased output, which requires increased inputs. Some inputs, such as carbon-based energy sources and raw materials, are in finite supply. They are not sustainable, and consuming them now implies a shortage for future generations. Extract D explains that burning fossil fuels to generate electricity produces greenhouse gases, which drive damaging climate change with more frequent and severe extreme weather events, as well as deadly air pollution. Flooding and rising sea levels caused by climate change harm food production and living conditions. Air pollution causes health problems, which require extra resources to fund healthcare, in addition to the human cost.

Global reliance on petrol and diesel vehicles also fuels climate change and puts strain on health systems through car accidents. Globalisation means more trade and output and more transportation of goods across the globe, leading to even greater external costs. Extract D estimates that the hidden cost of fossil fuel energy and transport could add up to \$25tn, more than a quarter of the world's entire economic output. As the IMF forecasts global growth of 6% in 2021 (Extract C), as economies recover after the pandemic, these external costs are likely to rise further. In short, it appears that increased growth does have a trade-off with negative externalities.

However, it is the extent of the trade-off that is important, and the degree to which it is acceptable to society. Economic growth has lifted millions of people out of poverty in



China and continues to do so in other areas of the world. The quality of life for many is better than it has ever been: life expectancy has increased, death rates have decreased, and previously untreatable diseases can now be treated and even eradicated. All of this is due to economic growth, and the positive externalities of growth, such as better education and healthcare, perhaps partly reduce the trade-off.

Nevertheless, negative externalities can be reduced, and many economies are now taking this seriously. As Extract E shows, Germany's *energiewende* policies over 20 years have shifted energy from coal and nuclear to renewable sources, which now provide nearly 50% of Germany's energy consumption. This has created hundreds of thousands of jobs in the renewable sector and energy cooperatives have increased by 800%, so it has generated growth at the same time as cutting pollution. The tax on electricity consumption reflects the negative externalities of energy production, internalising the external cost and encouraging consumers to use energy more efficiently.

Elsewhere, some resources such as timber are now sustainable in many areas, as more trees are planted than are consumed. Electric vehicles are replacing petrol ones, recycling is saving many resources, and global treaties such as the Paris Agreement show some progress. As economies develop, they also move towards services, which tend to pollute less per unit of output, and higher incomes increase the demand for a cleaner environment and fund new green technology.

However, these policies are expensive. Germany has spent billions on public transport, aid for electric vehicles and renewable infrastructure, and its energy costs remain higher than in similarly developed nations, which may reduce the competitiveness of its firms. Poorer, fast-growing developing economies may not be able to afford such policies and may prioritise growth over the environment, so global emissions may continue to rise. Some damage, such as climate change, is also long term and irreversible.

In conclusion, there is a trade-off between growth and negative externalities, as greater



output based on fossil fuels inevitably raises external costs. However, the extent of the trade-off depends on how growth is achieved: with renewable energy, taxes that internalise externalities and new technology, as in Germany, the trade-off can be reduced significantly. It depends on the willingness and ability of governments to pay the costs, so the trade-off remains, and the degree to which it will be reduced or even disappear is a moot point.

(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS



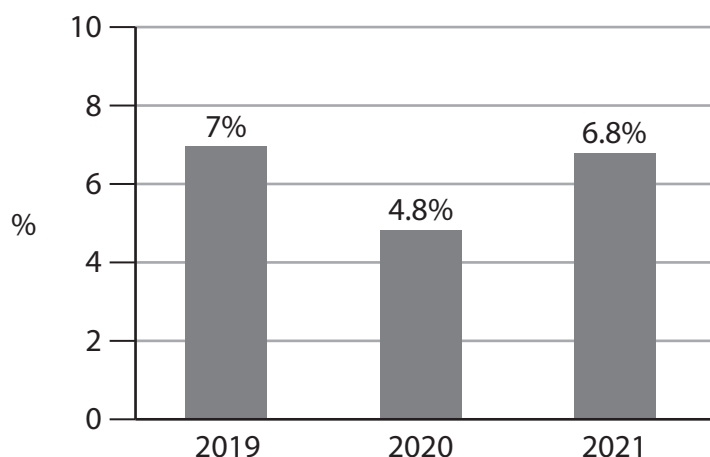
SECTION B

Read the following extracts (F–I) before answering Question 2.

Write your answers in the spaces provided.

Extract F

GDP Growth Rate of Vietnam 2019–2021



(Source: adapted from <https://www.vietnam-briefing.com/news/vietnams-economy-grow-fastest-southeastasia-despite-covid-19.html/>)

Extract G

How does Vietnam benefit by joining the Regional Comprehensive Economic Partnership (RCEP)?

In November 2020, the RCEP was signed in Hanoi, Vietnam after eight years of negotiations. Its 15 members are Australia, China, Japan, New Zealand, South Korea, plus 10 members of the Association of Southeast Asian Nations (ASEAN): Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

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Once agreed by all its members it will form the world's largest trading bloc, with a market of 2.3 billion people and US\$26.2tn in global output.

The World Bank forecasts that countries in the RCEP will see GDP increase by 1.5% and that the deal could add almost US\$200bn to the global economy by 2030.

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As Vietnam moves to become a high-tech manufacturer, the RCEP would help it to access large consumer markets. Vietnamese firms would be able to increase exports and Vietnamese consumers would be able to access high-quality goods.

Nevertheless, analysts have also noted that once the RCEP takes effect, Vietnamese firms would face competition both domestically and for export markets as well.

15

(Source: adapted from <https://www.vietnam-briefing.com/news/how-does-vietnam-benefit-by-joining-rcep.html/>)



Extract H**Foreign Direct Investment (FDI) in Vietnam: A Year in Review and Outlook for 2020**

In the first 11 months of 2020, foreign investors invested US\$17bn in Vietnam. As of November 2020, there were 109 countries with investments in Vietnam. Singaporean firms have invested the most with just over \$8bn.

Top 5 investors in Vietnam, November 2020		
	Number of new projects	Total investment in dollars (\$bn)
Singapore	225	8.07
South Korea	573	3.70
China	311	2.40
Japan	251	2.10
Taiwan	115	2.00

In early 2020, Chinese firms negotiated and gained approval for more major projects in Vietnam. Japanese multinational corporations (MNCs) such as *Toyota*, *Honda*, *Canon*, and *Sumitomo* have historically had a presence in Vietnam. Newer Japanese firms such as *AEON*, *Uniqlo*, and *Mizuho* have recently expanded their presence in the Vietnamese market, attracted by the investment climate and Vietnam's participation in regional trade agreements.

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(Source: adapted from <https://www.vietnam-briefing.com/news/fdi-in-vietnam-year-in-review-and-outlook-for-2021.html/>)



Extract I

Association of Southeast Asian Nations (ASEAN) economies poised for robust recovery with 6% real GDP growth in 2021, says GlobalData

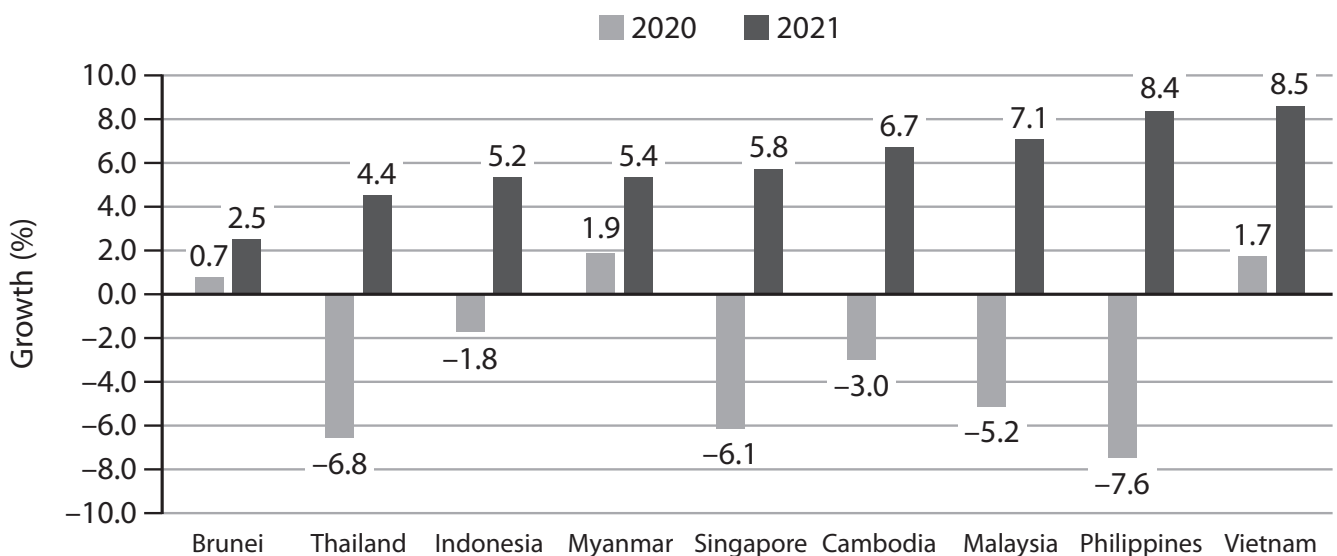
Despite the contraction in real GDP in 2020 due to the global health crisis, ASEAN countries are expected to witness a sharp recovery in 2021.

A report from GlobalData said that trade among ASEAN nations is expected to increase in 2021. This has been encouraged by reduced protectionist measures and the signing of the Regional Comprehensive Economic Partnership (RCEP) in November 2020.

The six largest ASEAN nations (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) are all expected to have positive GDP growth rates in 2021.

GlobalData forecasts Vietnam to be the fastest growing economy with a real GDP growth of 8.5% in 2021. Vietnam's growing trade with the EU and its robust fiscal policies, have helped its economy to experience an increase in the growth of the manufacturing and service sectors.

Real GDP growth (%) forecast for 2021 in ASEAN countries



(Source: adapted from <https://www.globaldata.com/asean-economies-poised-robust-recovery-6-real-gdp-growth-2021-says-globaldata/>)



- 2 (a) Discuss the possible impact of economic growth on employment patterns in a country such as Vietnam.

(8)

Employment patterns refer to the way the working population of a country is distributed across different occupations and sectors: primary (agriculture, mining), secondary (manufacturing, construction) and tertiary (services). They change over time as economic growth takes place.

Vietnam is an emerging economy with rapid growth: Extract F shows growth of 7% in 2019, 4.8% in 2020 and 6.8% in 2021, and GlobalData forecasts 8.5% in 2021 (Extract I). As it grows, many people move out of the agricultural sector and into newly industrialised sectors, as factory jobs pay higher wages than farming. FDI from foreign firms such as Toyota, Honda and Canon (Extract H) has created many jobs in the expanding secondary sector, including manufacturing, and Vietnam is becoming a high-tech manufacturer (Extract G).

In turn, these jobs and their incomes create demand for more housing as cities grow, and for better infrastructure. This growth in construction and engineering expands the secondary sector further. As growth continues, labour-saving investment increases and some workers move into services, so the tertiary sector expands, helped by firms such as AEON and Mizuho and by the growth of the service sector noted in Extract I.

However, not all economies follow the same path. Some maintain large primary sectors because they have a competitive advantage in that area, such as Indonesia with palm oil. Others become very good at manufacturing and keep a large secondary sector as they grow, such as China or Germany. Also, growth may be uneven, with rural areas left behind, and Vietnam's growth depends on FDI and exports, which could slow, as in 2020. Overall, Vietnam is likely to see a shift from agriculture to manufacturing, but the extent depends on its comparative advantage.



(b) Assess the benefits of being a member of a trading bloc for a country such as Vietnam.

(10)

A trading bloc is a group of countries with free trade or some form of preferential trading agreement and reduced protectionism between members. Extract G shows that the RCEP will become the world's largest trading bloc, with 15 members, a market of 2.3 billion people (nearly a third of the global population) and US\$26.2tn of output. Firms within the bloc should find it easier to access other members' markets, as tariffs and other trade restrictions are eased, increasing potential sales and revenues. As Vietnam becomes a high-tech manufacturer, RCEP will help it access large consumer markets such as China and Japan, so Vietnamese firms can increase exports and benefit from economies of scale. Firms can also import raw materials, components, products and services more cheaply from fellow members, reducing their costs and giving them a competitive advantage, while consumers can access high-quality goods.

Free trade should cause economic growth: as prices fall, reflecting reduced costs, disposable income rises, increasing overall demand for local firms. The World Bank forecasts that RCEP countries will see GDP rise by 1.5%, and Extract H shows that Japanese firms such as AEON and Uniqlo have been attracted by Vietnam's participation in regional trade agreements, bringing FDI and jobs.

However, domestic industries will lose some or all of their protective tariffs and barriers, so they become relatively more expensive and less competitive. Low-cost manufacturers in other member countries may find it easier to penetrate the Vietnamese market, and Extract G notes that Vietnamese firms will face competition both domestically and in export markets. China is a member of RCEP and may cause problems for its smaller neighbours as it exploits its considerable competitive advantages and economies of scale. Increased competition may mean a fall in sales and profits for domestic producers, and some job losses.



Nevertheless, many countries are in trading blocs, and the formation of new blocs such as RCEP suggests that for many countries the advantages outweigh any drawbacks. For Vietnam, with its low costs and growing high-tech sector, the benefits are likely to be significant in the long run.



- (c) Assess the impact of Multinational Corporations (MNCs) on the national economy of a country such as Vietnam.

(12)

A multinational corporation (MNC) is a business that has its headquarters in one country and operates in at least one other country. Extract H shows that foreign investors invested US\$17bn in Vietnam in the first 11 months of 2020, from 109 countries, with Singapore investing \$8.07bn in 225 new projects and South Korea \$3.70bn in 573 projects.

Investment in new production plants by global firms such as Toyota and Canon creates jobs and incomes for local people, which increases Vietnam's GDP. Local businesses are involved in the construction of, and supply to, the new plants, creating further employment, income and growth. Spending of the extra income creates a positive multiplier effect, leading to a rise in both GDP and living standards.

Technology transfer may take place, as local workers gain skills and local suppliers learn new methods, improving the prospects for local businesses and helping Vietnam become a high-tech manufacturer. The Vietnamese government will receive extra tax revenue, which can be used to improve healthcare, education and infrastructure. Vietnam's exports are also likely to increase, as MNCs export from Vietnam, which has a positive impact on the balance of trade, and FDI inflows strengthen the financial account.

However, not all MNCs pay fair wages, and some may impose poor working conditions: businesses such as Nike and Apple have been accused of this in the past. Some large MNCs, such as Amazon and Google, have been accused of transfer pricing and tax avoidance, which does not help government revenue or growth. Profits may be repatriated to the home country, reducing the gain to Vietnam. Technology transfer may not occur if MNCs just use cheap labour for basic assembly, and senior jobs may go to foreign managers.

MNCs may also damage the environment or use unsustainable resources, which will



ultimately harm growth. Some MNCs are footloose and may move on to other, more desirable locations when costs rise. Vietnam is attracting many firms previously located in China, but the same could happen to Vietnam if its wages rise. Local firms may also be unable to compete with large MNCs and close down.

In conclusion, MNCs have had a largely positive impact on Vietnam, bringing jobs, investment and exports that support its rapid growth. However, the size of the benefit depends on how far the government regulates MNCs, collects tax from them and ensures technology transfer, so that growth is sustainable rather than reliant on cheap labour.



(d) Evaluate the impact on European firms of the growing economic power of emerging economies in South East Asia.

(20)

Emerging economies are countries experiencing rapid economic growth and industrialisation, such as those in South East Asia. Many are expected to grow faster than the rest of the world, with average ASEAN real GDP growth of 6% in 2021 (Extract 1). Vietnam is forecast to be the fastest growing at 8.5%, closely followed by the Philippines and Malaysia at 8.4% and 7.1%.

As economic growth rises, disposable incomes rise, increasing the demand for goods and services. This means a huge and growing potential consumer market for many European firms: RCEP alone has a market of 2.3 billion people (Extract 6). This is likely to lead to increased sales and profitability. As these economies grow, consumers will want not just goods such as fashion and consumer goods, but services as well, such as banking, insurance and tourism. Extract 1 notes Vietnam's growing trade with the EU, showing the opportunity is already being taken.

Infrastructure will need input from engineering and transport businesses, and communications systems and equipment will be needed, so established European firms such as Siemens have an opportunity here. European businesses may be able to move away from saturated western markets, where growth is limited or difficult, into the new developing markets in South East Asia. Product life cycles can be extended, as models developed in European markets can be introduced to the developing markets. European firms can also benefit from lower costs by locating production or sourcing components in low-cost countries such as Vietnam.

However, economic growth can mean that developing economies begin to develop their own industries. Some Chinese firms (Haier, Lenovo) and Indian firms (Tata, Infosys) are amongst the biggest in the world and are more than capable of innovating and competing with European businesses on a global level. Vietnam is now capable of



high-tech manufacturing, thanks to the influx of MNCs such as Toyota, Honda and Canon (Extract H) and technology transfer, so it can compete with Europe.

The RCEP will help its members to reduce costs as protectionism decreases, making their goods and services more competitive. Extract G shows that economies such as Vietnam are likely to benefit from the RCEP and become more able to export to large consumer markets such as those in Europe. Many of these exports may be cheaper than those of European competitors because of lower wage costs and economies of scale. This increases pressure on European firms, which may lose market share both at home and abroad, leading to lower profits, factory closures and job losses, as has happened in European textiles and steel.

Furthermore, firms from within the region will have an advantage in serving ASEAN markets, as RCEP members trade with each other with reduced barriers while European firms may still face tariffs. Extract I shows that trade among ASEAN nations is expected to increase, so European exporters may be diverted from these markets. Firms entering these markets also face risks, such as different cultures, regulations and exchange rate volatility.

The impact also depends on the scale and reliability of growth. The forecasts are uncertain: Extract I shows that Thailand, Singapore and the Philippines contracted by 6.8%, 6.1% and 7.6% in 2020, and Extract F shows Vietnam's growth at 6.8% in 2021, below the 8.5% forecast. Incomes per head in many of these countries are still far below Europe's, so the market for premium European goods may take time to develop.

In conclusion, the growing economic power of South East Asia is both an opportunity and a threat for European firms. European businesses that are innovative, compete on quality or have strong brands, such as luxury goods and car makers, should continue to thrive as the expanding South East Asian economies become more consumer orientated.



Those that just compete on price, or do not adapt and change, may not survive. Overall, the impact depends on the type of firm, but for most large European firms the opportunities are likely to outweigh the threats in the long run.

(Total for Question 2 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

TOTAL FOR PAPER = 100 MARKS



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