

Answer **one** question.

1. Read the extracts and answer the questions that follow.

Text A — Overview of Vietnam

- 1 Economic reforms in Vietnam during the past 30 years have led to rapid economic growth, which has transformed a poor nation into a lower middle-income economy. The percentage of the population with an income of less than US\$1.90 a day declined from 38 % in 2002 to below 2 % in 2018.
- 2 Vietnam used to be a food-insecure nation, in which many people sometimes lacked access to affordable food, but it is now a leading exporter of basic food commodities. It also aims to become an exporter of high quality and processed food products. However, agricultural production only accounts for 18 % of gross domestic product (GDP), although it uses 40 % of the land and employs 43 % of the labour force. Due to the growing rural population, land is often divided up between a greater number of farmers, causing some farms to become smaller. These farms have fewer opportunities to benefit from economies of scale and lower average costs of production.
- 3 Vietnam's rapid growth and industrialization, focused on export-oriented manufacturing, have had a harmful impact on the environment. Electricity consumption has tripled since 2010, growing faster than GDP. Electricity generation, which mainly uses fossil fuels, accounts for approximately 60 % of Vietnam's carbon emissions. Demand for water continues to increase. Unsustainable exploitation of natural resources, such as land, fisheries, and timber, could negatively affect prospects for long-term growth. In addition, Vietnam's primary sector is highly vulnerable to the climate and is therefore subject to supply shocks.
- 4 Vietnam has signed several free trade agreements (FTAs). Its first FTA was a partnership with Japan in 2008. Both Vietnam and Japan are members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which took effect at the beginning of 2019. These FTAs also promote inward foreign direct investment (FDI). In addition, Vietnam has introduced policies to attract foreign investment, such as tax incentives and spending on infrastructure.
- 5 Japan is the biggest provider of foreign aid to Vietnam and the largest source of FDI. Japanese firms and aid agencies are jointly financing large-scale projects, including port infrastructure and a high-speed railway, which will reduce the Hanoi to Ho Chi Minh journey time from about 35 hours to under six hours. Other Japanese-funded aid projects are in the areas of health care, education, and the environment. investment, human capital increase quality, break poverty cycle

Text B — Trade and investment flows between Vietnam and Japan

- 1 Japan imports seafood and consumer products such as textiles, leather shoes and processed foods from Vietnam, because Vietnam has a comparative advantage in such items. Conversely, Vietnam imports machinery, technology, and raw materials for production from Japan. Gradually barriers to trade are being removed. In 2020, Vietnam began exporting lychees (a luxury fruit) to Japan after five years of negotiations on quality standards. The improved access to the Japanese market has increased the number of consumers and the revenue earned by Vietnamese lychee farmers.

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(Question 1 continued)

- 2 Japanese firms invest in Vietnam, particularly in urban areas, because wages are low and they can export from Vietnam to other CPTPP members and to China and Indonesia. Panasonic, a Japanese multinational company (MNC), relocated a major factory, which manufactures refrigerators and washing machines, from Thailand to Vietnam in 2020. The construction of a coal-fired power plant is mainly funded by Japanese firms. The Japanese government is promoting further investment by subsidizing over 30 firms that are relocating from China to Vietnam. Most of these firms are food processors or producers of manufactured goods (for example, medical equipment).

Text C — Roles of the central bank in Vietnam

- 1 The central bank in Vietnam has been lowering interest rates since mid-2019. However, it has kept the minimum reserve requirement at 3% of commercial bank deposits, despite suggestions that this requirement could be lowered.
- 2 The central bank also regulates the exchange rate of the dong (Vietnam's currency). It actively intervenes in the foreign exchange market to stabilize the rate when necessary. In April 2020, there was downward pressure on the dong due to the lower interest rates and fewer foreign tourists. However, the central bank has a large amount of reserve assets, which were used to prevent the dong from depreciating.

Table 1: Economic data for Vietnam

	2015	2019
GDP (real growth rate, %)	4.77	6.90
Real GDP per capita (US\$ PPP)	6103	8374
Current account balance (US\$ million)	–2041	5899*
Foreign direct investment, net inflows (US\$ billion)	11.8	15.5*
Debt servicing costs on external debt (US\$ billion)	6.63	18.4*
Exports of goods to Japan (US\$ million)	15 141	22 475
Imports of goods from Japan (US\$ million)	12 531	16 484

* 2018 figure

Table 2: Development data for Vietnam

	2015	2019
Life expectancy at birth (years)	70.5	76.3
Gini coefficient	0.35	0.37*
Net bilateral aid flows from Japan (US\$ million)	678	484

* 2018 figure

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(Question 1 continued)

- (a) (i) Define the term *debt servicing* indicated in bold in **Table 1**. [2]
- (ii) Define the term *Gini coefficient* indicated in bold in **Table 2**. [2]
- (b) (i) Sketch a demand and supply diagram to show the effect on revenue earned by Vietnamese farmers with improved access to the Japanese market (**Text B**, paragraph **1**). [3]
- (ii) Using information from **Table 1**, calculate the change in the surplus on Vietnam's balance of trade in goods with Japan between 2015 and 2019. [2]
- (c) Explain **two** economies of scale which may **not** be available to smaller farms (**Text A**, paragraph **2**). [4]
- (d) Using a production possibilities curve (PPC) diagram to show comparative advantage, explain why Vietnam would export seafood to Japan while Japan would export machinery to Vietnam (**Text B**, paragraph **1**). [4]
- (e) Using a demand and supply of money diagram, explain the likely effect on interest rates of a reduction in the minimum reserve requirement for banks (**Text C**, paragraph **1**). [4]
- (f) Using an exchange rate diagram, explain how the central bank in Vietnam could prevent the dong from depreciating by using its reserve assets (**Text C**, paragraph **2**). [4]
- (g) Using information from the texts/data and your knowledge of economics, discuss the view that trade with Japan is more beneficial for Vietnam's economic development than foreign direct investment (FDI) from Japan. [15]

Definition of trade, FTA, FDI

trade & FTA

- advantage: export, agriculture, seafood, lychee... farms farmers earn more, higher efficiency, more employment, higher wages, living standard improvement, consume out of the PPC
- disadvantage: environment, future generation resources, living standard
- agriculture inelastic demand and supply

FDI

- advantage: investment, factory; highway investment, employment; technology spillover
- disadvantage: environmental impact (Japan has stricter legislation and instead they turn to Vietnam, which will cause Vietnam's negative environmental impact.) tax relief, government revenue decrease, restrict of government spending on education and health care.