Business and the International Economy

Globalization

- Globalization is the term now widely used to describe increases in worldwide trade and movement of people and capital between countries
- In many ways the world us becoming one large market rather than a series of separate national markets
- The same goods and services can be found in many countries throughout the world
- There are several reasons for this increase in global trade and movement of products people and capital (globalization):
    - Increasing numbers of free trade agreements and economic unions between countries have reduced protection for industries
    - Consumers can purchase goods and services from other countries with few or no import controls such as tariffs
    - Improved and cheaper travel links and communication between all parts of the world have made it easier to transport products globally
    - In addition the internet allows easy price comparisons between goods from many countries
    - Online or e commerce is allowing orders to be placed from anywhere in the world
    - Many emerging ,market countries are industrializing very rapidly
- Free trade agreements exist when countries agree to trade imports/exports with no barriers such as tariffs and quotas

Globalization: potential opportunities for businesses

Opportunity	Impact on businesses
Start selling exports to other countries-opening up foreign markets	Increases potential sales Online selling allows orders for goods from abroad Expensive to sell abroad May not be popular abroad
Open factories/operation in other countries (become multinational)	Cheaper to make some goods abroad Quality may be compromised Ethical issues Expensive to set up operations abroad
Import products from other countries to sell to customers in home country	No trade restrictions could be profitable to import goods and services from other countries Products will need maintenance and repairs However, the parts and supports may not be available from the producer in the foreign country
Import materials and components from other countries but still produce final goods in home country	Could be cheaper to purchase these supplies due to free trade These supplies could be purchased online Suppliers may be unavailable

	Greater distances adds too much to transport costs

Threat	Impact on businesses
Increasing imports into home market from foreign competitors	These competitors offer cheaper products Sales of local business might fall Increased competition could stimulate local markets to become more efficient
Increasing investment from multinationals to set up operators in home country	Creates further competition Multinationals have many economies of scale Can afford the best employees Some local firms act as suppliers to multinationals increasing sales
Employees may leave businesses that cannot pay the same or more than international competitors	In some professions, employees will now have more choice about where they work Businesses will have to make more of an effort to keep their best employees This might encourage local businesses to use a range of motivational methods to keep their workers

Why some governments introduce import tariffs and quotas

- An import quota is a restriction on the quantity of a product that can be imported
- Protectionism is when a government protects domestic firms from foreign competition using tariffs and quotas
- Many economists believe it is better to allow local consumers to buy imported goods as cheaply as possible
- For local business to produce and export goods and services in which they have a competitive advantage

Multinational Businesses

- Multinational businesses are those with factories, production or service operations in more than one country. These are sometimes known as transnational businesses

Why do some firms become multinational?

- To produce goods in countries with low costs
- To extract raw material which the firm may need for production or refining
- To produce goods nearer to the market to reduce transport costs
- To avoid barriers to trade put up by countries to reduce the import of goods
- To expand into different market areas to spread risks
- To remain competitive with rival firms which may be expanding abroad

Advantages of multinational businesses to the country

- ✓ New investment
- ✓ More exports
- ✓ Fewer imports
- ✓ Jobs created
- ✓ More competition
- ✓ Taxes paid to the government

Disadvantages of multinational businesses to the country

- × Existing firms in danger
- × Profits flow out of country
- × Often only unskilled jobs created
- × Influence the government and the economy
- × Use of scarce resources