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| ***Business structure – free trade & globalisation*** |

**Introduction:**

* Benefits of free trade and globalisation
* What are ‘trading blocs’?
* How is protectionism applied?

FREE TRADE:

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Most common forms of trade barriers are:

* TARIFFS
* QUOTAS
* VOLUNTARY TRADE RESTRAINTS

When any of these are used, this is called **PROTECTIONISM**

**Benefits of free trade:**

* Consumer are offered a much **wider choice** of goods and services

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* Countries/countries can**rely** on imports of raw materials for an industry
* Potential for **increase** in industrialisation for developing economies
* Importing can make domestic firms more **competitive**
* Countries **specialise** in what they are good at (comparative advantage)
* Specialisation leads to **economies of scale**
* **Living standards** should increase if people are able to buy products more cheaply than if they had to just buy in their own country

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**Specialisation and trade:**

Just as people specialise (i.e. division of labour), so do **countries**. Influences on specialisation include **land** and **climate**, availability of **raw materials**, and the level of **training** and **expertise** of the workforce.

* Firms generate mass production by **specialising** and **surpluses** are traded with other countries.
* Interdependence between trading countries exists because specialisation means a country’s resources are not being used by firms to make other items it needs.

*More and more attempts to reduce international trade restrictions: it is a major factor driving the ‘globalisation’ process.*

Globalisation is:

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Globalisation:

* Major impact on business **ac**\_\_\_\_\_\_\_\_\_\_
* Increasing use of Internet reduces national boundaries

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* Reduces protection and makes firms more competitive

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| Is globalisation a good thing? |

Trade areas and trading blocs **dominate** international trade:

* **NAFTA** (the North American Free Trade Agreement) was formed in 1994 between the USA, Canada, Mexico, and created the world’s largest free trade zone with a population of about 400 million and a GDP amounting to a third of the world’s total GDP.
* **ASEAN** (the Association of Southeast Asian Nations) consists of countries in Southeast Asia

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| Summarise the ASEAN trading bloc |

* **OPEC** (the Organisation of the Petroleum Exporting Countries) is a cartel of 12 countries (2010) seeking to protect the cartel members’ interest by, for example, ensuring **stable oil prices** in order to avoid unnecessary fluctuations in income.
* **BRIC** (*Brazil*, *Russia*, *India* and *China*) comprises more than a quarter of the world’s land area and about **40%** of its population, although they **do not have** a formal political or economic alliance like the E.U., and do not form an official trading bloc.
  + The growing \_\_\_\_\_\_\_\_\_\_ class in these countries is demanding more consumer goods and services; and the speed of improving the infrastructure, and developing advanced telecommunications, is increasing the demand for \_\_\_\_\_\_\_ materials.
  + **Russia** and **Brazil** are expected to become major world suppliers of raw materials such as iron ore (Brazil) and oil and natural gas (Russia). **China** and **India** are expected to be dominant in manufacturing and increasingly expanding into the tertiary sector.
* **MIST** (*Mexico*, *Indonesia*, *South Korea* and *Turkey*) are seen as the next wave of developing countries to make large impacts on **production** and con\_\_\_\_\_\_\_\_\_.
  + Each country specialises and has industry leaders in certain sectors:
    - Mexico benefits from its **geographical** position with USA;
    - Indonesia has a **large** population;
    - South Korea specialises in **electronics** and is near to China and Japan with a stable government;
    - Turkey has a large **young population** as is next to the E.U. (and may join it) as well as connected to the **Middle East** oil producing countries.

**EU** (European Union)

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| Discuss some features of the E.U.: |

**BLOCS** may agree to impose barriers on other blocs.

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**Countries** cannot produce certain items **efficiently** (e.g. tropical foodstuffs in the UK climate) and so free trade leads to **greater consumer choice**.

Free Trade occurs when the movement of goods and services between countries is not restricted in any way.

**Specialisation** and **free trade** allow firms to gain productive efficiency through economies of scale.

**Countries may restrict free trade from taking place:**

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The government of a country uses **protectionism** for one or more purposes, as the table illustrates.

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| ***Purpose of protectionism*** | ***Possible approach*** |
| To improve the country’s **balanceofpayments** by reducing imports | **QUOTAS**: physical limits placed on amounts allowed into the country |
| To protect the **exchange** rate | **EXCHANGE CONTROLS:** limit on the amount of foreign currency bought by firms/individuals |
| To raise **revenue** | **TARIFFS** – taxes on imports making them more expensive than home-based goods |
| To safeguard domestic employment and ‘infant industries’ not yet strong enough to compete with imported competitor products | **SUBSIDIES** – financial support to industries to improve their competitive position |

As we have discussed, a government may also need to protect against the **‘dumping’** of goods from the overseas competitors who are exporting at low prices to establish **market penetration**.

A government also has available the other protectionist methods:

* **EMBARGOES** (refusing to trade certain items for political or military reasons) or
* **PROCUREMENT POLICIES** (to ‘buy from within’)

Can you name some current embargoes that you are aware of?

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*Protectionism* **counters** (is opposite/against) the benefits of free trade – there can be less choice, higher prices for consumers and reduced competition from inefficiency.

There is also a danger that if one country adopts protectionist measures, others will follow, thereby **reducing** overall world trade.

**GLOBALISATION OF MARKETS:**

The following factors **influence** how an entrepreneur assesses the nature and **attractiveness** of an overseas market:

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| *Availability of natural resources*  *State of technological development*  *Cultural differences*  *Level of economic development*  *Exchange rate fluctuations*  *Prices of commodities and other items*  *Government policies and political stability*  *Physical accessibility and location*  *Quality and availability of labour* |

An effective global strategy can help a firm to gain **competitive advantages** when entering overseas markets

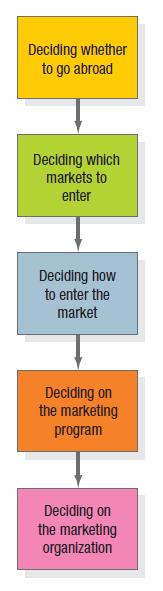
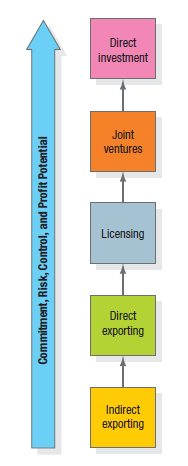
**Global strategies** include:

* **Greater efficiency**
  + Product life cycles can be **extended** by selling in new growth markets
  + Greater operational **flexibility** – production costs can **be moved**, e.g. as exchange rates fluctuate
  + Economies of scale
  + **Cross-subsidisation** between countries -
* **Reduced risk**
  + Increased ***diversification***
  + Stronger ***trading position***
* Firms that limit trading at home markets only are involved in domestic marketing. This strategy carries the **risk** that a firm – by ignoring overseas market activity – may suddenly find than an **emerging global competitor** launches its product in the home market.

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* Global strategy requires **global marketing**, where firms need to identify, reconcile or take advantage of differences from market to market. As in home markets, a firm may concentrate on a market **niche**.

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| What elements would need to be considered for a firm’s **global marketing**? |

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Major Decisions in International Marketing Five modes of entry into foreign markets

***Deciding to go abroad***

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| Some international markets present better profit opportunities than the domestic market  The company needs a larger customer base to achieve economies of scale  The company wants to reduce its dependence on any one market  The company decides to counterattack global competitors in their home markets  Customers are going abroad and require international service | The company might not understand foreign preferences and could fail to offer a competitively attractive product  The company might not understand the foreign country’s business culture  The company might underestimate foreign regulations and incur unexpected costs (LOF/  The company might lack managers with international experience  The foreign country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate foreign property |

***Worksheet summary quiz and activity:***

1. Explain what **globalisation** is?

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1. Voluntary trade **restraints** are seen as a form of self-regulation. Why would an industry/organisation do this to themselves?

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True or False (Mark an **X**)

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| I will choose a random student to answer a question | **True** | **False** |
| 1. A government may decide to have a ‘buy from within’ policy. This is an **embargo**. |  |  |
| 1. The **M** in M.I.S.T stands for **Malaysia**. |  |  |
| 1. China is part of **OPEC**. |  |  |
| 1. **Infant industries** may receive protection from their government. |  |  |
| 1. **P.I.G.S** is an acronym sometimes given to struggling **Eurozone** countries. They are southern European countries. |  |  |

**Summary of the worksheet in your own words (in English and Chinese):**

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*Vocabulary check:*

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| **English** | **Chinese** |
| **Procurement** |  |
| **Subsidy** |  |
| **Voluntary** |  |
| **Cartel** |  |
| **Restraints** |  |
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