Business A Level | Edexcel | 9BS0

Theme 4: Global Business

Course Companion for A Level Edexcel Business

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Contents

Teacher's Introduction

This resource has been written to support the learning and teaching of Edexcel Le
(Theme 4: Global Business). It gives an in-depth view of the new qualification, pr
points students need to know, plus extras along the way for extended learning.

At the beginning of each chapter, you will find a list of contents showing every sp
There are also questions and answers at the end of each chapter that help studen
real-world business contexts.

While extremely valuable to a student's revision, this resource should be treated a
the many other textbooks and activity guides available. As with any subject, it is g
possible!

The subjects covered in this resource focus on business in a global context, includi
protectionism. The notes included in this resource can be given to students befor
topic, after it in order to help solidify their knowledge, or can be used by teac
exercises and activities.

It is hoped that this resource, as well as offering support for teaching the essentia
examination, will help students build on their research and dissemination skills. T
constantly changing one full of fascinating stories. This resource attempts to shar
basis for teaching in the most interesting way possible, meanwhile encouraging fu
generation of business analysts!

A web page containing all the links listed in this resource is convenien
Education's website at ***zzed.uk/5856***

You may find this helpful for accessing the websites rather than typin

4.1. Globalisation

4.1.1. Growing Economies

The Differences in the Growth of Individual Economies

! Key Points Covered

- The growth of different economies:
  - Globalisation
  - Growth of UK economy versus emerging ecc ... es
  - Clusters of developing economic pov...
  - Implications of economic gr...
- Indicat

Globalisation

The global ... y ... s changed significantly over the past century and the pace accelerating

From an economic viewpoint, globalisation is the increasing amalgamation of the single international economy. It is where the individual economies throughout th national differences are eliminated.

Most people believe that the world is becoming increasingly globalised/interconn cultural unification. However, against the various benefits that globalisation offer cultures and producers may be squeezed out by the Goliath multinational organis markets throughout the world with uniform products/services, e.g. McDonald's, C

The development of globalisation

Contrary to popular belief, globalisation is not new. After World War I it started to development of leading American firms, such as Ford, Mars and Coca-Cola, movin 1930s. After World War II the growth of globalisation gathered pace as more busi products/services internationally, e.g. in the 1960s Mickey Mouse and British pop The 1980s witnessed the arrival of a number of Japanese brands into Western eco Nissan, Honda and Toyota. Along with jobs these Japanese companies introduced to Western nations, such as lean manufacturing, just in time and kaizen, which we managers in a bid to make their organisations leaner and fitter to compete effecti

The reasons for globalisation

- Increased competition encourages businesses to be more efficient and innov standards of living since wages/salaries will go furthe
- When a multinational company moves into a ... tr ... will offer employmen local people, which will increase the ... ards of local people. Local b to win contracts to supply t... ational businesses and learn from the multinational busin... ...ese can then be transferred to improve their multipl... ...erate and thereby promote economic growth for the h
- Many c... s have become more prosperous as a result of globalisation, e.
- Innovat... ideas and products can be shared throughout the world, e.g. tech lean manufacturing techniques and improved sanitation in less-developed na
- Reduced protectionism. There are now fewer tariffs and quotas which promo and operate globally.
- Increased exports can increase living standards in a country.
- Freer movement of labour has resulted in national demographic profiles bec therefore, homogenous. Influxes of people migrating into countries togethe overseas have led to greater cultural and ethnic diversity.

Indicators of economic growth

The growth of an economy can be assessed using a range of economic indicators,
section 4.1.1d. Indicators are typically economic data/statistics that indicate curre
economic growth. These indicators have been used in the following sections to co
levels of growth.

Economic growth of the UK economy compared to emerging econo

The growing pace of globalisation is having a weighty effect on living standards in

The UK economy is not immune from the effects of globalisation. The following g
PPP (Purchasing Power Parity) share of world trade as a percentage. The first grap
emerging economies between 1980 and 2020 (forecasted) compared to the UK ec
challenging to see the change in GDP for the UK econ... ...o the figures are show

It can be seen that UK GDP represe... ...ing share of world trade since the 19
accelerated during the past ... so. In contrast, the GDP of emerging econ
share of world ...de

Figure 1: GDP based on PPP share of world trad
UK economy compared to emerging econom

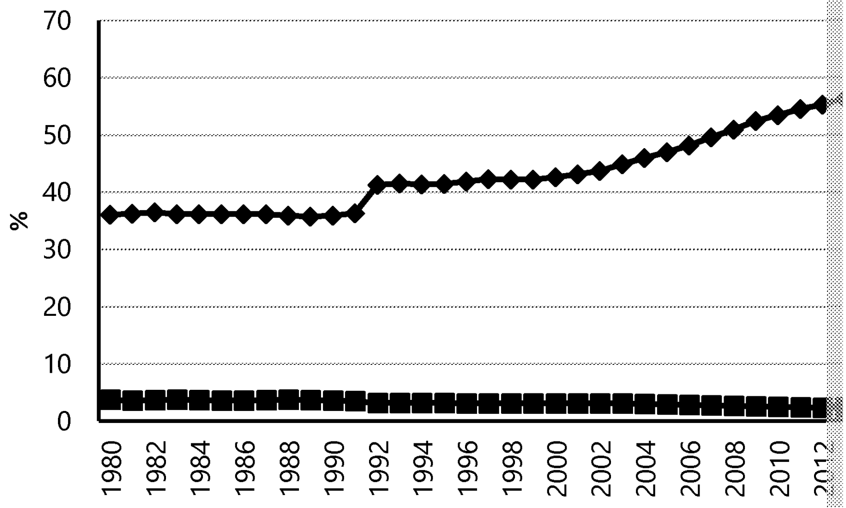
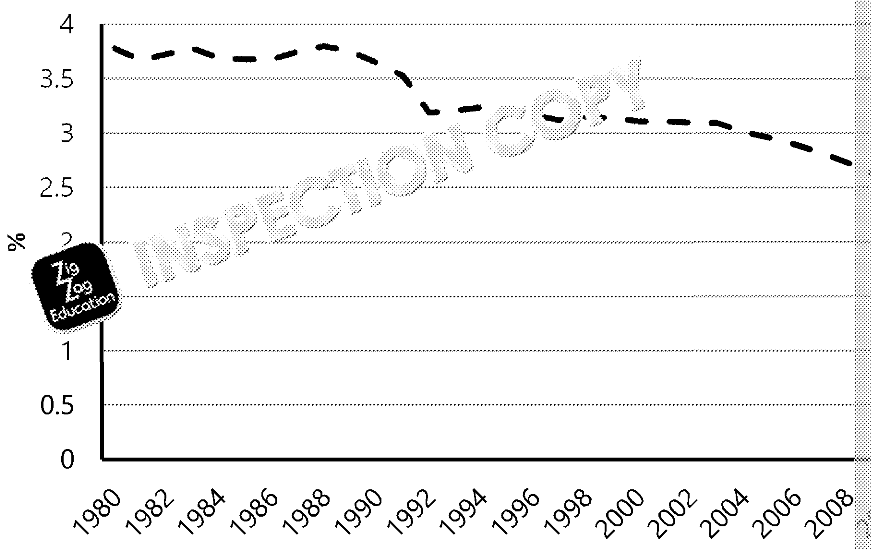


Figure 2: UK GDP based on PPP share of world tr



4.1.1a Questions

Please write your answers on a separate piece of paper or in your exercise boo

1. *Explain how globalisation has affected your daily life this week. Give exa*
   things that you use/consume which show the impact of globalisation.

2. *Explain three reasons for globalisation.*

3. *With reference to Figures 1 and 2:*
   - **a.** *State which year(s) that the growth of emerging economies started t*
   - **b.** *What does PPP mean?*
   - **c.** *Describe what has happened to UK GDP b… PPP as a share of*
     1980 and 2020
   - **d.** *Mark the periods when th… …my was officially deemed to be*

Economic growth of developed economies versus emergin

Accelerating globalisation is affecting living standards in poor and rich countries a
Chennai or Detroit from boom to bust or vice versa in a generation.

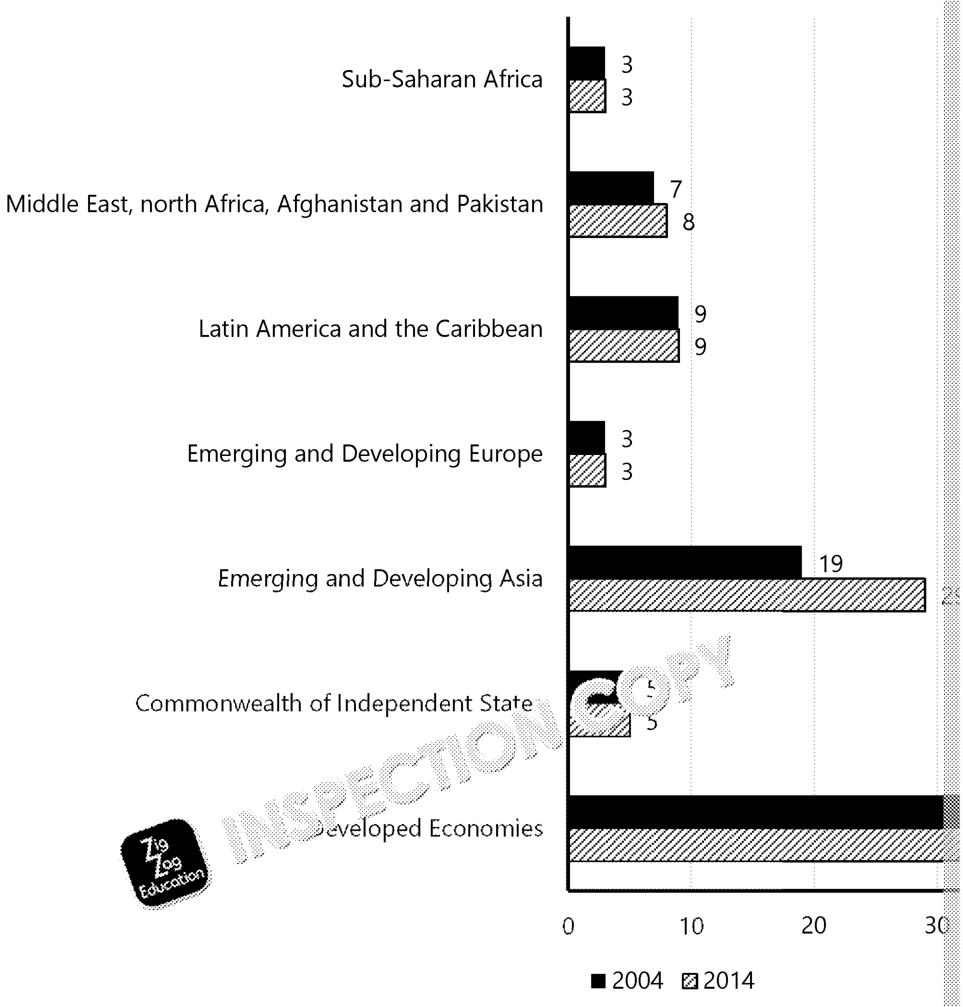
Emerging economies are those that are enjoying significant economic growth, and
most from globalisation. The lives of millions of people in less-developed countri
a result of globalisation. 'Emerging economies', as a term, covers a wide range of
similarities. The International Monetary Fund (IMF) classifies 152 economies as em
from Afghanistan to Zambia. Figure 4 lists all of the 152 economies that are classi

The pace of economic growth experienced by emerging economies has surpassed
Since the 1990s the percentage annual increase in GDP by emerging economies ha
developing economies, as seen on the graph on p

However, it should be remembered that average living standards in most emergin
low compared to Western

The following chart compares the share of world GDP in 2004 and 2014 (based
It should be noted that, since the size of the economy as a whole has grown, the d
changing from 54% to 43% does not mean that they have shrunk in real terms.

Figure 3: % Share of World GDP (PPP) 2004 and



Source: **https://www.ft.com/content/4a915716-39dc-11e5-86**

Figure 4: Emerging and Developing Economi

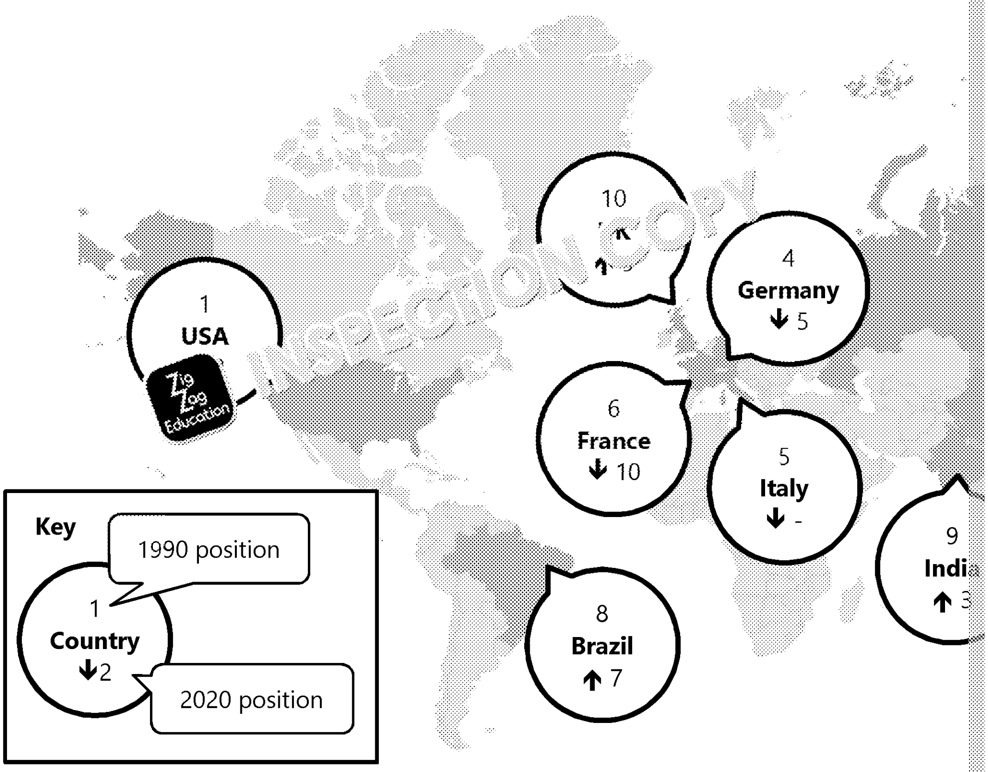
…ttp://www.imf.org/external/pubs/ft/weo/2015/01/we

The followin… illustrates the changing positions of the top 10 economies glo… those predicted for 2020.

	1990	2020
1	United States	China
2	Japan	United States
3	Russia	India
4	Germany	Japan
5	Italy	Germany
6	France	Indonesia
7	China	Brazil
8	Brazil	Russia
9	India	United Kingdom
10	United Kingdom	France

Source: G…

Figure 5: Map showing changing position of the top 10 economies gl… and those predicted for 2020



The key point is the positions at the top. In 2014 China overtook the United States GDP based on PPP share of world trade (%). Over the 30-year period there have b positions of economies and their share of world trade. Countries such as the Unit have fallen down the rankings. Others, such as India, China and Indonesia, now re world economy.

The well-known saying states that when the United States sneezes, the world catch should be changed to when China sneezes. Globalisation has resulted in more int economies so the world's largest economies are now more likely to affect other ec them than ever before.

BRICS and MINT economies

Figur[illegible] and MINT economies

Specific emerging economies have been identified by leading economists as bein experiencing exceptional levels of economic growth. The economies are scrutini forecasted to be major economic powers in the future. The acronyms BRICS and M classifications.

BRICS
BRICS economies are classified as Brazil, Russia, India, China and South Africa. The known as BRIC but was renamed BRICS when South Africa joined in 2010. The five of G20 and are experiencing particularly swift economic growth and have been he of the world economy. Brazil, Russia, India and China all feature in the top ten larg

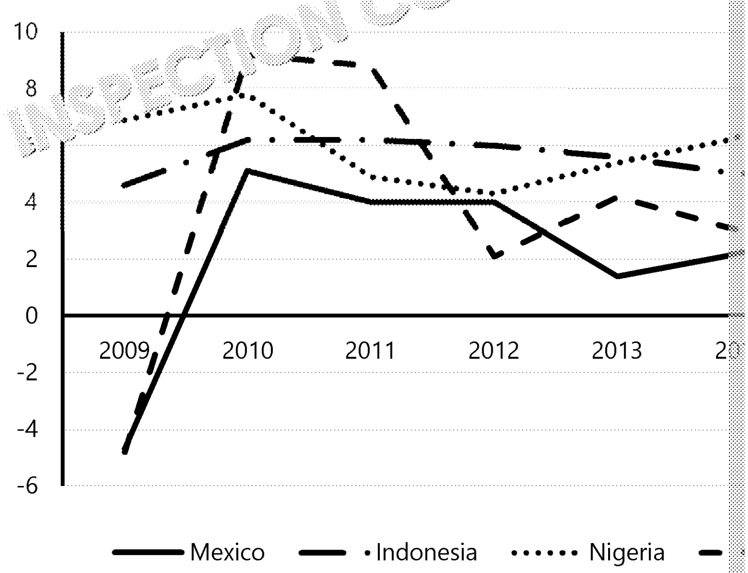
In 2015 over 3.6 billion people (half of the world population), resided in the five BR a combined nominal GDP of US$16.6 trillion, equivalent to approximately 22% of t combined GDP (PPP) of US$37 trillion and an estimated US$4 trillion in combined f illustrate how dominate BRICS is.

MINT

MINT members are Mexico, Indonesia, Nigeria and Turkey. Similarly to BRICS, the
identified as emerging economic giants. The MINT term was proposed by Jim O'N
economist, in 2001 to follow on from BRICS.

The MINT economies all have large and growing populations with abundant numb
age. This is critical because they will not encounter the same future challenges tha
(and China) will face due to ageing and shrinking populations. The geographical p
particularly advantageous, e.g. Indonesia is near to China, Turkey benefits from bei
European Union and Mexico is geographically close to America.

Figure 7: GDP Growth (2009 Ease of Construction Top
– 2015 Ease of Construction Top 15 Coun



Country	Ease of Doing Business Rank (World Bank Index)
New Zealand	1
UK	7
US	8
Mexico	47
Turkey	69
Indonesia	91
Nigeria	169

4.1.1b Questions

Please write your answers on a separate piece of paper or in your exercise boo

1. *Which countries does the acronym BRICS refer to?*
2. *Which countries does the acronym MINT refer to?*
3. *Name five economies that are considered emerging but not included in B*
4. *Which three countries have moved up the rankings of the world's most sig Figure 5?*
5. *How did the ranking of the UK economy change between 1990 and 2020*

Implications of economic growth

Average income levels in the emerging economies tend to be increasing and the middle classes are increasing. The flow of investment by many large Western firms into emerging economies has benefited locals with better employment and training prospects. Although Western firms generally pay local staff less than their Western counterparts the employment opportunities are a welcome boost to family budgets, especially considering that the cost of living in many emerging economies is a fraction of that in a typical Western developed economy.

The increased income levels provide new markets for Western businesses to exploit emerging economies favour Western products and services and view such products handbags and Nike trainers.

Demand in emerging economies is likely to be more elastic, providing opportuni profitability.

Reduced labour costs in emerging economies and closeness to the growing market have encouraged many firms to offshore production / customer service operations to emerging economies such as India and China. This has affected UK employment opportunities, especially in specific industries. Many UK businesses have offshored production / customer service operations to the detriment of UK jobs, e.g. Clarks no longer manufactures any shoes in the UK and many service providers, such as retail banks, offshore all customer service operations so that when customers globally ca they no longer speak to someone in a UK call centre.

Increased offshoring has been a major driver for the declining secondary sector of years. Over 81% of UK workers now work in the tertiary sector as many job roles i longer required by UK businesses.

4.1.1c Questions

Please write your answers on a separate piece of paper or in your exercise book

1. *Why have many UK businesses chosen to offshore production and custome economies?*
2. *What impact has offshoring to emerging economies had on UK jobs?*
3. *What impact has offshoring to emerging economies had on customers?*
4. *What are the drawbacks for a UK business which offshores its production f economy?*

Indicators of economic growth

The growth of an economy can be assessed using a range of economic indicators. data/statistics that indicate current or future prospects for economic growth. Eco numerous ways; however, there are specific pieces of data that are officially publis leading economists that are commonly used as indicators.

Indicators of economic growth may include:

- Gross Domestic Product (GDP) per capita – where the total output of a count of people in the country. Clearly some countries have larger populations tha number of people can help to standardise the data and make it easy to comp
- Literacy – developing people's skills and knowledge is regarded as a key way economic growth. Human capital is especially critical in the modern knowled economy. Developing literacy skills can improve a person's chances of obtai boosting living standards.
- Health – healthy populations tend to live longer, are more productive and ge as they need less health services. Healthy people are more likely to enga living standards.
- Human Development Index (HDI) – HDI measures whether a country is devel developed based on features such as life expectancy, education, literacy, and capita. This measure is particularly valuable because it is multifaceted.

4.1.1d Questions

Please write your answers on a separate piece of paper or in your exercise boo

1. *Explain why increased literacy levels will support an economy's growth.*
2. *Explain why healthier populations will support an economy's growth.*
3. *Why is economic growth measured using a range of different indicators?*

4.1.2. International Trade and Business Growth

The Differences in the Growth of Individual Economies

! ***Key Points Covered***

- International trade and business growth
  - Exports and imports
  - Business specialisation and competitive advantage
  - Foreign direct investment (FDI) and link to business growth

Exports and imports

The volume of imports and exports into ... of a country can have a major imp
consumers within it.

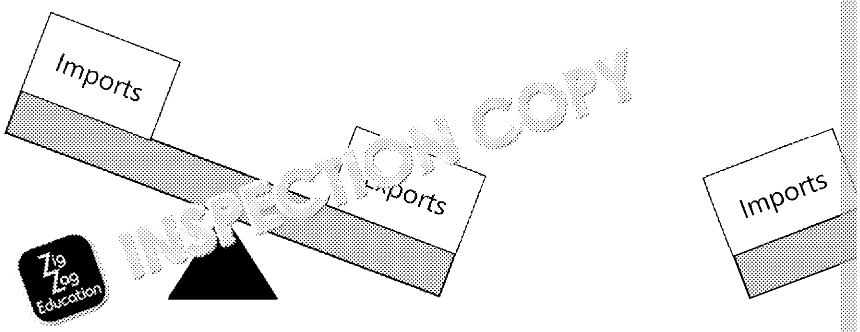
Imports are ... a ... ices brought into a specific country from another. The
resale or in... manufacturing, e.g. raw materials.

Exports are goods and services sent to another country. The goods and services m
manufacturing, e.g. raw materials.

Globalisation is heavily influenced by imports and exports. Modern consumers no
shopping centres than ever before, with products and services available from every
products and services cannot be offered by the domestic economy for various rea
are more cost-effective to be produced outside of the country due to specialisatio
products and services to other countries to enable them to purchase a wider rang

Imports and exports affects the country's balance of trade. The balance of trade is
of exports and imports. The balance of trade is the most significant part of the co
balance of trade statistics are analysed by economists to compare the strength/pe
another, and also to assess the flow of trade between countries.

If imports exceed exports there is said to be a trade deficit; whereas if exports exc
trade surplus.



Trade Deficit

Business specialisation and competitive advantage

Specialisation is where a country, or group of countries, focus on the production of products and/or services. The aim of specialisation is to maximise the efficiency of creating a range of benefits. Many nations specialise in producing goods and servi geographic locality, and they trade for other goods and services; for instance, if a c lower cost than apples, it can specialise and dedicate all of its resources to the proc of them to trade for apples.

Specialisation allows for goods and services to be produced at a lower unit cost, wh reduce its prices or increase profit margins. Specialisation also leads to local cluste professional skills/experience. If producers of specific goods and services cluster to to move between the businesses making a local skills shortage less likely. The busi not have to tempt workers to relocate globally with expensive relocation packages, locally to accommodate the cluster of specialised producers. All of these benefits c develop a robust competitive advantage as they can help it to reduce costs and en which can add value to their products. The competitive advantage will enable the price of its products compared to rivals or alternatively differentiate itself to justify competitive advantage will boost the profits earned by the business.

An example of specialisation fuelled by globalisation is the car industry in India. In Indian car manufacturers operating a factory in India. However, just 12 years later manufacturers have factories, including Suzuki, BMW, Ford, Toyota, Nissan, Honda,

Foreign Direct Investment (FDI)

FDI has become a crucial driver of globalisation. It is a measure of foreign ownersh organisations, e.g. when Nissan, a Japanese business, constructs a car factory in the Hinkley Point in Somerset which has generated billions of inward capital investmen EDF and the Chinese government.

Many countries formulate policies to encourage inward capital investment. The Hi approved by Theresa May in September 2016 after over a decade of negotiations. amount of work/effort that goes into securing inward capital investment that meet target country citizens/economy.

The South West will benefit substantially from the ripple effect of economic benefi contractors completing the 10-year construction project, nuclear industry workers, organisations involved with creating the infrastructure required to support the maj area, e.g. road building, public transport, housing for contractors/employees, train contractors/employees, schools/colleges and healthcare to serve the families of co

The British economy has arguably benefited greatly from inward capital investmen many overseas brands establishing plants and creating thousands of jobs. In 2013 the largest amount of FDI of any European state and is the second most signific were 1,733 FDI projects in the economy that year. However, an uncertain future a and it will be interesting to assess how the decision to leave the EU will affect the a capital investment.

4.1.2 Questions

Please write your answers on a separate piece of paper or in your exercise boo

1. *Explain why a government will encourage inward FDI into their country.*
2. *Distinguish between imports and exports.*
3. *How does specialisation enable a business to enjoy a competitive advanta*

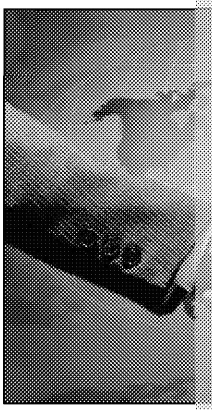
4.1.3. Factors Contributing to Increased Globalisati

! Key Points Covered

- Globalisation
- Benefits and drawbacks of trade liberalisation
- Factors contributing to globalisation:
  - Trade liberalisation
  - Political factors
  - Reduced cost of co
  - Transnational com
  - Foreign direct inve
  - Migration
  - Growth of the labo
  - Structural change

Globalisation

As we have seen, *globalisation* is the process through which economies – and, the integrate into global markets, achieved through developments in the liberalisa improvements in communication, increases in migration and, also, through cultura



For instance, Nike is headquartered in the United States. If the United States found itself completely removed from the rest of the world, Nike's trade would be limited to the set of customers and businesses in the US alone. Yet, in a globalised, or *interconnected*, world Nike is able to sell its products to anybody that demands them across the world. Furthermore, globalisation also gives Nike the ability to employ the fashionistas of Paris and Milan to design its products, to finance its operations with the help of some of the world's finest financial institutions in London or Shanghai, or to outsource its production to numerous other economies, such as Vietnam and Bangladesh. Essentially, globalisation allows Nike to operate in international markets in much the same way it can operat globalisation is the notion of a single world economy.

The interdependence of individual businesses across the world's continents is truly concept that would be particularly alien to our distant ancestors that largely conce *national*, rather than *international*, trade.

Globalisation is often characterised by the following:

- *Increased trade:* Naturally, since globalisation is a process that results in the in economies, there are more products and services traded between countries in multinational tech company – finds it relatively easy to corner the market reg chosen to operate in; that is, Apple is just as capable of selling a MacBook in E or Asia.
- *Increased capital flows:* Globalisation also results in increases in international in always, capital flows are completely unrestricted between different economies are able to deposit their funds in stable European banks, and American companies African business endeavours.
- *Increased migration:* Immigration, and especially labour migration, has increas take its foothold across the world. In the European Union (EU), for example, th members the liberty to migrate freely from one member to another, allowing

Trade Liberalisation

Trade liberalisation, otherwise referred to as *free trade*, is the reduction of (and, at i removal of) restrictions on international trade; that is, trade liberalisation is a polic the development of unfettered international marketplaces, allowing economies, a and export products and services *without* restriction.

In theory, liberalisation, as opposed to protectionism, will improve the productivit presence of competition to domestic businesses and, therefore, forcing continual d It will also allow for industrial specialisation of national industries by giving consu products from countries that produce those products more efficiently. Furthermo liberalisation, a nation's firms are able to penetrate drastically larger markets than population of the domestic market alone.

It is obvious that trade liberalisation has [illegible] benefits, and so, in the twenty progressively begun the process [illegible] their restrictions on international tra institutions have developed [illegible] committed to achieving trade liberalisation. F Organization [illegible] in 1995 to replace the antiquated General Agreemen intergovern[illegible] organisation that regulates international trade and seeks to pro ultimately, fr[illegible]ade, throughout the international community. Interestingly, rece predicated on a dedicated **commitment to trade liberalisation**.

Figure 8: Trends in Average Tariff Rates
(1988 Ease of Construction Top 15 Countries – 2010 Ease of Const

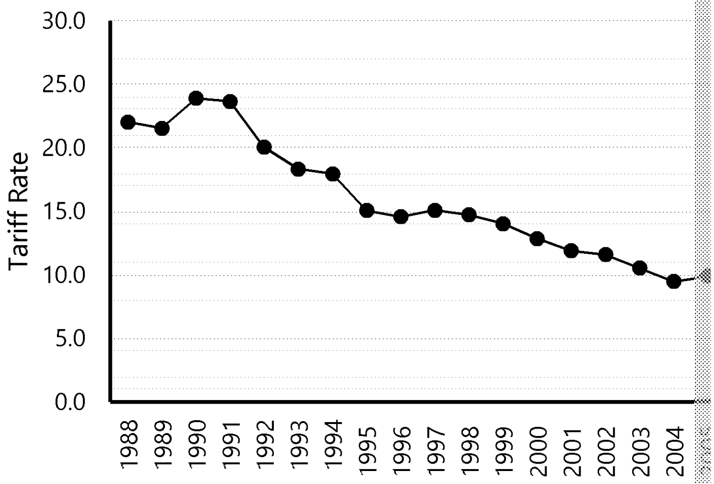


Figure 8, for instance, shows the trend in the world's average tariff rates for 1988 t protectionist measure that you'll see in the proceeding [illegible] Tariffs are essent What can be seen from Figure 8 is that there has been [illegible] *ownward* trend in the av between 1988 and 2010. This is consist[illegible] the process of globalisation and t opens itself up to internationa[illegible] de [illegible] thus to remove restrictions on it. Here, w average, liberalised o[illegible].

The creatio[illegible] European Economic Area (EEA) in 1992 exemplifies the seismic importance of international commerce. The EEA has established a European Singl trade between its members. In 2015, intra-EU trade, the trade of products *betwee* whopping €3,070 billion, emphasising both the importance and achievement of li Moreover, the rapid growth of the Four Asian Tigers – Taiwan, Singapore, South K the greatest indication of the power of liberalisation to lift almost entire economie collectively, these economies were able to maintain an average rate of GDP growt to 1990s.

However, although it is clear that trade liberalisation is a commonly held objective
it's rare to find a country that is completely liberalised. Hong Kong, for example, m
economy that operates a policy of completely unrestricted trade. Therefore, the fa
highlights the existence of costs, as wells as benefits, to the international trade lib

Benefits of Trade Liberalisation	Drawbacks o
Efficiency:	**Increased Competitio**
Perhaps the most important argument in favour of trade liberalisation is that of *efficiency*. Now, protectionist policies are thought to be inefficient because they distort the incentives of producers and consumers in the protected economy. Consumers, for instance, often face higher prices due to protectionist policies and, thus, must make more difficult choices about their purchasing decisions. Producers, on the other hand, protected from the bracing effect of foreign competition, often produce more of the protected item than is considered to be efficient; that is, if the firm had faced foreign competition it would produce less of the item, and dedicate its scarce resources to more productive pursuits. Interestingly, then, trade liberalisation increases the scope and incentives for learning and innovation and, thus, increases productivity, because domestic firms must compete with foreign firms both at home and abroad. Therefore, trade liberalisation improves efficiency and, through this, improves national welfare.	Naturally, *increased co* the national economy i is particularly worrying **unable** to compete or example, foreign multi able to supply products domestic suppliers. If c compete with their fore consequence is the ste industries. Furthermore might impede the prog economic developmen might perpetuating the of LEDCs. The United S manufacturing jobs sin mostly to Asian econo products far more effic **Economic Developme** From WWII to the 1970 liberalisation as someth *economic development* protectionism from ext infant industries with t to develop into compet the world's largest eco industrialised under pr had trade barriers unti
Specialisation:	
Liberalisation and the economic theory of *comparative advantage* together create the conditions ripe for industrial *specialisation* to occur. Effectively, by concentrating a nation's productive efforts in industries in which the opportunity cost of productive activities is the lowest, or its item of *comparative advantage*, a nation can specialise, outperform other economies in the production of that good or service, and, thus, improve economically through increased exportation. Note, the theory of specialisation is closely related to the concept of efficiency, since the nation's specialisation will be in the product that it can produce most efficiently; that is, the gains of production will be realised through the maximisation of the nation's use of limited resources.	It's important to note, h infant industry argume competitive and that t removed. Yet, it is not make industries compe some structural impedi (e.g. resource shortages once protections are in difficult to remove, and nation's development i that protecting infant i substitution is actually a liberalisation in achievi

Benefits of Trade Liberalisation	Drawbacks
Increased Market Size: It is clear that the benefits of trade liberalisation are not limited to the national level. Indeed, a nation's firms are actually able to benefit from shifts in economic policy towards liberalised international trade because it increases their potential market size. The producers of religious icons in the Vatican City, for example, with a population of merely 800 people, are unlikely to have much financial success on domestic turf. But, through trade liberalisation, these producers are able to distribute their products to the large Christian markets in Europe and the Americas and make an absolute fortune!	**Sweat Shops:** Trade liberalisation is c creation of *sweat-shop* the bottom to find the suggested that Weste abuse their business p accept a pittance for t impoverished. In addi are often substandard rife.
Economies of Scale: Protectionism limits the size of a firm's market to the internal market alone. It consequently promotes production at an inefficient scale because it incentivises unnecessary entrance into the protected industry, as such inhibiting the concentration of the protected industry. If, instead, an economy opens itself up to international trade, its domestic corporations can increase production to satiate the consumption appetites of the global market, and, thus, benefit from the associated phenomenon of *economies of scale*.	**Environmental and C** Finally, a further issue growth in multination trade routes can have impact. Moreover, the is said to also erode c destruction of local b homogenisation of pr under increased scrut environment and cult the Internet on comm 'corporate social resp more important. Secti companion looks into
Outsourced Production Processes: Finally, international trade liberalisation offers a nation's firms the possibility of **outsourcing** portions of the production process to other countries that are able to undertake them more cheaply. Nike, for example, contracts out some its manufacturing processes to less-economically developed countries such as Vietnam, Sri Lanka or Bangladesh. Interestingly, contrary to popular belief, outsourcing is not limited solely to parts of the production process that require *unskilled* labour. Pfizer, GlaxoSmithKline, Merck and many other multinational pharmaceutical conglomerate, for instance, outsource their research and development stages of production to contract research organisations (CROs) across the world.	
Factor Inputs: Trade liberalisation means that businesses can import products from the rest of the world more easily. Therefore, a business might be able to import factors of production, such as 'rare earth elements', that aren't abundant in the domestic economy.	

Factors that Contribute to Globalisation

It's clear that globalisation is here to stay, but where did it actually originate from the world's economies didn't just occur suddenly, but many nations gradually mo isolationism and protectionism to those of interdependence and liberalisation. H

Political Factors

In the latter half of the twenty-first century major political changes were occurrin Chairman Mao, the communist ruler of China, died in 1976. China subsequently u structural, political and economic reforms which propelled them onto the interna manufacturing centre of the world. Today, China is also a market for Western pro Chinese middle class.

Second, there is the dissolution of the Soviet Unio ... th ... ate 1990s / early 1990s Secretary of the Communist Party of the S... U..., introduced *'Glasnost'* and reformed the political and econo... ...s, making them closer match the syst Independence was also g... ... number of old Soviet bloc countries. The So to the intern...al ... number of countries that shifted from command to m themselves ...nternational trade and were keen to share in economic prosper globalisation.

However, political change was occurring closer to home too! In the late 1970s an Kingdom's prime minister, Margaret Thatcher, and president of the United States broad set of political and *laissez-faire* economic policies – AKA *neo-liberalism* – th US into truly globalised economies. Whether the legacies of Thatcherism and Rea advantageous to the international community is highly contested; in 2003, for exa Korean farmer and opponent of neo-liberalism, committed suicide at a WTO conf the anti-globalisation movement.

Creation of intergovernmental organisations, such as the World Bank, the Interna World Trade Organization, also facilitated globalisation; that is, through these inst politics is able to reach further than a government's nation state and effect politic stage. The International Monetary Fund, for instance, is often criticised as being In the 1980s, the International Monetary Fund lent to sub-Saharan African countr were conditioned on the acceptance of Structural Adjustment Programmes (SAPs) satisfy American policy objectives of liberalisation, privatisation and deregulation substantially under conditional SAPs and often their national sovereignty has bee policy experiments.

Reduced Cost of Transport and Communication

Containerisation, the practice of using **standardised** metal containers that are easi and other forms of transportation, is the product of Malco... ...cLean's invention in McLean's invention, cargo was stored in inconsiste... sh...ed wooden crates, whi precariously in the ship's hull like a jigsaw ..., ... dockworkers painstakingly h from the vessel by hand, often tak... ...ged periods of time. Howeve... ... in the 1960s and 1970s of ...rn... ...**standards** for both the shape and s... ...metal containers reformed internationa... ...ght shipping practices and markedly improved efficiency, allowing businesses to distribute their products across the globe far more effortlessly and cost-effectively than before. Consequently, containerisation has contributed enormously to the process of globalisation.

Containerisation Facts!

- *In 2009, the proportion of non-bulk products transported by uniform containe*
- *Introducing containerisation has reduced the cost of loading and unloading s Previously, it had cost $5.83 per tonne to manually load cargo. But the imple standardised container reduced the cost to as little as $0.16 per tonne – that's 97.3%, so the benefits to internationally trading businesses are substantial – e its production process to foreign countries because it is cost-effective to trans back to the US and elsewhere!*
- *Containerisation led to improvements in the productivity of dockworkers. In tonnes of freight per hour onto a shipping vessel; by 1970, however, this figur per hour.*
- *Finally, containers also defend businesses from theft because they are genera of production.*

Communication technologies have improved drastically during the second half of t Internet and mobile telecommunication devices would look like extraterrestrial tec were more familiar with handwritten letters and carrier pigeons. Now, these inven the way that businesses operate internationally. Indeed, multinational corporation email to communicate, without difficulty, with their employees regardless of wher these communication networks are not simplistic; indeed, firms are able to instant their operations situated abroad. Perhaps the most profitable development for m the Internet as a marketing tool. Internet-based companies – e.g. Google, Facebo huge amounts of personal data that can be used to tailor advertisements and oth domestically based companies to promote their products to specifically targeted c

Finally, improvements in mobility through the growth of the airline industry allow i conducted more straightforwardly. EasyJet and Ryanair, for instance, offer except numerous European destinations, allowing CEOs and other corporate types to trav Furthermore, although used for the transportation of products less often than larg remarkably fast method of transporting small packages across the world, and firm planes dedicated to shipping.

Multinational Companies

KEY TERM: Multinational, or transnational, companies are firms that operate in a country they are legally headquartered in. MNCs often own facilities other countries that are managed from their centralised headquarter

Fact Box

Walmart, an American supermarket company, is the largest multinational corpora revenue in 2016 was $482 billion, which is far higher than the GDP of many indus Walmart has claimed the top spot on the Fortune Global 500 eleven times!

It is arguable that the existence of multinational companies is, in fact, a consequen process of globalisation. However, since these multinational companies are contin opportunities, they contribute to the monopolisation of global marketplaces a uniformity of products that are related to globalisation. MNCs often have a duty t increase returns and profit-maximise and, therefore, these firms will continue to gl economy until there is a shortage of cost-effective business opportunities abroad.

Perspectives on Multinationals...

- ✓ **GOOD →** MNCs contribute to the growth of international economies. Invest economies often results in improvements in unemployment statistics and be standards of living.
- ✓ **GOOD →** MNCs are able to achieve *economies of scale* because international realise efficient scales of production. MNCs are, therefore, able to produce th effectively and these savings can be passed on to the consumer.
- ✓ **GOOD →** MNCs often sell standardised products to consumers across the wo appropriate level of quality. Samsung's flat-screen TVs, for instance, are relia of whether they are purchased in Paris or Tel Aviv.

- × **BAD →** While MNCs usually increase employment in the countries that they o the nature of such employment. Often, workers' salaries are considerably low considered appropriate by Western standards. Moreover, working condition However, an important point of consideration is that these local workers are not with MNCs, instead these jobs offer better alternatives to being unemployed sector.
- × **BAD →** MNCs are often criticised for their pollution and abuse of non-renew true that a considerable amount of environmental damage has been done in highly pollutant industries in LEDCs to the markets of Western civilisation. Ye often the result of poor governmental policy decisions instead of the actions government has recently removed many important restrictions on logging in form of state-sponsored deforestation – so the issue is fairly ambiguous.
- × **BAD →** MNCs are also criticised because they represent unfair competition f MNCs are easily able to corner the market in foreign countries because they more cost-effectively, or have more resources to invest in marketing, etc. No beneficial in improving the efficiency of an economy, the likely fall-out from that many countries hope to avoid.

Case Study – McDonald's

McDonald's, the internationally renowned fast-food corporation, had humble restaurant in San Bernardino, California. Its expansion, however, is remarkabl countries, and it's now possible to purchase a Big Mac almost anywhere – alt in India beef is prohibited for religious reasons so you'll have to order somet else! In 2016, McDonald's employed 420,000 people at its manufacturing an operational facilities, making it the second largest employer internationally – WalMart is the largest. Interestingly, *The Economist* has developed the Big M Index as a tool for assessing the purchasing power of different currencies, a testament to McDonald's' truly global reach. McDonald's is likely to continue expanding in the future, contributing to international economies, and fannin flames of globalisation.

Increased Investment Flows (FDI)

KEY TERM: Foreign direct investment (FDI) is defined as an investment undertake country in a business interest of theirs in another. FDI might invo assets to gain complete (or at least a substantial proportion of) might involve the direct formation of operational facilities abroad the concept of FDI is the establishment of effective control – that is, F foreign portfolio investments, it's about exerting some direct influen

FDI in Practice (India)

- ⇨ The Indian government launched the 'Make in India' initiative to attract gre initiative liberalised regulations on FDI in a number of prominent sectors.
- ⇨ In 2015, India was ranked the 10th largest destination for FDI internationally,
- ⇨ It attracted $44 billion of investment in 2015 – a 26% increase on its figure f
- ⇨ GlaxoSmithKline, the multinational pharmaceutical corporation, has begun t plant in the Bangalore area that is expected to be completed in 2017. Glaxo local community hundreds of job opportunities, while also bolstering its co government to supply affordable medicines to the country.
- ⇨ In 2013, Tesco, the British supermarket chain, announced an investment of $ sector. Tesco is set to gain a 50% stake in India's Trent Hypermarket, which i with since 2008.

Why Do MNCs Engage in FDI?

An MNC might perform *horizontal FDI*, in which it conducts the same activities in t at as at home. Starbucks, for instance, might introduce its brand of cafés to Hong emergence of a [illegible] middle class with Western appetites. An MNC could loca because it can circumvent paying expensive tariffs if it were to simply export t

Often MNCs also engage in *vertical* FDI, where numerous stages of the productio An MNC might choose to engage in FDI in order to bring itself in closer proximity t its production process. It's expensive for a company to transport the materials it n world, so it makes sense to locate the production plant closer to the materials it re benefits from avoiding having to pay transportation costs for its finished products i production process in the economy in which it intends to sell the finished product choose to locate its production facilities in an LEDC where it is more cost-effective savings realised through decreased labour costs.

An MNC can benefit from local expertise by locating its operations abroad. It can foreign markets and how to advertise its products in them.

How Does FDI Contribute to Globalisation?

FDI is an essential factor in the integration of international economies – that is, glo directly increases the interdependence of numerous economies by creating linkag and the recipient country. FDI also has the ability to completely transform LEDCs i economies, which, in turn, contributes to the globalisation process.

Migration

Migration, in its *transnational* interpretation, refers to the movement of people fro to either a temporary or permanent residence of another. It includes both *immigr* from a foreign country *into* the domestic country – and *emigration* – the moveme country into a foreign country. In 2015, the UN found that there are approximate migrants – that is, people living in a country other than their place of birth – inclu fleeing conflict or unjust persecution. [illegible]% of the world's population are lab assured that they contribute to the process of globalisation. How?

- **Cultural Exchange:** Primarily, immigrants (often) have different social mores those norms of the recipient country. It's natural, of course, that immigrants as their material possessions, to their current environment. That immigration societies and multiculturalism is an irrefutable indicator of globalisation. Imm cuisines. London's Brick Lane, for example, is chock-a-block with Indian resta South Asian migration to the United Kingdom. Yum!
- **Transfers of Labour:** Importantly, migration also constitutes the transfer of l countries. In the UK, for instance, membership of the European Union has all European citizens into the UK. The ascension of Poland, and other Eastern Eu

Union has offered a steady stream of cost-effective and efficient labourers to
immigration isn't only concerned with the supply of relatively unskilled labou
the UK is a highly politicised issue and the UK's 2016 vote to Brexit is partially
sentiment; migrants are often blamed for problems of unemployment or abu
such as the NHS. However, often the education profile of immigrants is more
citizen, and so the UK can actually benefit from such immigration because of
knowledge and in the filling of the UK's shortages of trained professionals in
academia, and the legal system.

- **Remittance:** Finally, immigrants often transfer portions of their income to th referred to as a *remittance*. Remittances can contribute to globalisation by d across countries.

Growth of the Global Labour Force
Globalisation, at least in its modern [illegible], properly began in the 1970s. Sinc roughly doubled, from 3.7 [illegible] approximately 7.5 billion in early 2017. Natur labour force [illegible] increased over this time period. China's labour for over 800 m[illegible]orkers, and India's is just under 500 million, constituting a consi labour force. [illegible], although the increase in the global labour force is a natural co population growth, improvements in mortality rates, cultural developments with r other factors, have played a significant role.

How Does the Growth of the Global Labour Force Affect Globalisatio
Global Demand: Increases in the number of individuals participating in labour ma of increasing international demand. It should be of little surprise that the availabi most important factor in determining consumption patterns. Therefore, the produ participation is that these individuals have more resources to dedicate to consum Individuals in the UK might choose to spend a portion of their disposable income products, but other portions of their income might be spent on items produced b to the process of globalisation. Recently, China's economic development has spa has a cultural appetite for Western imports, again fuelling international demand a MNCs in a globalised economy.

Labour Costs: It is notable that increases in the supply of labour internationally h of such labour. If something is in abundance it is uncostly; if something is scarce i global labour force has served to make labour a relatively abundant resource, and wages. MNCs are able to take advantage of decreased wages and can cost-effect foreign environments.

Trade by Necessity: Historically, population growth has contributed to material s foreign land. In the sixteenth and seventeenth centuries, European economies circ resources by migrating to and exploiting the resource[illegible] Americas. If a nation's labour force, is increasing at a substantial and [illegible] rate, the nation will be economies in order to survive. MNC[illegible] population growth by being ab well as *wants*. Trade, clearly [illegible] determinant of the globalisation of marke an important factor [illegible] process.

Structural [illegible]ge
As Western nations have organically restructured economically from industries co materials, or the manufacture of consumption goods, towards the tertiary sector – incomes have markedly increased because these industries offer the largest return added'. We're already aware of how increasing returns to labour can be instrume globalisation.

Moreover, unlike the primary sector, or even the secondary sector that often needs resource inputs, businesses that operate in the tertiary sector are able to locate th ease provided there's a market for their product or service.

Economically, a *structural change* is a shift in the structure and operation of an eco structural change is the **product** of globalisation. Indeed, inherent to the liberalis therefore, the process of specialisation, is gradual changes in industrial structure a comparative advantage and then focus on mastering it.

4.1.3 Questions

1. *What is the definition of 'globalisation'? Outline s... of its indicators.*
2. *How would trade liberalisation he... technology manufacturer – e.g. S and internationally?*
3. *Ident... f... that have contributed to globalisation. Explain their i*

4.1.4. Protectionism

! ***Key Points Covered***

- Objectives of protectionism
- Methods of protectionism – tariffs and non-tariff barriers
- Risks of protectionism

Protectionism is an economic concept that refers broadly to a restriction of trade b through the imposition of tariff barriers, import quotas, and a host of other govern It is, therefore, the *opposite* of trade liberalisation. Now there is a general consens that free, or liberalised, trade is beneficial to the global economy and the individua *Yet, protectionism hasn't disappeared.* It is Western nations that are the most expli restraints on international trade, but their trade policies are actually more aki liberalisation. The United States, for instance, is the most protectionist nation glo instrumental in ... international treaties that eliminate protectionism. F is often criticised for its protectionist *Common Agricultural Policy (CAP)*. The CAP i that protect European farmers from international farming completion. LEDCs that comparative advantage in agricultural production are, therefore, disadvantaged b liberalised trade that are caused by Western protectionism. However, since most c protectionist, let's delve a little deeper into the economic rationale for protectioni

Why Protectionism?

Infant Industry Argument: LEDCs often argue that it is important for them to pro foreign competition in order for them to successfully develop into industries opera might have a comparative advantage in, say, manufacturing, but protection from i necessary for them to establish this advantage. Industrialisation, and, therefore, e achievable through temporary protectionism. However, LEDCs often have trouble i potentially valuable enough to protect. Moreover, industries might not be able to size of internal markets is too small to achieve economies of scale. Also, just beca comparative advantage in the future doesn't mean that they should shift producti indeed, they might not have the necessary resources – e.g. capital – or expertise – required to shift production to the protected sector.

Employment Protection: Unemployment reduction is an important macroecono Importing products from, say, China, might be harmful for the UK's manufacturing this competition might manifest itself in redundancies. Therefore, protectionism m governments concerned with problems of domestic unemployment.

Dumping: Dumping, in terms of international trade, is a predatory commercial pr manufacturers trade products in international markets at a price lower than in thei refer to the sale of products *below cost* in international markets. Dumping, therefo financial position of domestic producers that are unable to compete with the pred Restrictions on trade can mitigate the effects of dumping.

Revenue G... Protectionism is often a source of much needed *revenue* for gove introduction of a national income tax, the United States raised the majority of its r – e.g. tariffs. Therefore, it is possible that protectionism can be welfare-enhancing government's coffers.

Improve the Balance of Payments (BoP): If a country is a net importer of produc to impose protectionist policy to reduce, or reverse the trade deficit. The status B macroeconomic indicator. The UK, for instance, has a current account deficit on t which is about 5% of GDP. However, protectionism in this respect is a multi-prong government might need to both *increase exports* and *decrease imports* for the def

Protecting Citizens from Harmful Products: Protectionism might be justified if a restraining trade of products that are harmful for its citizens to consume. Weapons understandably highly restricted in many international markets because of the inhe them.

How Do Countries Protect Their Industries?

Tariffs:

- Tariffs are the most simplistic of international trade policies. Essentially, a tarif *levied on an imported good.* Tariffs are split between *specific tariffs* – that is, fix unit on an imported product (e.g. an additional £50 on imported TVs from Chi that is, taxes that are proportional to a percentage of the total value of an imp the price of Taiwanese clothing manufactures). Yet, regardless of their specific imported products more expensive for domestic consumers.
- It is anticipated that increasing the price of an imported product gives impetus consumption habits *away from the imported* item to domestically produced al mobile industry, for instance, is likely to benefit from a tariff on vehicles impor because it helps make their production appear more price-competitive. Cons imported commodities are advantageous for domestic producers of that com tariffs imposed in a foreign market on a nation's exports are clearly harmful fo shift consumption away from their products to their foreign competitor.
- Domestic manufacturers also benefit from tariffs because they see an increase Producer surplus is the difference between the price a producer *actually* recei absolute lowest price that they would be *willing* to accept. Tariffs increase the producers can charge because it protects them from their cheaper foreign com domestically based producer was willing to accept £50 for their commodity an market price for it is £60. Producers can't charge more than £60 for the comm could shift their consumption to international producers' products instead. In 50% on the foreign import, however, increases the price that domestic produc and, in doing so, they've gained an additional producer surplus of £30. Theref *surplus* by increasing the amount that firms are able to charge in the domestic
- Moreover, the government also stands to gain from imposing tariffs on foreig from foreign producers aiming to export their products to the domestic econ additional revenue on domestic affairs. Its revenue is equal to the tariff rate m imports.
- However, consumers are unfortunately affected negatively by tariff barriers to forced to accept either a higher-priced foreign import or a higher-priced dom Analogous to the concept of producer surplus is the concept of *consumer surp* wedge between the price that a consumer *actually* pays for a commodity and to pay. Tariffs have the effect of increasing the price of a product and so cons
- Overall, the cost benefit analysis of a tariff is ambiguous. If, for instance, the g finance profligate spending, it is clearly less beneficial than a government tha finance a much-needed revitalisation of public services. Likewise, the loss to c perceived differently if it only accrues to the wealthier stratum of society.
- Note, too, that tariffs are only successful if the *elasticity of demand* for the prote If it is inelastic then consumers might not shift their expenditure away from th consumption is not determined by its price.

  ⇨ **Famous Example of a Tariff – Corn Laws:**
  The Corn Laws of 1815–1846 are an example of a protectionist measure u government to protect its agricultural industry. The Corn Laws imposed a Politically, the Corn Laws were a contentious issue. While, of course, they foreign competition by raising the price of imported grains, they did so a 'common man' who relied primarily on bread for nutrition, and, thus, had food expenditure. Moreover, the Corn Laws were a contributing factor in brought about the death of one million Irish citizens.

Quotas:

- Protectionism can also be achieved by introducing an import *quota*. Quotas a of given commodities that can be imported into the domestic economy. Emb that enforces the *total* prohibition of imports from a given nation. The Unite embargo placed on Cuba since 1958 in order to achieve the political objectiv democratise.
- Quotas are enforced in practice by issuing licences to either individual busine governments that permit a certain quantity of imports of a given commodity. of imported items, and this has the natural consequence of increasing their pr commodity scarcer in the domestic market, and the scarcer something is, the
- Consumers, then, shift their consumption away from the artificially less price-c and their demands are then satisfied by domestic firms. This shields firms in the threat of foreign competition, allowing them to operate successfully in the do
- It's important to notice that quotas then increase the price of domestically pro recognise they are able to charge similar prices to their foreign competitors. quotas restrict imports but raising domestic prices.
- Analytically, tariffs and imports are highly comparable. Yet, they differ in one i a revenue-raising tool for governments. Indeed, recall that quotas are implem certain businesses or governments. Licence holders, therefore, collect the rev the government in the form of a tariff. If the licences are awarded to foreign f products to the domestic economy, then quotas constitute a form of transfer f economy. Quotas are more benign if the licences are bestowed on domestic f commodities.

Non-tariff Barriers:

- **Export Subsidies:**
  It is also possible to protect industries by offering *export subsidies*. Export sub protectionist measures such as tariffs and quotas because they seek to promo imports. The Taiwanese government could, for instance, promote the develop by offering some form of financial assistance to increase its production – e.g. t reductions, or grants. Subsidies have the ability to make their recipients more subsidising research and development, or allowing a business to purchase tec the firm's cost of production. Consequently, the recipient firm is then able to products, making it more internationally price-competitive. Subsidies, then, p making them more competitive rather than by sheltering them from this comp

- **Red Tape and Government Regulation:**
  Protectionism isn't taken lightly by intergovernmental organisations such as th to avoid formal barriers to international trade by restricting imports through th It's often extremely simple to devise regulatory barriers that inhibit imports. I increase the cost of engaging in international trade and discourage imports. T has strict standards for NOx output on automobiles that prevents foreign com vehicles to US customers. It's, therefore, almost impossible to sell an automob this standard. (Interestingly, though, in 2015 Volkswagen was found to be vio fraudulently programming its vehicles to cheat in US regulatory emissions tes were 40 times greater than the legal limit.)

- **Cultural Barriers:**
  Finally, an organic impediment to international trade is that of 'cultural barrie preferences differ between cultures and, therefore, it is not guaranteed that a successful trading in another country even if there are limited formal barriers t particularly successful corporation in America, the natural home of the hamb successful in the Middle East or Africa where appetites are accustomed to mo that businesses assess differences in cultural dispositions before entering into barriers can be almost as substantial as formal barriers.

Problems with Protectionism

Allocative Inefficiency: Protectionism inhibits the efficient allocation of the world process of *specialisation*. Protectionism encourages domestic businesses to produ commodity than is optimal under free trade because they are sheltered from the e competition. Production guided by price distortions is never as *efficient* as product determined by the free market. Therefore, protectionism creates *market distortion* allocation of resources both domestically and internationally.

Trade Wars: Protectionism can lead a country's trading partners to retaliate. If the measure was to assist the development of an infant industry and to increase its int a policy of protectionism might be counterproductive if, once developed, the expo on international markets. In 1886, Italy famously imposed restrictions to trade wit bolster the process of industrialisation. Yet the French unable to negotiate with th their own punitive tariffs. The *Méline Tariff* ... 1892, marked the end of Fra liberalisation, reducing Franco–Italian ... dramatically and, in the process, harm countries.

Adverse Ef... Competition: Protectionism can be counterproductive to incr the price of imported intermediary inputs that are necessary to production. Oil, for the production process for numerous businesses. If this intermediate resource ha have the knock-on effect of increasing domestic producers' prices, because these n the producers' inputs. Firms, therefore, are now internationally less price-competit measure was installed.

Special Interest: Protectionism is often manipulated by the efforts of special-inte careful cost–benefit consideration of the effects on national welfare. Indeed, polic government intervention are often captured effortlessly by politically influential sp subvert the (benign) policy into a political device that benefits that certain interest. Policy, for example, costs the EU €58 billion annually and harms LEDCs that often h agricultural production. Yet, farmers' unions in the EU furiously lobby to prevent a allocation for the CAP that might harm their business, even if this reduction is bro the EU and producers elsewhere. Moreover, the natural constituency of protectio biggest benefits from being protected (producers). Producers, therefore, have a g protectionist measures remain in place and so are a more forceful lobbying group gain only a *little* from shifts towards liberalisation. It is difficult to engage in *collec* these shifts are less concentrated and are shared between a less-informed and les the distribution of the benefits of liberalisation and the ease of which protectionis makes it extremely difficult to remove once in place and, also, can explain the reas are nonetheless adopted in the first place.

4.1.4 Questions

1. a. *Identify three reasons ... might choose to be protectionis*
   b. *Evaluate whe... any potential drawbacks of a country bei*
2. *Defi...s' and 'quotas'. What are the important differences between t*
3. *Analyse whether a fast-food chain might face any other restrictions to tra no formal barriers to trade.*

4.1.5. Trading Blocs

The benefits of trading blocs are that they increase trade among member countrie
barriers reduces the cost for firms doing business across national borders. This m
cheaper produce and greater choice of products, while firms can benefit from higher profit margins. Businesses can also benefit from economies of scale as they can expand and grow into a bigger market and audience. For firms outside of the trading bloc, they can find they are met with price-inflating barriers that prevent them from trading with firms within the bloc. They may find trade with previous partners has been diverted away from them and instead towards firms within the bloc.

Since the creation of the **European Union (EU)**, a great deal of trade has been cre
countries due to the reduction of trade barriers between them (this is known as th
However, trade has been also diverted away from non-member countries (trade di
between member countries has been made easier due to the EU trade bloc – this has led t
'Fortress Europe'. Commonwealth countries and the UK have found their trade rel
EU is one of the most monetary and economic unions with the unifying of the coun

The **European Single Market** generally benefits businesses that operate within th
the euro, firms no longer have to worry about changes in the exchange rate affecti
have a much larger market for their products, although they do have to comply wi
products in order to trade within the single market. Some businesses might feel th
overbearing, although usually they are designed to protect consumers and the env

As well as the EU, there are other trading blocs that are growing and expanding in
ASEAN and NAFTA.

The **Association of Southeast Asian Nations (ASEAN)** started in 1967 and inclu
Philippines, Singapore and Thailand. Brunei, Cambodia, Laos, Burma and Vietnam j
1997. Originally the association was started to prevent the spread of communism
development. Since then, the ASEAN Declaration has set out to accelerate social p
development, and promote peace, stability, collaboration and mutual assistance o
It also aims at improving the living standards of the people in agriculture and indu

The **North American Free Trade Agreement (NAFTA)** is an agreement between th
Mexico. The agreement's objectives are to eliminate all tariff and non-tariff trade ba
investment between the member countries. Since the formation of the agreement, t
increased dramatically. Mexico has equally prospered from the agreement with boo
materials for value-added production. Mexico has also benefited from access to Am
in a boost for the American meat industry.

The buying of goods and services from abroad and the selling of goods and service
trade) can affect a domestic economy. This means the consumption behaviour of fo
domestic economy, just as the consumption behaviour of domestic consumers may
This highlights the 'cause and effect' between countries which is referred to as
'interdependence' of economies. This means that countries trading in the global ma
reliant on, susceptible to and supported by each other. For example, a recession in S
economy in Italy, since Italy exports good and services to Spain. When Spanish con
demand, Italian exporters cannot sell their products, potentially leading to an econo

Other Impacts of Trading Blocs on Businesses

Businesses find both advantages and disadvantages when they locate inside a trad
implications for being outside of one too.

Access to a larger market through locating inside a trading bloc such as the NAFT opportunities for firms to specialise and benefit from economies of scale. More in can mean even greater benefits, including the free movement of labour (leading t recruitment) and simplified regulations across a range of countries. The increased (see below) – can give firms an incentive to innovate and become more efficient, l more longevity.

However, as has been seen with the UK's vote to leave the EU (Brexit), there are ar and these include some negative aspects for specific firms. Also certain regulation these regulatory standards (pejoratively known as 'red tape') are in some cases hig otherwise face in their home country. A larger market might mean greater opport efficiency overall, but for individual firms it could mean exposure to competition w as competitors who have access to cheaper labour or government support. Where on a particular industry, it may be more difficult or expensive for firms in the indus lobbying to the UK parliament may have been easier and simpler (e.g. meeting with Brussels (where MEPs have [illegible] power).

4.1.5 Research Task

Put yourself in the shoes of a UK-based manufacturer. You currently sell 60% o European market and 40% in the UK. Research the current status of trade barr EU in the wake of Brexit. Given the restrictions currently in place and possible c whether your business should relocate to an EU member state or stay in the UK.

4.2. Global Markets and Business Ex

!	*Key Points Covered*

- Overview of reasons for overseas trade decisions
- Factors influencing potential markets
- UK affluent bu
- Increasing glob

The UK government has a mandate to encourage overseas trade and after the Bre a hot political topic. As the prospect of trading with EU countries comes into quest considering alternative markets to the EU. In addition, existing trade agreements m the rationale for trading with certain countries will be revised.

In an increasing global economy, a business may feel that staying local will restrict that trading overseas is a necessity to maintain competitive advantage.

Global Economics

A business in the UK does not operate in isolation from the rest of the world. It ma materials may have been imported. Thus, it is influenced by international exchang supply. The decision to trade overseas may be one of necessity as the local market resources a company needs. An example of this is with manufacturing industries w products. Coal is the source raw material for steel. Over the last few decades, the declined significantly. Canadian coal became cheaper to import than sourcing UK decline in manufacturing capability and British steel manufacture also declined. A the UK followed this decline. As of 2014 there were approximately 35 active Britis defunct British car manufacturers. This is the economics of global supply and dem have set up shop in the UK, enticed by favourable land and labour rates and with g manufacturing base is niche specialised and has specifically targeted markets abro these companies have had to trade overseas.

Decline of domestic market

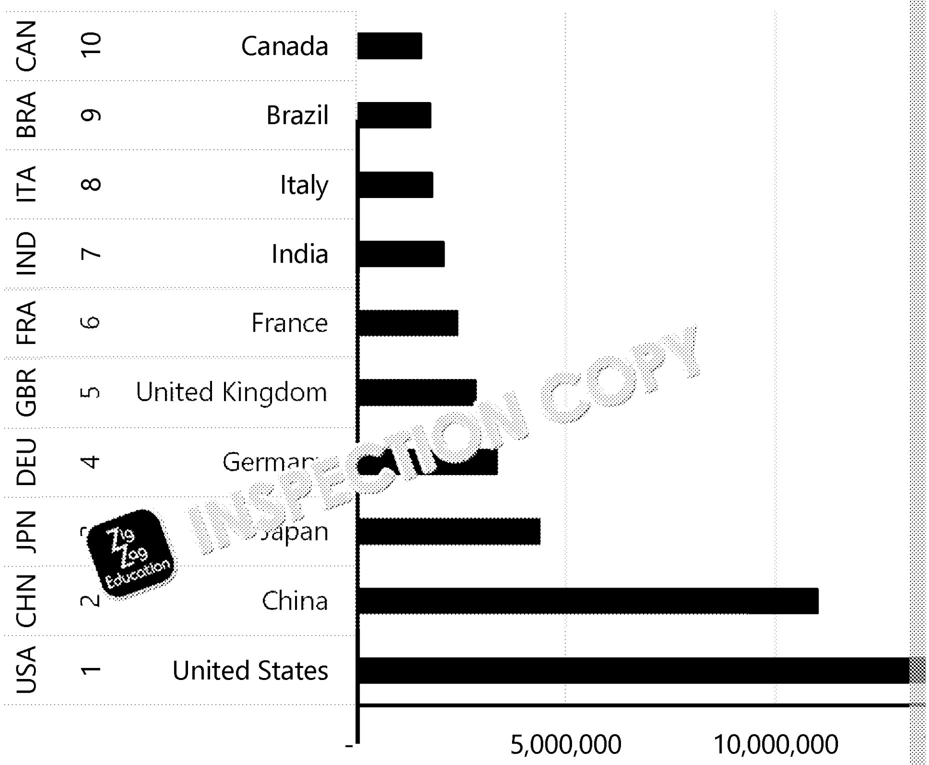
A company may be literally forced to seek out overseas trade opportunities due to market. This could be due to competition from domestic or overseas firms or soci cases, the capacity for production outstrips the demand domestically. Rather than resultant job losses a firm can seek out new markets for its surplus products.

World Economics

At any one time, there are a variety of global economic factors affecting the buyin and companies alike. International exchange rates fluctuate and significant chang factors, such as a new USA president; illness of a significant global leader; changes weather catastrophes such as hurricanes and floods can affect crop growing, causi change in sourcing that supply. During the recessions of the 1990s and early 2008 their spending to necessities and away from luxury items. A recession has a 'shape recession are at different points on the curve, either closer to coming out, or close shifts the potential for trade away from countries that are struggling towards t recession b

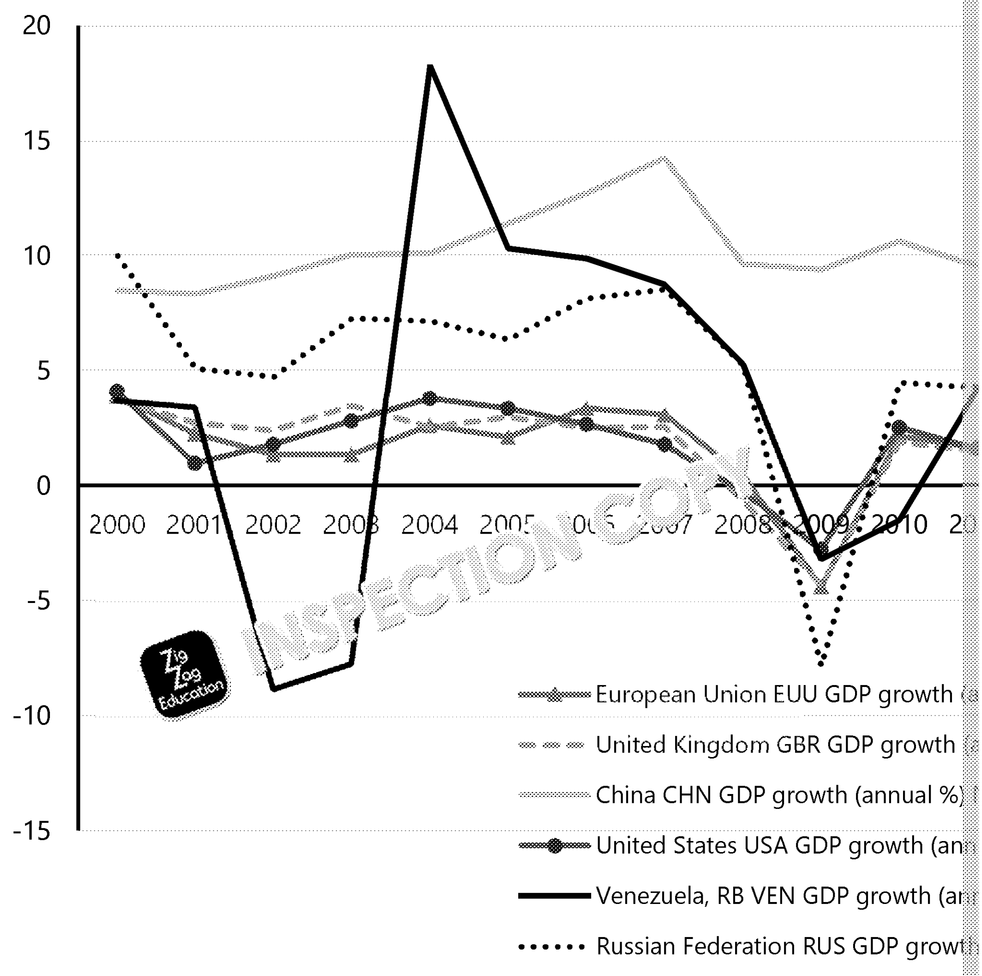
Learn More!
Extended reading on the recession o
https://openknowledge.worldban

Figure 9: Top 10 World GDP 2015



Source data: **http://data.worldbank.org/data-catalog/G**

Figure 10: GDP Growth Comparison 2000 to 2



In the next section, we will look more closely at the conditions that prompt trade.

4.2 Questions

1. *Select one advantage and one disadvantage from the table below and exp[...] from UK businesses.*

Advantages of trade	*Disadvanta[...]*
• *Exploiting comparative advantage leading to greater efficiency and low opportunity costs* • *Economies of scale due to the higher level of production where the exporting country has a comparative advantage* • *Increased competition which leads to efficiency, increased purchasing power for consumers, and a higher consumer surplus* • *Quality of goods and services likely to rise with competition, e.g. if a domestic monopoly faces competition from abroad* • *Increased employment in export-related industries*	• *Overspecialisation i[...] lead to structural un[...]* • *Infant industries ma[...] competition, which t[...] shielded from throug[...] had a chance to gro[...]* • *Cheaper imports ma[...] leading to even mor[...] industries, with the [...] structural unemploy[...] loses its comparativ[...]*

2. *Consider the graph on GDP comparison – what three conclusions could yo[...] firm's decision to export?*

4.2.1. Conditions that Prompt Trade

! Key Points Covered

- Push factors:
  - saturated markets
  - competition
- Pull factors:
  - economies of scale
  - risk spreading
- Possibility of offshoring and outs…
- Extending the product life cycles …

Push Factors that Prompt Trade

For any UK business, choosing to tra[illegible] is a big step and usually requires … government encouragemen[illegible]ns of overseas trading can put off many … situations that [illegible] consider overseas trade; these are known as 'pu…

A company [illegible]d that their domestic market has become saturated; they cannot increase sales as there is no additional demand for their product or service. This could be because their product is now outdated or consumers no longer have confidence in their version and are buying a competitor's product. Whatever the reason, the company is at a stagnation point and needs to either seek new markets or create new products. It is sometimes far more cost-effective to look for an overseas market than to spend a lot of money on new product development. Plus, increasing your market share by expanding into an overseas market can then generate revenue which can be funnelled back into product development in …

> ***Mar…***
> *This …*
> *pote…*
> *prod…*
> *dem…*
> *prod…*
> *can b…*

There can be various reasons for market saturation – see **http://simplicable.com/…** examples. However, the problem remains the same – how to reach new markets f… downturn in profitability.

Competition as a push factor in moving into overseas markets

Unless a business operates within a monopoly it is going to face competition. Thi… innovation-based, or simply being out-marketed by the 'new kid on the block'. If a… to a competitor it can either revamp its domestic efforts or look overseas for a ne… process of developing marketing for a new market can sometimes improve a firm'… if price is a factor in the competitor's model, then overseas production can give co… could be an inbound choice, i.e. sourcing cheaper raw materials and/or labour. Re… capabilities abroad can create a price advantage and a company could reclaim its … more aggressive pricing policies. However, if growth in th[illegible]nestic market is slo… that way, then looking for overseas markets is the [illegible]n for a firm to expand…

Pull Factors that P[illegible]rade

If a firm can[illegible] e[illegible]es of scale by producing in larger quantities, its variabl… unit produc[illegible]become lower. So, as it costs the same to produce 100 units in … units, the lat[illegible] favourable – as long as you can sell that many units.

Restrictions on a firm being able to utilise economies of scale are usually the costs of physical and labour expansion. So, a UK firm wishing to expand its operations may face prohibitive land and rates costs. An option is to expand to an overseas country where land, building and labour costs are lower. With this expansion, they can lower their unit costs, produce more and increase their profit margins.

> ***Eco…***
> *At a …*
> *able …*
> *per u…*
> *comp…*
> *prod…*

This has worked in reverse for the UK where UK governments have offered overseas companies incentives to build factories in the UK. The government wishes to encourage firms such as Nissan to build cars to secure employment in areas where manufacturing has declined. For Nissan, access to a skilled labour force plus UK government support in keeping costs low made it an attractive prospect.

Learn Mo
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Risk spreading as a pull factor that prompts trade

All firms face risk as they expand, grow and develop new products. Existing produ from competition and changes in the economic fortunes of the host nation. One o trade for a UK company may be a desire not to 'have all one's eggs in one basket'. only market and that market suffers setbacks, you are exposed to profit loss and ulti

The decision to leave the European Union in 2016 sent waves of alarm for some co market was Europe. In addition there concerns that this decision would negatively i that companies who only serve UK customers faced concerns that this would see a loss of profits.

Risk spreading is not always as negative an approach as it seems. Balancing the d allows a firm to maintain its UK presence and expand into growing markets. The e domestic market creates a shortcut to developing an overseas presence. There are where demand is high and local companies do not have the expertise to meet tha established UK firm an advantage. Only 4% of the world's GDP comes from the U available to target! Selling in multiple companies allows you to balance your portf can be offset by higher growth in another. Globally countries go through differen spreading approach can allow a firm to achieve a balance.

Possibility of Offshoring and Outsourcing

Offshoring and outsourcing may be options a firm selects to reduce costs and to tap into expertise lacking within the company. This can be in the same country for outsourcing but is in a different country for offshoring.

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Reasons to offshore a process

The costs of materials, construction and labour for construction may be lower in other countries so the actual building costs overall are lower. Land is at a premium in developed Western countries. Overseas land costs are, therefore, likely to be lower.

Certain countries focus their education on specific areas, so there could be a highe programming skills in India. The cost of living in some overseas countries is much is also lower. Some countries do not have a minimum wage set and so overseas c market rate which can be significantly lower than in the home nation.

In recent years offshoring has had a lot of bad press and companies are rethinking the backlash by UK customers against offshored call centres as being poor custom differential between European wages and those of, say, China is shrinking. The Chi going up while European wages have stayed mostly stagnant. Add to that supply c goods being manufactured abroad and transport costs to get them to European m deliver the economic benefits of previous years.

However, what is occurring is that as overseas markets grow in sophistication and the offshored facility now becomes the 'onshore' facility for that overseas market.

It now makes economic sense to base a factory in China, and to supply the Chines countries with your products.

As globalisation increases so demand factors come into play and a UK firm may se establish a 'local' base in an overseas market.

Reasons to outsource a process

Outsourcing when using overseas firms is more specifically aimed at lowering costs and tapping into expertise. Good examples of this are digital outsourcing where a company uses an overseas firm to design its website; manage social media; create content for its digital presence; manage email marketing; or design logos or packaging. Many of these are professional services that can be delivered digitally, have little to no overheads and payment is made upon completion. This can be a very efficient way to trade overseas as it is payment on results, there are no staffing on-costs (e.g. national insurance) and the firm does not have to develop expertise in an area that is not its workforce's main skillset.

> ***Outsourcing***
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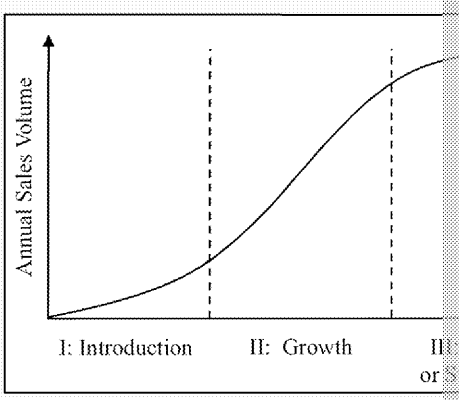
Further Learning…

Product [illegible]es by trading overseas

Traditiona[illegible]rms reach the maturity stage of a product life cycle they are launching new versions, upgrades, or additional product features to prolong the life cycle. Sometimes new products are released just before decline and the whole cycle starts again. Most firms aim to have a portfolio of products and services at different stages in the cycle to ensure a continuous flow of supply meeting demand and creating profit.



Utilising trade overseas is an additional way to extend the life cycle of a product
The premise is to launch a product overseas once it is between growth and mat
this are as follows:

1. The product is established in the domestic market and production costs ha
2. The expertise associated with the product is stable and so marketing to an known variables.
3. The product has an established consumer base and so consumer profiling i
4. Overseas markets have less competition and the product is viewed as 'new' in the UK.
5. Costs may be able to be reduced further by manufacturing the product ove source in the other country.

There are disadvantages too.

1. Once the product is launched in th[illegible] country it becomes subject to co
2. Once the product is ma[illegible]ctu[illegible] overseas, then overseas companies can c market share.
3. Over[illegible]on[illegible]es can then market their cheaper copy back to the origin take [illegible] share away in the domestic market.

If a firm decides to move into trading overseas as a product life cycle extension this is a limited time strategy, with the above potential disadvantages of openin competition.

Learn More!
https://www.gov.uk/government/publications/overse

4.2.1 Questions

1. *Read the article below and write a compelling argument for a UK firm to c… export market.*

Buoyant Brazil beats boom and bust
Brazil has changed out of all recognition over the past two decades and n… powerhouse BRIC economies joining the new elite of Russia, India and Chi… has plentiful natural resources including oil and gas, massive agricultural… industrial base and a growing middle class.

The world's fifth largest nation, with a population of approximately 200 m… economy and by far the largest in South America, has one of the world's m… economies and a Gross Domestic Product (GDP) per head that is greater th… 400 of the world's 500 largest companies operate in Brazil. These include… as Rolls Royce, BG Group, Shell, BP, ICI, Rexam and Experian.

Goldman Sachs reported that Brazil has the potential to be one of the world's… by 2050.

Brazil has solid economic stability. In the past 10 years, more than… been lifted out of poverty into the emerging middle class. Brazil has seen a… 3.4% GDP over the last 4 years.

The boom is largely down to growth resulting from rising food and oil pri… In recent years large reserves of oil and gas have been discovered off the B… is currently the world's ninth largest oil producer with keen ambitions to…

Source: ***https://www.gov.uk/government/publications/exportin…***

2. *Read the following case study extract.*

   Give two reasons why Delamere Dairy (manufacturer of goat's milk) turne… why they are successful.

Delamere Dairy Case Study

Delamere Dairy spreads around the world
It pays to follow your customer, as Delamere Dairy can tell you. From farm… green Cheshire countryside to being a pioneering exporter into 20 countri… remarkable one.

By 2002, turnover was more than £2m and a new site was required. At th… made to outsource production rather than build a brand new facility. That… the business model ever since. The focus: follow market demand.

'When the recession came, we were concerned that our business was selli… products almost exclusively in the UK,' recalls Salt.

An export strategy would de-risk the business further.

Export didn't just de-risk the business, it propelled it forward. The UK re… butter, so to speak, but it's the export growth that has been stunning. Its i… ahead by a remarkable 214 per cent over the past two financial years.

The company now sells its dairy products into 20 countries, including Chi… Exports now account for 40 per cent of the company's £25m turnover.

(In China) the initial idea had been to focus on selling goat's milk, it soon b… was the volume business lay. 'China is a massive dairy producer w… world, they can't produce enough to meet the demand,' he explains.

'The Chinese dairy market will double in the next ten years but I believe t… the next 20 years. It's the last great frontier of dairy. You only need a smal… your volumes to be huge.'

In addition, demand for quality standards in the wake of food health scare… Western dairy products more appealing.

Source: ***http://www.greatbusiness.gov.uk/delamere-da…***

3. *Identify three products that YOU feel could have their product life cycle ex… overseas. Give reasons for your choices.*

4.2.2. Assessment of a Country as a Market

! *Key Points Covered*

Factors influencing expansion into a market:
- levels and growth of disposable income
- ease of doing business
- infrastructure
- political stability
- exchange rate

Before deciding to trade with other countries a firm must first identify the potential of t partners. Trade is a partnership and the two main areas being assessed will be whet consumer market and/or a good production location. Let's look at the country as a

Levels and Growth of Disposable Income

Clearly it makes sense to be certain that consumers in other countries can actually afford the products/services a company is looking to export. However, it is not just the disposable income of the target market but also spending patterns and buying choices consumers make. In countries such as the UK we consider disposable income to be the remainder after mortgage/rent and utility bills plus food essentials are paid for. In other countries, home ownership may be lower; more rental properties may exist; food may be a smaller part of weekly expenditure; leisure patterns are different.

If a company is operating in a niche market, then disposable income may not be a consumers interested in the niche product may be small and very specifically defi money and price are far less sensitive. Conversely, a company targeting a very eco may find its product simply too expensive for the majority of the population and c target for production location.

Companies do not just trade with the consumers in other countries but with other disposable income being considered is the financial health of a potential business medical instruments business in India would focus on the company's ability to pay the Indian business's overall financial stability.

Ease of Doing Business

Some countries are simply easier to trade with than others. One of the challenges overseas is whether this has been done before with any success. Developing mark sophistication of European countries or any established procedures, which can cau

- Most companies would be well advised to consult with export experts and a g government's own website: **https://www.exportingisgreat.gov.uk/**
- In addition, the Chambers of Commerce has a specific guide and support for tr **http://www.britishchambers.org.uk/business/international-trade/**

Although smaller firms may feel that international trade is only for large organisat market is selected carefully it can bring big rewards.

Most companies face similar barriers to international trade: existing monopolies, legal issues and corrupt practices. In the UK, the Competitions and Market Authority regulates and keeps an eye on potential monopolies in this country, but the same is not true in other countries. However, this is an improving situation as the United States, the European Union, Australia, Brazil, Canada, China, Japan, Mexico, New Zealand, South Africa, South Korea, and Switzerland have all developed high-profile anti-trust legislation and taken a number of companies to court over monopolistic practices in recent years.

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Legal issues are more complex to deal with and no company should consider trading overseas without a legal representative versed in the laws of the potential market country. The same could be said of bribery and corruption issues. There is a need for an 'on-the-ground' representative who understands the practices. Then it is a matter of ethics as to wishes to engage in these practices in order to secure overseas deals. Generally s guilty of bribery is likely to suffer far more severe penalties than a local firm, so it i remains above board or else a different target market may be more appropriate.

Infrastructure

One of the most crucial dimensions to overseas trade is the ability to move goods country and between the trading nations. This is especially important if the tradin in the other country.

Partnerships with local supply chain companies is a practical solution. In certain co adversely affected by weather conditions (e.g. monsoons, hurricanes, flooding) an considered when planning trading. Access to parts of a country may be limited, a transport required to reach more remote consumers.

If establishing a base in an overseas market, then the availability of transport for c is not much good having an outlet that can only be reached by car if all your cons

Political Stability

The Foreign Office keeps an eye on political activity across the world and will issue travel warnings for countries they deem unsafe for British travellers. At the extreme end of political stability is civil war but even where there is no civil unrest, a change of political leadership in a country can destabilise any foreign investment and has the potential to radically alter trading agreements.

Article o
Consider
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countries
**http://blo
hanges-in
business-
markets.h**

How to determine a score for ease of business overall

The World Bank ranks countries on a scale based on ease of doing business.

> *'Economies are ranked on their ease of doing business, from 1–190. A high ease o the regulatory environment is more conducive to the starting and operation of a lo determined by sorting the aggregate* **distance to frontier** *scores on 10 topics, eac giving equal weight to each topic. The rankings for all economies are benchmarke*

Source: The World Bank: **http:/**

The 10 topics used by the World Bank to score countries are: starting a business; d getting electricity; registering property; getting credit; protecting minority investo borders; enforcing contracts; resolving insolvency. Thus, you can see from the gra 25 ranked countries, from left to right, that New Zealand ranks as No. 1. It is, how category of trading across borders and 34 in the category of getting electricity. Th

island with limited trade agreements with neighbouring countries and it also has a
regions with poor access to utilities.

How easy it is to do business with an overseas country will, therefore, depend on e
utilised and which are the priority areas to consider.

Other useful comparisons a company can make is to use the data from the World
sites to identify crucial factors such as disposable income; Internet usage; political
rights. So, for example, a world map of Internet users, such as at:
http://www.theglobaleconomy.com/maps/Internet_users/ would help identify
efficient with specific countries.

The World Bank uses a variety of factors to assess the ease of doing business – the
15 countries in the overall ease of doing business and some of these different facto

F 11 ase of starting a business compared to overall eas

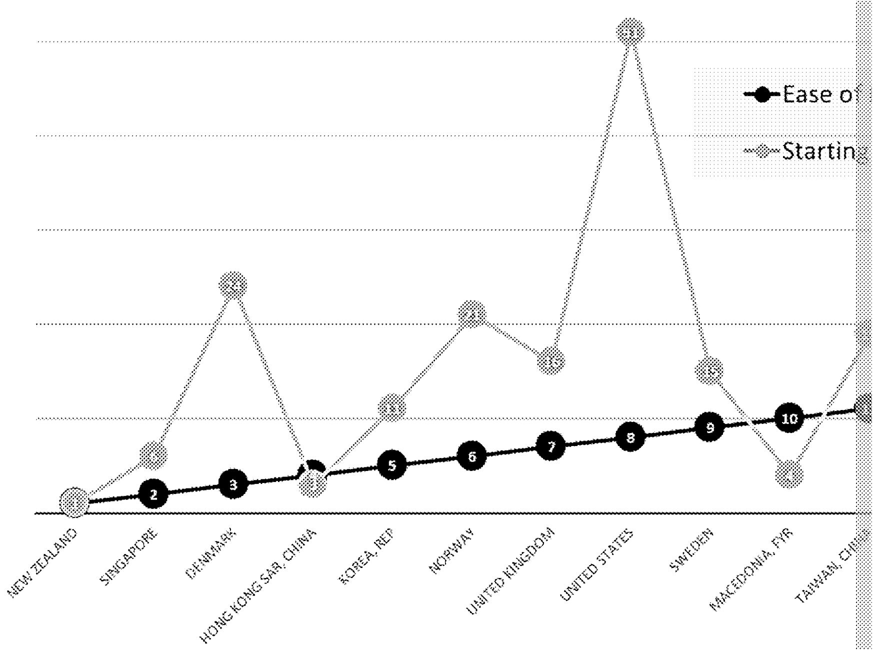


Figure 12: Ease of Construction Top 15 Coun

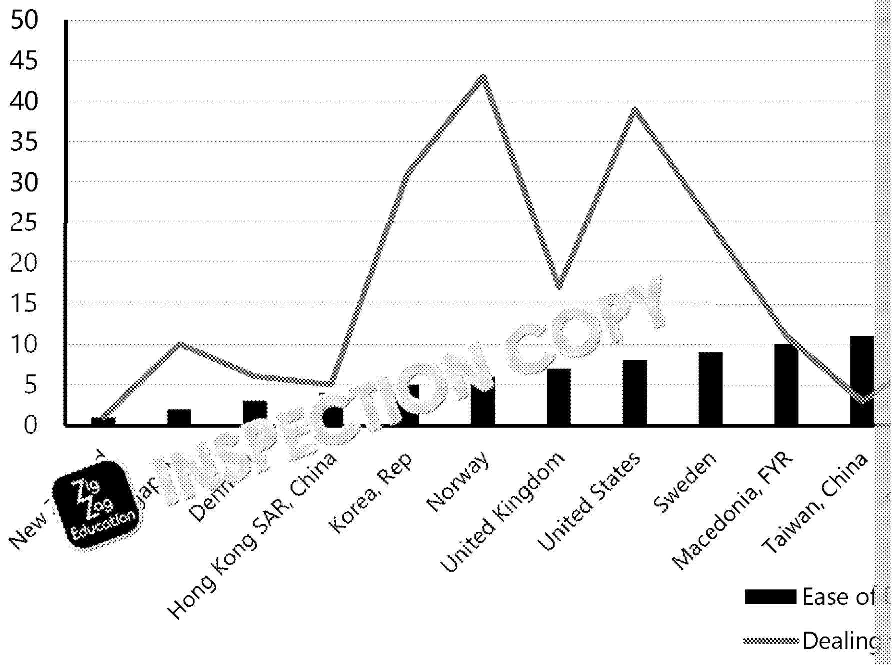


Figure 13: Ease of getting electricity – Top 15

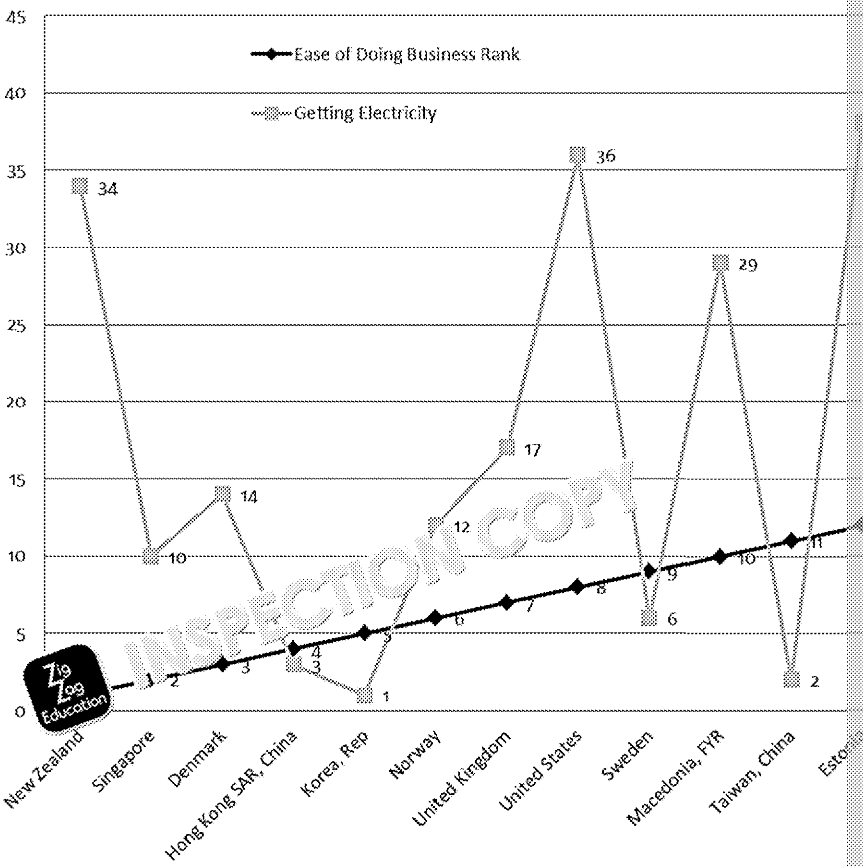


Figure 14: Ease of getting credit in Top 15 Cou

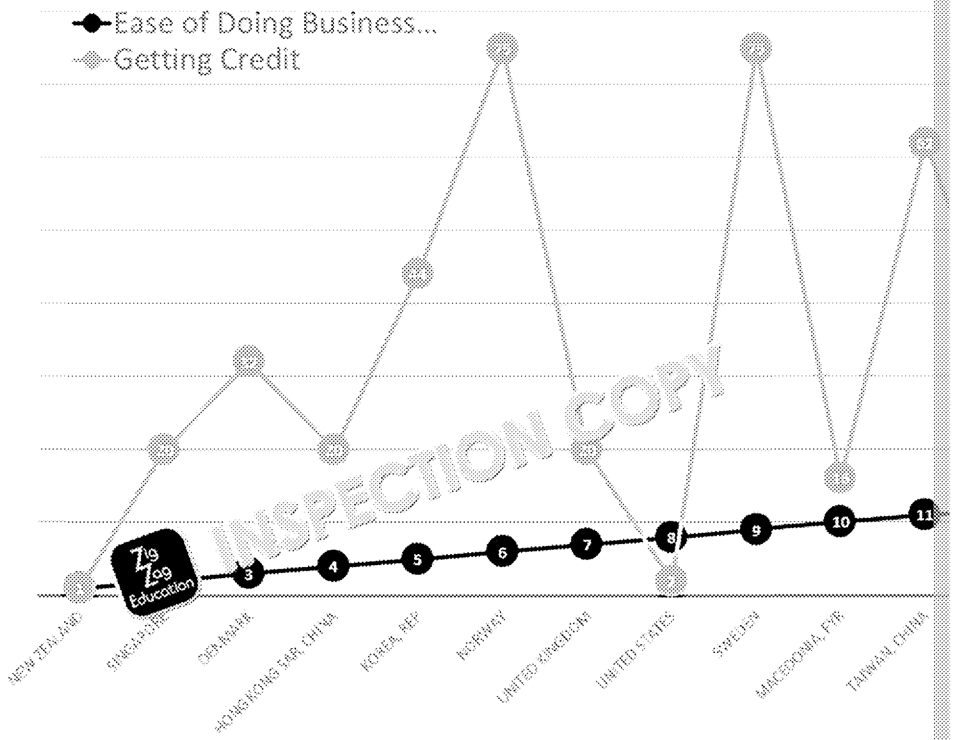
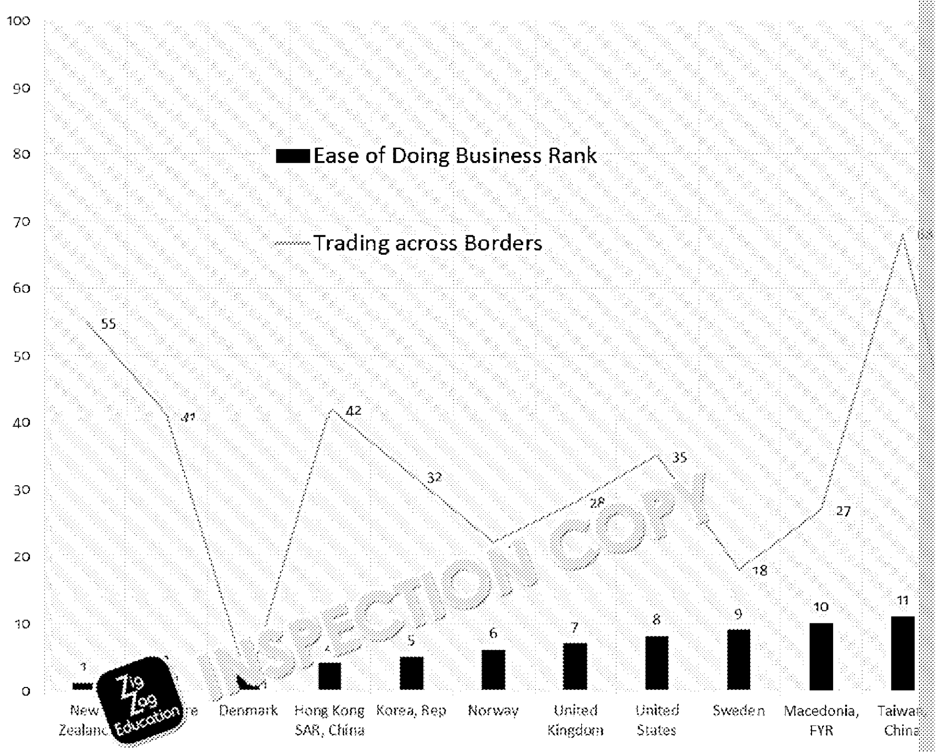


Figure 15: Ease of trading across borders for Top 15



International Exchange Rates

Most Western companies trade in one of two or three currencies, namely the US d
especially within the EU, although the Brexit choice for the UK may change this as

When trading overseas a smart move is to have bank accounts in several currencie
of exchange rate fluctuations on a daily basis. A company needs to identify what i
for in local currency and what reserves of other currencies are needed. This will al
whether to set up a local trading arm in the overseas country or run everything fro

Currency fluctuations can have a devastating effect on profitability and so compan
these fluctuations by buying and selling currency at fixed prices, sufficient for a kn
pound rate, for example, in the year February 2016 to February 2017 ranged from
£1 = $1.49, but the overall trend for the last five years has been downwards, with
Among the weakest currencies in the world at the start of 2017 were the Iranian ri
Leone – both countries are in the throes of civil war and Iran has banking sanction
countries with weak currencies include Vietnam, Indonesia, Cambodia, Paraguay, Laos
with good natural resources but a lot of corruption and political instability.

A target country for an investor could be Uganda, which is rich in natural resource
growing economy, but still has a currency that is weak against the US dollar.

Why do companies fail overseas even when the target market seem

On a number of indicators one could assume that a UK company could do well in,
always the case. There are no language barriers, the legal systems are fairly comp
same things, don't they?

Even large companies with established trading patterns and expertise can get it w

Case Study – Tesco

In 2013 Tesco finally admitted defeat and pulled out of the US market. It trie
stores in the US in 2007 and failed miserably.

The model it was trying to sell was ready-made meals to a US consumer that
or cooking their own meals.

The **costs associated with abandoning its Fresh & Easy US business**, toge
year's **UK-driven profit warning**, will mean 'the biggest fall in profits in the
to Clive Black, analyst at Shore Capital.

Tesco is not alone in failing to crack the US. The history of retail expansion is
foreign-based groups that failed to build big American businesses.

But some foreign food retailers do just fine. Aldi has flourished in the US, as
family trust of one of the German Albrecht brothers behind the hard discou
rumoured to have shown interest in buying some of Fresh & Easy's stores.

Despite carrying out extensive market research – even posing as a research c
Tesco misread the US market and embarked on a misadventure that ended u

People familiar with the situation say the escalation came primarily because o
to try to crack the US.

Learn More!
http://www.bbc.co.uk/news/maga

[1] The currencies are measured against the US Dollar as a benchmark.

eBay Case Study

In 2004 eBay decided on an aggressive marketing campaign to establish a ba
Alibaba saw this as a threat to their operations of wholesale and supporting s
conducting business online. With their unique understanding of Chinese co
culture, Alibaba launched a competitive site which eventually forced eBay to l
in 2010.

Discuss: Why did eBay fail to win a foothold in China – and why was it outsm
Ali-baba?

Learn More!
Full story:
https://www.forbes.com/sites/
failed-in-china/2/#675f7b194

4.2.3. Assessment of a Country as a Production Loc

! *Key Points Covered*

Factors influencing the location of production sites:

- costs of production
- skills and availability of labour force
- infrastructure
- location in trade bloc
- government incentives
- ease of doing business
- political stability
- natural resources
- likely return on investment

When considering an overseas country as a production location, many of the same
looking at the market in the firm's home country, but there are additional conside
are far more significant when setting up in another country and local representatio
lower but labour laws will also be different. As business becomes increasingly mo
other countries becomes more aware of working conditions across the world. The
has come under heavy international criticism and consumers have boycotted com
subsistence levels of income.

Typically, wages in developing countries are lower than in developed countries an
However, with minimum wage agreements around the world a company cannot a
with perceptions of labour force exploitation.

Costs of production

If looking to utilise economies of scale a UK company may relocate its production
meaning it can build larger manufacturing premises and produce more goods tha

Labour costs, even if set at reasonable levels, are still lower in countries such as Th
more recently Mexico, which has the advantage of being very close to the USA for
India are both growing economies whose wages are rising.

Production costs need to factor in shipping and delivery costs so the distance from
consumer has to be considered.

Skills and availability of labour force

Cheap labour is no good if it cannot actually do the work required. Most manufac
of computer and engineering skill. Old traditional manufacturing jobs are falling a
shedding these jobs but cannot find highly skilled workers to operate what are no
plants. The skills required are software and engineering skills, which are in short su
in the UK. China has become the largest manufacturing labour force in the world;
also why their wages are increasing.

A UK firm looking to relocate its production abroad needs to match the education
overseas workforce with that required to run production. In service industries, suc
more available in more countries, as too with retail, so these types of business hav
international markets. However, these are consumer markets rather than tradition

Availability of natural resources

The picture changes when considering sourcing natural resources from overseas.
production, the closer the first two stages can be together, the more efficient. Wi
Western hemisphere, a UK company may relocate its production abroad to be clo

needed to make its finished product. By combining primary and secondary stage transport costs are reduced and the partly processed goods can be completed in t for that part of the production. The overseas labour force may be highly skilled at example, which utilises a skill level, sources the materials needed and reduces ove

Ease of doing business, **infrastructure** and **political stability** are even more cru locating production in another country. Access to good transport links, efficient e pro-Western government are all factors that support success in overseas producti

Government incentives

To attract business to their shores, most national governments have devised incen companies to start up in their countries. However, in the last couple of years there to protectionism, notably with the USA deciding to close its borders to certain ove American firms to expand within the USA.

There are a number of projects across the world aimed at improving economic gro which aim to encourage ... to develop innovative solutions to a variety of so example is T... (TradeMark East Africa Challenge Fund). Funding is available for change; environment; women's education; private sector and trade business. An i advantage of these types of projects with financial and cultural support.

Canada is offering incentives to overseas businesses to set up in Canada as they o infrastructure, access to a huge market and low business tax costs. Plus, with the expected in February 2017, this new trade agreement between the EU and Canada goods and services.

Trade blocs and Trade agreements

Countries that have been trading with each other for some time have formalised t covering tariffs, policy and procedures. This is beneficial for those who are party t other countries out in the cold and even prevent them from trading. One of the c leave the European Union is over whether this denies UK business access to the EU and most established trading blocs in the world. Within a trading bloc, certain res made easier to transport across, which conversely is one of the concerns for anti-E good for trade but have security issues.

Another trading bloc under discussion during 2017 is the North American Free Tra Mexico and Canada. Arguments against this trade bloc are that Mexico has benef little and the impact for Canada has been negligible. Trade blocs can act as barrie outside of the bloc which may protect business inside but artificially inflate prices inventiveness and creativity as the market is limited to those countries within the b

True free trade is where a business can trade with any country and in any country, when economies are struggling.

Trade blocs will restrict the countries in which they can set up production in and trad

Return on investment

Ultimately, the decision to trade overseas, whether through marketing of existing p setting up production facilities overseas, will depend on the perceived return on in

Government in the UK is actively encouraging UK business to trade overseas. The and in some cases funding to reduce the risk. However, trading internationally co Using local experts can reduce the risk but adds to the cost. Establishing the mark investment decision. Some companies venture online first to test the internationa products. There are still tax and legal issues to consider when trading online but t Running a pilot programme of trade is a way to identify the potential return on in funds to a fully developed trade arrangement.

4.2.3 Questions

1. *A designer shoe company in London is considering expanding its manufac factory in Hackney to create a high-street version of their top-selling shoes opening a factory in Nottingham but have noticed that a lot of their custo and the USA. They have been approached by business people from China, Mexico with regard to production of these shoes overseas.*

   a. *Should the company consider marketing abroad before moving prod reasons for and three reasons against this.*

   b. *State five questions you would want answered before even considerin any of these countries.*

   c. *Using the useful links above, ... n argument for selection of one c*

Learn Mo

Useful links on exporting to specific countries:

- Bangladesh: **https://www.gov.uk/government/publications/exportin business-in-bangladesh-bangladesh-trade-and-export-g business-in-bangladesh**
- Canada: **http://www.international.gc.ca/investors-investisseurs/a avantage/advantage-avantage.aspx?lang=eng**
- China: **https://www.gov.uk/guidance/exporting-to-china**
- Mexico: **http://atlas.media.mit.edu/en/profile/country/mex/**

4.2.4. Reasons for Global Mergers or Joint Ventures

Key Points Covered

- Reasons to operate globally:
  - Spreading risk over different countries and regions
  - Entering new markets or trade blocs
  - Maintaining/increasing global competitiveness
- Reasons for global
  - Acquiring nat and patents
  - Securing reso

Why Operate Globally?

Internationalisation is when a business ... aces or trades with markets outside of many reasons why comp... For example:

Spreading

To reduce the ... of relying on one domestic market, a firm could benefit from ha countries. An economic downturn in the UK could severely damage a business just diversifying globally, the risk is spread out.

Growing into other markets

Operating abroad can help the business expand through increased market share, s operating globally, UK businesses may find a greater number of potential custome emerging markets such as India and China. Equally, it may find that the UK market competitive due to foreign investment in the UK. Emerging markets such as Brazil and Mexico, Indonesia, Nigeria and Turkey (MINT) have increased competition an possibilities with their huge potential markets. The BRIC countries have more and the rate of growth is slowing. China's massive population is becoming increasingly companies such as Rolls-Royce cars and Burberry have competed particularly well brands.

Trading Blocs

As we saw in Section 4.1.5, the largest trading market for the UK is the European U means there are no tariffs or control between member countries. It also means fre and capital and removes the technical and bureaucratic barriers to trade. Followin businesses in the UK are concerned as to whether trade barriers may return, which exports less profitable. Other trade agreements include NAFTA – North American ASEAN – Association of South-east Asian Nations.

Competitiveness – Growth could well be linked to ove... orate objectives. F manufacturing to Malaysia because of the lowe... costs, resulting in an overal which would increase profit. A busine... efit from operational economies It may also benefit from mana... al, marketing and purchasing economies.

The increas... market is a great advantage, but companies should be aw

- a lack of ...ledge of the market
- social and cultural differences between the markets
- the differences in practice and customs
- economic factors
- the difficulty of coordination of functions and control of the business and pro
- finally – probably the biggest issue for many businesses – the cost

One way to solve the above problems is to work with the locals. This could be ach cooperation with a local company – a joint venture – or by merging with local bus

Joint ventures

This is where two companies combine to create a separate business/product. In th resources such as technology, expertise, marketing, production and distribution. H lead to conflict due to different objectives. As well as sharing the risk of entering in the profits too. It encourages innovation and provides opportunity for growth as w

Joint ventures can involve one company giving another permission to manufacture through licensing. This is often done with manufacturing. A company is given per behalf of another business, using its brand name and patented designs or processe provides a relatively cheap method of entering international markets as a UK busin direct investment. Also, there are lower distribution costs. Many brewers and soft Cola) do this. An advantage can be that the manufacturing company (licensee) will trade barriers. However, a licensee could, in the future, use what it has learnt abou recreate its own version of the product, which could lead to a loss of competitive a Licensing is often seen as a quick way into international markets.

Case Study – Coca-Cola

Coca-Cola European partners has the licence to bottle for the Coca-Cola Com including the UK, France, Germany, Portugal and Spain. In the UK they emplo 97% of all Coca-Cola products.

Case Study – Fosters Lager

This is brewed under licence in the UK. 1.2bn pints are brewed in Mancheste Fosters are actually drunk in Australia where other brands such as VB and Car Scottish and Newcastle bought out the rights for the UK, giving them full con However, Heineken now have all the European rights.

https://www.theguardian.com/business/2011/jun/21/fosters-lager-

Mergers

We talked about mergers and takeovers in Theme 3. On a global stage, a merger w firm can be a useful way of entering another market. This can potentially give the b resources in the country – for example, a retail chain buying a similar business abro already operating, instead of having to go through a potentially lengthy process of suitable locations, which may also involve unfamiliar regulations set by the foreign

Brand names

We talked about the importance of branding in Theme 1. Where a business doesn' international brand, entering a foreign market by taking over or merging with a loc having valuable brand awareness in the local market. There can be a risk in this: if t match up with the business's ethos or competitive advantages the brand or busine

For instance (applying Porter's generic strategies), if Tesco bought an upmarket ch their focus on cost leadership may not support the Japanese firm's focus on differe

Patents

Finally, a local firm may have the expertise needed for the business to carve out its Acquiring or merging with a firm can bring not just valuable production machinery the local culture and market conditions, and a ready-made customer base, but also as patented production processes and product designs.

Keeping Corporate Secrets

Firms can try to keep their 'secret ingredient' under wraps, by defending against ***co*** *contractual clauses for their employees, suppliers and distributors to not reveal it.*

However, where a physical product can be backwards engineered (i.e. another firm to pieces and see how it works), keeping the thing secret is not feasible. Instead fir that it cannot be directly copied – this gives the firm monopoly power over that spe 20 years.

There is a cost to patenting designs, though, so the firm has to recognise that they be able to afford to protect them. Furthermore, patents need to be registered in dif These are enforceable in civil courts, and many big firms have ongoing disputes ov competitors have overstepped their patent designs.

And the consequences, where a firm can convince the court it has lost income as a Apple and Samsung were both found guilty of infringement of each other's patent $119.6 million and Apple had to pay Samsung $158,400. (An online new story cla payment by sending lorryloads of nickels to Apple's headquarters; unfortunately th of fake news!)

Machinery and methods can be patented, or, as with the 'secret ingredient', the firm confidential. This can be particularly difficult when employees move from one firm industry, however. The firm will have internal conflicts with this – the marketing de and boast about the wonderfully innovative methods the firm uses, but this risks tel

4.2.4 Questions

Amazon and Morrisons have entered into an alliance where food will be availa Morrisons is the UK's fourth largest supermarket and has not fully engaged in e

'The combination of our fresh food expertise with Amazon's online and logistic said Morrisons' chief executive David Potts. 'This is a low risk and capital light that demonstrates the opportunity we have to become a broader business. We Amazon to develop and grow this partnership over the coming months.'

http://www.morrisons-corporate.com/media-centre/corporate-news arrangement-with-amazon/

1. a. *What are the strengths and weaknesses of each business?*
   b. *What are the likely motives for each business for this potential allian*
   c. *Analyse the impact on rivals.*
2. *Which method of entry to international markets do you think is most risky*
3. *How can a business minimise the level of risk?*
4. *Simpers Ltd has been manufacturing dental products profitably in the UK f dental practices and hospitals. However, sales are not rising as quickly as marketing director, Angela, has been looking at expansion abroad by ope particularly in Eastern Europe.*

   Evaluate whether Simpers should open an overseas operation.

4.2.5. Global Competitiveness

! ***Key Points Covered***

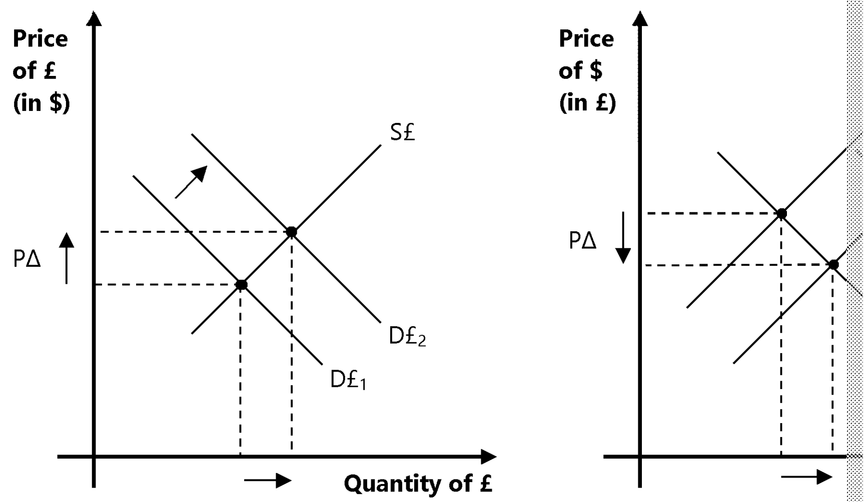
a) The impact of movements in exchange rates
b) Competitive advantage through:
- cost competitiveness
- differentiation

c) Skill shortages and their impact on international competitiveness

Exchange Rates

When a good is bought, an amount of money is given in 'exchange' for the goo shown by the amount of money swapped for it. The exchange rate shows how much (exchanged) for another currency, the value of one currency (e.g. £) in terms of an

If an American consumer decides to buy a British good then they will need to cha into British currency (£s) because the good is valued in £s.



Let's look at the exchange rate of £s and $s and how this transaction would chang foreign exchange market. The first graph shows the demand and supply of £, the economy is shown on the x-axis; 'quantity of £'. The price of £s is shown on the y shown in $s as we want to know how many £s we can get for $s. The bottom grap of $, the quantity of $s in the global economy is shown on the x-axis; 'quantity of the y-axis and the price/value of $s is shown in £s as we want to know how many

As the American wishes to buy £s, the demand for £s increases from D£$_1$ to D£$_2$. T increase by PΔ. The value of the £ has risen, this means the purchasing po buy) has increased; the £ can buy more $s than before. As they sell their $s for £s to S$$_2$ and the price of $s decreases by PΔ. The $ has depreciated in the value, thi decreased its purchasing power has fallen and it can buy less £.

Remember!
Strong
Pound =
Imports
Cheap,
Exports
Dear

So how does this affect business...?

If the £ **appreciates**, then UK goods will appear more expensiv (assuming their currency stays the same; ceteris paribus). UK b competitiveness'. This means demand for UK goods will fall an rise; demand for exports will fall and demand for imports will ri goods appear cheaper in relation to foreign goods. The dema domestic consumers will shift away from buying imports so the

For exporting companies, the exchange rate affects the relative price of their good for their goods and their international competitiveness. An appreciation can mea revenue), whereas a depreciation can mean a rise in demand (and, therefore, reve

For importing companies, the exchange rate affects their costs. If firms import fo or import input materials for production, then an **appreciation** of *foreign* currenc products they are purchasing and thus will eat into their profit margins. A **deprec** lower the costs and thus increase profit margins.

Fluctuating exchange rates might present opportunities to increase buying and se crash in the value of the pound after the 2016 Brexit vote meant British goods suc before, which was an opportunity to sell more to those countries. If the crash turn this would have been a flash-in-the-pan opportunity. However, if the value of the that level in the long term, that means those business opportunities (for exporters below) become permanent. The flip side of the Brexit vote and the crash in the po raw materials and components that firms imported suddenly became more expens before.

Competitive Advantage: Cost and Differentiation

In Theme 3, we looked at Michael Porter's 'strategic matrix'. The generic strategie where the business aims to have lower costs than competitors – and **differentiati** its product is sufficiently unique (e.g. with a strong brand name or unique selling p gaining a **competitive advantage** in the market.

Maintaining cost leadership on the global stage is difficult. The level of inequality difference between incomes in countries in Europe and sub-Saharan Africa, combi means that a competitor with a cost advantage can pop up from almost anywhere barriers (trade liberalisation – see 4.1.3), lower transport costs and new technologi to grow flowers and sell flowers not just to their local markets, but to freeze them The labour-intensive farming process gives countries with relatively cheap labour climate) a strong competitive advantage in growing flowers, e.g. roses, for which d year such as Valentine's Day. The factors combine to create a new opportunity fo economies, but also competition for local farmers.

However, that doesn't mean it is impossible for Western firms to maintain a cost l North America, IKEA has always had a strong cost-leadership strategy, built on thr

- Cutting **staff costs** with the 'flat-pack' model where customers assemble furn even collect the products from the warehouse section of IKEA's stores.
- Mass production, which has enabled it to benefit from enormous **economies** from its large-scale showrooms/warehouses.
- Use of relatively cheap materials, such as pinewood, made to look good thro

This strategy has been at the heart of its expansion, as the low price of IKEA produ enabling it to build a wide-ranging global business. However, IKEA has always ha aesthetic image built on the popular Scandinavian furniture design plus an e wages, sourcing sustainable materials, and innovative, energy-saving products to e among its customers. Although maintaining a sophisticated image, this cost-lead expense of aspects of its brand image: its popular cheaper products have a r throwaway items that don't last.

Expanding into Asia, IKEA found on the one hand that its cost-leadership strategy region with relatively low labour and material costs. On the other hand, it found t was already a highly sought-after commodity. So, while in the UK IKEA has a repu the pros and cons of that), in Hong Kong and the rest of China, IKEA was well pos investment in cutting-edge design and set up as a sophisticated, market-leading b this differentiation strategy will clash with its cost-leadership strategy elsewhere (w China if customers have higher expectations of them?) remains to be seen.

Skills Shortages

One of the things often thought to be driving both offshoring (and reshoring – wh to a country it previously left) is the lack of the right skills in particular locations. It' seeking the biggest profit margin. For example, poor technical education and the l in the UK have been push factors encouraging car manufacturing businesses out o being close to the lucrative British and EU markets for selling.

For such a business to keep its UK production facilities would mean a disadvantage market, with firms based in manufacturing leaders such as Germany, Japan and So labour is cheaper in those countries, but they have a better approach to technical e workforce that has the skills needed to operate complex machinery. These factors locating in the UK, such as savings in transportation costs to reach the European m of the effects of a fluctuating exchange rate.

4.2.5. Research Task

Choose a business that ... internationally.

1. *Does ... a cost-leadership or differentiation strategy?*
2. *What would happen if the currency in its production location were to (a) a*
3. *What other competitive threats does it face in a global market? Do you th to work?*

4.3. Global Marketing

! Key Points Covered

- Global marketing strategy and global localisation ('glocalisation')
- Different approaches to global markets: domestic / ethnocentric mixed / geocentric international / polycentric
- Branding and di
- Price and non-p markets ('four P
- Adapting mark markets (Anso

4.3.1. Marketing

Selling globally requires firms to consider whether they need to adapt their appro which may be substantially different to the home market. The best approach will n depend to some extent on the nature of the product, but also on the various mark instance, on one level, a car is a car wherever you are. However, in the global c differences in demand: US customers drive on wider roads than those in Japan. Th consider adapting their approach in each location: US manufacturers have to find c in the parking spaces in Japan; Japanese manufacturers should consider whether th as an advantage which can be made into a USP, or a deficiency in the product tha markets, a one-size-fits-all approach can work.

Globalisation vs Glocalisation

Glocalisation means that you take into account local factors when thinking globall a one size fits all strategy when marketing and even when creating your product o product are tailored to meet local consumer needs, including language, colour an

There is a desire across the world to access brands, products and services seen on read about in magazines. The interconnected world means that consumers are fa exist outside their national borders. Where there is demand, the business respons simple when you are talking about raw materials supply and demand. However, w wants rather than needs your marketing strategy has to take into account a numb differ widely from your national market. Hence the idea that a company needs to

This phrase actually started in an environmental context with the idea that your lo positive or negative impact on the world's environment and eco system. Nowada when looking at differences in supply chains, language, culture, customs, and relig globally but marketing at a local level.

While there is more consumer awareness and, therefore, global demand for intern themselves can influence whether their products and services have global reach. T Industries such as the fashion industry are truly global in their supply chain; sourci materials from all around the world. Strategically placed showcasing at fashion ev across the world are their direct promotion to the potential end user. They are ma the wealthy, fashion-conscious style leaders and celebrities, and the rich and famo has also created a huge copycat market internationally as competitors strive to ac fraction of the designer price for demanding consumers.

How flexible does global marketing need to be?

When considering overseas markets a company assesses its own capacity and the responsiveness to an arrival into that country. One of the models that is useful fo matrix (see below). By identifying certain factors a company can establish how mu required. The matrix shows four models of varying degrees of adaptation that refl globalisation. For many markets, it is not simply a matter of exporting or selling y in your national country.

The Bartlett and Ghoshal Matr

	Low pressure for local responsiveness	High pre respo
High pressure for global integration	**GLOBAL**	**TRANS**
Low pressure for global integration	**INTERNATIONAL**	**MULTI-**

Explanat… Bartlett and Ghoshal model

The pressure … **global integration** is subject to the company's own constraints.

a. How important is it that their product or service has a strong brand identity m international level? Macdonald's, Nike and Coca-Cola are all strong brand-dr
b. How crucial is it that production is standardised or uniform and that economi Pharmaceutical companies are examples of highly regulated and standardise products to be the same regardless of country of sale.

The pressure for **local responsiveness** looks at two factors:

a. How strong is local competition and how responsive is the firm to local need restricted by American trade tariffs and faces fierce competition from USA ca
b. How strong is the influence of local tastes, customs, cultures or religion on lo demand? MacDonald's cannot sell beefburgers in a culture that regards the example, in India they primarily sell chicken-based and vegetarian products.

> **Learn More!**
> Useful article: 'How McDon
> **http://www.bbc.co.uk/ne**

Different Approaches to Global Marketing

Wind, Douglas and Perlmutter devised a framework to show the development of a company's international marketing strategy that takes its starting point from the internal mindset and beliefs of the company. They look at how committed the directors are to internalisation; looking inward to the company rather than outward to potential market differences.

> ***Domestic/et*** *and* ***internat*** *used to descri approaches t globalisation*

Domestic and Ethnocentric	Polycentric
Domestic market is priority – all products and services tailored for a national market only	Each country tre ed as unique by hos n mpany

A **domestic** marketing st es the potential of international markets and i market need d may proudly utilise nationalistic terminology and cre customised host country's unique national profile. It can inadvertently creat internationa umers seeking to buy something that is uniquely 'British', for ex

Ethnocentric marketing takes that domestic approach and assumes a certain nati countries. It is where the approach is to sell exactly the same product abroad as t accommodating any cultural or local differences. It can sometimes be used to get makes no adjustment for local competition either so can fall foul of copycat versio slightly to suit local needs and tastes. When Nissan first started to sell its cars in t ethnocentric approach and failed. It now has a polycentric approach, understandi needs and tastes in cars.

A **polycentric** approach to marketing understands the uniqueness of each countr Local customs, cultures and preferences are catered for. Most companies with thi labour forces, materials and resources. They adapt their product to reflect local a points and employ local supply chains. This is where a glocalisation strategy is im

A **geocentric** approach targets a global consumer, based upon common likes, des adopting this approach may base its manufacture in one country, its marketing in another. The idea is to borrow expertise from different countries and maximise th strands of the organisation. Consumers are seen as connected via their tastes, and homogenous and clearly identifiable. One could see Apple as adopting a geocen an iPhone regardless of country differences. It targets a global consumer who is t and adopts a specific lifestyle or aspires to one. Companies adopting this approa leaders but need high levels of capital and constant resea be successful.

Further Learning...

A more refined version of sp t of the global approach to marketing

A regiocentric appr arketing groups countries according to similarities i consume ou culture and language. A company finds economic, cultural political si es among regions in order to cover the similar needs of potent consumers. So, an example might be Scandinavian countries such as Norway, Sw and Denmark being approached with the same strategy. Although local languag common language is English and there are commonalities in weather patterns, c domestic strategy is employed in that adaptations are made to local customs, bu individual nation countries as in the polycentric approach it is targeting groups o advantage of existing trade structures and distribution channels between those c for example, could assume that marketing to England, Ireland, Wales and Scotla approach, whereas a British company may make subtle alterations to its Scottish intimate knowledge of the subtle regional differences within the United Kingdo

Price and Non-price Competition in Global Marketing

When marketing to emerging markets a business challenge is that of lower consu developing markets. When firms first started to market to China and India, local i than in many Western countries. However, these were potentially huge markets w technological advances to 'catch up' with the rest of the world. China had a speci that until the last few decades had operated on a protectionist basis, resisting the and services. However, education standards in these countries was rapidly improv attempting to develop in response to increased demand for goods and services, h

China, for example, signed up to the World Trade Organization in 2001 as much f expediency. It could not grow without access to other world markets but the trad access to China's market. Globalisation in this sense is a b e between the em labour and raw materials while at the same time e its own reach globally

However, when local markets b ted, firms committed to growth will a penetrate international extract below from the Organisation for Eco Developme CD

> *The number of people living in high growth economies or in countries with per cap increased fourfold over the last 30 years – from 1 billion to 4 billion, according to t rapid integration into world markets by six of the largest non-OECD economies (B China and South Africa, together known as the BRIICS) was an important compon past two decades. Economic incentives across world markets, and in the BRIICS in more closely with countries' and businesses' genuine strengths. Entrepreneurs gai potential markets for their products and consumers gained from access to a wider products.*

Source: **http://www.oecd.or**

There are, however, issues with selling and marketing into these emerging market these countries so local firms suffer. As these countries become more developed, demanding of higher wages and the 'sweatshop' wage advantage of low labour c some multinational companies has been to move manufacturing to other countrie

This is not just economics but has a political and social impact. Price-sensitive pro items, e.g. socks, will not be sold at higher prices. The Western consumer has bec underwear; cheap 'disposable' clothing worn for one season then discarded. Clot strive to keep production costs down and the availability of cheap labour become moves will then impact the workers in the original emerging market countries as t sufficiently educated to gain new jobs in the developing technological industries. Britain, print workers lost jobs with the digitisation of print, so in China manufactu the country becomes more automated and less industr

However, growing wealth in the BRIC mean that more expensive items and the initial investment in de supply chains and distribution channels h companies who were for these emerging markets to become profit

Price consid s need to take into account currency and exchange rate fluctua an overseas market may be lower than in a domestic market, but is counterbalanc materials and/or labour costs in that market. So, overseas market pricing is interd calculation. Local competitors will also influence price decisions. So, McDonald's takeaway wrap-style product that was competing with locally made market-stall f competitively low price to succeed. When launching a new product into an intern consumer ignorance to overcome and so penetration pricing may be employed in populations to try the unfamiliar.

Global Branding

At its simplest level, a brand is an instantly recognisable name or even an image th company. Geocentric companies are very brand-conscious as their products and s regardless of country – so an example is the Nike 'swoosh' which gains massive bra recognition from international sporting events and appears not just in marketing m but on the Nike products themselves.

The strength of global branding is that it gives the company instant presence and a shorthand way of conveying company values. Where a company has to be careful is in understanding cultural differences where a certain image or word may be viewed in a totally different way from that intended or understood in the host country (see next section).

There is pressure on a company with glob... di...g as its strategy to continually i consumer's eyes. Not surprisin... ...gically based organisations are among

Continual ...ti... ...reased revenue from advertising, and growth in its cloud b reclaim fro... e the no.1 position in the **2016 BrandZTM Top 100 Most Valu** *released today by WPP and Millward Brown. The brand increased its value 32% to Apple dropped to no.2 after declining –8% in value to $228bn. Microsoft remains a while Facebook (+44%, no.5) and Amazon (+59%, no.7) entered the Top 10 for the value held by the Top 100 rose 3% year on year to hit $3.4 trillion.*

The BrandZ data and analysis indicates that this was a stable year for the world's m of global financial pressures, including the economic slowdown in China. However, then showcased their innovations to consumers through the brand experience, hav Google, Amazon and Facebook acting as prime examples.

Source: **http://www.wpp.com/wpp/press/2016/jun/08/2016-brandz-top-**

Applying the Marketing Mix (Four Ps) and Ansoff's Matrix to

Business models such as the four Ps of the marketing mix and Ansoff's matrix can marketing strategy. Prior to entry into any market, most companies consider price This can also be applied to international markets.

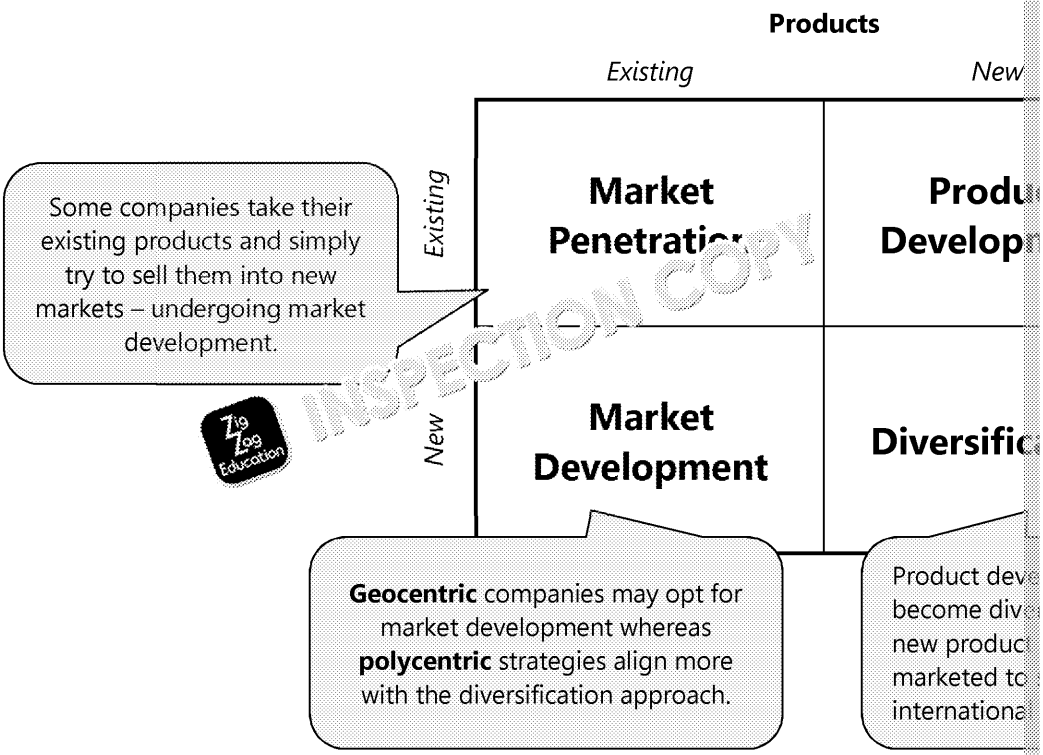
Price considerations need to take into account currency and exchange rate fluctua an overseas market may be lower than a domestic market, but is counterbalanced materials and/or labour costs in that market. So, overseas market pricing is interd calculation. Local competitors will also influence price decisions. So, McDonald's takeaway wrap-style product that was competing with locally made market-stall fo competitively low price to succeed. When launching a new product into an intern consumer ignorance to overcome and so penetration pricing may be employed in populations to try the unfamiliar.

Product differentials will need to reflect local customs and habits and tastes. Oreo chocolate version for some [illegible] that are unfamiliar with and dislike dark choco will reflect local ve[illegible] colour, smell and taste and even name (see the next s Product manufacturing decisions will balance local manufacture, saving transport a assurance costs and consistency requirements of outsourcing manufacture to l

Promotional considerations will need to take into account the type of media availa constraints and local advertising laws. Western viewers find advertising campaign occasionally hilarious as the cultural differences are marked. (See The World's Fun **http://mashable.com/2015/12/23/worlds-funniest-ads/#hwa24sxM75qh**)

Place is clearly a significant factor in deciding whether to sell into international ma However, place considerations in the marketing mix also take into account supply Some firms may trial a product through Internet-only supply to test the overseas m quality and is a good way of researching potential expansion into international ma allowed many a company to investigate franchising opportunities and conduct ma

The Ansoff matrix can be used to determine a move towards globalisation. One c market as being in the market penetration box. Following the options in Ansoff's as to how it moves into global markets.



Collaboration with overseas companies is a way to test a market, using the foreign
break into the international market. This can also work in reverse with a collabora
and then bring it back to the domestic market.

Questions

1. *Multi-domestic companies can be seen as those which decentralise much*
local needs and tailoring their products/services to reflect local specifics.

   Explain possible adaptations a British sweet manufacturer may need to co
China/India and America. Identify at least two adaptations to consider for

2. *Case study on Coca-Cola*

   The concentrate for Coca-Cola products is manufactured in the USA. All
done from the USA. However, Coca-Cola is available around the world so

   In each country, Coca-Cola negotiates with local bottling and distribution
concentrate, add water, add sweeteners/sugar, bottle and distribute the pr
glass is made to strict product specifications. Coca-Cola is a transnational
on Coca-Cola then copy and complete the table below.

How Coca-Cola benefits from this transnational model	How the overseas countries / bottling businesses benefit from this supply chain model	Why does Coca-Col keep the concentra manufacture and marketing based i the USA?

4.3.2. Niche Markets

! ***Key Points Covered***

- Cultural diversity: recognition that groups of people across the globe have different interests and values
  - *cultural differences*
  - different tastes
  - language
  - unintended meanings – *inappropriate/inaccurate translations*
  - Inappropriate branding and promotion
- Fea
- Appl mar glob

Targeting global niche markets

Niche markets are a ver ... way to achieve market domination, but the loca to be profit ... However, by targeting a specific niche interest internationally a c larger mark ... ideal niche market is full of raving fans who are also more likel products they find difficult to get locally.

Examples of business targeting global niche markets

Lehmans is a family firm whose founder has a passion for creating appliances that passion initially created appliances that do not need electricity to run, for a very ni Amish. Taking old-fashioned original appliances, Lehman's has fashioned efficien retaining the core non-electrical functionality.

They have kept original design elements that have now attracted the likes of Holly accurate historical pieces for film sets. Their consumer base has expanded to surv environmentalists and adventurers exploring remote lands where electricity is virt their products tap into the love of nostalgia, most are practical pieces that functio for electricity and they have a raving fan base of users.

Scandinavian countries seem to thrive in global niches. Lego is a firm favourite ac had some hard times, it is now flourishing again. It specifically makes interlocking recognisable, durable and not the cheapest version in the market, but is the marke recently into the film market, but the design is still distinctively Lego.

Other examples of Nordic success are Sandvik, a machine tool manufacturer whos reliability, as too Volvo Trucks who, produce the world's best-quality trucks.

Evans Control Systems

Control centre technology can literally be a life or death matter. Evans is a private and bespoke control centre and security ... They have manufacturing and de the Netherlands and China, but they ... globally.

The combin... of ... and robust disaster-resistant materials in their desig field.

Applying the Four Ps to Global Niche Markets

Firms who target niche markets globally have to take into account the various fact when marketing globally, as discussed in the last section. They might have to rese works internationally. Are there cultural barriers? All this we will look at in the nex the advantages of and nuances in marketing to niche markets that straddle interna

Product

- Is there actually a market for the product in other countries or is the niche spe there are no competitors elsewhere, perhaps there is a niche-market-sized 'ga there's *a reason* – there just isn't the demand for the product. If it's a luxury p have a desire for that specific leisure pursuit? Perhaps there just aren't enoug time to use the product. Or, if you're selling specialist machinery, do they hav
- Does the product need to be changed significantly? Do regulations mean the significantly changed?

Price

- Does the price need to be lower for the market, or can you afford to raise it? in a niche market is the ability to charge higher prices, because the customers met by the mass market.
- Maybe there isn't a local market because the price required to make a profit is to pay.

Promotion

- Adapting promotion tactics to different markets starts with translating the ma language. We'll discuss cultural differences in the next section, but it's worth name – often emblazoned on the product itself, heavily invested in the brand change – can be a liability. For example, Nokia's Lumia phone couldn't be ma where 'lumia' means 'prostitute'.
- Some niche market businesses might be relying on a particular marketing mo marketing, advertising on shopping channels or personal selling. Does that m new market? For example, what if the postage costs are too high or the local support direct marketing?

Place

- Are there distribution problems and can they be got past without raising costs to the market while maintaining quality may be costly. One solution may be t which has its challenges, particularly in setup costs and in assuring quality.

Read More!

- **http://www.forbes.com/sites/theyec/2014/03/2... e-go-to-market-l niche/2/#699c23c36793**
- **http://www.economist.com/news/special-report/21570837-nordic-co globalisation-need-new-model-global-niche**
- **http://www.eva... .com/our-company**

'Niche Success for UK Manufacturing'

- **https://www.ft.com/content/02e3fb44-4ff2-11e1-8c9a-00144feabdc0**

4.3.3. Cultural and Social Factors in Global Markets

> ***Cultural Diversity***
> *Diversity means different but without judgment on whether that difference is good or bad. A diverse culture is one with a blend of religions, practices, observances and histories.*

In this section, we will look more closely at th into consideration when approaching expansi

Britain is a culturally diverse society and as su well placed to understand cultural nuances ar may resist a Westernised approach to marketi as rude, aggressive and even undermining the company wishing to expand into internationa

For many of us, humour is a way to connect with others, but in business humour is a cultural minefield and is absolutely not cultur... British comedy, for example ... tim... has a hard time succeedin... ...ited States; our self-deprec... ...ironic humour leaves many Ameri... ...affled. The Germans, contrary to stereotypes, do have a sense of humour but they believe there is a time and a place for it – and that is not in business meetings!

...n More!
HSBC has a series of advert informative regarding cultu
https://www.youtube.com

There is an excellent TED ta the importance of connecti how business should be co
https://www.youtube.com

Dutchman Chris Smit, an experienced consultant and coach in intercultural business with a degree in Industrial and Organisational Psychology, argues that he has not yet found anything that is culturally neutral – all aspects of culture are sensitive so this poses a big problem for organisations wishing to expand internationally.

Learn More!
Extended reading: an in-de components of national cul
https://geert-hofstede.co

Cultural differences need to be acknowledged and a common ground established i be successful. At a basic level, a firm wishing to use humour in advertising to mar the cultural humour of the foreign country to avoid its advert being seen as unfun

Diversity in Tastes across International Markets

At a basic level, any food industry trying to break into international markets must b different cultures have different preferences in how food tastes. Some like more o we in Britain would not even consider as food – chicken feet, for example, is a pop China. In Britain, as a culturally diverse nation, we eat many international food dis Chicken Tikka Masala, is not even an Indian dish. It was conceived by South East A way to introduce us to Indian cooking adapted to suit our ...es. Probably one o marketing adaptations ever!

Tastes do change and consum... can ... educated to adapt their eating habits, bu foreign market it is best ... ...e as many barriers to entry as possible in adva person's ta... ...ral choices and preferences and these can cover a wide

Colours are very personal but they can also be culturally significant. Colour psych colours create emotions and associations; thus, green is seen as environmentally f and blue as cool and linked to cleanliness. Red means different things in different a symbol of power, fire, and wealth. By contrast, in South Africa it is a colour of m symbolises violence and struggle for independence. For the Chinese, red is a goo new year but also with funerals.

Colour is an integral part of many companies' branding, so using an inappropriate could actually harm the perception of a brand.

Information and communication factors

Perhaps the most significant area of cultural diversity when conducting business in communication. Traditions of politeness – when to speak, how to shake hands – a but reflect important cultural perceptions as to the **right** way to do business.

Language is an obvious barrier to entry for some firms wishing to move into global widely regarded as an international business language it is still seen as arrogant w speak the language of the foreign country with which they are trying to conduct b language and a non-English-speaking native communicating in English may find t as they do not know these nuances.

Business meetings in traditional Western countries comprise discussion culminatin Eastern cultures, saying yes may simply signify understand… of the discussion, no be replaced by bowing and silences are not awkw… ut …flective while propositi

Personal space differs from country t… in … While the British may have adopte as the kiss on both cheeks th… el… se this form of greeting in a business conte reserve will not tran… in a marketing approach in South American countries are necess… to …e weather and communication has a more casual feel to it.

To succeed in international markets a company has to communicate with local sup local customs and cultures and must not impose their own cultural values on othe potential collaborators and consumers.

What's in a Name?

Business needs to be careful about product names as supposedly neutral names ca different countries. Chevrolet (and Vauxhall) have a car called the Nova which is po countries. However, sales of the car were terrible in Spanish-speaking countries. Th literally means, 'Doesn't Go'… hmm, a car that doesn't work? Chevrolet changed the started selling.

Here in the UK there used to be a product called Marathon, a chocolate and pean confectionery company Mars. In 1990 they changed the name to Snickers, which across the world, Snickers was the brand name and Mars decided to make the bra dipped for a while but the colour scheme of the wrapper and look and taste of the Marathon and gradually UK sales recovered.

Learn More!
For some more brand name differences across the world check this infographic:
https://www.fastcompany.com/3055388/infographic-of-the-day/these-bra different-countries-and-its-jus/5?show_rev_content

Language is not just about words but also about images. In the USA, scantily clad used to promote just about any product from alcohol, to ca… o dating apps. In as highly offensive and such adverts and images w… b… banned. The US baby serious mistake when trying to sell their pro… s i… Africa. The jar with an image was completely misinterpreted by … consumers. In Africa, food packaging t the jar or box. Removing … showing peas and carrots would have bee

Targeting … Markets

Some comp… are able to make very little differentiation to their products as th then target mass markets without much shift in global approach. Examples could T-shirts. This can apply to merchandising products where the appeal is the specifi *Star Wars* merchandise, for example, is the same the world over – that is the point specific and instantly recognisable. Creating a local version would immediately d

Where an item is very brand-specific and the consumer is buying it for its brandin markets with no change. The appeal to a mass market is the universality of the pr This allows companies producing these products to benefit enormously from eco restriction when creating for mass markets is to ensure consistency of quality.

4.3.3 Questions

1. *Identify five areas of cultural difference you would research before launch... international market.*

2. *Identify and explain how the following British products/services could be s... market. What are the characteristics of each of these products that disting... and give an example from the marketing mix as to how they have positio...*

   a. *Harry Potter – yes, this is a product!*

   > *Harry Potter started as scribbles in a notebook in a Scottish café wh... trying to break into the children's book mar[illegible] has grown into a s... eight films spanning a period of 10 y[illegible] fr[illegible] 2001 to 2011. Spin-o... followed. There is a huge m[illegible]dising operation alongside the H... T-shirts, clothing, toys, a[illegible] collectibles. You can also visit Warner Br... Potter film [illegible] and visit The Wizarding World of Harry Potte... [illegible] there are full replicas of Diagon Alley, Hogwarts and H... [illegible]al phenomenon and children and adults alike, all over the wo... various guises.*

   b. *ASOS*

   > *Back in the year 2000, not many people expected that a little-know... would one day take over the world of fashion.*
   >
   > *Duplicating celebrity-inspired products, As Seen on Screen had only... ambitions. Ten years later it has 2,000 members of staff, nine stand... websites and six global offices.*
   >
   > *So how did this tiny start-up become the UK's leading fashion site?*
   >
   > *Asos tapped into a burgeoning trend for speedy online shopping jus... off. By sidestepping the impending doom and gloom of the High Str... reasonable prices, young fashionistas began flocking to the site for ...*
   >
   > *Even more importantly, Asos makes it painless to return items – the... globally in the way that it has because it understands that punters ... of shopping online, but they don't like to wait.*
   >
   > *There are no return fees, items arrive in as little as one working day... return unwanted goods. Asos also offers an online check for interna... up any problems that could affect shipping.*

   Read more: **http://www.thisismoney.co.uk/m[illegible]/smallbusiness/artic... [illegible]-ca[illegible]ne-great-ideas-hit-b...**

   Go to **zzed.uk/5856**

   c. *MetaPack – e-commerce IT s[illegible] for delivery management system...*

   > *MetaPack is the l[illegible] pr[illegible]vider of e-commerce delivery managem... enterpri[illegible]rs and brands. Its platform integrates 400 carriers a... [illegible]as Next Day, Click and Collect, Locker Boxes and International ... [illegible]ers and brands can offer delivery options and convenience for ...*
   >
   > *For each and every order, MetaPack is able to identify the most app... that particular customer, providing a seamless and personalised del... removing manual and time-consuming processes in the retailer's w...*
   >
   > *MetaPack's delivery management platform enables retailers and br... strengthen their delivery proposition, generate customer loyalty and... ensuring every customer has the best delivery experience.*

   Source: **http://www.m...**

4.4. Global Industries and Multinational

4.4.1. The Impact of Multinational Corporations (MN

! Key Points Covered

- Impact of MNCs on the local economy:
  - local labour, wages, working conditions and job creation
  - local businesses
  - the local community and environment
- Impact of MNCs o
  - FDI flows
  - balance of pa
  - technology a
  - consumers
  - business cult
  - tax revenues

Local Impact of MNCs

Job Creation

MNCs invest in the local economy tend to produce employment opportunities f often operate at considerable scale and, thus, employment can increase dramatica community. Moreover, the local labour force often relishes the opportunity to wo benefit from increases in long-term job stability and opportunities for professiona

Indeed, Ireland's experience suggests foreign direct investment by MNCs can incre created more than 13,000 jobs in the Irish economy. The MNCs were companies s Twitter, which suggests that MNCs not only create employment, but can also creat host economy. Importantly, such an increase in employment engenders a 'multipli refers to the phenomenon through which an initial investment causes a reaction th MNCs can increase employment, which increases consumer expenditure and, in tu in other sectors. Sometimes, though, MNCs eschew hiring the local population. C into African economies in raw material extraction industries is commonly reported Chinese workers but leave African workers unemployed.

Wages

MNCs often pay higher wages than comparable local firms, ceteris paribus. Indee Hungary and Brazil seems to suggest that MNCs pay, on average, 4.6 to 6% highe suggested that MNCs are able to do this because they operate more productively t make higher profits. Therefore, MNCs can afford to pay their workers a little more workers are literally more valuable.

However, MNCs can also increase the wages in the local economy on aggregate. N labour in the local economy which drives up wage rates for all of the local populat particularly high – that is, the labour market is *slack* – the impact of MNCs on local w if there is high competition for labour – e.g. in a *tight labour* market – then the inc rates is likely to be profound.

An important caveat to this analysis is that MNCs often only bring low-skilled empl e.g. an MNC [illegible] might introduce a manufacturing sector to an economy, roles remain in headquarters in the United States. Accordingly, this employme there is little room for career progress, so MNCs might in fact trap the local econo

Working Conditions

MNCs often operate their facilities with more favourable working environments fo MNCs (usually) make large profit margins, they are able to invest these profits into operational facilities, including modern technology that is less dangerous for staff e.g. better staff canteens – that increase employee welfare. Moreover, because MN are very aware of their brand's perception and the negative business consequence

Therefore, MNCs, by and large, tend to comply with important health and safety re
from workplace injury.

However, whether MNCs actually improve working conditions for their employees i
MNCs are often criticised of abusing their monopsonist power when entering eco
developed countries. Apple, for instance, has been lambasted for its operations in
production process out to the Foxconn manufacturer. However, working conditio
plants are at odds with the conditions employees would expect in the West. Foxc
monitored by abusive guards equipped with riot gear, workplace injury is frequent
crisis – Foxconn has since installed anti-suicide netting on its buildings. Therefore
improvements in working conditions largely depends on the institutional and regu
operate, and this is immensely different between countries in the global North and

Local Businesses

The effect of MNCs on local businesses is two-fold. From one perspective, MNCs ca
businesses in the local economy. This is because such firms are unable to compete
greater levels of efficiency, e.g. because of *economies of scale* or specialist experti
advertise themselves in the local community because of the wealth of funds tha
local businesses that find that they have little competitive edge in the local econom
market – this has a negative effect on local unemployment.

Anecdotally, it is clear that MNCs usually have negative effects on businesses opera
Supermarket chains, such as Asda and Tesco, have largely eradicated specialist foo
greengrocers, and butchers – for the local high street. Moreover, because MNCs ca
workers higher wages, local businesses might find that their employees are enticed
MNCs. Local businesses are further affected when they find that the pool of poten
has decreased because MNCs have hired most of the available labour force. Howe
these effects might be beneficial in the long run for the local economy if it forces b
efficiency in order to remain competitive, or if local businesses begin to offer highe

The presence of MNCs isn't all doom and gloom for local businesses. Indeed, MN
businesses operating vertically to the firm – this is referred to as *vertical affiliation*
initially might *boost* employment in the local economy if they need local businesse
the infrastructure surrounding it. Moreover, MNCs might depend in local business
materials and other inputs for their production process, or, instead, to distribute th
consumers. However, whether MNCs use local suppliers or distribution networks fo
questionable. Part of the success of MNCs is that they supply *consistent* products
suppliers at each of its branches its product would vary by region. It seems more li
in a community while relying on established suppliers. Yet McDonald's, the fast-fo
UK and Irish farmers – 16,000 in fact – to supply its beef to its 1,200 UK branches.
MNCs having positive effects on the local economy through vertical affiliation.

Community

MNCs are highly concerned with their brand image and so often invest into the lo

MNCs, for example, might fund the area's youth sports teams or give a portion of th
Sainsbury's, the UK supermarket chain, is committed to 'making a positive differenc
so by assisting community groups and charities in effecting positive change in the
from investing in its community because it can bolster its reputation as a responsib
differentiate the business and put it ahead of other firms operating in its sector. It
the specific needs of their community. This insight can then be used by the firm to
customers with the particular products that they prefer.

MNCs can also contribute to the local economy in improving the pre-existing infras
completely from scratch. MNCs, for example, might invest in better transport netw
this investment, say, because it reduces traffic congestion. Local authorities benefi
zero cost to their budgets. Ultimately, though, it is the MNCs that benefit the mos

distribute their products more easily than before. Investments in infrastructure ar could include investments in better sewage systems, local schools, and a whole ho Finally, unless they are tax avoiding or evading, MNCs have to pay taxes to local a the local community because the local government has increased resources which improving investments. MNCs' contribution to taxes might have especially prono economies where the budgets of local authorities are often constrained – althoug economy might make it easy for corrupt government officials to pilfer these funds

However, MNCs are often criticised for the homogenising effect they have on com host economy might be eroded as MNCs come to replace local businesses over ti MNCs is to strip communities of their vibrancy and make individuals in such comm to the local economy might be more negative than originally thought. Communit cooperation; by eroding community and interaction MNCs might introduce ineffi

Environment

MNCs' effect on the environment is strikingly one-sided. While MNCs do try to lim production is often [illegible] unsustainably, and at cost to the local community Mexico was [illegible] marine oil spill in the history of the petroleum industry. BP billion in da[illegible] for the accidental spill, but its effects are still being felt by fishe Interestingly, a 2010 report found that the top 3,000 businesses (not all MNCs, bu $2.2 trillion of environmental damage. If they internalised this cost their profit ma do MNCs improve the environment that they operate in, and if they do, it is rarely it is local governments that force these changes.

National Impact of MNCs

FDI Flows

If a MNC is to establish itself in a foreign market it is natural that some investmen made – this is known as foreign direct investment, or FDI. FDI might involve an M assets, or direct spending on establishing a facility in the host economy. FDI is us their citizens.

- **Infrastructure:** FDI can boost infrastructure creation in the national economy can positively affect the local economy by improving pre-existing infrastructu national economy – e.g. through attractive corporate rates of taxation, or the Zone' – can accelerate infrastructure spending.
- **Capital Deepening:** FDI can bring about 'capital deepening' in the host econ in innovative technology. Deepening refers to the situation through which ca an important condition in economic development, and should have the effec potential of an economy.
- **Training:** FDI need not be limited to physical capital goods. Indeed, MNCs m – that is, skills and knowledge, etc. Therefore, FDI can increase the host econ training and education.
- **Employment:** FDI likely increases employment directly through hiring of wor indirectly increases employment by creating linkages throughout the econom suppliers and distributors. Coca-Cola, for instance, might set up a factory in S employment directly [illegible] its own factory, but also through jobs for delivery peo econo[illegible]
- **Income:** Since FDI constitutes an injection into the domestic economy it shou GDP. Short-run economic growth should be achieved by increases in FDI by M

However, while FDI is clearly beneficial in these respects for the national economy on the fact that most issues are multifaceted. FDI, for instance, could be viewed n perspective if it increases inequality. Likewise, attracting MNCs to the national eco relationship that plunders the host economy for cheap labour and other raw mate are limited linkages created between the MNC and domestic industries and so the might be limited.

Balance of Payments

The Balance of Payments (BoP) is a record of transactions between the domestic econo
a given time period. It is comprised of the 'current' and 'capital' accounts. MNCs are s

First, FDI conducted by MNCs has an effect on the 'capital' account, which broadly
FDI can be considered as financial injections from a foreign MNC into the national
that the current account should be boosted by MNCs entering the national econo
a factory for its Purina brand of pet food in Brazil – this investment cost CHF (Swis
million, which is a huge injection into the Brazilian economy.

MNCs also tend to trade on international markets. Therefore, if an MNC exports it
'current' account should improve as exports exceed imports. Continuing the Nest
Nestlé intends to sell all of its Purina output in Brazilian markets, and so any produ
the current account as currency floods into the Brazilian economy. However, it is i
effect can go either way. Many MNCs might import raw materials and other resou
to utilise during the production process. Anything that is *imported* constitutes a le
economy. If these imports outweigh exports then the BoP is actually worsened by
also worth noting that many MNCs engage in the questionable process of repatria
country, which, again, worsens the BoP.)

Technology and Skills Transfer

MNCs are highly important drivers of technological transfer. Indeed, when an MN
brings with it the expertise and innovative technology that has made it such an int
Bank, for instance, found that in 2002, around 700 MNCs accounted for a whoppin
and development. Therefore, it is clear that any economy that is host to an MNC s
investments in knowledge. Emerging economies particularly benefit from this tran
savings are usually too meagre to significantly invest in capital deepening. MNCs,
required to improve efficiency and productive capacity in the host economy and, t
growth. Indirectly, productivity might also increase if the presence of MNCs force
production to make themselves more competitive, both nationally and internation
transfer can be *horizontal* or *vertical*.

Moreover, MNCs can have indirect effects on domestic producers. Primarily, there
whereby knowledge created by an MNC is used by domestic firms without compe
businesses might learn about marketing and management strategy through obser
or they might benefit by hiring skilled workers trained by the MNC.

However, this knowledge spillover could be more insidious when national firms ob
engineering' the products of MNCs. Reverse engineering is a process through whi
product, and then this extracted knowledge is put in place in the development of a
Reverse engineering is a particular problem in China, where domestic businesses r
MNCs. In fact, the process of backward engineering technology and the lack of pr
be one of the biggest hindrances it has to future FDI.

Consumers

Consumers also stand to benefit from the presence of MNCs on a national scale:

- **Choice:** Primarily, since MNCs are naturally the producers of some good or se choice into the host economy. Native consumers are, thus, able to choose fro domestic corporations or MNCs – e.g. Vietnamese people can choose betwee Vietnamese weasel dung coffee, or a Starbuck's pumpkin spiced latte. Yet, if M until competition has largely left the domestic economy and they have marke actuality be reduced.
- **Price:** MNCs, because of their efficient scale and innovative technology are, m undercut domestic producers on price. Consumers in the host economy there in the presence of MNCs. Note, also, that competition from MNCs might forc generally, and so it is not only the MNC's product that is cheaper, but all. Ho creates a monopoly, prices could in fact be *higher* than before!

- **Quality:** MNCs might be able to produce better-quality products than their d most likely the result of their better technologies and working practices, but it international competitive pressure. Consumers, therefore, benefit from access aesthetically pleasing products than before. Importantly, though, MNCs are o goods that have built-in obsolescence or are just cheap mass-manufactures, a the products on offer will *actually* be better quality.

Business Culture

MNCs have the ability to completely revitalise business culture in the host econom invest in human capital and knowledge generation, previous employees are able to business with similar cultures to the MNC. It is likely that over time this will affect t economy. MNCs also change business culture through imitation. Firms in the nati adapt to changes in business operation or find the ... unpopular in an econom MNCs. Finally, the presence of MNCs might ... individuals in the host econom entrepreneurial – this could create ... entrepreneurial culture across business in ec

Tax Revenue

MNCs also ... obvious fiscal benefits for the national economy. Indeed, since even a *small* corporate tax rate can bring in vast sums for the host economy's gove turn, spend these resources on a host of potential investments – e.g. on education

However, it is definitely not unheard of for large MNCs to avoid paying as much ta online retailer, for instance, was found to be avoiding tax in 2015 – paying only £1 of sales in the UK. It has since been shamed into paying more tax in several Europ isn't the only company to avoid paying tax; it is practised by such a large number o considered a tax evasion epidemic.

Transfer pricing is one way in which MNCs can avoid paying fair amounts of tax. Es involves the subsidiary of the MNC selling its product to another at an artificially lo operating in the United Arab Emirates, which has a corporate tax rate of 55%. The making much profit in this country because its profit will be taxed at this incredibly does is sell its output produced in the UAE to another subsidiary of the MNC based corporate tax rate is low. This subsidiary of the MNC is then free to charge the con can sell large quantities of it across the world without worrying about large portion MNCs are profit-maximising, and this condition gives way to morally reprehensible avoidance. Ultimately, MNCs will continue to act this way until they are held accou beginning to change, but the journey will be long and arduous.

4.4.2. Ethics

! Key Points Covered

- Stakeholder conflicts
- Employees: Pay and working conditions
- The environment: emissions and waste
- Supply chain: exploitation of labour and child labour
- Marketing: product labelling and inappropriate promotion

What are Ethics?

Ethics refers to the moral principles that affect a person's behaviour. It is essentia and 'wrong' in terms of conduct. Ethics from a business perspective is concerned conduct in the business environment.

Example: In the 1970s, Ford Motor Co. produced the Pinto. The Pinto was expose in the event of a rear-end collision. Ford's internal memos indicate that the comp chose not to install a simple $11 protective measure. Indeed, a small modification deflected contact in the occurrence of an accident and, thus, would have made th sound for its passengers – in fact, Ford estimated that this would save roughly 18 conducted a cost–benefit analysis and calculated that it would be more cost-effec against the company in the event of a rear-end collision, and so the Pinto was put

Ultimately, The Ford Pinto case is an example of the conflict between profit-maxim standards of society. However, the business environment has changed considera ethically is now an important issue for many MNCs – as indicated by the rise of co business approach.

Stakeholder Conflicts

Stakeholders are agents that are affected by a business's actions. An MNC's beha stakeholders, including consumers, employees, shareholders, and governments. I of interest between these stakeholders and the resolution, or balancing, of these c an MNC is to be viewed favourably.

- **Consumers –** Consumers are first and foremost concerned with the price of a manipulate prices (especially if there is little competition) to the detriment of Consumers are also interested in purchasing quality products – or, at least, p Pinto example mentioned above represents the conflict of interest between s maximising objective. Finally, consumers are concerned about purchasing pr deal of marketing is conducted through deliberate misleading.
- **Employees –** An employee's biggest concern is likely to be their salary. Yet, a between the MNC and the employee because the firm treats labour as a 'cos looks to reduce costs at any available opportunity. Second, employees value interest to an MNC that will seek to reduce cost, and, therefore, employees, w Finally, MNCs will do little to ensure that working conditions are better than t it's quite clear that employees would relish improvements to workplace safet regulatory requirements.
- **Shareholders –** A shareholder's biggest concern is profit maximisation becau through larger dividends. However, there is often a conflict of interest betwe management – this is commonly referred to as the *principal–agent problem* t ownership of MNCs. While an MNC might look to pursue ethical objectives, t shareholders who only consider their short-term gain. MNCs might even wis produce long-term growth – again, shareholders as stakeholders would be u their short-term financial returns.

- **Governments –** Governments are by and large concerned with the well-bein welcomed because they bring FDI flows and increases in employment, they c competition or culture, which the government will aim to limit. Moreover, th in the long-term sustainability of the economy, which is at odds with the reso the arrival of MNCs.

Pay and Working Conditions

Ethically, an MNC's biggest consideration is likely to be the treatment of labour ac chain. While workers in Western economies have fought zealously since their resp basic protections against malevolent or negligent employers, those in LEDCs ofte protections. Nearly every European country, for instance, has in place a national m exceptions for Switzerland and the Scandinavian states, but the same is often no economies.

Figure 16 – National Minimum Wages in Selected Asia

Country	Monthly Minimum Wage (Domestic Currency)	M
Bangladesh	1500 BDT	
Cambodia	612,000 KHR	
Indonesia	2,000,000 IDR	
India	4350 INR	
Singapore	N/A	
South Korea	1128980 KRW	
Taiwan	21,009 TWD	
Thailand	8083 THB	
Vietnam	2501950 VND	

Globalisation has led to many MNCs outsourcing parts of their production proces an MNC that produces labour-intensive manufactures such as clothing, or other te profit-maximising business perspective that such an MNC would enter, say, Bangla that the firm is legally required to pay is $19 a month. It is said that MNCs particip bottom', whereby they increasingly seek business opportunities in countries that a minimum wages. Moreover, because of their international mobility and intense co investment by MNCs, this practice is set to continue; MNCs benefit from cheap lab pretty much the *expectation* in a globalised economy that MNCs operate in this m probable that the clothes you are wearing as you read this chapter have been pro economically far more destitute than the United Kingdom. However, since the 19 criticised by the anti-globalisation movement for such practices. Yet, while the wa countries are particularly low by Western standards, they often represent a major i options that people in LEDCs would otherwise have, e.g. agricultural employmen considered better off than before, having moved from a position of intense pover living. Opponents, though, would argue that they have merely swapped one set o Ultimately, MNCs must manage their interests between making cost savings throu in a manner that is considered 'fair' by consumers – e.g. corporate social responsibili

Now, although some countries might have legislated for a national minimum wag countries could still be substandard. In 2013, for instance, a garment-factory accid Bangladesh, that is said to be the deadliest in contemporary history – its death tol accident occurred because of structural failure, including the building of additiona and the use of inadequate construction materials. Yet, this sort of occurrence is u economy such as the United Kingdom because there is a plethora of protective le by government. MNCs are accused of creating literal sweatshops upon entering f LEDCs where the institutional infrastructure to protect workers is poor. MNCs are LEDCs by expecting them to work in conditions that are grossly disparate to the c

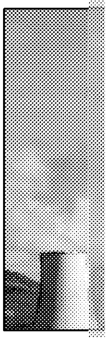
they apply different standards to desperate workers in LEDCs to the ones they appl
this practice has been widely criticised by the anti-globalisation movement. An int
Kathie Lee Gifford, a celebrity activist who worked with Wal-Mart and endorsed pro
suppress abuse of manufacturing workers in LEDCs. *Kathie's products were later fo
working environments in Honduras.*

Environment

MNCs are also critiqued on ethical grounds for their effect on the environment. It i
significant interest in contemporary society as economies move rapidly towards po
environmental damage – e.g. the breaching of the world's CO_2 (carbon dioxide) thr
balance their objective to profit-maximise, and, thus, contribute to environmental c
that they will receive from environmentally concerned consumers and the financia
imposed on them by domestic governments. Another concern might be that envir
their long-term growth objectives if the MNCs' operations depend on the natural e

MNCs' effects on the environment can be broken down into two categories: *emissi*

- **Emissions:** It should come of little surprise that production leads to the emissi to reduce costs along all parts of the production process, are unlikely to give a on the environment unless they are legally compelled to do so. MNCs contrib change through the emissions they produce – say, distributing their products t networks – or directly during production in their manufacturing facilities. CO_2 pollutant and one of the biggest accelerators of climate change, but sulfur oxi *rain*) and nitrogen oxides (which produces the 'brown haze' above industrial ci emissions. Now, there is often *strict* legislation in Western economies that pre pollution – e.g. the Environmental Protection Act 1990. But in LEDCs such regulation is by and large missing from public legislature. MNCs, therefore, are able to situate their production in such countries and can freely pollute without considering the effects they have on the environment and people who depend on it. India, for instance, is home to the most polluted city on earth, Delhi, but Indian officials are unlikely to pick better environmental outcomes over the increases in employment that MNCs bring. Yet, emissions are a serious issue – throughout the world, around 3.3 million people are killed by air pollution each year.



- **Waste Disposal:** MNCs also contribute to environmental damage through the LEDCs, unlike their Western counterparts, are lagging behind in terms of infras would prevent MNCs from damaging the environment through disposal practi there are disposal plants that can efficiently convert waste to energy, and ther firms from disposing of their waste in a damaging manner. Yet, MNCs operat their waste without considering environmental impact at all. MNCs might eve LEDCs because it is simply more cost-effective to do so. India, for instance, is rubbish dump. Landfills in Kolkata are permanently ablaze, filled with electroni elements, and are scoured by destitute, waste-picking locals for anything of fi is China's dumping of nuclear waste in the oceans off the eastern coast of Afri once-respectable Somali fishermen into condemned pirates of today.

Supply Chain Considerations

MNCs operating in the international economy are likely to have their production p
different countries. However, this affects the complexity of their supply chain, mak
and address areas of ethical concern.

- **Exploitation of Labour:** Exploitation occurs when there is an *asymmetric* pow
and this asymmetry is then abused by the powerful actor for their own gain. E
labour hours, a dangerous working environment, harassment and decimation

  MNCs quite clearly have the power in the relationship between employer and
home to such power dynamics and MNCs are accused of producing, or at lea
slavery. *'Bonded labour,'* or debt bondage, is a form of contemporary slavery,
to the cycle through which individuals are coerced into a life of labour in orde
specifically designed to be almost impossible to be repaid. This concept is pa
– e.g. the ILO estimates that [illegible] 11.7 million people in the Asia-Pacific
contemporary slaves [illegible] the mechanism of debt bondage, forced throug
into this [illegible]

  However, even if an MNC isn't benefiting from this particular type of contemp
acting in an exploitative way. It has been suggested earlier that MNCs offer a
of employment in LEDCs, and individuals *freely* choose to work for MNCs in th
this choice truly free? If an individual's only choice is between starvation and
workplace that is deemed unfit by Western standards, MNCs can be consider
abusing their power.

- **Child Labour:** MNCs are also complicit in the exploitation of children through
often send their children to work instead of to school for financial reasons. If
education – e.g. because of a lack employment opportunities after schooling –
households to prioritise labour over education for their children. While in We
illegal, it is not so often outlawed in LEDCs. MNCs (usually) don't directly emp
traditions, cultures, and economic situation of the countries in which they ope
from the exploitation of children.

  Child labour is considered to be another form of contemporary slavery. It is s
million children in employment today, of which a staggering 73 million are les
important to remember that this practice was once normal in Western econom
industrialisation, and that LEDCs are following a similar pattern of developme
West to consider this practice unethical while we enjoy the fruits of similar pa
to prevent child labour in LEDCs might produce unintended consequences. I
financial situation of families that depend on child labour for sentience – is it
families into a life of poverty? Also, stopping child labour in legal markets mi
in the black market – e.g. in Bangladesh, legislation [illegible] child labour in t
thousands of young girls into a life of prostitution instead. It is also worth co
sometimes few formal education [illegible] as alternatives in LEDCs, and so i
child labour will produce better outcomes for children.

  While MNCs are not always directly involved in employing children, they still ha
change to prevent it occurring. Samsung, for instance, has a 'zero-toleranc
completely avoids factories that are known for such abusive behaviour.

Marketing Considerations

- **Misleading Product Labelling:** Ethically, MNCs must also consider whether t in a misleading way. In the UK, government-imposed trading standards – e.g. make it illegal for businesses to falsely advertise their products. Inaccurately l included in these marketing standards. Naturally, it seems only fair that cons making purchasing decisions. However, following the established pattern, wh or other Western economies, is not necessarily true across the globe – that is regulation on marketing standards. Therefore, MNCs must be careful to com even when there are national standards in terms of product labelling, it is rem truthful *yet misleading* – e.g. an MNC labelling their product as performing 9 alternative implies superiority, and can easily be mistaken as the product bei means nothing if the 'next best' alternative is actually the worst product on t

  How, then, should MNCs operate in absence of marketing regulations? Is it e misinform consumers in international markets about, say, the presence of ha its durability, and what consumers can expect to gain from using it? Ultimate little incentive for MNCs to be truthful when it comes to labelling their produ would see this behaviour as unethical, it is simply good business.

- **Inappropriate Promotional Activities:** MNCs also receive scrutiny for inapp most commonly if they are offensive or outright illegal. In 2016, for instance, advert received international scrutiny because it included blatantly racist mat of the culture of countries in which they operate, not only for moralistic cons might risk offending market segments which could otherwise have been prof

  'Bribing' is a form of corrupt marketing activity that is generally outlawed in t China engage in the practice of 'gift-giving' in a business environment that is connection. MNCs, therefore, need to consider the cultural context of their o legal for Chinese business executives to offer thinly veiled bribes in their hom could land them in trouble for *illegal* marketing activities.

4.4.3. Controlling MNCs

! ***Key Points Covered***

- political influence
- legal control
- pressure groups
- social media

Although the operation of MNCs can produce real benefits to the host economy, t autonomy of MNCs is also likely to produce negative outcomes as discussed in th imperative that MNCs are controlled in some form or another.

However, since MNCs operate on an international stage, the issue of control is co for instance, might feel it necessary to control the behaviour of Asian automobile m the UK for the good of its citizens. Yet, Nissan has no commitment to remain in th environment unfavourable, it can simply leave – taking the benefits of FDI, empl bolster the government's coffers with it. Alternatively, Nissan could exert its powe for its own benefit. Therefore, there is a certain set of political, legal, and social in imposed in order to guarantee that an MNC produces the greatest possible benef minimum cost.

Political Influence

Political influence is one means to control the operation of an MNC. An obvious m make the MNC a state-owned enterprise (SOE). Creation of an SOE is the most di can have on a business enterprise, since it is the government that directly manage **China's 12 largest companies, for instance, are all state-owned – including fir companies that operate on the international stage.**

However, while SOEs are effective in terms of engendering direct control, there ar

- Firstly, SOEs might be wrought with corruption. Indeed, SOEs are a useful ve officials to embezzle funds or can be captured to serve their private special in in their operation and thus tend to avoid scrutiny from the general public. Co instance, might involve extortion and other abuses of power. In 2015, howev executives were detained on suspicion of corruption as part of Chinese Presid campaign.
- Another issue related to the use of SOEs is that government expenditure can Funding for SOEs is naturally controlled by the government and this limits th enterprise. Moreover, this funding might keep SOEs afloat by mitigating the e creating productive inefficiencies in the economy.
- Finally, because SOEs are generally not profit-maximising, there is less need fo innovative technologies or R&D. Innovation makes the economy more produ consumers in terms of offering better products.

Yet, even if the government doesn't take direct control of a MNC it can still affect i tools. MNCs can be limited in their operation through the implementation of inte government can use tariffs, quotas, local content requirements and other non-tari from competition by MNCs. States can alternatively offer financial assistance to d grants, low-interest loans, tax relief, etc. – that can strengthen them against comp MNCs are often able to lobby politicians and effectively become the 'puppet-mas Whether the political system is a useful tool in the control of MNCs is, therefore, q particular prevalent in the United States where business interests extensively lobb

Legal Control

Governments are also able to exert influence on MNC behaviour by employing th Governments have a paternalistic function and have an imperative to control the a legislation, regulation and taxation. MNCs tend to favour countries with little regu with a legal environment similar to the country of their headquarters.

Environmental regulation, for instance, could prevent MNCs from creating negativ national economy. Moreover, governments in LEDCs could impose legislation, su regulate firms' work environments, and create constitutional workers' rights that c cheap labour by MNCs. However, an important counterargument to this is that th harm LEDCs that are looking to attract FDI by MNCs. MNCs will, instead, seek oth restrictions to invest in. It is important that governments balance these considera control MNCs.

Another important legislative tool is that of 'competition policy'. Governments wi monopolistic behaviour can use competition policy in order to ensure the efficie markets. In the UK there is the Competition and Markets Authority that, among o and acquisitions of businesses to ensure that that there is always a sufficient level protecting consumers from unfair business practices and predatory prices. Yet, ev legal environment to protect consumers from competition, this doesn't necessaril need for effective enforcement if a government's policies are to take hold.

Finally, governments can use fiscal tools to affect MNC behaviour. Europe has the rate across the world – about 19%. It, therefore, should attract more business inve the US, which is said to have the third highest corporate tax rate. (Note, however, framework is also an important consideration for businesses looking to invest – so corporate tax rates.) Many MNCs *avoid* tax – using crafty, legal accounting metho but many also *evade* tax – which means using illegal methods to reduce their tax b consider loopholes in their systems of taxation to limit this deplorable behaviour b

Pressure Groups

Additionally, consumers themselves can be powerful influencers of MNC behavio ultimately, sold to consumers, they are often at the whims of shifts in consumer a When an MNC's behaviour is actually lawful in a given institutional framework but reprehensible, 'pressure groups' can use numerous methods to effect changes the broadly refers to collections of individuals or voluntary organisations that campai influence corporate or political decisions.

Pressure groups in the UK include organisations such as *Greenpeace*, the environm *Corporate Watch*, which investigates the impact of commercial behaviour, *Stonew* *Fawcett Society*, which campaign's for women's rights. Yet there are also pressure support of certain industrial interests – e.g. the British Bankers Association, which in legislation regarding banking in the UK.

- **Naming and Shaming:** MNCs that are behaving unethically are 'named and Campaigners can publicise factual criticism of the MNC's behaviour – often th circulated and shared damage an MNC's reputation extensively. In the 1990s campaigned furiously against Nike. Nike's manufacturing process was consid found to be using child labour to produce their products. Pressure groups ci Pakistani child stitching a Nike football and the image gained considerable m then CEO, Phil Knight, acknowledged this shift in consumer perception and p
- **Direct Action:** Pressure groups are also able to take 'direct action'. These ac protests, strike action or disruptive behaviours that make it difficult for an MN instance, anti-globalisation pressure groups protested outside a Seattle confe Organization, disrupting negotiations, and bringing anti-globalisation to the f Another example of direct action is the concept of 'tree sitting' whereby envi

themselves to trees in order to disrupt logging or other commercial interests. headlines after activists spent 51 days tree-sitting 65 metres up in a giant euc current record for the tallest tree-sit.

- **Lobbying:** Pressure groups can also achieve their objectives through lobbying through which pressure groups attempt to influence policymaking officials in legislation or regulation. Lobbying in Washington DC has become a major po National Rifle Association spent $3,360,000 in what are effectively legal bribes regulation of firearms.

Social Media

Finally, a more modern bracing effect on the behaviour of MNCs is the rise of soci computer-based technology that facilitates the sharing of information between ind YouTube are examples of social media websites. Although such websites serve as also have associated risks. Individuals can now easily communicate and share ide advent of social media, and this is particularly worrisome for MNCs that engage in information is effortlessly accessible on the Internet and individuals can educate th easily through websites such as Wikipedia.

Often criticisms of MNCs go 'viral' – this refers to the rapid reproduction and shari information. Viral criticism has the ability to rally activists and concerned stakehol exerting pressure on MNCs to change. It also alerts governments as to which issue about. However, there is a danger that viral information can be misinformed at bes at worse – such information could damage an MNC's reputation even if it isn't true

> **Learn More!**
> Can you think of a recent examples of viral campaigns on social media, e.g. Faceb
> How do you think MNCs would respond to this?

4.4.3 Questions

1. *Why are MNCs important for national economies?*
2. *What is an example of a horizontal technology transfer? What about a ve*
3. *Do you think it's misleading to compare relative wages between countries?*
4. *How can businesses show that they are operating fairly and responsibly i*
5. *Read the following case study:*

> *Monsanto is an American multinational agrochemical corporation. It pro engineered seeds, pesticides, herbicides and other crop protection chemi however, marred by controversy. Monsanto is said to have produced the the late 1990s, the World Bank imposed the 1998 Seed Policy on India, w of the Indian seed market and promoted licensing arrangements betwee farmers. Monsanto moved into the Indian market and patented cotton s a common resource among farmers the 'intellectual property' of the cor then had to pay royalties to Monsanto, which raised the price of cotton s Moreover, Monsanto's seeds were non-renewable, or sterile, meaning th them using natural pollination – in effect, they needed to continually pu Finally, the company's GM crops gave rise to super-pests and super-wee other crops. Essentially, through this Monsanto was able to effectively es Indian seed market. As Monsanto's grip on the cotton seed market tighte suicides among Indian agricultural workers because of increasing indebt*

   Identify an ethical concern. How could an MNC mitigate this?

6. *Assess one advantage and one disadvantage of political control of MNCs.*
7. *How might the agenda of a pressure group such as Greenpeace affect bus*
8. *What methods do pressure groups have available to them in order to con*

Answers

4.1.1a

1. Globalisation will have affected your life due to your use of products that are o[illegible] uniform manner, e.g. a drink of Coca-Cola, visiting Lidl, or eating a McDonald's

2. Any three reasons from: increased competition encourages business efficiency, [illegible] opportunities from companies moving to a country, many countries have beco[illegible] new markets for domestic firms, e.g. India, innovative ideas and products can b[illegible] reduced protectionism and increased exports can increase living standards in a[illegible]

3. With reference to Figures 1 and 2
   a. Early 1990s was the period when [illegible] th[illegible] [illegible]erated.
   b. PPP means Purchasing Po[illegible]
   c. During the period [illegible] UK GDP based on PPP as a share of world
   d. Mark the p[illegible] 8[illegible]–81, 1990–92, and 2008–09.

4.1.1b

1. The BRICS economies are Brazil, Russia, India, China and South Africa.

2. The MINT economies are Mexico, Indonesia, Nigeria and Turkey.

3. The five economies could include any of the 152 economies classed as emergin[illegible] are not BRICS or MINT economies.

4. China, India, Indonesia, Brazil.

5. The ranking of the UK economy between 1990 and 2020 changed from numbe[illegible]

4.1.1c

1. Cheaper labour costs and closeness to new growing markets.

2. Jobs available have changed from manufacturing to more service-orientated t[illegible]

3. Cheaper prices, more choice, longer opening hours, better customer service.

4. Geographic distance, need to train staff, currency fluctuations, negative PR if j[illegible] perceived decline in customer service.

4.1.1d

1. They support economic growth because th[illegible] w[illegible]rk[illegible] [illegible]re better educated and a[illegible] roles.

2. Healthier populatio[illegible] [illegible] [illegible] less public money has to be spent on healthca[illegible] to wor[illegible] th[illegible] participate in the economic prosperity of the country.

3. Differen[illegible]onomies rank at a different level according to the indicator used. I[illegible] compared according to the different indicators.

4.1.3

1. Globalisation is the process through which businesses and countries integrate [illegible] interdependent. Globalisation is indicated by increases in international trade, [illegible] investment, flows of migration and cultural exchange.

2. *Trade liberalisation in the domestic economy might benefit a technology manu… because it will be able to import crucial factors of production (e.g. raw materi… abundance in the domestic economy. Samsung will be able to import its input… quantities than in a protected economy. However, a disadvantage of trade libe… Samsung is that it opens them up to foreign competition – this is disadvantage… If foreign economies engage in trade liberalisation then Samsung might benefi… its products across the world. This can have important effects on productivity… to unlock economies of scale by expanding production to meet the demands of… might also be able to outsource parts of its production process to countries in… bringing down the costs of production and increasing profit.*

3. *You should identify* ***two*** *factors from those listed in the chapter – although if yo… found other factors that are appropriate this should be f… It's important to… these factors; some factors have likely contribut… to the process than ot… presence of MNCs.*

4.1.4

1. **a.** *Y… ld … three reasons for protectionism from the chapter – e.g… co… e anti-competitive 'dumping,' to improve the balance of paymen…*
   b. *Protectionism can make domestic firms less competitive in international… them from effects of foreign competition. Firms will not have to make effi… compete if they are protected from rival firms – this will make their produ… international stage. Moreover, protectionism raises the prices of a firm's… and so their exported products will become more expensive and less inter… economies might also retaliate by introducing their own protective meas… firm's exports and prevents them from achieving economies of scale.*

2. *Tariffs are taxes levied on imported goods. Quotas are restrictions on the qua… and quotas are completely comparable in their effect on imports. The most im… two protectionist measures, however, is that a tariff has a revenue-raising effe…*

3. *Even in the absence of formal barriers to trade there can be problems for firm… Fast-food firms might find that they have problems selling their products to fo… differences in tastes and preferences. Likewise, foreign governments might ha… on food products that could restrict the operation of a fast-food firm – this cou… salt, fat, etc.*

4.2

1. *Any two examples contrasting an advantage/disadvantage*
   - *e.g. Specialisation – the UK is world-renowned for its financial services an… profitability if it focused on that as a main export. However, this does not… UK workers and the necessary dependence on importing other goods to m… not feed people. It is not a totally self-sufficient … so must balance i… advantage would not work for the UK as … not have sufficient natur… competition model with other …*
   - *UK textile business has … international trade – it is cheaper to… Korea, etc. which … a traditional clothing manufacturing base i… En… … mers have, however, have seen a reduction in the price…*
   - *L… sts in the UK are governed by minimum wage – a social plus po… wa… abroad and a loss of jobs in the UK as companies seek to reduce th…*

2. *Comparative growth between UK, Europe and USA that they are on a similar t… other countries on the graph. Europe is still a viable market. Venezuela and Ru… be a source of labour or natural resources. China is still at a higher GDP than o… down as it becomes a more sophisticated market but it is still a worthwhile tar…*

4.2.1

1. *Answer should include growth potential of the market – GDP and sheer size of Cup and attention and development of infrastructure as a result. The fact other there means regarded as stable. Oil and gas reserves mean they have potential resources. Economists believe they will continue to grow. New middle-class tar expensive products.*

2. **a.** *They are a thoroughly established business so they have established man efficiency. Tried and tested quality product in domestic market – niche pr in domestic market before exporting. They use a local manager but keep patient developing good contacts and procedures that take time but pay*

   b. *Decided to export as niche product so exp[illegible] domestically would have demand and were able to develop [illegible] because of reputation but also fa product so higher returns [illegible] made the expansion worthwhile.*

3. - *Examples [illegible] technological products superseded in UK by newer mode to [illegible] markets may not have the advanced technological capability*
   - *De[illegible] items that are coveted overseas even if last year's 'model' as the prohibitive to lower-income countries.*
   - *Larger engine cars in countries which have lower fuel prices – in the UK petrol price is high – less of a concern in other countries. Plus, older cars favour in Western countries but are more practical in rugged terrains in*
   - *'Goods' such as entertainment programmes that have been seen in the UK second lifespan in other countries.*

4.2.3

1. **a.** *Three reasons to market first, with production later:*
   1. *Test demand*
   2. *Test price points – designer pricing varies between countries*
   3. *Establish distribution channels and delivery options*

   Three reasons to go into production:
   1. *Can reduce costs for domestic product*
   2. *Cheaper than producing in Nottingham and have reached capacity i*
   3. *Need a retail outlet to appeal to potential consumer so will have to s can minimise delivery and shipping costs by being more local to mar*

   b. *Any five from the below, or sensible alternatives:*
   1. *Should the company test a high-street version domestically first befo*
   2. *Can they sell their designer version online abroad first and decide w Asia or USA?*
   3. *What are labour costs and conditions in [illegible] countries?*
   4. *Are there any existing trade agreements [illegible] should consider?*
   5. *Which country has the mo[illegible]priately skilled workforce?*
   6. *How will they mo[illegible]?*
   7. *What leg[illegible] there surrounding production in each country?*
   8. *[illegible] do they want to focus on and which country has best*
   9. *[illegible]t grants are available to trade with these countries? Are there a*

   c. *At least five supported reasons why a specific country has the right balan the shoe company to consider it viable. (This could be a group exercise an arguing the case for a specific country.)*

4.2.4

Amazon and Morrisons

1. a. *Morrisons already have a good market share in the UK grocery sector. Th chains and the knowledge of running a successful grocery business. Howe experience in e-commerce and delivery. They are behind the main compet first-mover advantage. Amazon have huge success in logistics and deliver supply chain for groceries in the UK.*

b. *The likely motives are that each business can benefit from the other, with core business. Amazon will have a ready-made supply chain of products. spend millions developing an e-commerce system and it will be ready to g had to develop their own.*

c. *Tesco have first-mover advantage and have the highest market share in t However, Amazon have developed a globally successful logistics system w experience for customers. This could lead to Morrisons/Amazon taking m depends on how loyal customers are to the likes of Sainsbury's and Tesco.*

2. *Direct investment is usually seen as most risky. This is often because of the ext setting up a new operation. This could be a factory with expensive machinery many new employees need to be recruited and trained. However, this all depe experience of staff, planning and whether the business is in a position to take*

3. *It could conduct extensive market research to find out about the market and c It could have a detailed business plan, conducting investment appraisal and fo 'change' management staff.*

4.

	Mark Scheme
AO1 marks	*Knowledge and understanding of relevant issues such as met markets and reasons for doing so.*
AO2 marks	*Applied to the context of B2B, specialist product, ltd company Eastern Europe.*
AO3 marks	*Analysis of the benefits/drawbacks of opening an overseas o*
AO4 marks	*Decision based on analysis in context.*

For –

- *Building relationships with customers*
- *Potential for further expansion into other countries*
- *Control over quality*
- *New target market*
- *Provide aftersales service*

Against –

- *More expensive – staff, admin, infrastructure, management*
- *Different laws, procedures, practice as outside of EU*
- *May need specialist workforce*

Evaluation –

- *What else could they do?*
  - *Export from UK, license their products, appoint an agent.*
- *Level of risk, market research, experience of staff, competition, economy o*
- *The most important factor is...*
- *In the long term / short term...*
- *Do the advantages outweigh the disadvantages?*
- *Justified decision*

Model answer
Simpers Ltd may have found that the UK market is saturated and the slow growth fi
expanding in Eastern Europe the business could expand and would have the possibil
successful. This could lead to them benefiting further from economies of scale which
By having their own operation they would ensure they kept control over important
means the brand is not diminished, and customer service, leading to repeat business
the business-to-business market. Perhaps most important is ensuring the quality of

However, expanding into Eastern Europe may lead to problems such as legal and en
EU there are different rules and regulations. This could lead to a lot of time and effo
Opening a new manufacturing plant will also be very expensive in terms of infrastru
will increase their costs in the short term, leading to a fall in profit.

Simpers Ltd need to consider whether they can afford the risk. If the business is in a
may be able to afford the risk. We don't know what the competition is like in the Ea
are looking at and we have no forec[illegible] to help them decide. A less risky p
their products. A licensee m[illegible] local knowledge and specialist knowledge of th
well as knowledge of [illegible]. This method of expansion would also save time and
keep all the

4.3.1

1. *Sweet manufacturer adaptations:*
    1. ***China***
        - *Consider colour of wrapper – maybe RED for good luck sweets*
        - *Level of sweetness offered*
        - *Shape of wrapper to accommodate Chinese writing being more vertic*
        - *Distribution channels need to be internally run – China is a very large population*
    2. ***India***
        - *NO animal fats in ingredients – many Indians are vegetarian so sweet*
        - *Size of bags – a lot of India outlets very small – so local distribution n*
        - *Bollywood – celebrity endorsement possibility*
        - *Price – a lot of very low-income families – sweets to be priced within*
    3. ***USA***
        - *Higher sugar content unless targeting health-conscious market*
        - *Cocoa solids ratio different in USA – they have different taste percept*
        - *Larger sizes – multipacks for supermarket shopping – many America*
        - *Can utilise British nostalgia/tradition as a marketing tool*
2. - *Coca-Cola benefits from not having to have large physical presence in the costs are limited to shipping the concentrate. Local distribution network a bottling partners. Local partner can adapt sw[illegible] etc. to suit local tas*
    - *Local partner has a proven product to work with and distribute.*
    - *It creates labour in the foreign [illegible] – BUT wages are still lower than in host country.*
    - *If labour costs rise Coca-Cola could simply move its outsourcing to a che inv[illegible] infrastructure.*

4.3.3

1. - *Food content – e.g. vegetarian or not*
   - *Local herbal remedies that already exist – e.g. China has a strong traditio*
   - *Health profile of the target market – e.g. higher levels of diabetes than gl friendly*
   - *Restriction on images in target market – traditionally health foods are ac attractive men and women in exercise clothing – is this acceptable?*
   - *FDA/health food regulations in target country*
   - *Existing distribution channels – pharmacy/supermarket – where do most*
   - *Health structure and system of target market – free healthcare / paid hea health / government support for health*

2. *Harry Potter – films / books / merchandise / Warner Bros. studio tours…*
   - *Very British – although new film has catered to USA market by being se American actors.*
   - *Can be subtitled and translated for global distribution but concept's niche*
   - *Spin-offs in response to fans' demands – they drive the next step and are k Generation – not just children – but spanned a period of time so curren with Harry Potter.*
   - *Part of the successful British film industry – adds to tourism.*
   - *Many language barriers but not altered to accommodate as this is part o*
   - *Some cultures frown upon magic – others embrace it – but school theme, very specific in its structure, based upon English education system.*

   ASOS
   - *Affordable designer niche. Instant gratification – targets those who want time a groundbreaking delivery model – now imitated by many other onli*
   - *Capitalises on watchers of TV celebrities and fashion followers. Specific a outside its age range of 18–25. Uses high level of Internet interaction, so f broadband and who are tech savvy.*

   Metapack
   - *A follower of other niches – online e-commerce shopping but focuses on s delivery system. Uses innovative technology so only for companies whose who want to be. Bespoke design so tailored solution. Online so no delivery capability of design team.*