

## International Trade and Globalisation

### International Trade - Selling Goods Abroad

**Definition:** The selling of goods and services across the world.



**Advantages:**

- ✓ **Bigger market/increase brand awareness** → more potential customers in an international market → leading to higher sales → and greater profits
- ✓ **Economies of scale** → purchasing/bulk buying and marketing → reduces average costs to generate more profit from sales
- ✓ **Wider range of customers/various market segments** → greater spreading of risks → downturn in one segment can be compensated by sales of others
- ✓ **Exchange rate fluctuations** → may benefit with rise in value of GBP



**Disadvantages:**

- ✗ **Higher transport costs** → products may be sent over greater distance/longer time → impact negatively on profits
- ✗ **Other transport problems** → such as availability of mode/weather/strikes at ports → can restrict distribution
- ✗ **Language problems in trading** → for handbooks/marketing → translation costs of actual products (magazines, catalogues, etc.)
- ✗ **Currency conversion/exchange rate fluctuations** → may increase costs
- ✗ **Costs of different laws/customs** → e.g. following environmental laws
- ✗ **Lack of knowledge of foreign markets** → demands/tastes
- ✗ **Problems of getting paid** → more difficult to resolve over distance
- ✗ **Trade barriers** → embargoes/quotas
- ✗ **Political factors** → wars/conflict/external events
- ✗ **Competition from foreign firms established abroad**



### Tariff

**Definition:** A tax on an import. It is usually expressed as a percentage of the import's price.



### Imports

**Definition:** Goods and services that are bought from producers overseas.

### Exports

**Definition:** Goods and services which are produced in one country and sold in another one.

### Multinational Business

**Definition:** Businesses with their headquarters in one country but which operate in other countries through their offices, factories and shops. A company which just sells goods abroad is not a multinational company.

**Advantages:**

- ✓ **Well known around world** → more customers in a wider market → greater profits → money to invest → encourages shareholders/investors
- ✓ **Easier to compete on foreign markets** → when based locally
- ✓ **Economies of scale** → one example
- ✓ **Lower production costs** → e.g. wages, rent → so lower costs → greater profit
- ✓ **Take advantage of exchange rate movements**
- ✓ **Tax advantages** → grants → less capital from business
- ✓ **Removal of trade barriers**

**Disadvantages:**

- ✗ **Size of business** → difficult to manage → communication problems → increased costs
- ✗ **Language barriers** → increased costs
- ✗ **Laws in other countries** → any examples from legal systems → consumer rights/employee rights/planning/environmental issues/ax → political systems → e.g. unrest
- ✗ **Exchange rate movements may go against** → lower revenue/higher costs
- ✗ **Lower morale of home workers** → jobs may be "exported" abroad → example of effects of demotivation
- ✗ **Competition from domestic firms**
- ✗ **Set-up costs** → premises/infrastructure/relevant examples
- ✗ **Negative public image** → seen as unethical



# GCSE Business External Influences

## Exchange Rates

**Definition:** The value of one country's currency against another country's currency.

The impact of a fall in the value of the pound against other currencies:

- **Import prices increase** → increased costs for the business → may pass the increased costs onto the consumer in terms of higher prices → leads to loss of sales
- **Increased value of foreign income/ investments** → increase profits → GB goods sold abroad become cheaper → foreigners buy more GB goods → sales rise
- **Purchasing stock in Britain** (the business does not trade abroad) → therefore no effect
- **Exporting businesses may find that they have more competitive prices** → increased customers → leading to increased sales revenue

Exchange Rates: **SPICED**

**S** Strong Pound, **P** Imports Cheaper, **I** Exports Dearer

Exchange Rates:

**WIDEC**

**W** Weak Pound, **I** Imports Dearer, **E** Exports Cheaper



Less International Countries **GLOBALISATION** TERM Inequality Income Social Economic People NATIONS

Trade CHINA Day WORLD INCOME

Global Culture POWER

## Globalisation

**Definition:** The increased interdependency of people around the world as a result of increased trade and cultural exchange. It has led to an increased worldwide production of goods and services.

**Main Features of Globalisation:**

- Increased international trade
- Development of multinational companies
- Free movement of labour and capital across international borders

**This creates opportunities:**

- ☑ Ability to enter new markets
- ☑ Use resources available abroad
- ☑ Benefit from cheaper production locations
- ☑ Access new technologies and innovations

**However it also creates threats:**

- ☒ Increased competition
- ☒ Theft of intellectual property
- ☒ Loss of talented workers

## Impact of Globalisation on UK Businesses

**Benefits of globalisation to the UK:**

- ☑ **Greater access to foreign markets** → e.g. the UK has a world reputation for its financial services
- ☑ **Access to wider markets enables businesses to invest in R&D** as product life cycles are longer
- ☑ **The UK can import the goods and services that it needs easily with less restrictions on trade**
- ☑ **The UK can access specialist skills from other countries**

**Drawbacks of globalisation to the UK:**

- ☒ **The UK struggles to compete on cost for manufactured goods** → as wage rates in the UK are relatively high
- ☒ **The UK has suffered unemployment** → based on the loss of some industries that it can no longer compete in on price
- ☒ **The UK is subject to international laws of trade**

## Inward Investment

**Definition:** Occurs when governments, businesses and individuals invest capital into another country – for example, building new factories or buying companies.

