B Investigate the international economic environment in which business operates

You have already learned about the benefits for businesses of trading internationally, and the many different reasons that they choose to do so, from their individual or group perspectives. Across the world, globalisation affects all businesses and this section outlines what is meant by globalisation, how countries work together to help each other in different parts of the world and, finally, what restricts or stops international trade from taking place. Restrictions and support are important for UK businesses to consider when they are operating internationally as their influence may help a business to decide if it is going to choose to go into a particular market or not!

Globalisation

You have probably heard people say that the world is getting smaller all the time. Globalisation means that, through better communication, financing and links between countries, world trade and partnerships are becoming easier. Improvements in technology that are happening on a daily basis mean that trading with businesses in other countries is much easier now, in many instances, than at other times in history.

Globalisation has a number of features and these include countries working together, people moving for work, organisations working across borders and payment systems being worldwide. Examples of companies that trade globally include Apple (technology), Actavis (health care) and Nike (consumer goods).

Trading blocs

A trading bloc is a group of countries in a geographical area that get together to protect themselves from countries outside their group, working together to make goods or services move more easily and placing restrictions on the number of goods or services being brought into the area. You will learn more about trading blocs in this unit.

International mobility of labour and capital

Globalisation also means that it is possible to have people working in different countries around the world for different organisations. The mobility of labour makes it easier for people to work in other countries around the world. Citizens of the UK may require permits to work outside the EU. Citizens of member states of the EU are able to move and work where they wish within the EU. As the UK has decided to leave the EU, it is unclear what requirements there may be in the future for UK citizens to work in EU countries. The same is true of capital. It means uncertainty as to whether investment is possible in countries outside the UK to set up businesses by UK citizens, or for business people outside the UK to come in to the UK and invest in a new business.

International currencies

There are more than 150 different currencies in the world. Globalisation means that businesses are aware of the different ways to trade and the currencies that can be used. Sometimes common currencies are chosen for trading, such as dollars, the euro or sterling (pound).

Multinational corporations

Another feature of globalisation is that companies now regularly trade across the UK, the EU and even the world. Very large multinational corporations will have offices throughout the United States, the EU, Australia, Asia and Africa. Some of these multinational corporations are so large that the turnover they make per year is greater than the wealth of some of the countries of the world.

International business communications

International business communications happen on a daily basis online through websites, social media and other communication systems such as Skype. Skype allows companies and people to communicate all over the world using WiFi; this is a cost-effective and efficient way to work. Communication can take place using systems such as Skype through audio, text chat or video. Many organisations choose to operate in common languages, such as English, or it is possible to communicate using translator software online that can almost instantaneously translate what you are saying into another language.

International payment systems

Paying for goods and having them shipped from overseas was much more challenging in the past and involved having different bank accounts and arrangements for exchanging money. Many businesses today, even very large ones, such as Argos or British Airways, use organisations such as PayPal to help them manage these payments.

International trading blocs

You have already learned that a trading bloc is a group of countries in a geographical area that get together to protect themselves from countries outside their group; working together to make goods or services move more easily and placing restrictions on the number of goods or services being brought into the area. Some organisations help these countries to work together to move goods and services more easily. These organisations include the World Trade Organization and other common markets that you will have heard of, such as the EU.

World Trade Organization (WTO)

The WTO makes sure that countries can trade with each other as smoothly, predictably and freely as possible so that businesses can sell their goods all over the world. The WTO has negotiated agreements between countries so that businesses trading have legal rights and agreements that can protect them, and the laws of different countries can be recognised and adhered too. Many countries have the trade agreements voted on and confirmed by their parliaments.

If there is a problem or dispute between two countries, the WTO will step in and try to help. The WTO has 160 member countries and these countries are responsible for approximately 95 per cent of all world trade that takes place. More countries want to join the organisation as it helps businesses to trade more easily.

The WTO aims to help people throughout the world to trade effectively with each other by keeping costs low and ensuring that countries trade fairly with others, as well as maintaining the health of their populations and the world environment.

Research

Carry out research into the WTO. Find the latest news and information that has been published to help countries trade with each other. Find out the settlement arrangements for the latest disputes between different countries and watch some of the WTO videos to find out more. Can you identify the key things that the WTO offers? Put together a brief presentation to display your findings.

Customs unions and common markets

In some areas of the world, customs unions and common markets have been established to allow free trade to take place between those different countries. You have already learned a little about the EU earlier in this unit and you will also learn about Mercosur (South American Nations).

The EU

The EU was first established through the European Economic Community after the Second World War. The more formal move towards the EU of today started in 1957 when six countries joined together: France, Germany, Italy, Belgium, the Netherlands and Luxembourg. Over the next 60 years or so, that number increased to 28 different countries including the UK (which joined in 1973). The EU is important as it created its own internal market which allows goods and services to move even more freely between the 28 different countries. It does this through the following ways.

- It has its own currency: the euro.
- There are some areas of the EU where border controls are not required at all: the Schengen Area is an area of the EU where people do not need to have their passports checked and they can move freely.
- It gives citizens EU rights and responsibilities as well as those of their own individual countries.
- There are common policies and agreements on many different aspects of EU life from agriculture through to food safety.
- Common paperwork and arrangements make recognition between the different countries easier, for example, common driving licences.

Mercosur

Rather like the EU, Mercosur is a group of countries that has joined together to help each other trade. These countries are grouped in South America and the countries are:

- Argentina
- Brazil
- Paraguay
- Uruguay
- Venezuela.

The Mercosur area allows the countries to trade with each other more easily and, like the EU, Mercosur has countries that are associate countries that work with the group, again to help support trade. These include other South American countries, such as Peru, Chile and Columbia. The size of the land involved in Mercosur is a lot larger than the EU (in fact, four times as big) and although the group has been established for more than 20 years, it has not yet made as much progress as the EU. However, the vision is to have a similar way of working to allow people to move freely between the different countries and to support growth and trading effectively across all the different countries.

Free trade areas

The idea of moving goods, services and, indeed, people, in areas with limited or no restrictions, can also be applied to other free trade areas that have been established in the world. These include the Northern American Free Trade Agreement (NAFTA) area and the Asia Pacific Economic Cooperation (APEC) area.

North American Free Trade Area (NAFTA)

This agreement is between Canada, the United States of America (USA) and Mexico. The purpose is to make trading between the countries easier and to remove tariffs, particularly those that relate to Mexico, to allow goods to be traded more easily between Mexico and the other two countries. NAFTA supports movement of people between the countries but requires citizens moving to work in the USA to have temporary employment status which lasts for only three years.

NAFTA has ensured that Canada, the USA and Mexico have benefited from free trade by:

- reducing the cost of goods and therefore inflation in the member countries
- increasing competition for government contracts between the three countries which lowers costs between them
- promoting investment by companies outside the area by encouraging multinationals to invest in the NAFTA area
- increasing the trade between the three countries so that they benefit from supporting each other even more
- creating more jobs in the three countries as the trade between them develops
- creating specialist skills in the area, for example mining, agriculture and car manufacturing.

Asia Pacific Economic Cooperation (APEC)

The Asia Pacific Economic Cooperation area consists of 21 very varied countries. The purpose of this regional economic forum is to give greater prosperity to the people of those countries by building inclusive communities, so that everyone in those communities can be supported to live with better living standards, reducing poverty and improving health standards.

APEC seeks to enhance economic integration which means that it tries to ensure that all 21 countries in the region work with each other to trade as much as possible and, by doing this, it helps small- and medium-sized businesses to grow. This means that across those countries more people are in work and are able to contribute to the wealth of the area. APEC also develops the skills and expertise of people, particularly relating to technology, to make sure that the region has the skills it requires to ensure that it can work effectively in the future. Finally, it also seeks to build sustainable and resilient communities. This means communities that can flex and change according to the needs of the area. The aim is also to support communities after disasters and other environmental problems so that they can survive and not require significant amounts of external assistance, as they will be able to cope with such impacts.

Table 5.3: Asia Pacific Economic Cooperation: APEC countries

Australia	Japan	Phillipines
Brunei Darussalam	Korea	Russia
Canada	Malaysia	Singapore
Chile	Mexico	Chinese Taipei
China	New Zealand	Thailand
Hong Kong	Papua New Guinea	USA
Indonesia	Peru	Vietnam

Research

Carry out research into one of the APEC countries listed in Table 5.3 above. Find out when it joined APEC and the background to its economy. Present this information as a poster and share it with your group.

Key term

Supply chain – the chain of organisations that link together to produce a product or service and which includes raw materials, information, processes and people. For example, a yoghurt producer will have a farm for milk, and the chain will be between the farm and the manufacturer. The chain continues to the retailer to sell the goods to the consumer and may also involve a distributor.

There are many benefits for the 21 countries that are part of APEC, these include:

- reducing trading barriers between countries
- developing more common regulations between countries and reducing time in customs
- promoting economic integration and trade
- making it simpler for people to travel between the countries with a special APEC visa
- making it easier to make links in the **supply chain** between businesses that have raw materials through to those that need them for manufacturing
- training people in communities where skills are low to increase social equality
- developing energy-efficient towns and ways of working to protect the environment and reduce costs.

PAUSE POINT

The USA is a member of NAFTA and APEC. What are the advantages of being a member of more than one free trade area agreement?

Hint Think about the benefits of being members of each individual agreement and of being members of both.

Extend 'Membership of more than one free trade agreement area by the USA inevitably leads to a conflict for USA multinational organisations.' Discuss this view and the extent to which you agree.

Barriers to international business

You have already learned about many of the benefits of trade agreements that operate in the EU, North America and Asia and the way in which they benefit the countries and organisations that operate within those areas, but there are still barriers to trade that restrict where and how international business takes place. These restrictions, or barriers, sometimes operate within the trade bloc areas where negotiations are underway, or operate to stop businesses trading in a particular area. This type of restriction in international markets is known as protectionism.

Reasons for protectionism in international markets

There are many different reasons why countries may wish to block others from trading in their country. These include protecting infant industries, protecting jobs in the country, protecting local businesses in that country, differences in consumer laws and cultural reasons.

Protecting infant industries

Infant industries are new industries that are developing in a particular country. Countries may decide to not allow rival businesses from other countries to trade with those countries to allow the infant industries to become established. You have already learned about economies of scale; and economies of scale can only happen when businesses are large enough to compete. By protecting their infant industries, countries allow them to grow so that they can compete with businesses from other parts of the world. Sometimes infant industries will also be given special trade subsidies in their countries to help them trade more easily and these are not available to other international businesses. Infant industries that have been operating in areas of the world recently include those involved with renewable energy, such as solar power and electric cars.

▶ Infant industries that have been protected include solar power.

Protecting employment

Countries may also restrict imports from international businesses because that country needs to protect employment. Sometimes cheaper imported goods can mean that people do not buy local products. This can result in businesses reducing the number of people they employ or even closing completely. When businesses close, employees may not be able to get other jobs and may become dependent on the state for help. To avoid this, sometimes countries will place restrictions on imports to help organisations that are struggling to survive.

Protecting local businesses

Sometimes countries put into place particular restrictions on industries that they believe are very important for them and stop imports from other countries coming in, if they can. For example, in 2015, Canada was still placing many restrictions on imports that related to the food industry to protect its own local businesses. The dairy industry is particularly important to Canada and this is the area of industry where imports from the EU were restricted to help Canadian farmers. Argentina also has many restrictions on imports from sparkling wine through to textiles; these are all in place to protect the country from cheaper imports.

Differences in laws

Another reason why a country may choose to protect itself from imports is because the products that may be imported do not comply with its own laws. For example, potassium bromate is a substance used in flour for baking in the USA that is permitted by the US Food and Drug Administration but is banned in the EU and many other countries around the world due to fears about its possible link to cancers. Olestra is a product used in the USA as one of the ingredients in crisps and chips. This ingredient is banned in the UK by the Food Standards Agency and in Canada. Marmite was banned in Denmark for more than three years owing to it containing extra vitamins and minerals. It was only returned to general sale in 2014 when the ban was overturned.

Cultural reasons

Sometimes products and industries are prevented from being imported due to cultural differences: for example in the EU, Africa and Asia, raw milk (milk which has not been pasteurised) can be sold directly to consumers. In the USA and Canada, it is banned as it is perceived to be unhealthy due to the high levels of bacteria. Restrictions are also made in some countries on products containing alcohol, as these are not permitted for religious reasons.

Methods for protecting markets

You have already learned some of the reasons why countries use protectionism to support their businesses and people, but the methods that can be used vary widely. Key methods used by different countries are shown in Table 5.4.

Table 5.4: Methods used to protect markets

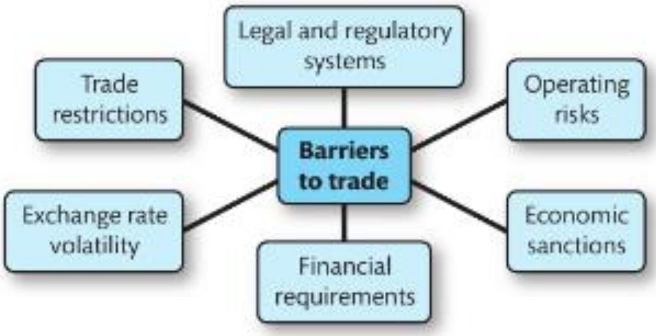
Method of protection	How it works
Tariffs	Tariffs are additional payments or taxes that are added to goods that are imported. This means that local goods are at an advantage and often cheaper so that local people will buy them instead of more expensive imports.
Customs duties	Customs duties are added to goods, like tariffs and, therefore, can make goods more expensive. In 2015, a pair of leather boots being imported from Bangladesh that cost £200 plus insurance and delivery charges of £75 would require the importer to pay £46.75 duty and £64.35 of VAT. This means that the original boots costing £200 would now actually have cost £386.10 to bring to the UK. That is £186.10 more than they originally cost. The difference may mean that the boots are then cheaper to produce in the UK.
Currency restrictions	This is when countries will try to lower their currency value so that their goods become cheaper when they are imported by another country. For example, if a product sells at £1 and the exchange rate is £1=$1 and then the value of the currency becomes £1=$2, the product would now need to be sold for $2 instead of $1 making it more expensive and less attractive to buy for local people, in this case, in the USA. Sometimes countries will try to manipulate their currencies by allowing more or less of their money to be available to change the exchange rates to their benefit.

▸ **Table 5.4:** – *continued*

Quotas	Sometimes countries or trading blocs will introduce quotas for how much of a product or service is allowed to be brought into the country or area such as the EU. There are restrictions in place that limit the amount of seafood that may be brought in from Brazil or the number of vegetables that can be imported to the EU from Thailand. These restrictions mean that the quantity of these goods is reduced and that consumers can only purchase items from their own country so the price of these goods will be higher.
Subsidies	Subsidies can be used in the opposite way to quotas. Subsidies are there to support particular groups or types of industry to ensure that they can survive. It is common in the USA and EU to have subsidies for the food industry to help it continue and provide for populations in the future.
Legal restrictions	Having different laws in different countries affects the ability of businesses to import goods. You have already learned about different restrictions for food additives and other products that can be used to limit supply.

Barriers to trade

You have already learned about the different methods that can be used to protect markets but there are also other barriers to trade that can affect the ability of a business to operate in a particular country, and these are divided into six main categories.



▸ **Figure 5.2:** Barriers to trade can be very varied and have a significant impact on international businesses.

Trade restrictions

In some countries, governments may choose to have trade restrictions in place to stop businesses either importing or exporting to those countries. For example, there are long standing trade restrictions on military equipment being sent from the UK to countries such as Myanmar. Some trade restrictions have also been in place for a number of years for political or other reasons: for example, the USA has had trade restrictions in place against Cuba for many years and although these were relaxed in September 2015, they remain in place.

Exchange rate volatility

You have already learned that governments can make changes to the value of currency to make exports cheaper and imports more expensive, but a business may be prevented from trading in a particular country because of general changes in the value of currency that has not been manipulated by governments at all. The supply and demand for money across the world affects the value of currency. If a country has a very volatile currency then, this means that its value changes often. A predictable currency means that a business can work out and effectively plan the costs of imports or exports so that they can estimate the likely profits that they will make. If a country has a currency that changes value a lot, then this is a bigger risk to the businesses trading there: for example, the Turkish Lira and Brazilian Real both devalued by 20 per cent during 2015. Such huge changes in exchange rate can have a big impact on businesses exporting or importing goods as this could result in unplanned losses that would have a negative impact on the business.

Legal and regulatory systems

Laws and changes to legal regulations also have an impact on the way in which businesses trade, and this can be a barrier to trade. Sometimes goods may be restricted in a particular country.

Case study

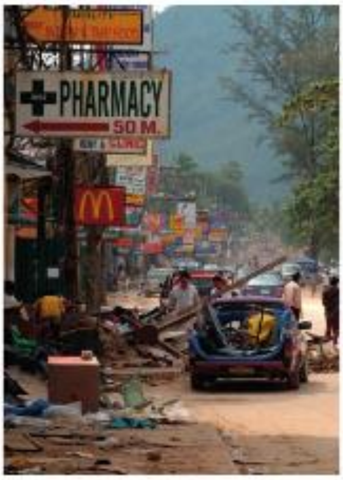
Chewing gum in Singapore

Due to the maintenance problems that discarded chewing gum was causing on their public transport system, in 2004, Singapore began enforcing a ban on chewing gum. The import of chewing gum was immediately halted, although shops were given the opportunity to clear their existing stock. Initially, some consumers would travel to neighbouring Malaysia to purchase chewing gum, although no 'black market' or underground economy for the product ever really emerged.

In 1999, Wm Wrigley Jr Company, the chewing gum supplier, had enlisted the help of Washington DC lobbyists to include chewing gum on the United States-Singapore Free Trade Agreement. Singapore chose to recognise the health benefits of medicinal and sugar-free gum. Chewing gum is now only permitted for therapeutic reasons and must be prescribed by a doctor or dentist, for example for the purposes of giving up smoking. There are large fines in place for any citizens found to be spitting gum into the street.

Check your knowledge

1. How might the legal ban on chewing gum except for dental purposes affect businesses trading in Singapore?
2. What are the possible opportunities for a business trading in Singapore with this type of ban?
3. Why do you think Wrigley lobbied for the inclusion of chewing gum to the FTA, despite Singapore's small chewing gum market?
4. Carry out research into products or services that are banned in countries and consider the potential opportunities for businesses in those countries. Present your ideas to your class for discussion.



▸ Natural disasters can be one of the operating risks for businesses to take into account when operating internationally.

Financial requirements

Another barrier to trade that can have a negative influence on a business is that of being able to access investment within a particular country, or being required to have participation in a particular project by citizens of that country. Some countries may also place financial restrictions on how much profit may be taken out of a country and require all profits to be reinvested in that country. This makes investment in that country less attractive to businesses thinking of trading there.

Operating risks

Another barrier that impacts on international businesses is that of the threat of local operating conditions themselves. In some countries the risks of operating are higher than others and this depends on the nature of the product or service being offered and the stability of that country. In some countries, the risks of generating a loss rather than a profit may be higher due to the way in which processes operate in that business, or external events that may affect them, for example the higher likelihood of terrorism, or damage to goods through natural disaster or sudden increases or decreases in demand. If the level of operating risk is high, a business may be prevented from entering the market there and this is a form of trade barrier. Local knowledge and trading information can help to reduce these risks but they may not be eradicated totally.

Economic sanctions

Sometimes economic sanctions are introduced to stop trade taking place between countries – this is another form of trade barrier. Sanctions are restrictive measures that are placed on countries to reduce trade happening in particular countries. Economic sanctions can influence international business as they can have a negative impact on the success of a business in a particular country. For example, until July 2015, the UK had financial restrictions placed on Iran but these have since been relaxed in exchange for limitations on Iran's developments in nuclear weapons. The relaxing of restrictions on Iran gives opportunities for businesses wishing to invest money in Iran and the transfer of monies from Iran to the UK. However, these sanctions may change at any time if the political climate changes and, therefore, economic sanctions still remain as a trade barrier and a potential high risk for businesses trading in Iran.

PAUSE POINT Think of a country where there are trade restrictions in place. What are they and why have they been put into place?

Hint Think of the political and economic situations in that country and find out more about their exchange rate.

Extend 'Imposing trade restrictions on countries is a necessary and inevitable part of business trading.' Evaluate how much you think this is true.

Assessment practice 5.1

A.P1 A.P2 B.P3 B.P4 A.M1 B.M2 AB.D1

Operating businesses internationally is heavily influenced by the markets in which a business operates. Having access to finance and being able to trade in areas where trade is supported can all lead to business success.

You have been asked to write a report using your own research evidence to explain the impact of international business on two different businesses and provide a detailed evaluation about the impact of globalisation on one of those two businesses over a period of 5 to 10 years.

You should select two businesses that operate in contrasting international markets. Your report should explain all the main features of globalisation and consider how it has affected both businesses. In your report, you will need to ensure that you cover all aspects of international trade and globalisation for two businesses including:

- an explanation of why each business has chosen to operate in their market, with an identification of their target market and a discussion of how the characteristics of this market has impacted on business operations and management practices
- an explanation of the types of finance available for international businesses
- an explanation of the role of trading blocs in the practices and operations of the business internationally
- an analysis of the support that is available and the barriers to each business operating internationally.

You should explore the similarities and differences in approaches between your two selected businesses and consider how their structure is affected by how they engage with global businesses. You will need to ensure that you have selected relevant research sources and keep an accurate bibliography. When writing your report, you must ensure that you consider all relevant factors.

Plan

- Where can I gain the most information about organisations that trade internationally?
- How do I reference my sources appropriately?
- How can I structure my report appropriately and include a wide range of research material that covers trading in the last 5 to 10 years?
- When are my deadlines?

Do

- How can I check that my sources are appropriate, accurate and up to date?
- How often shall I check on my word count, page numbers and progress?
- How do I know that I am keeping to my deadlines?

Review

- Did I include all the necessary research sources?
- Did I include enough analysis and evaluation to help me to develop my argument fully?
- What would I do differently next time to make sure that I improve in future assignments?