Chapter 25: Business in the international community

The international dimension

In business, no manager can operate without being affected by the **international community**.

Exchange rates

Exchange rates is the **value** of one currency **compared** to another.

How are exchange rates determined?

There are two type so currencies:

- **Floating rates:** The exchange rate of the currency is allowed to change freely depending on market forces, i.e supply and demand of the currency.
- **Fixed rates:** The exchange rate of the currency is set by the country's central bank.

When the exchange rate rises, it is called **appreciation**. When it falls, it is calleddepreciation.

How are businesses affected by changing exchange rates?

- **Appreciation:**
  - Import prices fall.
  - Export prices rise.
- **Depreciation:**
  - Import prices rise.
  - Export prices fall.

These **exchange rate movements** can cause serious damage to businesses, making business endeavours that would have been profitable make losses because of changes in the currencies. The EU, for example, wants to limit these bad effects, and hence established a **common currency**, the Euro.

International economic organisations

- **Economic** and **political unions**. (e.g. the EU)
- **Free trade** agreements. (e.g. NAFTA)
- Organisations **working for free trade** between countries. (WTO)

<u>The European Union</u>

- Consists of 25 European countries.
- Creates a **single market** in the EU.
  - To tariffs, quotas or any **trade boundaries**.
  - This results in:
    - A huge market benefiting from **economies of scale.**
    - Increased **competition** resulting in better products.
- **Common currency**.
  - Issue of Euros are controlled by the European Central Bank.
  - **Interest rates** for the Euro become the same.
- The **social charter**:
  - The EU wants to improve **working conditions** and make **finding josbs** equal in the EU.
  - The main conditions include:
    - Workers can look for work **anywhere** in the EU.
    - Workers must be **consulted** on important issues.
    - **Equal** treatment of **full**/**half** time workers.
    - Limits on **maximum** working **hours**.
    - Improved **health** and **safety** rules at work.

Advantages for the UK to join the EU

- Lower costs because:
  - One **price list** throughout Europe can be used.
  - No more **charge** through currency **conversion**.
- Easier to:
  - **Trade** with EU countries.
  - **Compare** costs of supplies with EU countries.

- No risk of **losing out** on exchange rate changes.

Disadvantages for the UK to join the EU

- More **competition** from non-UK firms.
- Consumers might buy **cheaper** products from other EU countries.
- The rate of **interest** might no longer suit UK firms.

Free trade unions

Eliminates **all trade barriers**. Businesses within the free trade union are affected in the following ways:

- More **competition** from foreign firms.
  - Consumers have **more choice** and **prices** are **lower**.
- No '**protection**' by governments.
- More **opportunities** for **exporting**.
  - **Efficient** firms will be more successful.

The long-term aim of the free trade union is to **encourage trade** between the member countries, ultimately improving **living conditions** for the people.

Globalisation

Globalisation is the word used to describe the increased **worldwide competition**and **business activity**. Goods and services that once can only be found in one country has spread all around the world. There are several reasons for this:

- **Free trade agreements** encourage **international trade**.
- Improved **travel links** and **communication**.
- Countries that have been undeveloped before start to develop and**export** their own goods, leading to more **international competition**.

Globalisation results in:

- **More choices** and **lower prices** for the consumer.
- Businesses look into more ways to become more **efficient**.

- Why many businesses merge to become **multinationals**.

- **Inefficient** businesses **go out of business**.
- **Free trade** results in:
  - More workers losing jobs, since governments can no longer**protect** them from foreign competition.

Multinational businesses

Multinationals are businesses that have **factories**, **services**, or **operations** in**more than one country**. It is important to note that, for a business to become multinationals, they must **produce goods** in more than one country.

Why do firms become multinationals

- **To cut costs:**
  - Labour costs.
  - Raw material costs.
- **To extract raw materials not found elsewhere.**
- **To produce goods nearer to the market.**
- **To bypass trade barriers.**
- **To expand and spread risks.**

Advantages of multinationals operating in a country

- **Jobs** are created.
- New investment increases **national output**.
- **Imports** are **reduced** since there are more goods in the country. More**exports**.
- More **taxes** are paid to the government.

Disadvantages of multinationals operating in a country

- Jobs created are usually **unskilled jobs**.
- **Local firms** are forced **out of business** since they can't compete with multinationals.
- **Profits** flow **out** of the country.
- Multinationals use up **scarce resources**.
- May **influence** the **government**.