THEME 4: GROWING ECONOMIES

4.1 Globalisation

Globalisation: The closer and growing integration of the world economies socially, politically and economically

4.1.1 Growing Economies

- Also known as emerging markets
- Characterised by rapid growth but involve a lot of risk due to industrialisation and commodity boom (natural resources and food). E.g. BRICS: Brazil, Russia, India, China, South Africa
- Businesses invest in emerging economies as they are able to increase profits and allows shareholders to gain higher dividends (this is due to selling more not cost)
- The population witness an increase in income which allows to consumers to spend more, especially on imported goods (increased affordability)
- Consumers also buy more goods from developed countries, therefore increasing their profitability, this is because there is a greater marginal propensity to import (MPM – for every one extra £1 you import goes towards buying imports). Fast-growing middle income segment.
- Evaluation: But it is very risky - market development/diversification of Ansoff's Matrix

Growing Economic Power of Countries within Asia, Africa and Other Parts of the World:

- These countries have seen a substantial rise in FDI (Foreign Direct Investment) from TNCs
- These countries have experienced a lot of export-led growth due to lower labour and land costs, weaker regulations than developed countries, access to cheaper raw materials
- Growth in the middle-class incomes has led to more consumption that has increased demand and therefore production and distribution
- 70% of world GDP (total value of all goods and services produced in an economy over time) growth comes from emerging economies, where India and China (Chindia) constitute to about 40-50%

Implications of Growth for Individuals and Businesses on:

- Trade Opportunities:
  - When economies are growing, people have more disposable income so firms can sell more goods and services
  - Demand for goods and services becomes income elastic (as income increases consumer buys more) and therefore firms can make more revenue and profits
- Employment Patterns:
  - Businesses will need to assess employment patterns, unemployment rates, trends, labour costs and productivity
  - When an economy is growing there will be more job opportunities if there are people unemployed
  - More income means more demand, so more production and employment
  - Future employment trends are also important as if there is new technology available then employment decreases

Indicators of Growth:

- GPD per capita (income per person) = GDP ÷ Population
- Good indication of wealth - higher GDP per capita indicates higher standards of living which implies greater consumption

This file was downloaded from StudyLast.com. It is not allowed to publish it elsewhere. Only the buyer can use this file.

  - When a company wishes to trade/expand into a market they want to make sure that it is steady, sustainable and preferably growing over time. E.g. India
- Ease of Doing Business:
  - If a country is looking to expand into a different market it looks at the level of complexity of documentation required before entering the market
  - Higher the levels of bureaucracy and red tape, the higher the costs of production to the firms making it unlikely for TNCs to invest in these countries
  - Also looks at permits, getting access to electricity/water, taxes, regulations, contracts, access to credit and registration of property (access to property rights)
- Infrastructure:
  - The network of utilities which are the basic systems, facilities and services required for an economy to function e.g. roads, communication, electricity, gas
  - The more improved the infrastructure, the higher the level of FDI into that economy and therefore would increase the firm's efficiency by lowering the firms costs of production
  - They look at these factors to ensure that they can have quick/reliable delivery of their products to consumers. (Reduces transportation costs and increases the likelihood of volume based economies of scale)
  - If this does not happen it could lead to loss of sales and therefore profitability for the firm
- Political Stability:
  - Businesses look at political certainty in the market as investors will not be willing to move to foreign markets in times of political unrest
  - Look at government relationships with different businesses/industries, and its relationship with the WTO, IMF and World Bank
  - They also look at government's approach to political agendas on taxation, regulation and spending
  - Also look at future issues - corruption, terrorism, human rights, (bribery), governance etc.
- Exchange Rate:
  - SPICED - If the currency gets stronger/appreciates it means that imports will become relatively cheaper and exports will become relatively more expensive
  - This would reduce international competitiveness of the country as this makes the goods more expensive so leads to lower exports
  - Businesses would end up buying more imported goods which could reduce the levels of employment in their countries
  - The business would want the country's currency to be lower as it would allow it to export it to these markets at a lower price
  - If it's a developed country which relies on imports of raw materials, they would want a stronger exchange rate as imports would become relatively cheaper.
  - Evaluation – exports would become relatively dearer so TNCs would not be able to sell more so will not make enough profit.

Sample Question: Assess to the extent to which Disposable Income is the most important factor

4.2.3 Assessment of a Country as a Production Location:

Factors to Consider:

- Cost of Production:
  - Most important
  - Lower cost of production (labour, land, raw materials, energy)

This file was downloaded from StudyLast.com. It is not allowed to publish it elsewhere. Only the buyer can use this file.

- Political influence
  - Lobbying – when the government is influenced by individuals and firms to create legislation or carry out an activity that would help a particular organisation
  - E.g. cigarettes and plain packaging
- Legal control
  - Best way to control monopolies is by imposed laws and regulations e.g. health and safety, equality act, bribery act so that firms are operating ethically and fairly in protecting the best interest of consumers
- Pressure groups
  - a group of individuals that tries to influence company policy in the interest of a particular cause
  - Could be in the form of protests or court action. Recently Green Peace has been encouraging people to boycott goods of certain companies if they do not meet environmental standards
- Social media
  - It allows customers and consumers to spread information freely across a larger proportion of population
  - E.g. Twitter allows you to contact companies whilst having a large target audience
  - However, this does not apply to some countries such as China where you can deported or imprisoned if you are rude about a company

The reason to control MNCs is prevent them from abusing their monopoly power, ensuring health and safety standards are met and to ensure they do not tax evade/tax avoid or carry out transfer pricing (when companies manipulate accounting practices in order to show they are making highest profits in countries where taxes are lowest)
e.g. Facebook

This file was downloaded from StudyLast.com. It is not allowed to publish it elsewhere. Only the buyer can use this file.