

Business factors with global logistics

[Business](#)



Introduction:

There is no single country that has sufficient raw materials to enable it to produce all goods and services it consumes. Another factor is that some countries have comparative advantage in regard to the production of goods and service. For this reason countries engage in the exchange of goods and services and this is what is referred to as international trade. This kind of exchange of goods and services also known as trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries (Heakal 2009).

There is no product that is not produced somewhere in the world be it foods such as bananas, oranges, wheat; clothes, jewelry, spare parts, wine, currencies and many others. There is also global trade in services such as banking, tourism, banking, consultancy, transportation and others. Countries use their resources that are labor, technology or capital to produce various goods; however, some countries may produce the same goods more efficiently and therefore sell them more cheaply than others.

This will lead to what is known as international specialization that is enabling a country that can produce items cheaply to sell to others countries whose cost of production is much higher. International specialization has led to the increase in global business since consumers are inclined to purchase quality products at reasonable prices irrespective the country of production. Goods are produced in various countries and moved across the world thereby necessitating the establishment of a logistical management system which is commonly referred to as the supply chain management.

Factors to be addressed on this supply chain management include the packaging of goods to withstand various hazards, warehousing of the goods at various points as they change the modes of transport. Other factors to be taken on board when it comes to global trade are the currency to be used and its stability in addition to the influence of the government in determining what is to be traded, the taxation of those goods and who to trade with.

Increases in global trade:

The global trade increased without interruption from 1990s to as recently as 2006 when it was surging at an annual rate of nearly 10% (Lynch 2008). In his view, Lynch says that this year the total volume of global trade is still expected to grow by more than 6% to about USD 14 trillion, but the demand for products worldwide is forecast by the Economic Intelligence Unit to slump. This is in line with World Bank observation to the effect that with economies in the United States, Europe and Japan slowing simultaneously, global trade will shrink in 2009 by more than 2%.

According to Lynch, that will mark the first time in more than a quarter century that the seemingly inexorable tide of globalization will be in retreat. The historian economist, Douglas Irwin is quoted by Lynch to have said that trade tends to be extra responsive to changes in income; When the world economy contracts, trade contracts even more rapidly. The Institute of Supply Management illustrates this point further by stating that export index December 1, 2008, showed falling orders in the months of November and October as opposed to the previous 70 consecutive months of expansion.

The World Trade Organization (WTO) observes that following the dramatic worsening of the financial crisis since September 2008, real global output slowed to 1.7% compared to 3.55 in 2007 and is likely to fall by between 1% and 2% in 2009. This will be the first decline in total world production since 1930s, and its impact is magnified in trade. In its annual assessment of global trade, WTO is of the view that economic contraction in most industrial world and steep export declines already posted in the early months of 2009 by most major economies, in particular those in Asia, makes for an unusually bleak assessment this year.

The WTO Director-General, Pascal Lamy, said that for the last 30 years, global trade has been increasing part of economic activity, with global trade increase often outpacing gains in output (Raja 2009). Lamy continues to state that production for many products is sourced around the world so there is a multiplier effect-as demand falls overall trade will fall even further. The depleted pool of funds available for trade finance has contributed to the significant decline in trade flows, in particular developing countries.

Raja observes that WTO's preliminary estimate of 2% growth in trade volume for 2008 is substantially lower than the forecast of 4.5% growth issued a year ago. This is perhaps due to the fact that last year's outlook did not identify significant downside risks related to developments in financial markets. A large part of the explanation for the over-estimation was the unexpected and very sharp drop in global production in the fourth quarter of 2008.

In projecting trade growth for 2009, the WTO said that it assumed a normal pattern for a recession where trade falls remains weak for a time and then

resumes its upward trajectory and begins to return to its previous trend. If this basic scenario holds, world merchandise trade is likely to fall some 9% in volume terms in 2009, with developed economy exports falling by some 10% on average and developing country exports shrinking by 2-3%.

Currency fluctuations:

A currency is a generally accepted form of money, including coins and paper notes, which is issued by the government or a monetary authority and is circulated within an economy (answers. com 2009). Used as a medium of exchange for goods and services, currency is the basis for trade. A currency is commonly used in a given country or geographical area and hence it is necessary to convert one currency into another for the purpose of paying for goods and services in the country of production. The rate at which one currency is converted into another is referred to as the exchange.

In economic terms an exchange rate is the current market price for which one currency can be exchanged for another (About. com 2009). This means that in regard to global trade a currency is traded like a commodity and therefore subject to market forces. Any commodity that is subjected to market forces acquires upwards and downwards movements and the upward and downward movement of currencies is referred to as currency fluctuations. In other words, currency fluctuations are simply the ongoing changes between the relative value of the currency issued in one country when compared to a different currency (WisegEEK 2009).

There are a number of factors that can lead to currency fluctuations; one key factor is the current state of the economy associated with a particular

economy. If the economy of a country is perceived to be strong, its currency will appreciate against other currencies, and buyers of the goods from a country whose economy is weak will spend more of their local currency in order to buy the currency of the stronger economy.

The upward and downward movements of the currencies that is currency fluctuations is one the many risks associated with global business and which every person doing global business must factor in while planning her/his export earnings in order to mitigate losses. For example, if payment for a product or service sold internationally is paid immediately, then the risk associated with currency fluctuation is minimal (Bugg 2005). Bugg continues to argue that business that has a time-lag prior to payment, a fluctuation in the exchange rate could cause deals to go sour.

The fluctuation in the exchange rate can make a product competitive in an area where it was previously struggling or render it uncompetitive due to price increases caused by currency fluctuations. Therefore, when conducting a competitive analysis, it is advisable to bear in mind that exchange rates can fluctuate dramatically, thus changing the competitive position, thereby requiring a change in the strategic approach of that particular market, if the competition is to be sustained or kept at bay.

Transportation options:

There are various transportation options when doing business globally and these options are known as modes. Transport modes are the means by which people and freight (goods) achieve mobility (Slack et al 2009). There are several ways or various modes used for the movement of goods from one

country to another and these modes are road, railways, inland waterways sea or ocean transport, air transport or pipelines.

According to Slack, each mode is characterized by a set of technical, operational and commercial characteristics and the mode to be used will depend of the goods being transported, how urgently they are required, whether the goods are perishable, are they bulky and low valued among other factors. The following is a briefly outline of the various modes of transport as documented by Slack:-

Road transport: - Road infrastructures are large consumers of space with the lowest level of physical infrastructure among transport modes. It has an advantage of operational flexibility and it is suitable link to light industries where rapid movements of batches is the norm and is crucial link to other modes of transport.

Rail transportation: - Railways are composed of a traced path on which are bound vehicles. It has an average level of physical constraints but nevertheless, heavy industries are traditionally linked to rail transport. The rail transport has the capacity to move massive cargo and the containerization has improved its flexibility by linking it to road and maritime transport.

Maritime transportation: - Because of the physical properties of water conferring buoyancy and limited friction, maritime transportation is the most effective mode to move large quantities of cargo over long distances. Main maritime routes are composed of oceans, coasts, seas, lakes, rivers, and channels. More than any other mode, maritime transportation is linked to

heavy industries such as steel and petrochemical facilities adjacent to port cities.

Air transport: - Air routes are practically unlimited but its constraints are multidimensional and include the sight, the climate, fog, and aerial currents. Air transportation is used to ferry passengers but more recently it has been accommodating growing quantities of high value goods and perishable products and is hence playing a growing role in global logistics.

Pipelines: - Pipeline routes are practically unlimited as they can be laid on land and sea. They are mainly used to transport gas and oil.

As to which mode of transport will be used, a general analysis reveals that each mode has key operational and commercial advantages and properties but while they are in competition, they also complement each other in terms of cost, speed, accessibility, frequency, safety, comfort and so on. When it comes to competition, cost is one of the most important considerations in the choice of the transport mode.

Slack says that because each mode has its own price/performance profile, the actual competition between modes depends primarily upon the distance traveled, the quantities that have to be shipped, and the value of the goods. For example, while maritime transport might offer the lowest variable costs, over short distances and for small bundles of goods, road transport tends to be most competitive.

Warehousing and packaging:

At the end of the production process goods are normally stored while awaiting delivery and at times if there is a change of the mode of transport,

goods will also need to be stored before delivery to the next mode. A place where goods or merchandise is stored is known as a warehouse or a storehouse. In global business, there are two types of warehouses in common use that is a transit warehouse and a bonded warehouse. Goods that are stored as a result of the change of mode of transport are said to be on transit and that stored is referred to as a transit warehouse.

In number of countries, imported goods attract taxes generally known as customs duty and such goods will not be allowed into the economy until the said taxes have been paid. In some cases, the importer may not be in a position to pay the required taxes immediately and the goods will be stored to await payment of tax. The owner of such a store will be required to execute a bond to guarantee payment of the said taxes if the goods irregularly find their way into the economy.

This type of store is known as a bonded warehouse. A warehouse must be managed and the management of a warehouse is referred to as warehousing. Warehousing is said to be the performance of administrative and physical functions associated with storage of goods and materials. These functions include receipt, identification, inspection, verification, putting away, retrieval for use, etc (Businessdictionary. com 2009).

During transportation, goods are exposed to various hazards such as rain, sunlight, damage due to poor handling, pilferage, contamination and many other dangers. To minimize these risks, goods must be adequately packed and labeled, which must include the manner in which the goods should be handled while loading and unloading, and the combination of packing and labeling is known as packaging which is an integral part of the global

business logistics. Adequate packaging will protect goods from damage, allows efficient distribution, informs the consumer and helps to promote goods in a competitive market (Global Supply Chain Council 2007).

Packaging is defined by the Global Supply Chain Council as a coordinated system of preparing goods for safe, efficient and cost-effective transport, distribution, storage, retailing, consumption and recovery, reuse or disposal combined with maximizing consumer value, sales and hence profit. While performing these functions, the exporter must bear in mind the various modes of transport to be used, the distribution channels in the country of destination and the purchasing pattern in order to effectively facilitate the movement of the said goods to the final consumer.

Government influences:

In the opinion of the international business community, governments have no role to play in global trade. It is further argued that if governments abstained from adopting trade policies, the world would have an economic condition called free trade (Britannia Encyclopedia 2009). In other words there would be no more barriers in regard to the exchange of goods and services across international boundaries than there are within such boundaries.

As per Heakal, global trade has two contrasting views regarding the level of control placed on trade by governments that is free trade and protectionism. Of the two views free trade is the simpler, since it is a laissez-faire approach with no restrictions on trade. The rationale being that supply and demand factors operating freely globally will ensure that production happens

efficiently. For this reason, nothing therefore needs to be done to protect or promote trade and growth as market forces will do that automatically.

In contrast, protectionism holds that regulation of international trade is important to ensure that markets function properly. Advocates of this theory believe that market inefficiencies may hamper the benefits of international trade and therefore the market should be guided accordingly. Protectionism exists in many different forms but the most common are tariffs, subsidies and quotas. These strategies attempt to correct any efficiency in the international trade.

In view of the above arguments, it is therefore necessary to explore why government gets involved in international trade. There are many reasons both economic and non-economic. The rationales for economic intervention include, keeping unemployment in check, protection of infant industry, using intervention to increase industrialization, and to establish economic relations with other countries (Witiger. com 2008). The non-economic reasons include maintaining essential industries, keeping out unfriendly countries, maintenance of the sphere of influence and the preservation of culture and national identity.

To achieve these objectives, Witiger. com continuous to state, several instruments are used both tariff and non-tariff barriers, for example, subsidies, quotas, dumping, anti-dumping, standards, trade sanctions among others. By using these instruments, the local industries are shielded from international competition and hence keep citizens employed.

Summary:

Currently the world is experiencing global financial crisis. The overall effect of this crisis will be a slow down of the economic activities that will lead to a decrease in international trade. Governments, particularly those that belong to the industrialized world led by the United States have put various measures in place to mitigate the adverse impact of this crisis. It is expected that the stimulus package that is being implemented by the United States administration and the removal of the toxic assets from banks books will eventually stimulate economic activities and hence rejuvenate the global business.

The consideration of various factors in the global logistics is now being studied under what is referred to as the international supply chain management that is the design of the most effective and efficient management of the movement of goods from the producer in one country to the consumer in another country. Global trade there poses many challenges. The goods must take the shortest time possible at the most economic price.

As it has been demonstrated above, if goods take too long to be delivered thereby prolonging the payment time lag business may go sour if the currency fluctuations significantly affect the eventual amount to be paid and that may result in non-payment leading to disputes or loss of business to competitors. On the other hand, while air is the fastest mode of transport it is extremely uneconomical for certain type of trade for example delivering steel using air as the mode of transportation is out of question, as cost of doing so is prohibitive and the end product will not compete with those produced from steel that was delivered by other modes of transport.

For an item such as jewelry, air transport is the preferred mode of transport since the contribution of airfreight charges to the eventual cost of the product are very small in comparison to the value of the item. Also to be taken on board as evidenced from above is the warehousing of the goods at various stages as they are transported from the producer to the importer and finally to the consumer.

If packaging is not adequate, goods will be damaged in the warehouse or when being loaded or offloaded or during transportation and can lead to disputes, with a probability of the loss of the market and customers. Good packaging will not only ensure safe delivery of goods, but will facilitate selling in the importers market thereby resulting in repeat orders and increased sales.

Government influence global trade either through multilateral trade negotiations as those taking place at the World Trade Organization or through regional trade such as North America Free Trade Area which is an economic and trade cooperation between United States, Canada and Mexico and bilateral trade agreements that the governments enters with individual countries.

These agreements outline the tariff levels and other trading conditions. The trader must also check what are other government regulations that may restrict, prohibit, and applicable government sanctions that spells out the type of trade that can take place between the two countries concerned. Violations of the regulations will result in the application of punitive measures by the government which might significantly alter the future operations of the business concern.

References

About. com: Economics (2009). Definition of Exchange Rate. Available at accessed April 19 2009.

Answers. com (2009). Currency. Available at accessed April 19, 2009.

Britannica Encyclopedia (2009). International Trade. Available at accessed on April 24, 2009.

Businessdictionary. com (2009). Warehousing. Available at accessed April 21, 2009.

Bugg, P (2005). Should you market your products internationally? *Water Quality Products* October 2005 Volume 10: Number: 10. Available at accessed April 20, 2009.

Global Supply Chain Council (2007). Role & Importance of Packaging in Your Supply Chain.

Available at accessed April 22, 2009.

Heakal, R (2009). What is international Trade? *Investopedia* . Available at accessed April 19, 2009.

Lynch, D. J (2008). Formerly soaring global trade suddenly comes to a halt. *USA TODAY*.

Available at accessed April 22, 2009.

Raja, K. (2009). Global trade to decline 9% in 2009. *Third World Network, TWN info Service on WTO and Trade Issues* April 2009. Available at accessed on April 22, 2009.

Rawson, R (2006). Keynote on the Future of Global Business at theHarvardClub in New York, *Trends in the Living Networks*. Available at accessed on April 19, 2009.

Slack, B. Rodrigue, J-P. Comtois, C. (2009). Transport Modes: An Overview. *The Geography of Transport Systems*. Available at accessed April 20, 2009.

WisegEEK (2009). What Are Currency Fluctuations? Available at accessed on April 2009.

Witiger. com (2008). Gov't Influence on Trade-the effects and influence of the PoliticalEnvironment. Available at accessed on April 24, 2009.