Participation of britain in the global economy report

Business, Marketing

Introduction

The success of a given economy in international trade greatly depends on the status of its currency as well as the decisions or rather policies that are put into place as far this issue is concerned. The United Kingdom is one of the countries or rather economies that has been said to be successive in international market, despite of the recent economic crisis that has been experienced worldwide in general and specifically, in America and Europe. The success of UK in the global economy is evident from the gradual increase of the number of exporters in the country. It is a fact that, due to the recent economic crisis, the sterling pound as been significantly affected. To be more precise, the sterling pound has been weakened considerably during this crisis. From the economic point of view, a weak currency can be an opportunity for an economy to penetrate into the global economy, (Ellen, Hermerijck & Knapen, 2009). However, it can also be a great challenge of venturing into the global market. Thus, the success or failure of an economy experiencing a weakening currency in benefiting from the global economy, depends on the decisions that strategic decisions that are made. In most cases, these decisions are concerned with opportunity cost to allocation of resource, the impact of the policies that are enacted by the government through its agencies and business environment on the long term planning of organizations as far as economic issues are concerned. The main objective of this report is to examine the reasons why Britain has always been successful in the global market despite the weakening sterling pound and the threats that might be associated with this issue. This will be analyzed as under the following sub-headings, (Connolly, 2010).

Reasons why exporters in Britain are increasing with weakening of the sterling

Studies indicate that, the number of exporters are increasing despite the fact the sterling pound is becoming weaker given the recent global economic crisis. Various economists and business scholars have come up with various explanations of this trend. Unquestionably, Britain is one the few countries which has benefited from its former colonies as far as trade is concerned. Indeed, the aftermath of the Second World War was the close relationship of Britain and these colonies. To date, these colonies are the leading consumers of the products of Britain, (Charlton & Stiglitz, 2005). Besides, these former colonies act as the source of the major raw materials that are used in production of goods. In fact, this is one of the reasons why several multinational corporations are based in several parts of the world, more especially in the developing countries. Consequently, there is a wide market for Britain's exports, significantly contributing to the ever increasing number of exporters from this country, despite of the prevailing difficult financial challenges all over the world.

Moreover, Britain has a comparative advantage in the manufacturing industry as well as service industry. After the end of colonization objectives of Britain more especially beginning from the end of the Second World War, Britain shifted from agricultural production to manufacturing and service production industries. This was enhanced by the fact that, the country was already developed technologically during this period as compared to other countries in the world. Since then, the two industries has been evolving and becoming the major contributors to the GDP of Britain, (Pugel, 2007).

Therefore, due to this kind specialization, Britain has come has a comparative advantage in the global economy in this two sectors as compared to the other their competitors.

The comparative advantage can be determined or rather measured in various ways. One of these ways is the determination of the opportunity cost of production of manufactured goods in Britain in comparison to other countries more especially those that are still developing. Studies have shown that, the opportunity cost of manufacturing products in other countries is higher in comparison to the opportunity cost of manufacturing the same products in Britain. In this case, productivity of manufacturing and service industries has been growing at a higher rate as compared to other parts of the world, (Connolly, 2010). Based on the comparative advantage argument, it is clear that exporters in Britain will continue to increase, no matter how the sterling pound is performing in the global market.

Why the Sterling Pound has been weakened

It is not only in Britain that performance in the global economy has declined, but also in most parts of the world more especially, in European economies and America. The main reason of this decline is attributed to the recent economic crisis. Due to this crisis, Britain’s exports have reduced considerably since 2008. This has led a reduction of capital flows that is being witnessed, (Chang, 2008).

Consequently, the value of the sterling pound has been decreasing gradually in the international market. The weakening of the sterling pound can be seen to be both an advantage and a disadvantage as far as the British exports are concerned. It is an advantage because, exports from the country becomes more attractive in terms of price which contribute to an increase of the exports. This is based on the assumption from the economics point of view that, the lower the price the higher the demand.

Resource allocation decisions based on opportunity cost

Resource allocation is very critical for the survival of an economy in the global market. Allocations of resources depend on the state and the size of the economy. Notably, Britain is a small open economy country as compared to the leading economies in the global market. Therefore, the function of exchange rate in Britain is twofold: allocation of resources between the overseas sector and the domestic sector; and it acts as the chief diffusion mechanism between domestic and global inflation. The profitability of Britain's exports depends greatly on the exchange rate as it is said to be the relative price, (Saleh, 2010). Consequently, from the economics point of view, it can be argued that Britain will be more competitive in the global market when there is lower exchange rate. Thus, ceteris paribus, more resources will be allocated to the trade sector. This explains the reasons why the Governor asserted that, the weakening of the Sterling Pound since the beginning of the recently experienced economic crisis is an opportunity for Britain to rebalance its allocation process so as to promote long-term health of the economy of the country, (E & Y, 2011).

Arguably, Britain is one of the countries in the world that has invested a lot in foreign countries. This is usually undertaken through multinational corporations. Therefore, in order to survive in the global economy with a weakening Sterling Pound, more resources have been allocated to the overseas sector as compared to the domestic sector. According to a survey that was carried out 2010 of firms which exported their products, about forty percent indicated that they will attempt to increase their exports if the sterling pound remained at the same status or fell further, (Pugel, 2007). Thus, even though the performance of the sterling pound is not doing well internationally, the profits that are gained from overseas investments plays a significant role in balancing the local prices. For instance, most multinational corporations from Britain are found in the developing countries.

During the economic crisis more resources were allocated to these corporations. The proceeds gained from these investments will have a higher value that they could have been if investment would have been made locally. Moreover, by allocating more resources to overseas investment, the locals will be motivated to invest internationally which bring a significant impact on Britain’s exports, (Chang, 2008). Thus, the opportunity cost of investing locally with the weakening of the Sterling Pound is less as compared to that of investing overseas. Hence, the decision to allocate more resources to overseas investment as played a considerable role for the survival of the country in the global market or rather economy, as compared to the other countries whose currencies are weakening.

As mentioned previously, Britain has a comparative advantage in the production of manufactured goods as well as in the service industry. Based on this argument, the opportunity cost of investing in the two industries is higher as compared to investing in other sectors. Thus, it could be more beneficial or rather profitable to allocate more resources to the two sectors in comparison to the other sectors. This is one of the many reasons why more attention is given to the two sectors than any other sectors within the economy of this country, (Saleh, 2010).

Government policies

Undeniably, trade is very valuable to Britain as well as other to other countries. As a matter of fact, the government significantly determines the economic status in any country through the policies that it puts in place. It is also important to note that government policies change from time to time depending on the course that its economy is undertaking as well as the status of the global economy. As mentioned above, Britain is a small open economy which can be greatly affected by the global economy, (E & Y, 2011). Therefore, various government policies have been introduced in order to support the survival of the country in the global market. These policies fall into various categories; as outlined below.

Export and Import policies

Britain government has tried considerably to promote its exports. This has been done through putting in place economic policies that that favor an increase of the exports. For instance, the government has implemented a reduction of tariffs on exports policy. This was aimed at encouraging the exporters to produce more goods for the international market. Moreover, to some degree it leads to a reduction of production costs for the exporters. This in turn reduces the prices of these products, thus increasing their demand as compared to the same goods from other countries, (E & Y, 2011). It is also true from an economic point of view that, when the currency of a given country becomes weak, its exports become relatives cheaper in the international market arena. Precisely, it will cost the foreigners less if they consume goods from such country due to the fact that, they need less of their local currency to buy the foreign currency, in this case the sterling pound.

On the same note, although Britain is an open economy, the government has also tried its best to regulate the amount of imported products. The major objective of this policy is to reduce the amount of sterling pounds that are being exchanged for foreign currencies. Precisely, this is aimed at preserving the sterling pound. A good, example of import restriction policy is the implementation of import quotas, (Saleh, 2010). This is the restriction of the quantity of a given product that is imported into a given country from foreign countries. These quotas are usually implemented on goods that are considered to be less important in the local economy, more especially those with substitutions. Through import restrictions, the government promotes or rather raises the consumption of given products which are produced locally. Through these policies, the government has been able to control the outflow of local currencies.

Arguably, both the import and export policies influence the balance of payment as well as balance of trade of a country. Through, these policies, Britain has had a relatively stable balance of payment as well as balance of trade, despite the fact that, its sterling pound has been considerably weakened, (E & Y, 2011). Thus, the country has been able to maintain its competitiveness in the weak global economy.

Manufacturing industry policies

Manufacturing is one of the leading industry foreigner earners for Britain. This industry comprises the manufacturing of motors, mobile phones as well as other electronics. In order to enhance the competitiveness of Britain manufactured goods in the international market, more especially during this sterling pound weakening period, the government has come up with policies that will enable the local industries to produce better and quality goods for the global economy. Availability of advanced technology in the country also contributes to production of quality and quantity export products, (Belli, 2007). For example, in order not to compromise on the quality of Britain's exported products, the government has reduced prices on crucial raw materials in order to discourage manufacturers for going after cheaper raw materials which might compromise the quality of the goods that they produce. Additionally, tariffs on imported raw materials used in the manufacturing industry have been reduced for a certain percentage. Through, these policies, Britain's products have a competitive advantage in global market as compared to other countries.

Monetary and fiscal policies

As a matter of fact, Britain is one of the many countries in the globe that practice flexible exchange regime. As such, this means that the value of the sterling pound generally depends on the forces of demand and supply. However, in order to counter the impacts of the weakening sterling pound as a result of the global economic crisis, the government has changed some of its policies that will influence the cash inflows and outflows. It is assumed that when the interest rates increases in a country, foreign cash inflows will increase in the country in question and in this particular case, in Britain, (Lieberman & Hall, 2008). This will be an advantage to Britain because it when earn more foreign exchange as well as its currency will become stronger. However, in this case, the government has implemented some monetary and fiscal policies that will regulate an increase in the interest or rather to reduce fluctuations of interest rates. Based on the fact that almost all of the potential investors have been affected by the global economic crisis, it will be very difficult for cash inflows to increase due to an increase in the interest rates in Britain, (Saleh, 2010). This is one of the reasons why the government decided to implement monetary policies to monitor or rather to regulate the rise of interest rate. The regulation of interest rates also impacts the export industry, in the sense that, local producers will not increase prices of their products at international market basically because the cost of production is relatively lower as compared to other parts of the world.

A good example a monetary policy that was implemented in the recent past is an historic tax-cut to as low as 1. 0% during the physical year 2009-2010 by the Bank of England, which controls the banking and financial institutions in Britain. The bank was also expected to bump more money into the economy by more printings, by the end of 2009. According to the Golden Rule and the Sustainable Investment Rule, the UK government should only borrow from the central bank for investment purposes and also to maintain the national debt below 40% of the GDP. However, the Sustainable Investment Rule that was not adhered when public debt rose to more than the set limit by the end of 2010. This can be explained by the fact that the economic crisis needed application of Keynesian stimulus to reverse the situation.

Business environment in the global economy

Generally, business environment has a remarkable impact on the performance of any economy. With globalization, many business environments have become more challenging for most countries, including Britain. For instance, globalization is one of the reasons for the increase of competition in the global market. This is mainly because almost all the countries have opened their economies; thus, participating in the global market, (Chang, 2008). Additionally, advancement of technology in various countries more especially the developed countries has further complicated operations in international market. Therefore, unlike before, it has become more challenging for countries to prosper economically by depending on international trade. It also means that, both the quality and quantity of goods that are supplied in the global market has to change to conform to certain standards in order for a country to remain competitive.

Impact of government and business environment on long-term planning of organizations

For organizations to survive in the or rather remain competitive in the market, planning is mandatory rather than an option. Various factors are taken into consideration during the long-term planning process. The two major factors are government policies and business environment. Organizations have to factor in government policies during the planning process. For example, there are some policies that have been set by the government in Britain to ensure that there is efficiency in the service and manufacturing industries, (Chang, 2008).

These policies are aimed at regulating these industries so as to ensure that exported products are capable of positioning the country at a competitive level in the global economy. On the other hand, for the organizations to be successive, they will also need to scrutinize the impacts of the business environment as far as their profitability is concerned. There are some set standards and procedures that are supposed to be followed in the global market, (Ellen, Hermerijck & Knapen, 2009). Therefore, organizations have to undertake wide research on what is required by the government based on its policies as well as the survival tactics in the dynamic business environment; during their long-term planning.

Threats of Britain in the global economy

As mentioned early, Britain mainly depends on the manufacturing and service industries in the international market arena. Notably, both industries are based on the better technological advancements that have been made in Britain. However, through extensive research, other counties have made big steps as far as advancement of technology is concerned. Therefore, Britain is experiencing high competition in the manufacturing as well as service industries, (Joshi, 2005.). Thus, the comparative advantages that the country was experiencing are now gradually declining, based on the fact that manufacturing of certain products are as cheaper as they are in Britain. With situation has been worsened by the impacts of globalization in the world market.

Conclusion

It is evident that exchange rates are significant determinants of the performance of an economy in the global market. Thus, the government has to take the initiative of ensuring that the exchange rates are favorable for the economy to remain competitive in the global market. From this analysis, it has been observed that, the number of exporters in Britain is always increasing and that, Britain remains fairly competitive in the global market despite of the weakening sterling pound. This has been attributed to the various government policies as well as the comparative advantage that Britain enjoys in the manufacturing as well as the service production industries. This explains why it is important for organization in Britain to take into consideration government policies as well as business environment situations in their long-term planning.

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