Example of second option is to import from the financially repressed countries re...

Business, Company

Business report

Financial repression can be seen in many countries. The concept of financial repression was introduced in 1973 by Stanford economists Edward S. Shaw and Ronald I. McKinnon. The term financial repression means a government policy which aims at lowering interest rates and restricting capital movements. The goal of such government policy, which concerns monetary policy, is to reduce the government debt. Such government measurements can be defined as “ stealth tax” (Polin 3). The long-term goal of such measurements is to reduce unemployment in the country and to spur the economic growth. It can be said, that such measurements can be implemented to either weak or developed economy, moreover it can be defined that such policy can be implemented in the period of economic crisis (Pettis 1). The modern world countries are all “ addicted” to debt that’s why many developed countries are experiencing the high level of debts, for that reason the financial repression as means of stabilizing the economy growth can be estimated as the most preferable (Rother 1).

The history showed that such measurements have a positive effect on lowering government debt. For example after World War II the USA kept their interest rates below 1% between 1945 and 1980, and as a result the enormous debt was inflated away. At present, the Federal Reserve, European Central Bank, Bank of Japan, and Bank of England are experiencing short term financial repression measurements, keeping their interest rates close to zero (Polin 3).

The goal of this report is to choose if it’s better to import to the country under financial repression, to export from it or to locate a manufacturing plant at such country. In order to answer this question it' s better to describe the " typical country under financial repression". An example of the financial repressed country is China (Kirkegaard 2).

First, in China implementation of lower interest rates leads to " wealth effect", more money is giving to its population that's why the consumption of the consumers rises. Second, the lowering of interest rates leads to savings' reduction. Third, the implementation of financial repression leads to stabilizing the inflation rate. The value of the domestic currency is the reduction and as a result, the exchange rate for the domestic currency is lower. Financial repression also reduces the number of the foreign investors (Rother 2).

As for China, this country has some trading borders, local corruption and capital control. Throughout history, such practice leads to disability to control capital outflows and inflows. In the past decade, China has experienced significant amounts of speculative capital inflows (Rogoff 573).

For a large company, it's always hard to decide how to cooperate deal with some countries, especially with financially repressed country. Option number one is to export from such countries.

Export as one means of cooperation which requires the flow of the produced domestic goods and services to the other countries. The receiving country is called importing, and the country that is sending the goods and services is called exporting country. In International Trade, term exports" refers to selling goods and services produced in the domestic country to other markets. There is direct and indirect export. The direct exporting can be through selling distributors, foreign retailers, end users even selling over

Internet. As for indirect exporting, the company or country can sell through an intermediary.

The financially repressed country usually has strong barriers for imported to their country goods and services. That's why the company can meet those barriers, the taxes for exports are higher in the financially repressed country. All that leads to increasing prices for the exported goods and services. Moreover, the lowering of currency value in the exported county also leads to increasing prices (Rother 2).

Of course for many companies exporting has a positive effect on increasing its profit for it widens its markets of supply, attract more customers of its products. But as all means of supply it requires many expenses. As for this particular case the expenses are connected with the exporting taxes. In other words for a company, which is going to export to the financially repressed country is undesirable for many reasons. First reason – challenges occurring with the local taxation policy. Second reason - the goods and services can be unattractive for high prices, but still there is a chance for the company, which sells unique goods and the consumer can pay any price for it. In the conclusion, it can be said that exporting is not preferable to the financially repressed countries (Rogoff 574).

An import of good is a process inflow of foreign goods and services to the domestic economy. It's one of the sources to cooperate between the countries and companies. An import in the domestic economy or company is an export from the sending country or company. For both parties, this process is required in order to increase its revenue. For importing countries, the import of goods is profitable in cases when it buys cheaper goods or services, for example, some developed countries import from developing countries.

In international trade, there are quotas for imported and exported goods and services. The importing and exporting jurisdictions may impose taxes on the goods (Kirkegaard 1).

The option of importing from the country is usually more preferable for the company for many reasons. As the financially repressed country experiences the inflow of money in the local businesses. The productivity of such businesses usually rises, and the scale of the productivity is larger. In order, to revive its economy, the financially repressed country has to increase its exports. Of course, the inflow of money can cause the rise of prices for many local goods and services, but the lowering of currency value of the country still make it preferable import from such countries. The only challenge which can the company or country occur, while importing from financially repressed country is the quality (Rogoff 573).

In conclusion, reasons why many companies import necessary for manufacturing prices materials and goods are following:

- low prices for goods and materials - this is the most important reason for importing, and in most cases imported materials and goods are cheaper than domestic;

- quality – sometimes it’s possible to find items of better quality abroad, especially this is mostly true talking about high-tech products;

- variety – sometimes many necessary materials and goods needed in manufacturing process can be found only abroad ;

- fast access to new products - despite globalization, the fastest way to get new items if you are in the country of the manufacturer. So in order to be the first implementing new technological tools, a lot of companies import such items;

- better chance of negotiating discounts – there are chances to get personal benefits and discounts if you are in the source country. Still, personal presence is the key in order to create building trust (Rother 4).

At present, many countries and companies which impose the importing experience in order to reduce its expenses, for production in domestic country can cost more expensive that importing. In conclusion, it can be said, that importing from financially repressed country is more preferable that exporting to it.

Third option is to relocate the company's manufacturing process into the country under financial repression. At present, many multinational companies relocate their key manufacturing plants in the developing countries, many of which are under financial repression monetary policy. The relocation of plants leads to reducing of the costs due to cheaper labor and restrictions from the legislation. Of course, such cooperation with the country requires many expenses, but the practice showed the proficiency of such cooperation. As the example of financially repressed country, there was described China, below there are reasons for relocating manufacturing plants into that country (Rogoff 575).

The reason for considering to relocate manufacturing plants in China is usually hinges upon the idea of reducing the company's costs. Many large companies are experiencing such strategy. Such practice is effective in cases when there is the production of the goods for mass market. The domestic countries usually have stores. It was estimated that a companies that decided to relocate their plant into China reduced their costs by between 30 and 80 percent depending on the labor intensity of the product. Chinese government gave many incentives for the development of the business; low capital rate was the advantage. Also, companies, that have already relocated their plants into China, have the access to the Chinese market. Such companies have brought the production closer to the European and Asian markets. The multinationals also got the access to the Chinese technical and scientific potential. Of course, the company can meet many barriers, one of the main is the cultural barrier, that's why common practice is to create multinational managing team in order to erase such boundaries (Kirkegaard 1).

Some consider Chinese taxation is desirable for multinationals. But still it is one of the most complicated. Some American companies manage to deal with it. For example, they reinvest income, earned in China, in their operations in the USA without tax implications in the United States.

Financially repressed countries tending to reducing interest rates tend historically to have much higher national savings rates and also high savings rates . The higher savings rates are almost always ascribed to differences in culture. Rather than explain differential savings rates by cultural factors, it seems far more promising to explain them as consequences of financial repression (Rogoff 573).

There are three options of cooperation with the financially repressed country: exporting to it, importing goods and services in it and relocating the company’s manufacturing plants into it. The first option was chosen as undesirable for the company can meet the restriction from the local legislation, the prices for the local population would be very high that’s why the demand for the company’s products would be very low. Second option importing from the country under financial repression has been marked as more preferable that exporting, for importing can be cheaper than manufacturing in the domestic country. As the productivity rises in the financially repressed country, the mass production can cause lowering costs. The lowering of the currency value can make imports cheaper for the company. The third option is relocating its manufacturing plants in the country under financial repression. Many multinationals experience such strategy in order to lower costs. As the example of the financial repressed country, the was described China.

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