

# Free case study on handm choosing between global and regional free trade

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## **Global and regional free trade**

H &M ranks as the second largest in terms of world retailers. It is located at Stockholm in Sweden. Its main competitor in this industry is Zara, Top Shop and Gap among others. It is one of the firms that are categorized as the first component of “ fast fashion”. H&M holds the primary objective of producing fast in a way that is cost efficient. This favors a vertical integration model of design. This is by producing, delivery and making sales in time. The reason that makes it apply this model is for it to enjoy the large market share in the region.

The firm is located at the central of Stockholm. This makes it possible to ensure that its products are sent to production offices and then to the manufacturing plant with a lot of ease. This location makes it have the right medium of getting to the manufacturing plant and manufacturing the product fast. Initially, the fashion sourcing decisions were based on labor costs, but fast fashion has made it necessary to consider other factors.

The major factor is the time to get certain trends into the store. They were in a position to recognize two categories that would help them make a great sale. This would ensure that they maintain their high customer numbers.

These categories are urgent and minimally urgent fashion types and hence they should be considered separately. The urgent one should be turned around quickly to catch with the prevailing fashion. The types of clothing are the ones that are in demand at a specific period. The second category comprises of minimally urgent fashion such as plain t-shirt and jeans.

Their basis is that the company should produce their goods ethically. In this light, semi-finished garments should be produced in the O. P. T partner

country. This is a short form for outward processing trade. After this production, the company should re-import the finished products under preferential conditions. Their only duties are to ensure that there is at least minimal value added and that labor is carried out in the neighboring country. This O. P. T would help countries like Romania to raise their standard in development.

China and Asia do have a number of comparative advantages on the apparel; it calls for a free integration. Therefore, free trade should be allowed to take its course. Traders should be allowed to purchase apparel from the countries they prefer. O. P. T should be accepted, but it should be viewed in a manner that leads to mutual benefit on the countries that are to be in agreement. This would make both nations in the trade to benefit but not one to lose while the other gains.

Free trade is important in a number of ways. The first is that it helps in utilization of resources that are evenly distributed. Therefore, it allows traders to seek their area of choice. In addition, different and major resources are made to be in use. This minimizes on wastage of raw materials. Specialization and labor division are other factors that should be considered in the free market. They aid in utilization of different skills that are in different areas. Employees learn much on the skills applied in other nations through interaction. Different countries have different economic growth rates. This makes traders enjoy price index in the best performing countries. They are able to raise the living standards of their country through earning foreign currency to their nations.

The advantages of free trade, among other nations, are optimum use of the

available resources hence avoiding wastage. For instance, there may be certain raw materials or clothing that are not recognized in another nation. This is due to lack of the knowledge of its use. In the process, it may be identified and made into a useful product.

Free trade has some disadvantages. The first is that the long distance of trading makes it difficult to maintain close relationships. Language barrier and its diversity also make trade difficult. The costs involved in the document preparation for trading in other nations also are incurred. Finally, it is a risky business which calls for insurance hence increasing expenditure. In conclusion, free trade is the way to ensure the development and raise the less developed and developing nations. China and Asia having comparative advantages should join in production of the apparel targeting a major world share in the same product line.

#### Advantages and disadvantages of O. P. T in Romania

Romania is a country in Europe and it ranks among the poorest. Statistically, more than a half of the population in Romania is at a risk of poverty or social exclusion. This shows how far much it is behind as far as development in the European region is concerned. O. P. T has impacted much in Romania both positively and negatively. The positive aspect is that it has promoted development. The negative aspect is that it has created bureaucracy in doing business in the country. This is due to the rules and also regulations governing the same trading region.

In 1988, Romania leveraged on its major expertise in the European Union and mostly in Western Europe. O. P. T has helped it to be industrialized since then. It was known for manufacturing skills in both the Germany and Italian

fashion brands. In that period, it was a major producer of the latest fashion and a major distributor. Later, the O. P. T contract called for lohnsystem in Romania. This had a major impact on apparel production in Romania. Since that time, its production has declined. The contract provided orders that made it difficult for local firms to finance their materials and machinery needs. This made it shift from making the full package of the fashion. It caused it to lose the high chances it had on the development. Its chance was taken by the nation that could finance the materials and machineries as indicated in the contract.

### **Steps for attracting FDI in Romania**

The Romania government should take solid steps to keep its expertise in employing skills in the production. It should ensure that revolution of the firms is in the process. As the European Union, especially the western part, the government should outsource to integrate experts as a way of keeping jobs in Romania.

H&M, being a smaller industry than that of Zara, can take measures to compete effectively. It should consider its price, mass production of high quality products and keep good relation with its customers. These are the strategies that it should put in place. To add onto this, it should employ labor intensive production in the textile field. This would make it a large firm in the European region. To counter the flooding of low cost apparel in the market from China, it should concentrate on the best quality production. It should identify its customers and keep a good relationship. Then it must be involved in mass production at a low cost. These would identify it to customers.

## **Reference**

Cavusgil, T. S., Knight, R., & Rosenberger, J. R. (2014). *International Business*. Essex: Pearson Education Limited.