

Coursework

Business



Governments can give local firms competitive advantage in the international market through subsidies. If the government subsidizes the price of raw materials used by these firms, the price of goods produced becomes low hence these goods are more preferred. The government can also create the competitive advantage through reduced tax on the activities of these firms. This also plays the role of reducing the costs of the firm hence the price of goods from such firms is low. Different corporate tax laws in different countries create competitive advantage for some firms.

In countries where deferred corporate laws are allowed such as the United States, the international firms are able to invest the income earned before they can pay tax on the due dates. Deferred tax laws allow international subsidiary companies to pay tax later as compared to local companies. The tax rates in different countries vary from one country to another. Companies from countries that charge lower corporate tax rates have competitive advantage in that their costs of production are lower hence can charge lower price to attract more customers. If lower corporate tax rates are imposed, unfair competitive advantage is created. This is because taxes have the impact of increasing costs of a company, which consequently affect the price of goods and services produced.

This means that companies being charged lower tax rates have unfair advantage in the international market since they can sell their products at lower prices. The United States trade deficit can be eliminated through a 40 percent revaluation of Yuan. This is according to investigations done by Federal Reserve. This revaluation will bring about balance of trade in the

global economy. Capital flows in the international market will also be balanced. This change can solve trade deficit.

The correction of the US trade deficit would positively affect productivity and creation of jobs. Revaluing Yuan upwards will make American goods and services cheaper as compared to those from other countries. Since China is the major competitor of the United States in the international market, this would increase the demand for American goods. As a result, productivity in the United States will increase to meet the growing demand. To produce the required goods and services, demand for labor increases hence creating more jobs in the United States.