

Risks and benefits of international trade economics essay



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Political environment, which is more important especially large international business, requires high investment. More consumers sought after more goods, more service and besides last pay back time. The political systems have two types namely; democracy and totalitarianism.

Economic environment, which is required in home country, host country and world economics, are supporting or objection for international business and relation to suppliers. Economic growth affects on politics social and laws, the found political system and situation politics in country, and the world has direct affects on economic and business. Social and culture are foundation of living and work for humans, they has an impact on characteristic to work and every day life. For laws, it is convention for country activities including economic activities and business. Therefore economics, political, social and laws are closely bound in terms of relationship.

Technology environment refers to new knowledge factor in the world such as sciences or engineering and including strategic management because marketing competition enforce each country to invent new knowledge or know-how benefit for its own business development. Each country that has new knowledge must create new products; have low capital and high efficiency in order to keep pace with the international competitors and to respond the customers' needs in the international market.

When the country enters into international business, they must encounter risks in international business, which can be listed as four categories as following;

Country risk is associated with intervening of the government, protectionism, trading and investing barriers, social disturbance and instability of politics, economic malfunction and unorganised, unsatisfied of foreign companies in legal sanction, bureaucracy, managerial postponements and bribery, and deficient legal acts for trespassing property rights.

Commercial risk is correlated to inability of partner, management failures, timing factor, competitive intensity and poorer execution of strategy.

Currency (Financial) risk is related to currency exposure, asset valuation, foreign taxation, inflationary and transfer pricing.

Cross-cultural risk is consisted of cultural differences, negotiation strategies and ethics.

The four types of international business risks are omnipresent; the firm may encounter them continuously. When these risks cannot be simply avoided, they can be efficiently anticipated and managed by preparing to confront the risks mentioned above.

The important two types of focal firms in international business: the multinational enterprise (MNE); and small and medium-sized enterprise (SME). The multinational enterprise refers to a huge company, which possesses plentiful assets, manages numbers of business activities by communicating through a network of subsidiary companies settled worldwide. While MNEs are among the leading participants, international business is not the domain of large, resourceful firms alone. Many small and medium-sized enterprises (SMEs) are participated in the business as well.

Overall this step to international business, it is significant to study international business to every parts, such as global economic and interconnectedness, contributor to national economic well-being, a competitive advantage for the company to sustain a competitive advantage in the necessary skills, knowledge, competence and etc.

According to Dr. B. Warner, the determinants of national competitive advantage can be divided into four determinants namely, “ the factor conditions; demand conditions; related supporting industries; and structure of firms and rivalry.” The factor conditions are used in various ways by means of upholding the economic competitiveness among business and country. In order to advance the employees’ ability in working with efficiency and handling the higher-tech goods, the employees are trained and educated according to their factor conditions. Another way to use the factor conditions as a determinant of national competitive advantage is that the business must provide more funds in researching or buying “ the high-tech discoveries” and other improved efficient appliances that may facilitate better products and services in order to compete with opponents (Warner).

Secondly, the demand conditions is a significant determinant of national competitive advantage, for it assists in upholding the maintenance of economic effectiveness and it empowers the business to possess the well-built local market, which eventually pave the company better way in advancing the goods and services quality for the international market.

Warner suggest an example to illustrate this point that French customers give the reasonable feedbacks to the local wine makers in order to help them improving their wine-making for selling world-wide.

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Furthermore, Warner remarks that related and supporting industries are important because of its benefits in “ providing low-cost inputs” and offering information concerning on the industry environmental issues and changes that support MNEs. To illustrate this point, it is noteworthy to look upon example given by Warner Italian tiles companies are informed continuously by their suppliers who notify them about any technological changes, the inputs and developments of factors in the industry.

Besides the determinants mentioned above, the firm strategy is remarkable determinants for those companies that eager to maintain the economic competitiveness. The firm strategy smoothes the progress of a company catching up the competitors’ game, then the company knows how to fight and how to activate marketing plan. Making the decisions with well-organized firm strategy enable the company to empower its economical reliable. Take company competitiveness in the German chemical industry as an example. A particular simple structure may complete a firm’s requirement, whereas the same simple structure may fail to answer another firm’s needs, which concerns on the complexity of particular design. As for the German firms, for instance, they are hierarchically organized to make them appropriate for personnel’s needs.

In addition, the rivalry of firm should not been overlooked because of its important in uplifting the firms to take as much chance in sharpening their skills and eventually turning out to be even more challenging to compete among the international business. Japanese car manufacturers are the case that Warner provides in his article. The Japanese car manufactures

increasingly develop its economic competitiveness among the international
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businesses and happen to be the unignorable competitor, because their economical development progressively rises upon those car manufacturers in the U. S. and in Europe.

In conclusion, it is remarkable for those companies who are able to take the challenge in encountering the international business risks. As mentioned above, the four determinants are both significant and correlated. Moreover, these determinants have particular impacts on others determinants and vice versa. In short, the firm's rivalry is affected by the demand conditions, and the number and type of related and supporting industries are impacted by the factor conditions.

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