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GLOBALIZATION AND BUSINESS

ANSWER SHEET

Q1) How do governments regulate international trade from and through their countries? What kind of international trade in taking place in Pakistan? Briefly explain.

ANS) International trade accounts for a significant share of GDP in several countries. As a result of international trade, it is possible to stimulate important sectors of economies, such as the transport and ICT sectors. The increase in international trade over the years is the result of the process of globalization. As a result, consumers and businesses can now choose from a wider range of products and services. In addition, globalization refers to the interdependence between countries resulting from the integration of different aspects of the economy, such as trade.

Governments have three main ways to regulate trade:

1) Quota systems
2) Tariffs
3) Subsidies

- **<u>Quota systems</u>:**
  The quota system imposes restrictions on the exact number of goods imported into a country. Quota systems allow governments to control the amount of imports to help protect local industries.
- **<u>Tariffs:</u>**
  Tariffs are paid on imported goods. Tariffs increase the price consumers pay for the property, thereby reducing the amount of assets requested and making the price more in

line with the price paid by domestic producers. Tariff benefits can be beneficial to government or developing industries.

Subsidies:

Subsidies are granted to domestic industries to help them develop and compete with foreign producers. Thanks to subsidies, domestic producers can charge less for their goods without losing money due to external subsidies.

- Pakistan faces major obstacles to international trade across its eastern as well as western borders. Historically important east-west trade routes connecting India, Central Asia and China passed through Pakistan. But unfortunately, poor relations with India, war and political instability in Afghanistan, The share of foreign trade in Pakistan's GDP remains low, at 29%. Despite economic and political difficulties, Pakistan has taken steps to liberalize its trade and investment framework as part of its commitments to the WTO, the IMF and the World Bank. Textile products accounted by far the largest share of exports (about 23%), followed by cotton and rice. Related to imports, oil products were the largest item, followed by palm oil, gas and ferrous waste.

- The United States is the main destination for Pakistani (mainly textile) exports, followed by China, the United Kingdom, Afghanistan and Germany. China is by far the largest supplier of goods and services to Pakistan, followed by the United Arab Emirates, Saudi Arabia, the United States and Indonesia. The Free Trade Agreement (ELA) with China has been detrimental to Pakistan's manufacturing exports, which have been steadily declining in recent years, and local businesses fear that the completion of the China-Pakistan Economic Corridor will further increase the share of Chinese products in the domestic market. Pakistan signed a series of trade and financing agreements with Saudi Arabia in February 2019; However, the long-awaited free trade agreement between the two countries has not yet been formalized. At the same time, Pakistan and Qatar announced in December 2019 their intention to conclude a free trade agreement.

- Pakistan's trade structure has been structurally poor, and exports remain sluggish due to weak global demand for Pakistani crops. The trade deficit, including services, increased to US$32.6 billion in 2018 (WTO), with much faster growth than exports. Imports of goods reached $60.5 billion in 2018, while exports were only $23.5 billion. In terms of trade in services, imports amounted to US$9.6 billion, while exports amounted to US$4 billion. However, the trade deficit fell to $11.6 billion in the first half of 2019-2020, compared to US$16.8 billion in the same period last year (Pakistan Bureau of Statistics (PBS).

Data of foreign trade value of Pakistan are given below:

Foreign Trade Values	2014	2015	2016	2017	2018
Imports of Goods (million USD)	47,434	44,219	47,155	57,746	60,472
Exports of Goods (million USD)	24,706	22,188	20,435	21,725	23,485
Imports of Services (million USD)	7,751	7,378	7,953	9,858	9,559
Exports of Services (million USD)	3,509	3,277	4,949	3,914	4,004

Source: World Trade Organization (WTO)

Q2) Why do organizations decide to go global? What factors can influence their decision to expand across borders?

ANS) In general, companies are globalized because they want to develop or expand their businesses. The benefits in entering global markets generate more revenue; compete with new sales, investment opportunities, diversification, cost reduction and the recruitment of new talent.

Companies are expanding in international markets for a variety of reasons, such as brand awareness and cost reduction. There is a general goal shared by all international companies: to increase profits.

Factors that influence organizations to go global:

There are some factors that influence organization to go global or across the border, which are given below:

1) **Improving Profit Margins:**

   Improving profit margins is one of the most common reasons to enter in international markets. When development strategies are activated at national level, the next path is often to seek international development. Distributing your products in other countries increases your customer base. While offering attractive solutions and confidence in international markets, revenues have also jumped and staggered.

2) **<u>Competing for New Sales:</u>**

The desire to increase sales is closely linked to the objective of improving profit margins. While business operators are generally satisfied with revenue levels, international expansion can still improve overall revenues. The struggle to expand internationally is often to acquire a presence in foreign markets. Being the first to reach a new market can offer significant benefits.

3) **<u>Diversifying the Business:</u>**

International expansion allows a company to diversify its business in some key ways. First, it distributes the risk of reducing demand in many countries. If a market never gains or loses interest in its offerings, it can successfully take advantage of the flexibility margin in other countries. In addition, it can communicate with suppliers in international markets and exploit raw materials and resources that are not available on domestic markets.

For Example:

Xiaomi, one of the most popular smartphone manufacturers in China, is looking to expand into India in the coming years. In addition to mobile devices, the company plans to sell electric folding bikes, self-balancing scooters, fitness belts and other products. This will allow them to reach a wider audience and diversify his activities.

4) **<u>Recruiting New Talent:</u>**

Operating in international markets also gives companies access to a larger and more diverse pool of talent. Employees who speak different languages and understand different cultures improve relationships with a wider clientele. Having a well-known international brand will invite the best talent for the company. Companies can also build global working groups to enable synergy in building a global brand.

Q3) Explain how different kinds of political economies affect businesses. Use examples from past and present world political systems and economies.

ANS) Political economics is an interdisciplinary branch of the social sciences focused on relationships between individuals, governments and public policy.

Political factors that affect business:

The political factors that affect business are often very important. There are many aspects of government policy that can affect business. All companies must follow the law. Managers need to understand how future legislation can affect their business. There is some political factor affecting business.

- **Bureaucracy**
- **Corruption**
- **Freedom of media**
- **Tariffs**
- **Trade control etc.**

The political environment can have an impact on business organizations in several ways. It could add a risk factor and lead to significant loss. We need to understand that political factors have the power to change the results. It can also have an impact on government policies at the local and federal level. Businesses must be prepared to deal with the results of local and international policies.

EX: Raising or reducing taxation could be an example of a political element. Your government can raise taxes on some businesses and reduce others. The decision will have a direct impact on your business. So you should always follow these political factors. Government interventions, such as changes in interest rates, can affect the company's demand standards.

Some other examples from past and present political systems and economies:

- The international political economy studies the problems arising from or influenced by the interaction of international politics, the international economy and the different social systems (e.g., capitalism and socialism) and different social groups,(like farmer at domestic level, several ethnic group in a country)

- During the Vietnam War, however, a growing decline in the value of the U.S. dollar and large deficits for the United States in its trade balance and payments weakened America's ability to lead and pay for the war, undermined progressing its relations with North Atlantic Treaty Organization allies.

- Since the end of the Cold War, the international political economy has focused on issues raised by economic globalization, including the vitality of the state in an increasingly globalized international economy, the role of multinationals in creating conflicts and the development of the 'new global economy', and various issues of equality, justice and equality (e.g.) low wages in developing countries and their dependence on the markets of rich countries.