The Global Economy

Britain has always been a trading nation. Since before Roman times there were established trade routes between Britain and the European mainland. By the middle ages, goods were arriving in Britain from around the known world, with spices, tea, gold, and precious gems, being exchanged for wool, and cloth.

But it was not until the start of the 19th century, and the boom in output that came with the Industrial Revolution, that Britain's international trade ballooned in size and importance. By 1850 Britain was the first nation with world wide industrial trade links, selling manufactured goods to America, India, China, Africa, and Europe. The world wide nature of UK trade links has continued to this day, and although our share of world trade of manufactured goods has shrunk from its peak of 50%, achieved in 1860, to around 6% today, international trade - importing and exporting of goods and services, is still a very important part of our economy. Recent economic experience has also clearly shown that we are intricately linked to the Global Economy.

Exports and Imports

Exports are goods produced in Britain and sold abroad, imports are goods produced abroad, and sold in Britain. This sounds quite simple, but we have to complicate it a little, both exports and imports can be divided into goods and services. So we end up with four categories, exports of goods, and exports of services, imports of goods and imports of services.

Exports of Goods

This is selling of goods produced in Britain abroad. Exported Goods will include, cars, planes, pharmaceuticals, industrial goods etc. We were once the worlds leading exporter of goods, and although exports now are relatively smaller part of what we do, - performance of our exporters is still an important component of the UK economy.

Exports of Services

These are services produced in Britain and sold abroad. Exports of services are an important part of the UK economy. These exports will include British banks selling financial services abroad and the copyright fees of British bands selling CD's abroad. Service exports also include foreigners holidaying in the UK.

Imports of Goods

Goods produced abroad and sold in Britain. Imports are important in providing choice, lowering costs and improving quality. Imported goods include, home electrical goods such as TV's, computers etc., cars, clothes, shoes, commodities such as oil, gas, iron ore, plus foods including citrus fruit, and out of season fruit and veg.

Imports of Services

These imports are services produced abroad and sold in the UK. These will include, British companies taking out insurance with foreign owned companies, foreign banks selling financial services to British firms and individuals. Imports of services also include British residents holidaying abroad.

Opportunities and threats from the Global

Economy.
Operating in the global economy and selling to overseas (export) markets can bring a number of benefits for British firms. These benefits include:

Spreading of risk, and reducing effects of decline in any one market place - if sales in one country are falling there is a chance to make this up by increased sales in another country.

Economies of scale can occur—selling to a number of counties increases the scale of production, average costs fall, making the company more competitive.

New markets bring new sales opportunities -by selling in a new market sales can increase quickly, this is especially important when the home market is saturated (no chance of increasing sales).

Opportunities of tie-ups with overseas firms We have seen a great deal of these within the airline industry. BA has relationships with American, Australian and Far Eastern airlines, which improves the service that they are able to offer to customers.

Access to new technologies and methods of working. Transfer of technology is speeded up through business relationships.

Firms can also benefit from importing goods. These benefits will include.

- The opportunity to buy lower cost supplies and components from overseas producers
- Importers can supply a wider range and choice of products to consumers, and so increase sales.
- There may be improved quality of components and raw materials from overseas suppliers.

But there are also risks involved in trading overseas, and competing in the global marketplace. These risks include:

Exchange rate fluctuations can affect the profitability of selling overseas, if the exchange rate changes then profits will alter.

New markets, mean trading with different cultures and tastes—this can mean costly mistakes are made, a brand name in one country can be totally wrong for another country - any thoughts on why the soft drink 'pschitt' did not become a best seller in the UK?

Distribution networks have to be established - often at great cost How do we get our products to the final customer, will there be a need for retail outlets, or warehousing ?

Competition may not be understood—local firms are unlikely to just go away, and what has made them successful may not be possible for foreign competition to copy.

Multinationals.

Multinationals are firms operating in a number of countries, whether producing, retailing or a combination of both. Successful British multinationals include BP, HSBC, Tesco, and Vodafone. There are a huge number of foreign owned multinationals operating in the UK, including Toyota, Ford, LG, Sony, ESSO etc. Multinationals have in many ways started to dominate the global economy. Many of the biggest have a level of turnover bigger than the GDP of medium sized countries. This means that they have a huge amount of power. The biggest firms are able to influence legislation, taxation levels and in some cases fund less than democratic governments.

Advantages of having multinationals based in the UK

- Provide employment
- Investment leads to infrastructure development
- Pay taxes to the government
- Introduce new technology and working methods
- Increase customer choice
- Increase growth in the UK economy

On the other hand, there are a number of potential disadvantages of multinational companies operating in the UK.

These disadvantages include;

- Multinational companies can severely impact local industries because they increase competition in the economy. They can cause (and have caused) both small and large British firms to go out of the business, leading to increased unemployment.
- They may have negative environmental impacts, such as pollution and destruction of the environment
- They use and deplete natural resources
- Jobs can be low skilled and low paid.

The worst effects of multinationals, such as destruction of the environment, and very low levels of pay, are often seen in developing countries. From the UKs point of view we need investment from multinationals to help drive growth and create jobs. In fact the UK has received more investment from multinationals over the last 30 years than Germany, France and Italy combined.