

CHAPTER 31 : Global Expansion and Uncertainty

1. Advantages of global expansion

- Global operation can bring much bigger economies of scale
- Global sourcing can give firms more scope to find the best-quality resources at the right price
- Global operation allow companies to get closer to their international customers, both before and after sales
- MNCs are available to a much bigger range of knowledge and scope for innovation
- MNCs can diversify risk by engaging in a wider range of business activities

2. Global Uncertainty

: Globalisation is an increase in interdependence. This means that a key event in one country can have serious impact on many other countries.

: The level of uncertainty created by such events tends to have a negative impact on international trade. Therefore, it has the potential to reduce job and wealth creation.

3. Effect of exchange rate movement on business

3.1 Thai baht depreciated against British pound

For example : 1 British pound = 50 Baht to 1 British pound = 70 Baht. If Thailand export rice to the UK 200 kg.

- Existing, British need to pay money $200/50 = 4$ Pound
- New, British need to pay money $200/70 = 2.9$ Pound

To sum up, when currency depreciated, TH goods becomes cheaper and more competitive in foreign view. Therefore, Export can be higher.

For example : 1 British pound = 50 Baht to 1 British pound = 70 Baht. If Thailand import steel from the UK 10 British pound.

- Existing, Thai need to pay money $10 \times 50 = 500$ Baht
- New, Thai need to pay money $10 \times 70 = 700$ Baht

To sum up, when currency depreciated, Imported goods becomes more expensive. Cost of production will be higher if firms import raw material from the UK.

3.2 Thai baht appreciated against British pound

For example : 1 British pound = 50 Baht to 1 British pound = 40 Baht. If Thailand export rice to the UK 200 kg.

- Existing, British need to pay money $200/50 = 4$ Pound
- New, British need to pay money $200/40 = 5$ Pound

To sum up, when currency appreciated, TH goods becomes more expensive and less competitive in foreign view. Therefore, Export can be lower.

For example : 1 British pound = 50 Baht to 1 British pound =40 Baht. If Thailand import steel from the UK10 British pound.

- Existing, Thai need to pay money $10 \times 50 = 500$ Baht
- New, Thai need to pay money $10 \times 40 = 400$ Baht

To sum up, when currency depreciated, Imported goods becomes cheaper. Cost of production will be lower if firms import raw material from the UK.

4. The significant of change in the exchange rate on business

4.1 Elasticity of demand

- If demand is elastic, depreciated currency can boost more export and more revenue to business.
- If demand is elastic, depreciated can makes higher cost of import goods, therefore firms may import less.

4.2 If demand is inelastic

- If demand is inelastic, depreciated currency can make lower total revenue as lower price but quality less significant changes.
- If demand is inelastic, depreciated can makes higher cost of import goods, therefore total import will be higher.

5. Skills shortages and their impact on international competitiveness

: Many companies have long-term access to skilled and low-cost labour have an advantage over their competitors who do not. If a firm owns these advantages in its home market, it may be able to produce and export more effectively than its competitors.

: In some countries are skills shortage

: If businesses are unable to recruit sufficient members of skills workers, their international competitiveness can be threatened. The main effects if skills shortage are outlined below

5.1 Higher wages : Shortage of skilled labour means lower supply → wage increase

5.2 Lower quality : Lower skills → Unable to produce high quality product → Bad reputation

5.3 Lower productivity : can caused production delays → Make longer recruitment → probably stop production

5.4 Loss of business : Customers are likely to find alternative products and as a consequence business no order and might out from business.

