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Global Business Challenges BMSP4001

Assessment 2 - Seen examination

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Essay 1

` Using examples, evaluate *either* the environmental or social *or* economic implications of globalisation. (100 marks) `

In this essay, the environmental implications of globalisation will be covered- firstly the negative implications followed by the positive ones, ending with a conclusion summarising these points and making a final judgement.

One of the key aspects of globalisation is the expansion of supply chains on a worldwide level. For a company such as Amazon, operating in many different markets across the globe, different points in the supply chain are in different areas of the world. For example, Amazon may fulfill an order in France for an item that is produced in Vietnam, then shipped to a fulfillment centre in the region, then to a more local warehouse in France and then delivered to the customer. Each stage of this supply chain leads to the release of greenhouse gasses through transport such as planes and HGVs. It has been reported that aviation represents 12% of the carbon dioxide emissions from all transport sources, while road transport represents 74%. It is therefore shown that the worldwide expansion of supply chains worsens the extent to which we pollute our world as this necessitates increased use of polluting forms of transport. On the other hand, aircraft in service today are reportedly 80% more fuel efficient than in the 1960s, while Amazon has recently unveiled and ordered 100,000 units of an electric model of delivery van which will dramatically reduce transport emissions, helping to bring down this statistic. This means that expansion of supply chains may not necessarily pollute more if the means of transportation are fuel efficient and low in carbon emissions.

As globalisation leads to the worldwide opening of markets, industry will naturally flow to the place where it is cheapest to be conducted. Often, this means that LEDCs such as India, China and Vietnam are the most desirable for businesses, with multiple reasons for this. One such reason is that environmental regulations are far less prevalent in developing countries; this means that businesses can carry out production in ways that may lead to additional pollution such as dumping waste into rivers or using heavily polluting machinery, which would not be tolerated in a developed country. Naturally, this will lead to lower costs, which provides businesses with an incentive to relocate production to these countries and to continue these practices, regardless of whether they cause excess pollution. Some examples of firms making use of factories in developing countries include Nike operating factories in China and Malaysia for its garments and Apple famously operating a factory in Zhengzhou, China, known locally as 'iPhone city'. It can henceforth be said that the tendency of globalised industry to move to developing countries can be attributed to strong negative environmental implications because of a financial incentive, born out of these countries' lax environmental legislations, to pollute the environment.

On the other hand, the financial benefits of globalisation have led to increased awareness and understanding of its environmental shortcomings. As globalisation has led to international opening of markets, the potential for profits has skyrocketed over the last 3 decades with exploding customer bases. This means that companies and governing bodies such as the EU which have benefited enormously from globalised trade will have sufficient capital available to finance research into the impact on climate that worldwide business activity has. Top scientists

from around the world can be recruited for such projects and access to worldwide markets allows for new insights and points of view to be found- those of residents in countries such as Indonesia, with a large coastal population at risk of rising sea levels, will have a different point of view than those of residents in places less at risk such as Western Europe. Therefore, businesses and governing bodies can use funds generated from globalised operations to expand public knowledge of the environmental implications of globalisation, prompting firms of all sizes to make changes that can reduce their environmental impact.

A final argument is that a globalised financial industry has led to financial institutions being able to offer a more expansive range of 'green finance'- loans designed for environmentally friendly projects. With a growing demand for sustainable operations as a result of public knowledge regarding climate change, businesses may turn to lenders for loans to be able to amass the funds for an overhaul of their operations for a reduced carbon footprint. The business of lending is very profitable for financial institutions, with many coming to realise the potential profits to be made from offering readily available loans for environmentally friendly projects. An example of this is that the International Monetary Fund has taken up green finance options in the fight against climate change in partnership with the Network of Central Banks to promote green finance more broadly. With readily available finance for reducing their environmental impact, it is easier than ever for businesses to generate the necessary capital for improving their impact on the environment. Coupled with high demand from customers for businesses to be mindful of their environmental impact, more and more businesses are making the move towards improving their sustainability every year. This means that global financial institutions responding to demand with implementation of 'green finance' options has been a catalyst leading to additional businesses financing the improvement of their emissions and carbon footprints.

In conclusion, globalisation can be split into two time frames- early globalisation, in which expansion and profits were king, with the impact on the environment being largely ignored, representing the period up to the early 2000s; and late globalisation, in which profit potential has largely been achieved and environmental factors are now under ever-increasing focus, representing the period up to now. The early globalisation phase was driven almost solely by the prospect of making additional profits- this was why industry naturally flowed to countries in East Asia and supply chains grew massively with no mind for their sustainability. Because of how little attention was paid to the environment, it lost out to a large extent. In contrast, the late globalisation phase is a time of massive upheaval, with worldwide focus being on sustainability and climate change, and businesses responding accordingly with implementation of more efficient technology and environmentally ethical practices. This focus on the environment to such a large extent has mitigated the effects brought about by the previous period, although they can still be felt to a degree. Overall, globalisation has had a net negative impact on the environment although with enough effort from businesses this can be negated in years to come.

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Essay 2

` Evaluate the implications of Covid-19 for business, use real world examples in your answer. (100 marks) `

Covid-19, according to the World Health Organisation, is an infectious disease caused by a newly-discovered coronavirus. The first cases were observed and traced back to Wuhan, China in November of 2019.

The best way to evaluate the implications of Covid-19 on business is through an economic lens because the two being linked makes for easier comparison. The effect on Aggregate Demand shall be evaluated to gauge the effect on the size of the economy and hence infer the effect on the business world. Also observed will be the change in two key economic indicators, these being national unemployment figures and Gross National Product (GDP).

To get a scope of the economic impact, it is first important to understand the responses of national governments to the Covid-19 pandemic. Preparation for the virus itself as well as the economic fallout caused by it, despite opportunity, had been largely overlooked. Lockdown mandates began taking effect in Europe in March to curb the spread of the virus, with many later being re-imposed. This meant that non-essential businesses were to close and much business activity ceased as shortfalls in supply followed. It is hence fair to say that the outbreak itself did not cause this widespread business downturn, but rather the reactions of governments to the virus did.

Aggregate Demand is a measurement for the total amount of demand for all finished goods and services produced in an economy, made up of a few key constituents. These which have been affected by Covid-19 are consumption, investment and exports. To start, consumption is the driving force of an economy and is driven by consumer confidence. Other factors aside, a confident consumer generally spends more of their income than they save in proportion. The economic turmoil and personal hardships created have seen economic confidence drop to an enormous extent. This has inevitably led to a steep fall in consumption. The two other most important constituents pertaining to business are investment and exports as these are conducted by the business themselves; investment being the creation of capital goods which are used to produce other goods, and exports being the shipping of goods between countries. Regarding exports, almost all economies in the world began to experience a fall in demand abroad for products produced domestically. This means that exports fell and so would income from exports. Regarding investment, this relies on business confidence that the investment will be financially sustainable and that there is sufficient use of existing capacity to warrant investment in capital goods- known as the Accelerator effect. Because demand had dramatically fallen amid the crisis, existing capacity was not being used. Combined with a low business confidence that there would be enough inflows to survive, investment also fell because businesses would have either deferred or been unable to afford the purchase of new capital goods. These 3 key constituents declining so sharply and suddenly dealt an enormous blow to Aggregate Demand worldwide, which in turn represented a bleak period for business.

Unemployment in the economic sense of the word is the number of people who are actively seeking employment but to no avail. This statistic is often regarded as a 'lagging indicator',

which means the change takes place a while after an event has occurred. The Office for National Statistics reports that employment has risen by 0.9% in the 6 months to September 2020; this means that businesses deem it financially unviable to keep workers employed, with no other alternatives involving retainment of employment. This can be correlated to the 'drying up' of demand as consumption, discussed earlier, has fallen. However, this is smaller than the 1.4% rise over the 6 months leading to June of 2009, which suggests that the effect on business is not as large but which can also be linked to the introduction of the government-funded furlough scheme which inevitably saved some jobs by providing financial help to businesses and dampening the financial effect of the crisis. It is important to keep in mind that, because unemployment is a lagging indicator, it may have yet to rise further.

GDP is the value of all finished goods and services produced within an economy during a time period, usually over quarters of a year. From data provided by the Office for National Statistics, UK GDP fell by £99.1 billion from Q1 to Q2 of 2020, representing an 18.8% decline in the country's output. This means that, during Q2 of 2020, production was reduced to a level last seen in late 2003, meaning that 17 years of growth had been eliminated in 1 quarter alone. GDP is perhaps even more important than employment as a statistic because it allows for the comparison of business activity between time periods. Such a drastic drop in GDP has never been seen before and dwarfs even the 2008 recession, showing that this was a bleak period for business.

Many of these economic indicators suggested that the business world lost out as a result of the pandemic and government responses to it. While this is true for most businesses, some of the world's largest firms and specific industries have actually experienced huge growth as a result. In an event dubbed the 'Great Reset' by leading economists, power dynamics across many markets have been permanently altered as a result of developments during the pandemic. For one, many small, brick-and-mortar businesses lost out- the average small business has lost almost £12,000 according to Yahoo Finance- as a result of lack of footfall during lockdown. In contrast, the internet-based delivery company Amazon made huge gains in market capitalisation of \$401 billion with customers ordering remotely. This has shifted the power dynamic in favour of these large courier services. Furthermore, key players in the IT industry Microsoft and Apple made huge gains of \$270 billion and \$219 billion in market capitalisation respectively as their pre-pandemic focus on technologies compatible with home-working has led to an explosion in sales.

In conclusion, the economic factors such as a fall in Aggregate Demand and GDP as well as a rise in unemployment over the course of the pandemic point towards a reality in which the whole of the business world has lost out. However, this is shown to be clearly not the case; while there were some losers- mainly brick-and-mortar and family-run businesses due to lockdown mandates- there were also some winners, with the courier and web-services provider Amazon and IT conglomerate Microsoft being an excellent case in point. Looking at the bigger picture, the business world has not lost out from the pandemic but rather been re-structured.

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