GLOBAL ECONOMICS

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**Question 1**

The five stages of integration apply to all member states of the European Union. The new countries might face numerous changes, affecting the national businesses both positively and negatively. One of the critical changes expected for new members is to initiate free trade among the E.U. members and abolish tariffs that would have been present between the members (Rodrigue, 2021). However, these states or member countries would keep their initial tariffs against the third countries. Additionally, the new members to the E.U. would be required to set standard external tariffs, as those of the member countries, including changing its tariffs on the third countries to adopt those that are common. The E.U. newly integrated members would be expected to initiate the frameworks of the common market, including free movement of services and capital in and out of member countries (Rodrigue, 2021). The countries would be required to harmonize their monetary and fiscal policies with those of the members, including using a common currency (Euro), standard tax and benefit rates, and the trade rules.

Thoughtfully, these expected changes on the members can be positively or negatively impactful on the national companies. One of the negative impacts of these on the national companies is the increase in competition from the external players, which reduces the overall customer base or the market share. The commonality of the external tariffs hinders the input from the barred countries that national companies might have a positive relationship in terms of the supply chain. In other words, such changes can disrupt the supply chain due to the unfair barriers to the nonmember countries. However, the national companies would benefit from this membership by attaining economies of scale and increased quality provision resulting from competition. Additionally, the national companies would have access to new skills, leading to increased innovation, research, and development levels.

**Question 2**

The catch-up effects arise from the concept that all economies will finally converge in relation to the per capita incomes because poorer economies grow faster and rapidly than the wealthier or richer economies. In other words, the assertions on the catch-up effect the gap between the rich and poor economies will eventually diminish. Notably, one of the significant opportunities for countries under the catch-up effects is the rise, availability, and positivity of modern technology. Besides, in the low economies countries, the research and development are decreased, raising the need for catch-up mechanism as a perfect means to acquire modern technology (Ssozi and Bbaale, 2019). This opportunity brought along by the catch-up mechanism enables the low-income countries to boost or increase their productivity by tapping knowledge and technologies from the high-income or advanced economies. This is a powerful tool for economic development as modern technologies promote manufacturing and foster industry development leading to enhanced productivity. Through this effect, low-income countries build and diversifies their manufacturing sector during the catching-up process to sustain the vast rates of long-run growth.

Based on the Economies of China as a member of the BRICS group, it is a real manifestation of the catch-up effects where the country has tapped numerous technologies from the high-income economies and matching them to expand the manufacturing sector. Besides, China has focused on promoting indigenous firms rather than depending on Foreign Direct Investment (FDI) by allowing technology transfer. Similarly, through government interventions, China has significantly developed modern technology through R&D subsidies and joint R&D by the public and private sectors (Lee, Gao, and Li, 2017). As a result, China has remained outstanding in its bargaining power in the global spheres. Through the catching-up effect, China is expected to be the most powerful country by 2050 holding $58.5 trillion GDP in PPP terms. In terms of social development, the catching-up countries can strengthen their global contact and absorptive capacity (Ssozi and Bbaale, 2019). These factors arise from globalization, driving the structural changes on both social and economic spheres for growth.

According to the Economist Moses Abramowitz, there are numerous restraining factors to the catching-up effects. One the social capabilities are significant restraints requiring the economies to leverage and develop their capabilities to absorb new technology, participate in international markets and attain vast capital. Secondly, the catch-up effect requires economies to adopt high-quality institutions in relation to global trade. Comparatively, the opportunities and challenges of the catch-up effect reveal significant consequences to the business environment, which includes increased innovation, research, and development, enhanced absorptive capacity, and local industry development (Ssozi and Bbaale, 2019; Lee, Gao, and Li, 2017). Thus, the catching-up economies will acquire vast skills and technology for structural change and productive growth.

**Question 3**

Trading or business is an imperative component for any society’s development. It provides people with a tangible interest in each other’s economic wellness and clears the path for growth that is fiscally responsible (Laya, 2016). Business or trading opens an opportunity to invest and spend to attain financially responsible growth in climates where government efforts are limited. Therefore, the business provides a platform for effective and coordinated growth by integrating the various players’ input into the economy.

Additionally, business enhances the society’s companies to specialize and scale, where prices are brought down, especially for the poor whose income goes to commonly traded goods (Laya, 2016). Besides, more business or trading means more opportunities to innovate and open economies through technology diffusion and enhancement of new ideas. Trading fosters idea development to trigger new thoughts for executing tasks and resolving problems through solution-focused strategies. Therefore, business is a perfect player in promoting research and development for innovation and creativity.

Trading or business constitutes an imperative component for enhancing living standards through economic development. For instance, trade represents a significant portion of America’s prosperity through its ability to powering economic growth, raising the standards of living, and helping Americans afford goods and services for their families (United States Trade Representative, 2021). Therefore, business expansion supports productivity in society, expands the variety of choices, and promotes rapid economic growth through investment as it keeps the economy open, dynamic, and competitive. Trade is essential finally essential for multi-sectoral development, enhancing productivity at all levels. For example, in 2017, the U.S goods and services trade, including import and exports, accounted for $5.3 trillion, being an inter-sectoral play between the agricultural sector, manufacturing, and the service sector (United States Trade Representative, 2021).

Notably, corporate and social responsibility (CSR) help promote a prosperous and profitable environment for business irrespective of the size of the business. CSR promotes a prosperous environment for business by promoting brand recognition, enhancing the organizational reputation, and increasing sales through customer loyalty (Singh and Misra, 2021). CSR helps companies to be recognizable in the societies they operate for the charitable and sustainable efforts they make as the perfect means for connecting the internal and the external business environments. Additionally, venturing into CSR is essential for reducing the regulatory burden. It enhances the businesses relationship with the authority, making business easier and capable of obtaining government incentives for operating (Singh and Misra, 2021). For instance, when a company participates in CSR operations such as climate change awareness campaigns and environmental conservation programs, they earn the opportunity to build a solid and positive relationship with the environmentalists and authorities, which creates a favorable regulatory environment.

**Question 4**

The economic crisis represents a common term for defining severe and sudden economic upset as the economy essentially loses a significant value. However, there are numerous factors an economic crisis can be detected. These factors can easily signalize to the market or economy players that there would be a potential economic crisis. By observing the elements of the economy, it is possible to establish potential red flags. Notably, one of the signals of a potential economic crisis is the inverted yield curve of the bond market and the falling interest rates in the long-term bond market or exceeding short-term interest rates over long-term rates (Fitzgerald, 2019). Notably, long-term bonds usually have a higher interest rate in a healthy market or economy than short-term securities or bonds. However, when a short-term bond yields more, it leads to a yield curve inversion signaling a potential economic crisis. This factor is called the bond market phenomenon. This factor affects the business environment by reducing the future long-term rates changing the economic outlook, in the long run, indicating a potential fall of the long-term fixed income.

Additionally, declining corporate profits is a red flag of a potential economic crisis as they indicate potential trade war threat and currency devaluation as critical features of a sluggish economy (Fitzgerald, 2019). This factor is negatively influential on the business environment drawing corporations into the recession side of the operations. The currency loses value because of low earnings and triggers trade wars as businesses strive for space. Another factor that shows a possible economic crisis is a manufacturing contraction, which leads to a decline in the purchasing managers’ index (PMI). This factor affects the business environment by lowing business confidence and raising potential trade wars (Fitzgerald, 2019). The hiking oil prices cause a ripple effect showing a potential economic crisis. It negatively affects the business environment by reducing the as most consumers lose their purchasing power, causing a decline in demand.

An organization should prepare for an economic crisis by diversifying its revenue as the economic recession spreads through the supply chain. This means when your buyers are hit, as the organization, their problem becomes yours too. Therefore, diversifying the organizational revenue implies that the organization must ensure its revenue does not come only from a specific category of customers. For example, the organization should relook over the customer mix and identify a single category of customers representing more than 10 percent of the business or identify the top five customers and diversify to expand the customer base. Additionally, an organization should target to reduce its expenses, such as reducing the marketing budget and the discretionary expenses.

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