

GRADE – 12 BUSINESS STUDIES

CHAPTER -29 ASSESSMENT OF COUNTRY AS A PRODUCTION LOCATION

What are the factors considered when assessing a country as a production location?

- Costs of production
- Skills and availability of labour
- Infrastructure
- Location in trading bloc
- Government incentives
- Ease of doing business
- Political stability
- Natural resources
- Likely return on investment

Explain why costs of production are important for assessing a production location

Low costs of production is crucial in highly competitive markets.

Companies will often choose to locate in low cost countries so they can follow a low cost strategy and gain a competitive advantage - this leads to low cost economies experiencing a lot of FDI from companies.

Explain why skills and availability of labour is important for assessing a production location

Skill level affects productivity which will then affect unit costs - businesses will locate to countries where there are sufficient skilled workers.

HOWEVER - Many UK businesses are reshoring due to quality and cost issues.

Explain why infrastructure is important for assessing a production location

Transportation links are vital when moving raw materials, components and finished products.

Communications and a reliable energy supply is also needed to ensure that products arrive on time.

Explain why location in a trading bloc is important for assessing a production location

Trading in a bloc (e.g. EU, ASEAN, NAFTA) allows easier access to markets within those countries and therefore high costs and risks associated with FDI are reduced.

There are fewer trade barriers, making products cheaper for consumers, meaning sales increase.

Explain why government incentives are important for assessing a production location

Governments will offer incentives like grants, tax breaks, investment in local infrastructure and low corporation tax. They will do this to attract businesses to a country as it will create jobs.

EXAMPLE: Airbus relocated to Alabama, USA from Europe because of government incentives like paying for 1000 staff to be trained.

Explain why ease of doing business is important for assessing a production location

A business will consider the ease of starting a business, ease of getting a construction permit and getting electricity - some governments will protect their domestic companies from overseas competition.

Explain why political stability is important for assessing a production location

Businesses may avoid countries that are politically unstable because it will affect their production and staff.

Some businesses will operate in politically unstable countries because there is an abundance of natural resources available - they are willing to take a high risk.

Some may avoid countries with poor human rights records for ethical reasons.

Explain why natural resources are important for assessing a production location

Some countries have abundant natural resources that can be used for economic gain. Businesses that require these resources will need to set up near the source, leading them to developing nations.

Explain why the likely return on investment is important for assessing a production location

Both the cost of location and the access to foreign markets should be considered as they will affect sales revenue in the future.

Define COSTS OF PRODUCTION

Costs of production is the expenditure incurred by a business when producing goods or services - lower costs of production abroad may encourage a business to relocate.

Define INFRASTRUCTURE

Infrastructure describes the physical systems that a country (or business) require to operate effectively. These include transport, communication, and utilities.

Define TRADING BLOCS

Trading blocs are economic units formed when the governments of a group of countries agree to trade together freely i.e. usually with no trade barriers.

REFER CHAPTER TRADING BLOCS

Define GOVERNMENT INCENTIVES

Government incentives are supply side policies to stimulate the economy in the hope it will attract businesses to the country.

Define POLITICAL STABILITY

Political stability refers to the resilience and honesty of a current government regime. It covers issues such as bureaucracy, government regulation, view on foreign direct investment and the degree of market intervention, corruption and taxation.

Define RETURN ON INVESTMENT

Return on investment is the the financial return (i.e. operating profit) that a business will gain as a percentage of the initial investment on an annual basis.