INTRODUCTION TO GLOBALISATION

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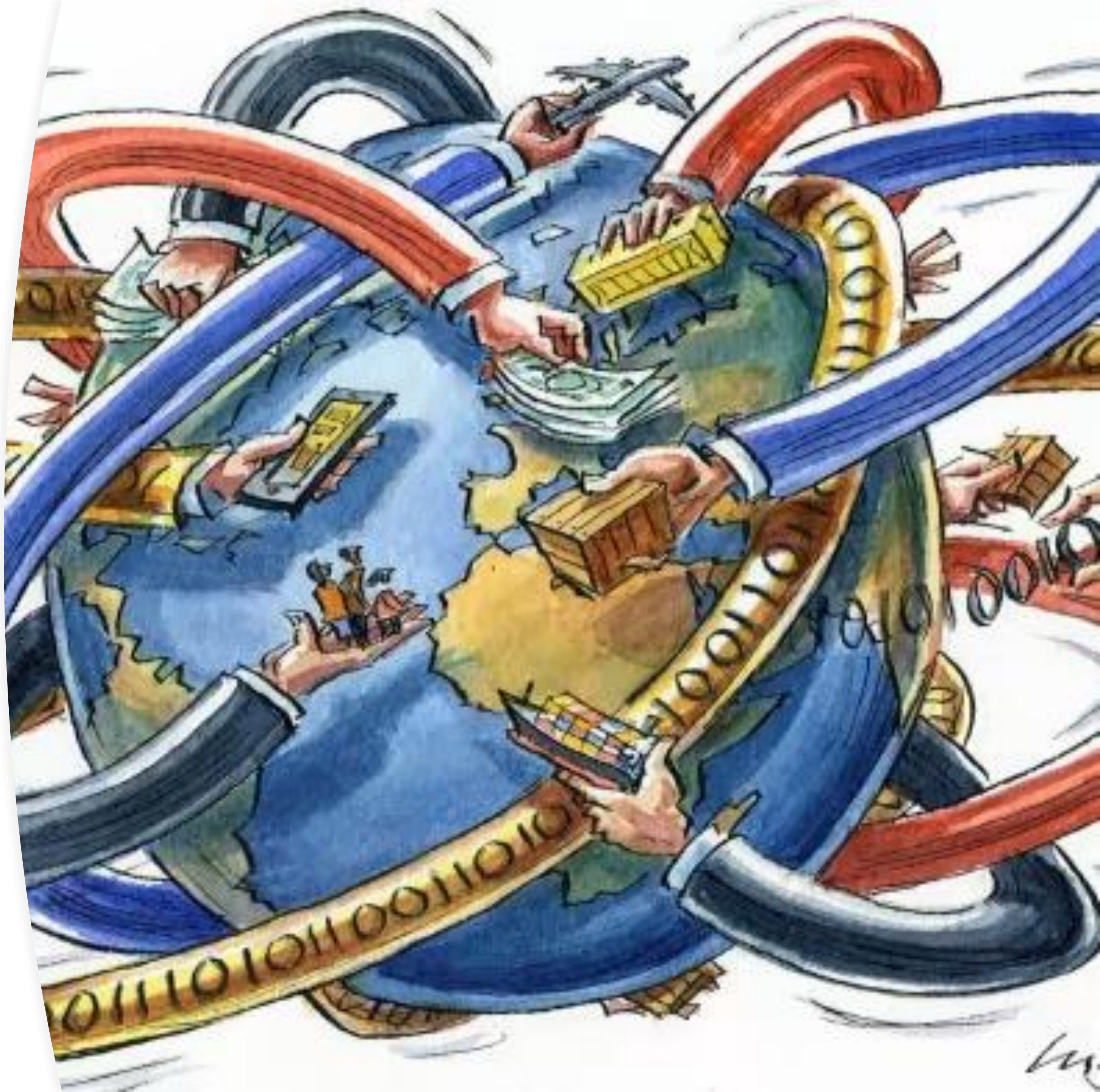
WHAT WE NEED TO KNOW

Here are all the points this PowerPoint aims to cover from the BME Y12 Syllabus

- the impact of globalisation on:
  - employment levels in developing countries and in developed countries
  - global spread of skills and technology
  - international cooperation
  - domestic market
  - tax minimisation – tax havens and transfer pricing

DEFINING GLOBALISATION

- Globalisation is the growing interdependency among nations that encompasses a wide range of areas such as: investments, technology, flow of capital, movement of labour and finances, as a result of reduced trade barriers.
- Cross-border trade of goods and services is a key feature of globalization made possible through advancements in technology, cheaper transportation and looser restrictions on trade and cash flow.
- This is also a process where businesses establish international influence and can begin operating on an international scale.



THE LABOUR QUESTION

- During the stages of starting a business or launching a new product, a firm may decide to outsource certain processes (i.e., material gathering, manufacturing) to overseas suppliers where materials and labour is cheaper. This is due to restrictions like minimum wage, working conditions and tariffs for skilled labour being significantly reduced, allowing for much cheaper costs.
- This results in a lot of businesses outsourcing to overseas countries to save money, but consequently businesses use considerably less labour in Australia. Developed countries like Australia do not benefit from this as this leads to decreased employment levels and in the long-term a less competitive international labour market. The standards of health and rights of employees however are much higher in developed countries as a benefit of being unappealing to outsource to.
- Labour shortages also start to form in developed countries when skilled workers decide to overseas countries where they may be experiencing economic growth due to greater demand for labour and greater employment levels as a direct result of outsourcing.

GLOBAL SKILLS AND TECHNOLOGY

When businesses outsource overseas, work with foreign partners and release new products globally, exchanges of both skills and technology is facilitated.

By moving manufacturing processes abroad, the local labour force becomes skilled through ongoing support and training provided by businesses which the Government is encouraged to invest in. This is so they can retain these businesses for future business.

Technologies, designs and processes are also shared as a result of joint ventures and licensing agreements with generally developing nations but also developed nations. This helps enable countries to utilise modern technology in both advancing their economy but also citizens in the process. (i.e. smartphones being introduced in India to encourage communication between citizens and conduct business videoconferencing).

Countries particularly strong in certain industries can export their resources to not only generate profit but benefit other nations but strengthen both economic and diplomatic ties. Australia does this through the export of education offshore (through internet communication and professionals traveling abroad to teach) as well as onshore (with foreign students entering Australia for the purpose of studying)

INTERNATIONAL COLLABORATION

- Globalisation is not only built on the activity of multinational businesses, but the involvement and cooperation of countries as well. Mechanisms to deregulate as well as create standards of trade happen through intergovernmental negotiations and trade agencies with the goal of promoting inter-nation trading.
- Free Trade Agreements and Memoranda of Understandings. (MOUs) allow Governments to aid in: allowing trade between nations to be easier, promoting collaboration between countries on certain countries and technologies, encourage trade and relationships between business people.
- Australia has co-production treaties with the United Kingdom, Canada, Italy, Ireland, Israel, Germany, Korea, South Africa. Singapore and China and Memoranda of Understanding (MOUS) with France and New Zealand.
- These agreements work to reduce barriers of trade by removing tariffs, subsidising co-production initiatives (i.e. providing grants to a company that produces a phone researched in France, manufactured in India and sold in Australia), importing and exporting certain agreed amounts of goods and resources between countries and promotion of multiculturalism through exchange of music, art, food, etc.
- An example of this is the China-Australia Free Trade Agreement signed by President Xi and former Prime Minister Abbott that removes tariffs on Chinese products to make them cheaper for Australians, agriculture tariffs imposed by China to be phased out and the right for firms to own fully Australian businesses and subsidiaries as well the ability to sue the Chinese Government over policies that harm them.

THE DOMESTIC MARKET

The activity of international businesses and the opportunities presented by globalisation to Australian businesses can be both detrimental and beneficial on business done in Australia.

With reduced trade barriers imposed by globalisation initiatives, it becomes easier for foreign businesses to be introduced in Australia to compete against domestic businesses. This causes conflict as certain regulations and laws are relaxed allowing foreign businesses to have an advantage entering their respective market which domestic businesses do not.

Foreign businesses sometimes may compete at a loss to gain market share because their other multinational subsidiaries will mitigate the costs, this in return can diminish domestic businesses' market share and encourage monopolistic tendencies.

Global exchange rates and consumer demand affects Australian businesses. If exchange rates increase for the Australian Dollar, overseas consumers become less incentivised to invest in Australian businesses. Growing and falling demand of certain goods can also promote more exports and profit for Australian businesses in certain areas but can reduce production of goods that the local markets may want if it isn't as profitable as their international, high-demand exports.

Opportunities to further increase domestic business' profit lines are abundant however, with access to cheap labour and overseas suppliers as well as technology to facilitate communication. Consumers in Australia are provided with greater variety of goods and services that come with this and overseas consumers can also experience this through the ecommerce sites run by Australian businesses.

“MINIMISING” TAX WITH TAX HAVENS

- Tax minimisation is a right of businesses to reduce their tax obligations through legal means, this is not the same as tax avoidance which is illegal. While tax minimisation efforts can be considered unethical, it is not the same as avoidance and hence not illegal.
- Tax havens are an example of a way for a business to legally reduce their tax obligations. Businesses create parent companies or engage in complicated accounting arrangements to allow their earnings to be transferred to another country that has secretive taxation and low to no tax for foreign residents and businesses. These countries benefit from this tax minimisation by generating wealth from offering financial services to these businesses.
- A country can to be classified as a tax haven, if there is:
  - **a lack of transparency** – little to no laws mandating business reporting means its difficult to monitor business transaction and cash flow
  - **a lack of information exchange** – government and regulatory bodies do not cooperate with other governments and resist sharing information to help international inquiries

”MINIMISING” TAX WITH TRANSFER PRICING

- Transfer price is the practise of tax minimisation where a multinational business sells goods or services to another part of the same company in a different country. If unrelated businesses are doing this, they must follow the “arms length principle” which dictates market rates similar to those of companies that sell within themselves internally.

The prices set from the selling company to the middleman company is generally low to minimise the business’ tax obligation.

The middleman company is situated typically in tax haven and attains large, tax-free profit. It resells the goods at a higher price to another internal company in the destination of their choosing.

The destination company incurs the high costs and as such obtains a lower profit, which is used to minimise the business’ tax obligation.

The large profit made by the middleman company is **artificial** and was created by the selling and destination companies to make the business look better with a larger profit.