

# FACTORS INFLUENCING GLOBAL BUSINESS



## Multiple choice

- |      |       |       |
|------|-------|-------|
| 1. C | 6. A* | 11. B |
| 2. D | 7. A  | 12. A |
| 3. B | 8. A  | 13. A |
| 4. C | 9. C  | 14. B |
| 5. A | 10. A | 15. C |

*\*Apologies for the confusing question. Foreign direct investment refers to the establishment of a new business or production facility in another country. The question does not identify that the business is "relocating" its production facilities, as it does not identify that it has existing facilities in Australia. Thus A is the most correct answer.*

## Short answer questions

### Question 1

- (a) **Language differences will impact on all of Blacket's marketing functions as the company will not only have to redesign its Australian products for export but it will also have to redesign its marketing campaigns to account for different languages. Cultural differences will also impact Blacket. Mobile phones may not be as popular or used in the same fashion in China and Japan as they are in Australia, which may not only affect sales figures but also force an adjustment in marketing campaigns.**
- (b) **Businesses that borrow from overseas expose themselves to the financial risks associated with currency fluctuations. If a business borrows money from a foreign country it is usually obliged to make repayments in the currency of that country. In the example above, Blacket will most likely have to repay its loan in US dollars. If the American dollar appreciates relative to the Australian dollar, the cost of servicing the loan increases.**

**Blacket is also exposed to credit risks by borrowing in another country. Although Blacket may have a strong understanding of interest rates and future interest rate movements in Australia, the US economy is very different. If Blacket borrows using a variable interest rate and US interest rates rise, the company's costs will increase. If Blacket had not forecast this increase, it may lead to an unexpected cost blowout.**

- (c) i) **A depreciation of the Australian dollar will lower the cost of Australian goods in foreign markets. This will increase demand for Blacket's products in China and Japan. However, if Blacket borrows from overseas, and in foreign currency terms the depreciation in the value of the Australian dollar will also increase the cost of servicing its debt.**
- ii) **The signing of a free trade agreement between Sweden and China will reduce the cost of Nokisson's products for Chinese consumers as protection levels are reduced on Swedish products. This is likely to increase Chinese demand for Nokisson's products in favour of Blacket's products.**

### Question 2

- (a) **Free trade agreements are formal agreements between countries which eliminate any barriers to trade such as tariffs or quotas for trade between the countries involved.**
- (b) **The role of the WTO is to implement and advance global trade agreements and to resolve trade disputes between countries. The WTO encourages the development of multilateral trade agreements that lower barriers to trade throughout the world. In addition, the WTO also has the power to authorise countries to instigate trade sanctions against other countries that are acting in contravention of signed trade agreements. However, the proliferation of bilateral and regional trade agreements in recent years has diminished the importance of the WTO as the driver of free trade throughout the globe.**
- (c) **Regionalism can be of significant benefit where it encourages countries with close geographic links to increase their flows of trade. This will allow an improved allocation of resources in these countries, spurring economic growth. Economic regions such as the European Union and the Americas all have formal trade agreements in place, which promote intra-regional trade. This trade can increase the production in member countries and promote economic growth.**

**However, regionalism can also create disadvantages for countries involved. Critics argue that that regional trade agreements made in place of movements to global free trade hinder the broader cause of global free-trade. Although trade may increase between nations in the region, this may occur at the detriment of non-member countries. This may have further repercussions on all countries involved.**

### Question 3

- (a) **Foreign direct investment (FDI) is often considered to be a risky form of global expansion as the business undertaking the investment must accept all of the costs involved. If the overseas expansion fails then the business can face significant losses. Further, businesses undertaking FDI must cope with different social and legal systems with which they may have no experience. This could not only greatly increase business costs but may ultimately lead to business failure.**

- (b) **Varying business practices are a problem faced by any company looking to set up operations in a foreign country. Company's with little or no knowledge of a particular country's business practices can open themselves to poor sales, industrial conflict and perhaps even legal claims.**

**Many developing countries suffer from widespread corruption owing to the existence of poor legal systems. Businesses operating in these countries face a choice between engaging in corruption, which can increase costs directly and may also carry a punishment if authorities find out, or not engaging in corruption in which case the business may find it difficult to operate efficiently which may in the long run result in even higher costs.**

- (c)
- **Burger Barn could benefit from acquiring an existing business in Germany. This would allow them to acquire staff who already have substantial knowledge of German business culture while allowing Burger Barn to maintain full control over operations.**
  - **Alternatively, Burger Barn could sell franchising rights to individual entrepreneurs. These franchisees would be allowed to operate businesses under the Burger Barn name in return for a fee. They would also receive access to intellectual property and support services such as advertising and training for employees. These franchisees would also have greater experience with coping with German business practices.**
  - **Finally, Burger Barn could simply engage in a management contract arrangement with an existing German business. Under this arrangement, Burger Barn would provide the finance and operational expertise to create its chain of fast food businesses, and thus reap the resulting rewards, but its risks would be minimised by leveraging the expertise of the German business in exchange for a fee.**

#### Question 4

- (a) **Recent political movements towards free trade in China in recent years have obviously had a positive impact on Moby's Matches. China's recent entry into the World Trade Organisation was made according to a number of agreements which have increased the ease with which foreign businesses such as Moby's can gain the right to sell products in China, or enter into ventures with existing Chinese businesses.**

**Regionalism appears to be a significant political influence on Moby's Matches' attempts to expand into South America. While Mercusor members appear committed to free trade between themselves, they are reluctant to allow competition from countries outside the regional free trade agreement.**

- (b) **By expanding into the South American market, Moby's Matches is exposing itself to a variety of new socio-cultural influences including differences in language, business practices and consumer tastes. Moby's Matches must conduct extensive market research within South America to determine these socio-cultural influences. It would be helpful to hire experts on South American matches markets as consultants to advise Moby's Matches on the appropriateness of its marketing and products for South American consumers. Moby's Matches could also minimise cultural differences by hiring South American staff in its local operations.**

- (c) **The first legal process that Moby's Matches should use is the domestic courts system in the countries in which it operates. For purely domestic disputes, local courts should be sufficient. Here, Moby would need to ensure it's in-house legal team (if it existed) as well as its hired lawyers had a strong understanding of the particulars of the local legal system.**

**However, if disputes involve businesses that operate in a number of countries, it is often unclear where jurisdiction lies. For this reason it is important for Moby's Matches to insert a clause in all of its contracts explaining which country's laws apply in relation to that contract. In many countries, cross-border legal disputes are subject to the UN Convention on Contracts for International Sale of Goods. The Convention lays down uniform legal rules that apply to most contracts for the trade of goods between countries. However, the convention only applies to countries that have agreed to be bound by it. When businesses cannot, or choose not to accept UN conventions, they may seek third party intervention from bodies such as the International Court of Arbitration. However, because international mechanisms are sometimes unable to enforce their decisions, it is often to mutually beneficial to resolve disputes before they reach the arbitration stage.**