

14 Globalisation

Matching

Definitions	Terms
A market in which individuals seeking employment interact with businesses	Labour Market
The process of reducing government restrictions on financial flows between economies	Financial Deregulation
A market in which businesses sell finished goods and services to individuals	Consumer Market
A market in which businesses can trade money, shares and other assets	Financial Market
Businesses that are owned and have production facilities in more than one country.	Transnational Corporation
A good or service that is sold in a country other than in the one where it was produced	Export
The establishment of a new business or purchase of an existing business in another country	Foreign Direct Investment
The process of increasing integration between different economies	Globalisation
Purchasing shares in other companies	Portfolio Investment
The price of one country's currency in terms of another currency	Exchange rate

True or False

- | | | |
|----------|---------|-----------|
| 1. True | 5. True | 9. False |
| 2. False | 6. True | 10. False |
| 3. False | 7. True | |
| 4. False | 8. True | |

Multiple Choice

- 1 B Trends in global trade since World War II
- 2 B Drivers of globalisation
- 3 A Drivers of globalisation
- 4 D Interaction between global business and Australian domestic business
- 5 C Trends in global trade since World War II
- 6 C Drivers of globalisation
- 7 D Drivers of globalisation
- 8 D Drivers of globalisation
- 9 C Drivers of globalisation
- 10 D Nature and trends – consumer markets
- 11 C Trends in global trade since World War II
- 12 C Drivers of globalisation
- 13 D Nature and trends – labour markets
- 14 C Drivers of globalisation
- 15 D Drivers of globalisation

Short Answer Questions

Question 1

- (a) A major trend in world trade in the past 40 years has been the growth and development in regional trading alliances. These include the European Union which now has achieved economic union of most European countries, APEC which is a trading bloc of 20 nations in Asia and the Pacific basin and Closer Economic Relations which is a trade alliance between Australia and New Zealand
- (b) Consumers benefit from the development of global consumer markets through the availability of cheaper goods. As globalisation progresses, there are fewer barriers to trade. This means that the goods traded are cheaper. A second benefit is that physically more goods are traded because of the reduction in trade barriers. This increases the quantity and range of goods traded.
- (c) If the domestic business sources any of its inputs from overseas there will be a significant impact on the domestic business. With the expansion of global trade and the reduction of tariff barriers, this could mean that the domestic business could buy its inputs cheaper. Currency fluctuations will affect domestic businesses. When the dollar depreciates against other currencies, inbound tourism will increase and domestic business sales should rise although imported inputs will rise in price. When the dollar appreciates, tourism will decrease, sales may fall, but the cost of imported inputs should also fall.

Also, globalisation has led to increased competition in the domestic market. Domestic and foreign businesses are vying for the domestic market.

Question 2

- (a) A major change has been the deregulation of markets around the globe allowing for the easier flow of funds. Combined with this is the use of electronic technology to transfer funds and settle debts as well as to make available large pools of investment funds in the global capital markets from insurance companies and superannuation funds
- (b) Before the 1980s, the type of business that succeeded globally was those businesses that achieved production economies of scale. That is they mass-produced their output and sold to a mass market in a number of countries. Technological developments changed this and made it efficient for businesses with much lower volumes of

production to source inputs, take orders and sell product in global niche markets. Technological developments such as inventory systems have improved efficiency on a global scale.

- (c) Transnational corporations (TNCs) are not a new phenomenon and are significant as drivers of globalisation. One reason TNCs developed was to try to avoid laws, taxes, tariffs and other forms of protection nation states established to protect domestic industries. Through foreign direct investment many TNCs were able to penetrate the borders of many nations and operate within the barriers of these nations, using strategies such as transfer pricing and tax havens to avoid financial loss to sovereign governments. Gradually many global businesses saw other advantages of the TNC form of entity, such as cushioning economic cycles, finding new markets, minimising competitive risk and achieving economies of scale.

Question 3

- (a) Deregulation is the removal of regulations, especially government regulations which interfere with the free operation of markets. An example is the removal of trade barriers such as tariffs, quotas and subsidies to allow free trade.
- (b) (i) Reduced government intervention has contributed to growth in financial markets. When many governments removed exchange controls (which restricted the amount of trading domestic currencies for foreign currencies) and deregulated foreign exchange markets this had the impact of expanding the flow of funds traded in the global foreign exchange, debt and equity markets.
- (ii) The main government intervention in labour markets has been through immigration restrictions by not allowing workers from another country to work in another country. Another restriction is the refusal to recognise qualifications earned in another country. In many cases these restrictions have been eased, especially in regional trading blocs such as the European Union, so that there is now much greater cross-border movement of labour.
- (c) One problem that an internationalised labour market can solve is a shortage of skilled labour. With cross-border movement of labour now more viable, businesses can now offer skilled workers short- or long-term contracts.

An internationalised labour market, however, now requires minimum standards, such as the ability to read and write or to speak a particular language. With freer movement of workers across borders, those who meet the minimum standards requirements will be the ones most likely to be placed in the best jobs.

Another impact of an internationalised labour market are the differences in labour laws between countries. These laws set standards of anti-discrimination, occupational health and safety, industrial relations frameworks and minimum training and development levels within an industry.