

What are the
implications of
globalization for
international business
enterprises...



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Australia provides a very good example as to a nation who has benefited tremendously from globalization. In 1986 it unilaterally lowered its tariffs. As a result, exports have soared, particularly in newly competitive industries such as manufacturing. It is noteworthy that wages in the new export sectors of manufacturing are 25% higher on average than those that simply service the domestic market. Manufacturing has doubled its share of Australia's exports over the last 20 years. Australia has a strong vested interest in further trade liberalization, particularly in agriculture.

Australia has made common cause with developing countries such as Brazil and Argentina to press for agricultural liberalization, as this would have the benefit of opening American and particularly European markets. It is estimated that if protection levels around the world were reduced by 50%, the benefit to Australia would be more than \$7 billion a year. Australian companies investing abroad are helping to create employment and wealth in those countries, in the same way that foreign investment helps to create wealth here. For every dollar invested in Australia, 96 cents remains, including 50 cents in wages, according to the Australian Government Department of Foreign Affairs and Trade.

Implications of Globalization for International Business Enterprises based in Australia

Australia has embraced globalization and has been removing its trade barriers to accommodate international trade and higher levels of foreign direct investment. This has naturally caused a certain number of implications for international business enterprises based in Australia. Since the early 20th

century, multinational enterprises have dominated the Australian economy. Most of the multinational enterprises that operate in Australia produce their goods and services to be consumed domestically and not to be exported abroad.

The main foreign investors in Australia comprises of American, British and Japanese enterprises. As Australia reduces its tariffs and removes its trade barriers, these main foreign investors find it more attractive to undertake foreign direct investment in Australia. By setting up their companies and production facilities in Australia, Australia has gained a lot. This includes a stronger industrial base, higher productivity, better access to international markets and new technologies, and more competitive manufactured and services exports.

Australia subscribes to the 1976 Declaration of the Organization for Economic Cooperation and Development (OECD) concerning International Investment and Multinational Enterprises. According to the Australian Company Commercial Guide 1998, like the U. S., Australia provides no direct federal tax incentives for investment in the country. Those incentives which are available apply equally to foreign and domestic investors. Australia traditionally has accorded a uniform 5 percent tariff preference to developing countries.

In addition, it maintains a preferential arrangement with South Pacific Forum nations, and has bilateral trade agreements with Papua New Guinea, New Zealand, Malaysia and Canada. The developing country rate for all but the least developed countries, including the South Pacific Island Territories, is

being phased out and will be brought in line with other tariffs in conjunction with Australia's overall program of tariff reduction. These tariff reductions and anti-discrimination between investing nations shows that Australia is embracing globalization and is striving to work towards better integration of globalization into its financial and economic system.

A closer look into New Zealand companies operating in Australia will help us determine the implications that globalization has cause for foreign based enterprises in Australia. New Zealand and Australia has very close ties and its Closer Economic Relations Agreement (CER) is acknowledged by the World Trade Organization to be one of the most successful and comprehensible free trade agreements in the world. According to Mark Vaile's speech on August 2003, the objectives of the agreement are to expand free trade by eliminating barriers to trade and promoting fair competition. It actually, achieved its objective of removing tariffs and quantitative restrictions from trans-Tasman trade in goods by 1990, which is five years ahead of schedule, and since 1988, it has covered trade in services as well as commodities.

Bilateral trade alone between Australia and New Zealand has expanded five-fold since the signing of the original agreement in 1983, to over \$16. 2 billion in 2001/02. New Zealand is now Australia's fifth largest export market, and Australia is New Zealand's principal trading partner. Trade has grown at approximately 9 percent per annum over the past decade. Australia is now the largest foreign investor in New Zealand, with investments worth more than \$21 billion, while New Zealand has over \$12 billion invested in

Australia, making it the ninth largest source of investment in this country.
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The CER has brought two economies together into what is virtually a single market. Australians and New Zealanders are banking at the same banks, driving the same cars, buying the same white goods, and even eating the same foods. In addition to underpinning bilateral trade and investment, CER is a framework for economic integration across a spectrum of activities.

This agreement has helped many New Zealand companies take advantage of new markets in Australia caused by the removal of trade and investment barriers. For example, Fisher & Paykel is a New Zealand based international company that produces mainly household appliances such as washing machines and refrigerators. In 1990, Fisher & Paykel expanded its operations into Australia when its production plant opened in Cleveland, Queensland. Originally employing 78 people, Cleveland now employs more than 400 people. Products from Cleveland are part of Fisher & Paykel's successful export push into the United States, the UK and other markets. Australia is Fisher & Paykel Appliances' strongest individual market, where it is positioned at the high end of the mass market. The market accounted for 48% of the company's total appliance sales for 2002. An important sales milestone was also achieved in 2002 with 512, 000 units, according to the case study in Trans-Tasman Business.

Another very good example of a New Zealand company that benefited from the Closer Economic Relations Agreement (CER) between New Zealand and Australia would be Ullrich Aluminium Company Unlimited. Ullrich Aluminium, an Auckland-based manufacturer of aluminium building products and extrusions, has expanded its business by opening an Australian operation and using it to expand to other markets. After first exporting to Australia, <https://assignbuster.com/what-are-the-implications-of-globalization-for-international-business-enterprises-based-in-australia-essay-sample/>

Ullrich Aluminium opened an Australian operation in 1987, which is now the base for its exports to the Indian Ocean, Papua New Guinea, East Timor, Guam and Micronesia; these findings being based on the case study in Trans-Tasman Business.

Australia is involved in many trade agreements such as the CER agreement even though some may not be as successful as some of the others. Australia has trade agreements multilaterally through the World Trade Organization (WTO), regionally through Asia Pacific Economic Cooperation (APEC), and bilaterally by negotiations on free trade agreements with countries such as Singapore, United States of America, Thailand, Japan and China. These agreements will clearly benefit foreign enterprises from these respective countries the same way free trade has benefitted those New Zealand companies that were reviewed earlier. This goes to show that globalization has induced higher levels of foreign direct investment into Australia, encouraging new foreign enterprises to invest in Australia and also the pre-existing foreign enterprises in Australia to experience growth.

Conclusion

Australia in the past decade or so, has been taking steps toward reducing trade and financial barriers, in other words Australia has embraced the concept of globalization. Australia seems to be a popular place for foreign direct investment due to its nation's vast amount of natural resources and also its extremely sound infrastructure in telecommunications and information technology. Foreign companies whom have undertaken its operations in Australia have experienced growth and success due to

Australia's reduced trade policies and lowered tariffs. Thus it can be said in general that globalization has had an overall positive impact on foreign enterprises based in Australia and this will encourage more foreign direct investment and new foreign enterprises to emerge in Australia.