Chapter 22

The effects of globalisation

Key terms

1. Transfer pricing: an accounting technique used by TNCs to reduce tax on profit
2. Tax avoidance: when an individual or firm deliberately manipulates the tax system to pay less than the faire amount.

1. **The possible benefits globalisation**

1. Increased economic growth

- Globalisation can contribute actual and potential economic growth.
- Competition can force firms to keep costs down to remain competitiveness. It will increase SRAS and LRAS.

2. Increased tax revenue

- MNCs contribute corporate tax revenue and income tax revenue to the government.
- However, tax revenue as a percentage of GDP is much lower in developing countries than in developed countries. The tax revenue also depends on efficiency of tax collection. Also, MNCs may avoid paying tax.

3. Economies of scale.

- Firms can sell large amount of product in the world market, which allow them to gain benefits from economies of scale.

4. Lower prices and higher consumer surplus.

- Globalisation influences some productions are switched from high cost locations to low locations, causing price of goods and services to be lower.

5. More choice

- The availability of goods and services has considerably increased with globalisation so there is more consumer choices.

6. Higher living standards.

- Gobalisation can contributed real GDP per capita which implies that people's living standard is improved. Many productions have moved to developing countries, this increases living standards.

2. Possible costs of globalisation

1. Displaced workers.

- Many manufacture moved from western Europe and the USA to countries such as China has led to job loss in the developed countries.
- Immigrants may replace same local workers and push down wage rate for low skilled jobs.

2. Exploitation of workers.

- MNCs may treat their workers unfairly such as poor working condition.

3. Environment impact of increased trade

- Rising in export can cause resource waste and pollution.

4. Loss of tax revenue.

- MNCs may avoid paying tax by transfer pricing, setting up an office in a low tax countries and transferring production facilities to a low tax countries.

5. Increased income inequality

- Globalisation is shifting workers to different locations around the world. High skilled workers are highly demanded, because there are few workers with these skills, then they are likely to get high wage. This results in inequality.

6.The influence of TNCs on domestic economic policy

- Transnational companies are able to influence government policies by using bribery

Exercise

1. Evaluate whether globalisation has been beneficial for both developed and developing countries. (25 marks)