

# **Tariff Barriers in Australia**

**The Impact on an MGM Mirage Global Venture**

**Don Chan**

**AMBA 604, Section 9004**

**Professor Fawcett**

**February 5, 2006**

## Introduction

For any company to expand operations globally, evaluating the potential market environment is a must. They need to assess the host country's political, economic, legal, social, and governmental structures and practices to identify how these factors will affect their operational performances. From these findings they will be able to determine whether they have absolute, comparative, and/or competitive advantage.

One of the factors that will be addressed in this paper is the international trade tariffs associated with MGM Mirage doing business in Australia. Both Australia and United States (corporate headquarter of MGM Mirage), have signed the World Trade Organizations (WTO) trade agreements on reducing barriers to trade of products and services. The two countries are similar to each other in terms of having highly developed economics, standards of living, and spoken languages. In addition, their social, legal, and political structures are comparable. Australia is a member of APEC (Asia Pacific Economic Cooperation), which consists of 21 nations in the Asia Pacific region whose goal is reducing trade barriers and promoting economic development. The membership of Australia in the APEC and WTO is favorable to their business environment providing very low tariffs for foreign firms, thus an advantage for MGM Mirage wishing to do business in Australia.

An important assessment to determine the feasibility of investing in a foreign country is an understanding of the political economy of international trade and the associated political risk in that country. As described by Hill (2006), political risks are any adverse changes in the political environment that would impact the business

environment unfavorably. An example would be a trade policy change that substantially increases tariffs; another is to understand the international trade theory.

There are three advantage theories describing international trade that determine how a country will succeed and be competitive over other countries. The three theories are absolute advantage, comparative advantage, and competitive advantage. In order for MGM Mirage to determine if it should invest in Australia, it must determine what advantages Australia can offer, the advantages that other global competitors may have and what are MGM Mirage's strengths as a U.S. based company.

According to Hill (2006) a country has reached absolute advantage when it's the most efficient manufacturer of a product in the global environment. Per Casino City (2006), there are over 3,100 casinos of various sizes operating worldwide, and thus the United States does not have an absolute advantage. Comparative advantage is achieved when a country enjoys high-level of efficiency in a number of industries and only manufactures what it can produce most efficiently. Countries can produce items that are manufactured most efficiently even though it may not be as efficient as another country. These countries would then trade for the benefit from the higher levels of production. As defined by Hill (2006) to achieve competitive advantage, a country must have four attributes consisting of (1) factor endowments (skilled labor and compete infrastructure), (2) demand conditions (nature and level demand), (3) relating and supporting industries (partners, vendors, and suppliers that are globally competitive), and (4) firm strategy, structure, and rivalry (market conditions and how company's responses).

With MGM Mirage based in the United States, it enjoys a competitive advantage due to consolidation of the industries, having a large population base to pull skilled workers, an extensive network of partners and suppliers for providing glamorous entertainment, and the availability of capital resources. MGM Mirage faces intense domestic competition from both domestic and global casinos as well as domestic market deregulation allowing more competition has forced them to improve their organization's operational efficiency.

### **Tariff Barriers**

International trade tariff barriers are costs or actions by a government that increase the price of products or services imported into a country. Since the 1970's, Australia has steadily pursued the course of trade liberalization, more flexible labor practices, and deregulation (APEC, 2006). APEC members are working to eliminate tariff and non-tariff barriers to create an open free trade zone. Australia and the United States are signatories of the WTO Agreement on Technical Barriers to Trade and the General Agreement on Trade in Services or GATS. The GATS requires members to achieve progressively higher levels of liberalization of services trade through greater market access via coordination and standardization of policies and practices.

Tariff code is based on the Harmonized Description and Coding System or HS to classify the product for international trading. The HS code from the APEC tariff database for gaming or casino products is 9504. The tariff rate is 5% for all dutiable gaming products such as poker and gaming machines that are imported into Australia (APEC Australia tariff, 2006). There are no other importing fees such as customs, taxes, and harbor fees.

### **Advantages MGM Mirage Will Enjoy In Australia**

Australia's country environment offers a great opportunity for MGM Mirage to expand globally. The nation has one of the lowest tariffs in the Asia Pacific region and has established gaming laws for regulating gambling (Australia Parliamentary Library, 2001). Its entertainment and gambling industry, specifically casino and resorts, is growing throughout the Asia Pacific region.

MGM Mirage enjoys advantages over domestic casinos in Australia. One advantage is the relatively small Australian population of over 25 million according to the CIA (CIA, 2004). Local businesses suffer from the effects of a limited market. Another advantage for MGM Mirage is how fragmented the current casino industry appears and how it is dependent on tourism. Lastly, the casino organizational design in Australia (e.g. supporting infrastructure, skills labors) is similar to U.S. The ability for one or two casino businesses to compete for and attract consumers is highly competitive and costly. MGM Mirage, as the world largest casino and resort company, would have an increased advantage of being integrated, cost-effective and customer oriented in the Australian market.

### **Closing**

Australia offers an ideal opportunity for expansion or investment for MGM Mirage. The country has very low tariffs and is a member of the APEC, an organization to lower trade barriers and promotes free trade. Australia also is a signatory to the WTO General Agreement on Trade in Services which requires members to achieve progressively higher levels of liberalization of trade in services through greater market access. According to Australian Bureau of Statistics (2000), the gambling industry has

grown enormously in the 1990's with gambling expenditures over \$11 billion Australia dollars. In addition to the growing gambling industry and the large market demand for the services and gaming products that MGM Mirage offers, Australia offers a very stable political environment and growing economy due to the promotion of trade liberalization.

## References

- Asia-Pacific Economic Cooperation (APEC). (2006). Australia Tariffs. Retrieved January 30, 2006 from <http://www.apectariff.org>.
- Asia-Pacific Economic Cooperation (APEC). (2006). APEC Australia Economy Information. Retrieved January 30, 2006 from <http://www.apectariff.org>.
- Australian Bureau of Statistics. (2000). Gambling in Australia. Retrieved January 31, 2006 from <http://www.abs.gov.au/ausstats/ABS@.nsf/90a12181d877a6a6ca2568b5007b861c/99d3b5096368c2e9ca2569de002842b7!OpenDocument>.
- Australia Parliamentary Library. (2001) Gambling Policy and Regulation. [http://www.aph.gov.au/library/intguide/SP/gambling\\_ebrief.htm](http://www.aph.gov.au/library/intguide/SP/gambling_ebrief.htm).
- Casino City. (2006). Worldwide Casinos, Horse Tracks and Other Gaming. Retrieved January 31, 2006 from <http://www.casinocity.com/casinos/>.
- Central Intelligence Agency (CIA). (2004). World Fact Book - Australia. Retrieved January 31, 2006 from <http://www.odci.gov/cia/publications/factbook/geos/as.html>.
- Hill, C.W.L. (2005). International business with Global Resource CD, PowerWeb and World Map (5th ed.). New York: McGraw Hill.
- MGM Mirage. (2006). MGM Mirage 2003 Annual Report. Retrieved January 16, 2006, from [http://media.corporate-ir.net/media\\_files/irol/10/101502/reports/MGM MirageAnnualReport2003.pdf](http://media.corporate-ir.net/media_files/irol/10/101502/reports/MGM MirageAnnualReport2003.pdf)