

# BSM 933 - International Business

## Lecture 1

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# Globalisation

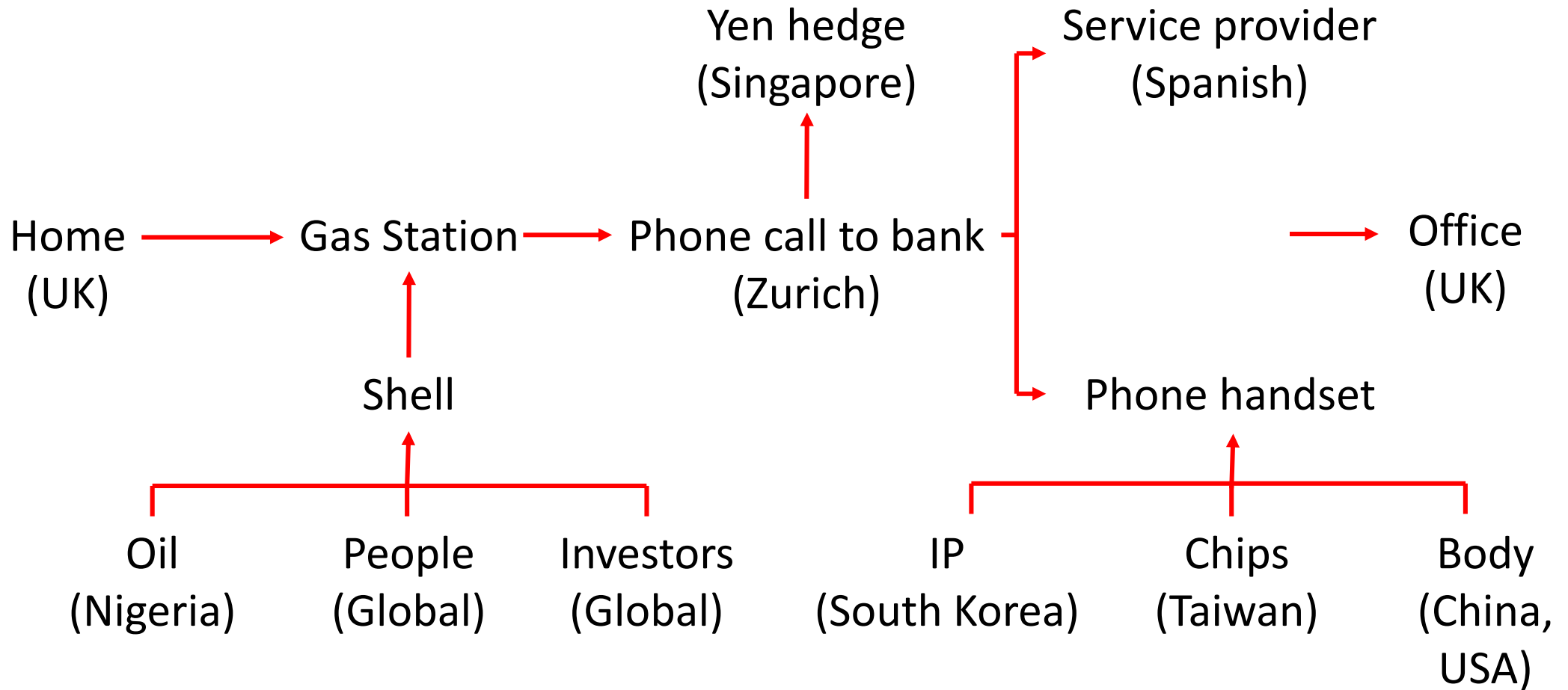
## Working definition

“ Globalisation describes a process by which national and regional economies, societies, and cultures have become integrated through the global network of trade, communication, immigration and transportation.

In the more recent past, globalisation was often primarily focused on the economic side of the world, such as trade, foreign direct investment and international capital flows, more recently the term has been expanded to include a broader range of areas and activities such as culture, media, technology, socio-cultural, political, and even biological factors, e.g. climate change.

# Globalisation

## Visualising the phenomenon



# Globalisation

## Typology

- Globalisation of markets
  - In the USA, about 90% of the firms that export have fewer than 100 employees
  - Global markets are less about consumer products and more about industrial products that have uniformity globally
- Globalisation of production
  - About 30% of Boeing's 777 aircrafts were made outside the USA, and the corresponding figure for 787 aircrafts was 65%

# Globalisation Drivers

- Falling barriers to trade and investment
  - Current and capital account convertibility
- Technological change
  - Computing power and Moore's Law
  - Internet (quality and speed of data transmission)
  - Transportation technology (jet aircraft, super freighters, containerization)
- Financial engineering and institutional development
  - Ability to hedge financial risks
  - Lower transactions cost of doing business

# Globalisation

## Hypotheses (myths?)

- It leads to downward pressure on wages
- It leads to a “race to the bottom” and MNEs move to countries with low wages
- It is irreversible
- Openness to globalisation will, on its own, deliver economic growth
- The role of the state will continue to shrink

# Globalisation

## Attitudes to trade and MNE investment



# Globalisation in numbers

## Overview



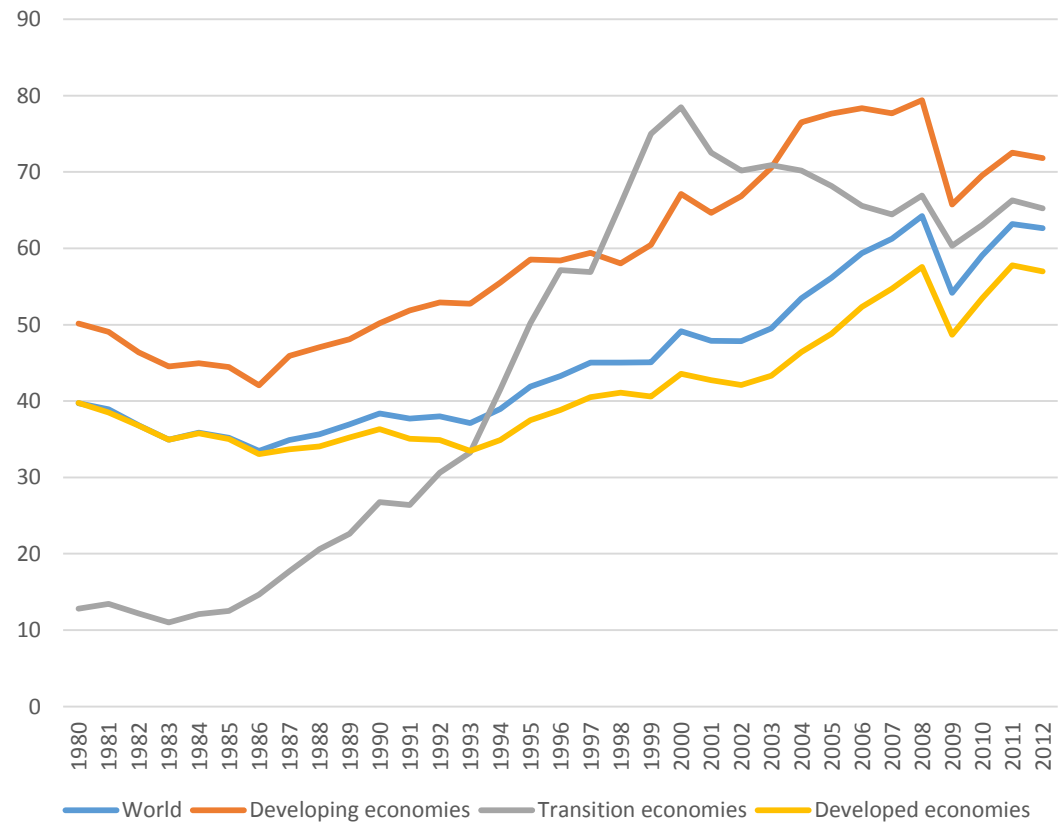
- The value of trade (goods and services) as a percentage of world GDP increased from 42.1% in 1980 to 62.1% in 2007
- Foreign direct investment increased from 6.5% of world GDP in 1980 to 31.8% in 2006
- The stock of international claims (primarily bank loans), as a percentage of world GDP, increased from roughly 10% in 1980 to 48% in 2006
- The number of foreign workers has increased from 74 mn people (2.4% of world population) in 1965 to 191 mn people (3.0% of world population) in 2005



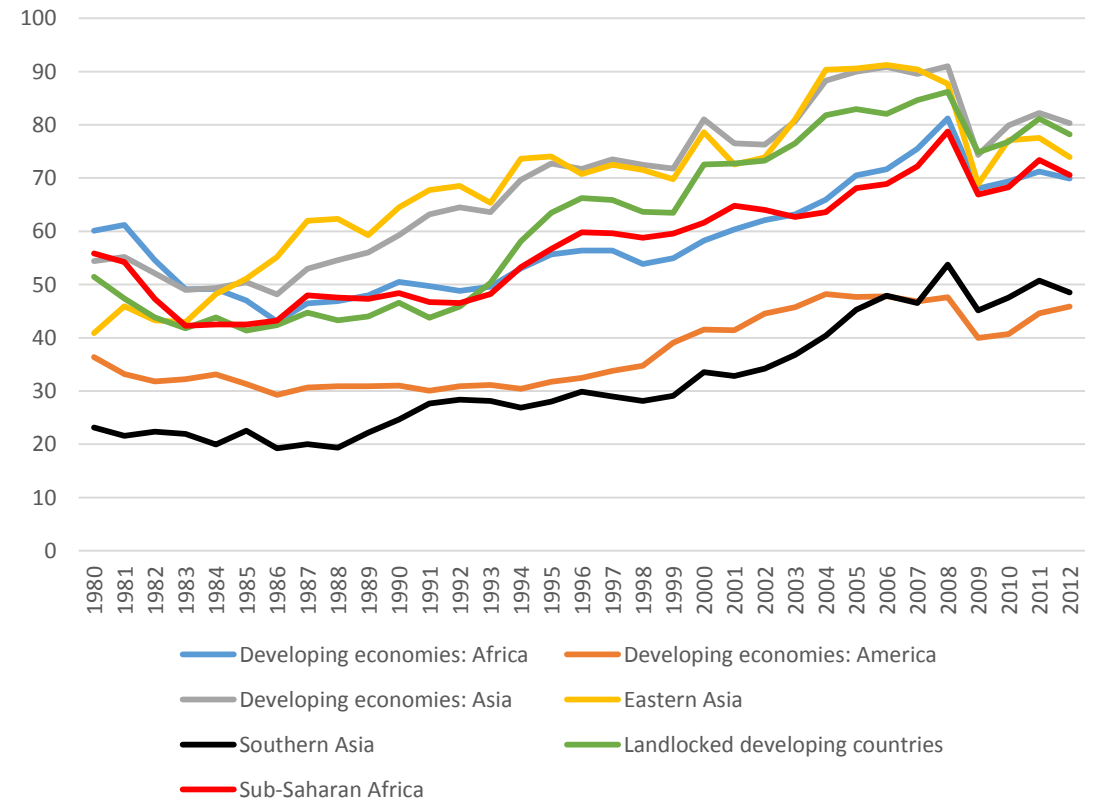
# Globalisation in numbers

## Trade in goods and services

Trade openness: exports & imports (% of GDP)

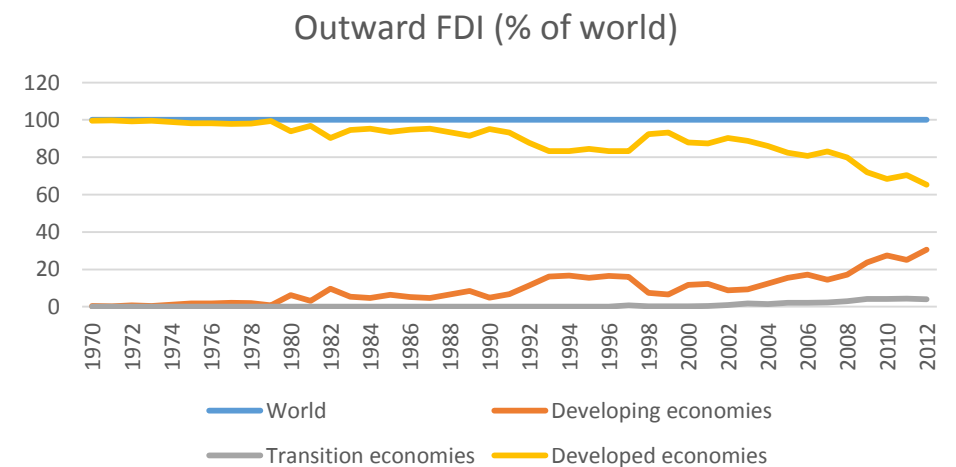
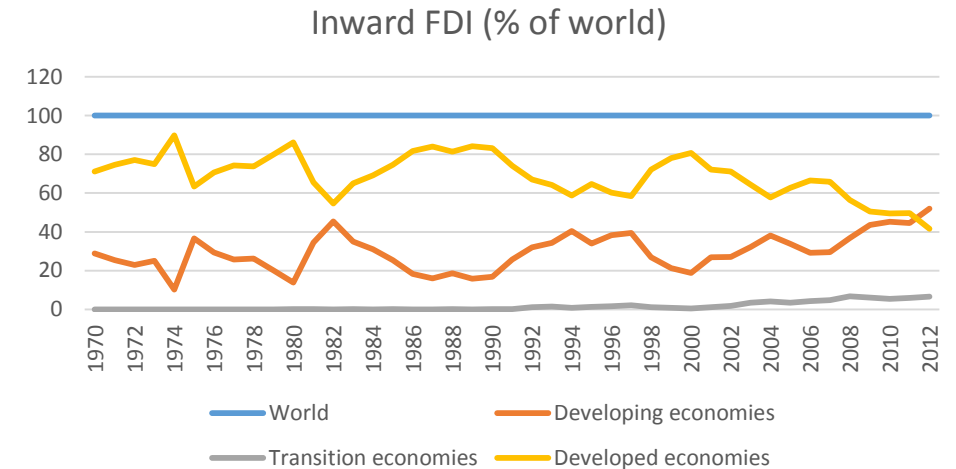
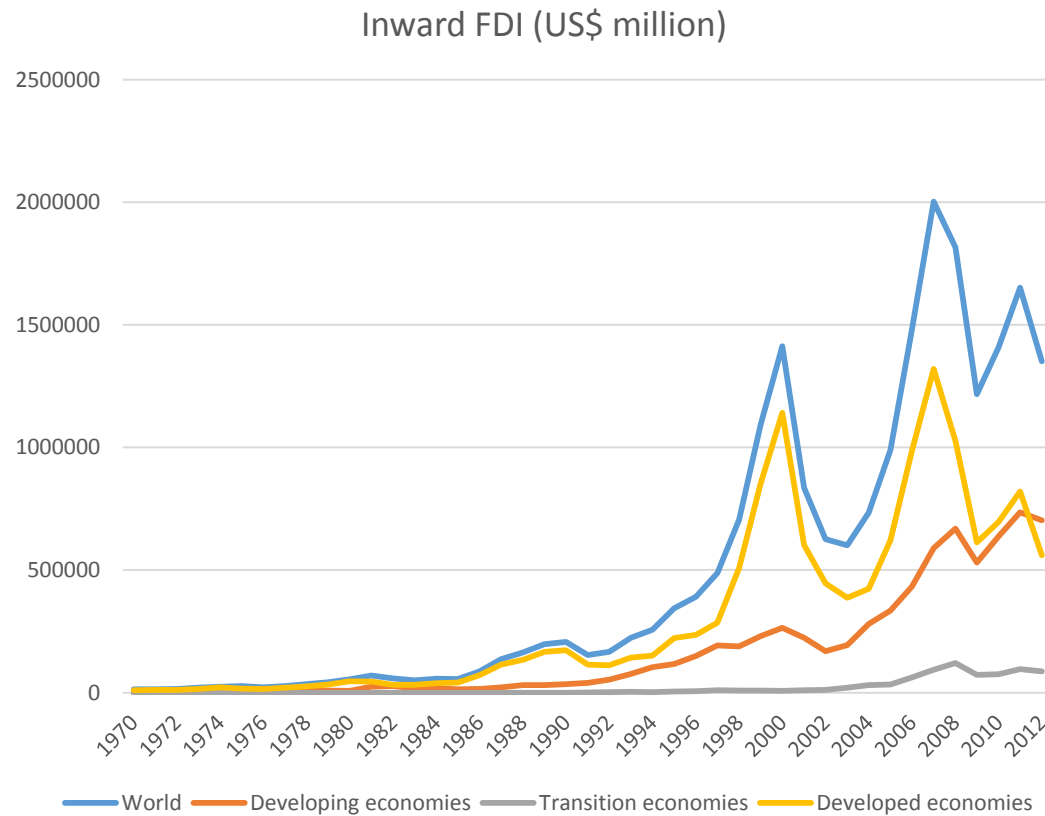


Trade openness among developing countries



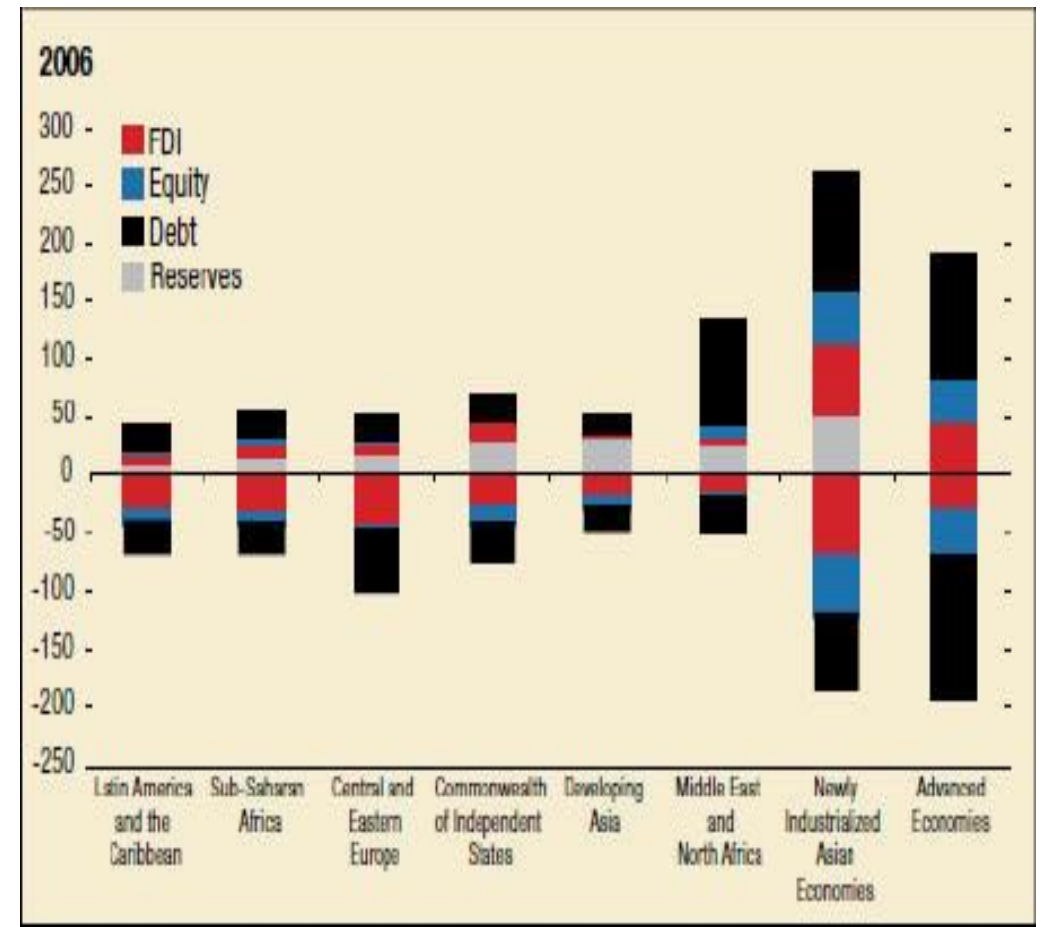
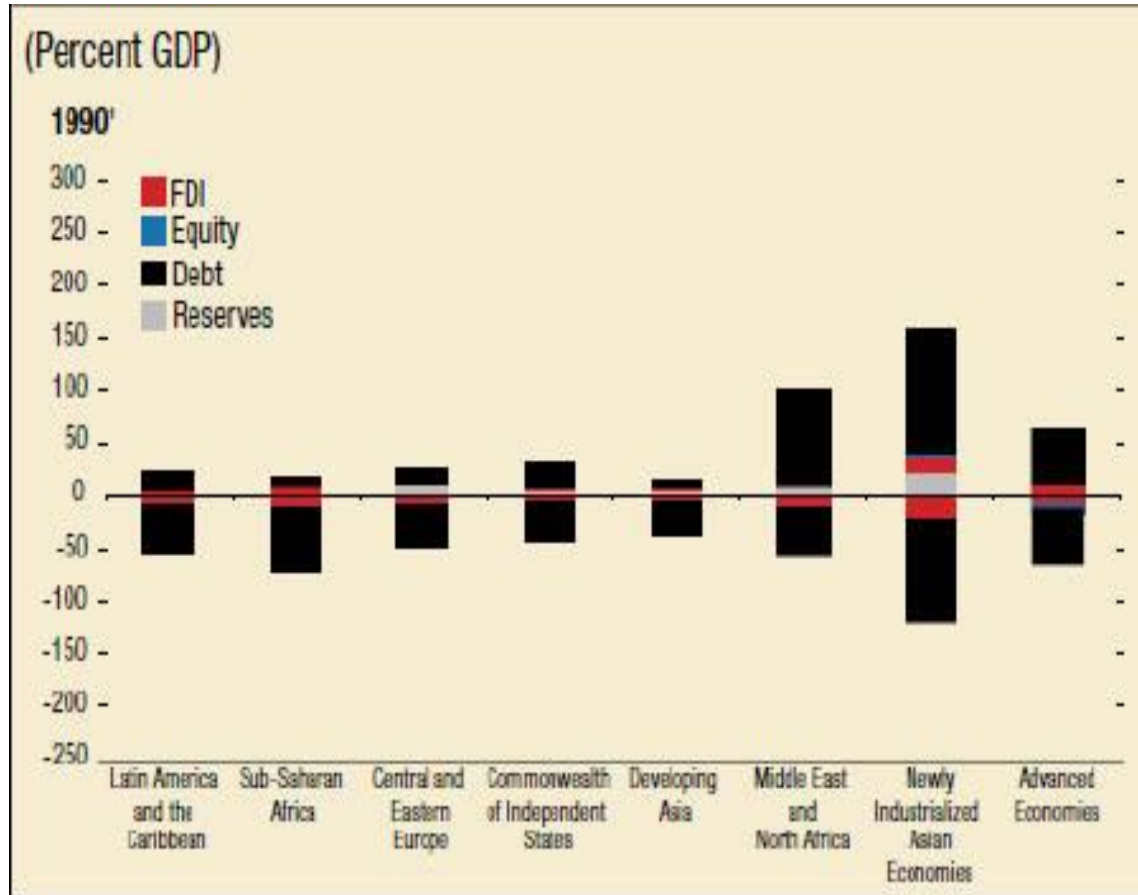
# Globalisation in numbers

## Foreign direct investment



# Globalisation in numbers

## Cross border capital flows



# Globalisation

## Trends over time – 19<sup>th</sup> & 20<sup>th</sup> centuries – I

World	1850 - 1913	1950 - 2007	1950 - 1973	1974 - 2007
Population growth	0.8 <sup>a</sup>	1.7	1.9	1.6
GDP growth (real)	2.1 <sup>a</sup>	3.8	5.1	2.9
Per capita	1.3 <sup>a</sup>	2.0	3.1	1.2
Trade growth (real)	3.8	6.2	8.2	5.0
Migration (net) Million				
USA, Canada, Australia, NZ (cumulative)	17.9 <sup>a</sup>	50.1	12.7	37.4
USA, Canada, Australia, NZ (annual)	0.42 <sup>a</sup>	0.90	0.55	1.17
Industrial countries (less Japan) (cumulative)	...	...	...	64.3
Global FDI outward stock, year			1982	2006
FDI as % of GDP (world)	...	...	5.2	25.3

a ....

# Globalisation

## Merchandise exports as percentage of GDP

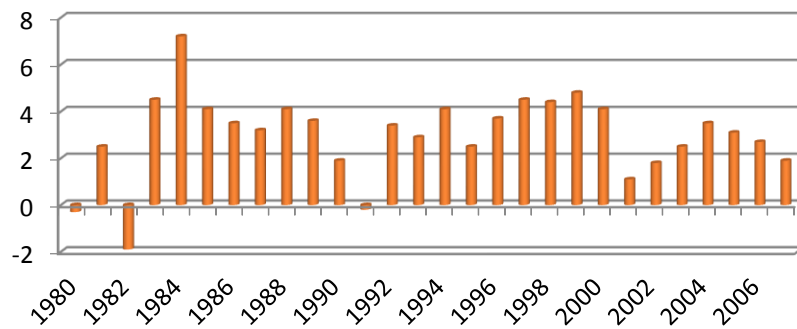
	Western developed countries <sup>a</sup>	United States	Western Europe	Japan
1870	...	5.4	13.6	...
1890	11.7	6.7	14.9	5.1
1913	12.9	6.4	18.3	12.5
1929	9.8	5.0	14.5	13.6
1938	6.2	3.7	7.1	13.0
1950	7.8	3.8	13.4	6.8
1970	10.2	4.0	17.4	9.7
1992	14.3	7.5	21.7	8.8

<sup>a</sup> The Western Developed countries include all of Western Europe excluding Yugoslavia, United States and Canada, Australia, New Zealand and Japan

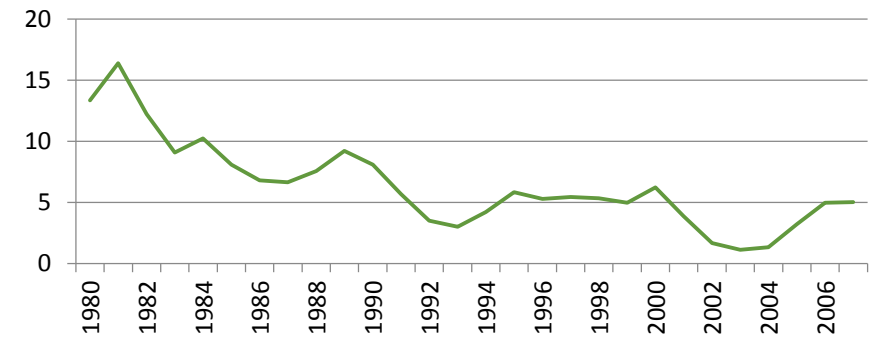
# Reality of globalisation

## Interconnectedness of economies – I

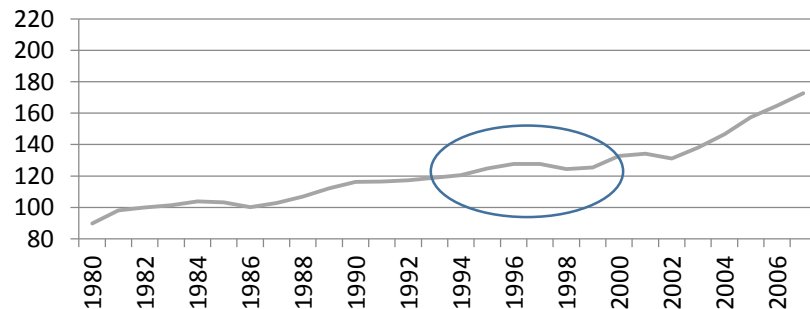
Real GDP growth in the USA (yoy)



Effective federal funds rate in the USA



Producer price index in the USA  
(value on January 1)



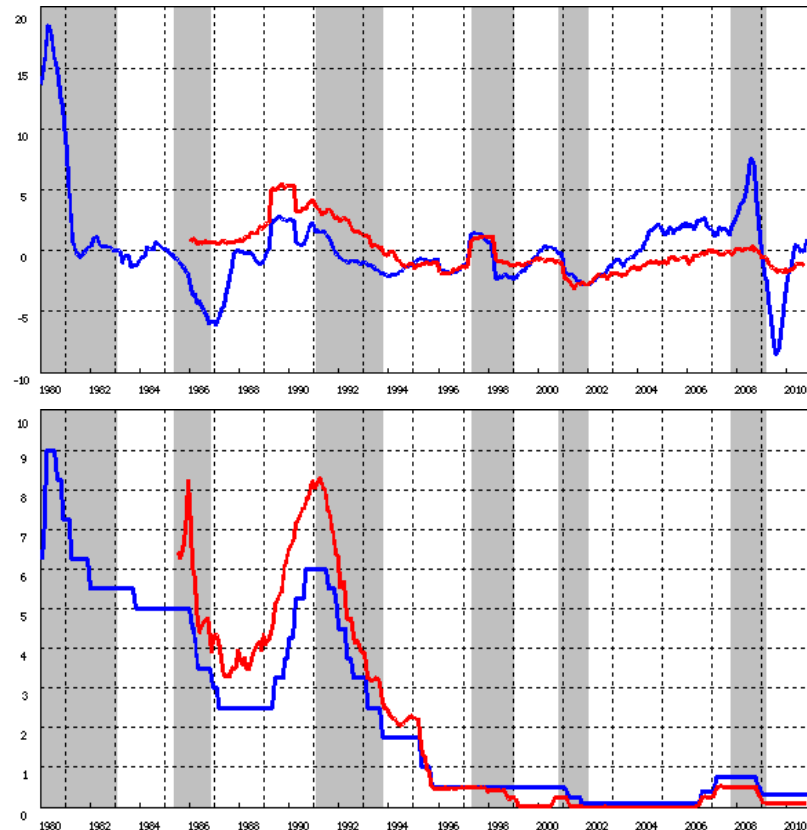
USA has a goldilocks economy, but policy mistakes are being made ....

- Loose monetary policy
- Glass-Steagall Act repealed in 1999 through the enactment of Gramm-Leach-Bliley Act
- Regulations not keeping up with the pace of financial engineering

# Reality of globalisation

## Interconnectedness of economies – II

**Inflation and interest rates in Japan**



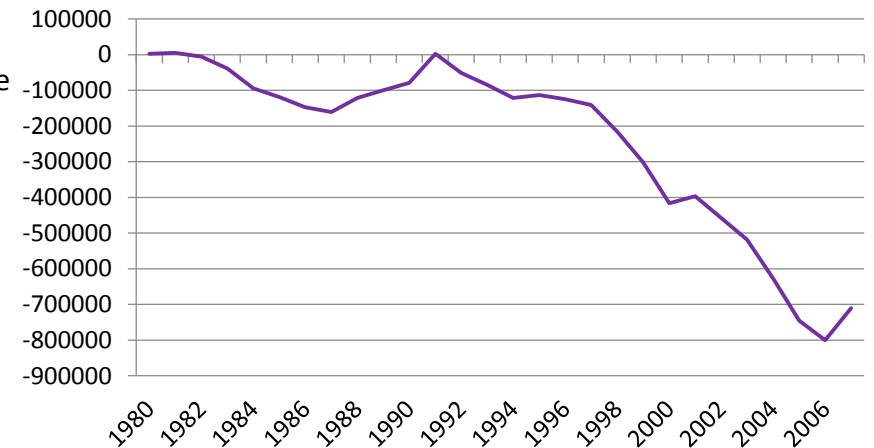
**Deflation**

- Domestic corporate goods price index
- Corporate services price index

**Low interest rate**

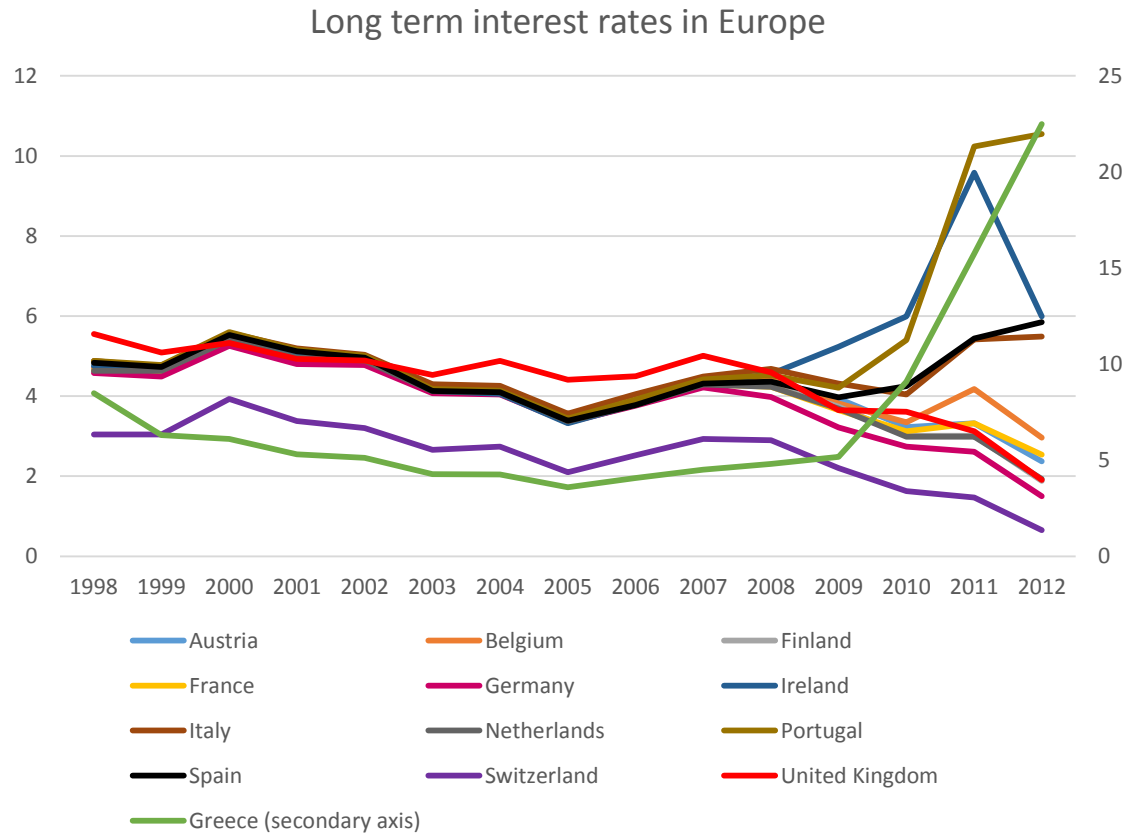
- Basic discount rate & Basic loan rate
- Uncolloateralized call rates

**Current account deficit in the USA (million USD)**



High growth in the USA and low interest rate in Japan makes it lucrative to invest Japan and China's current account surpluses into US assets ....

# Reality of globalisation Risks



Source: OECD – StatExtracts

## Risks of globalisation:

- Interest rate risk
- Exchange rate risk
- Political risk
- Supply chain/operational risk
- etc ....

## Risk of not globalising:

- Obliteration by way of competition



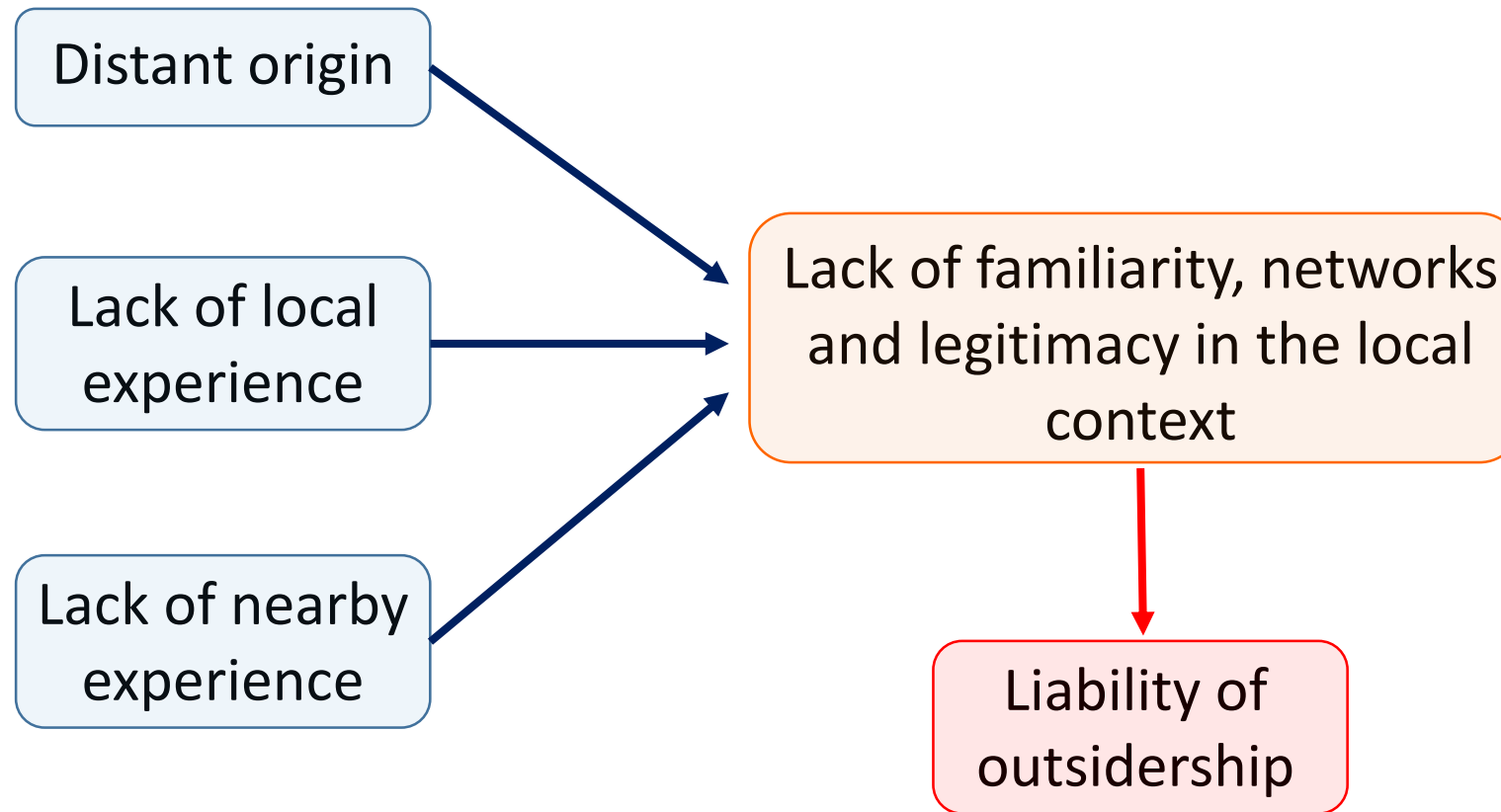
# Reality of globalisation

## Challenges

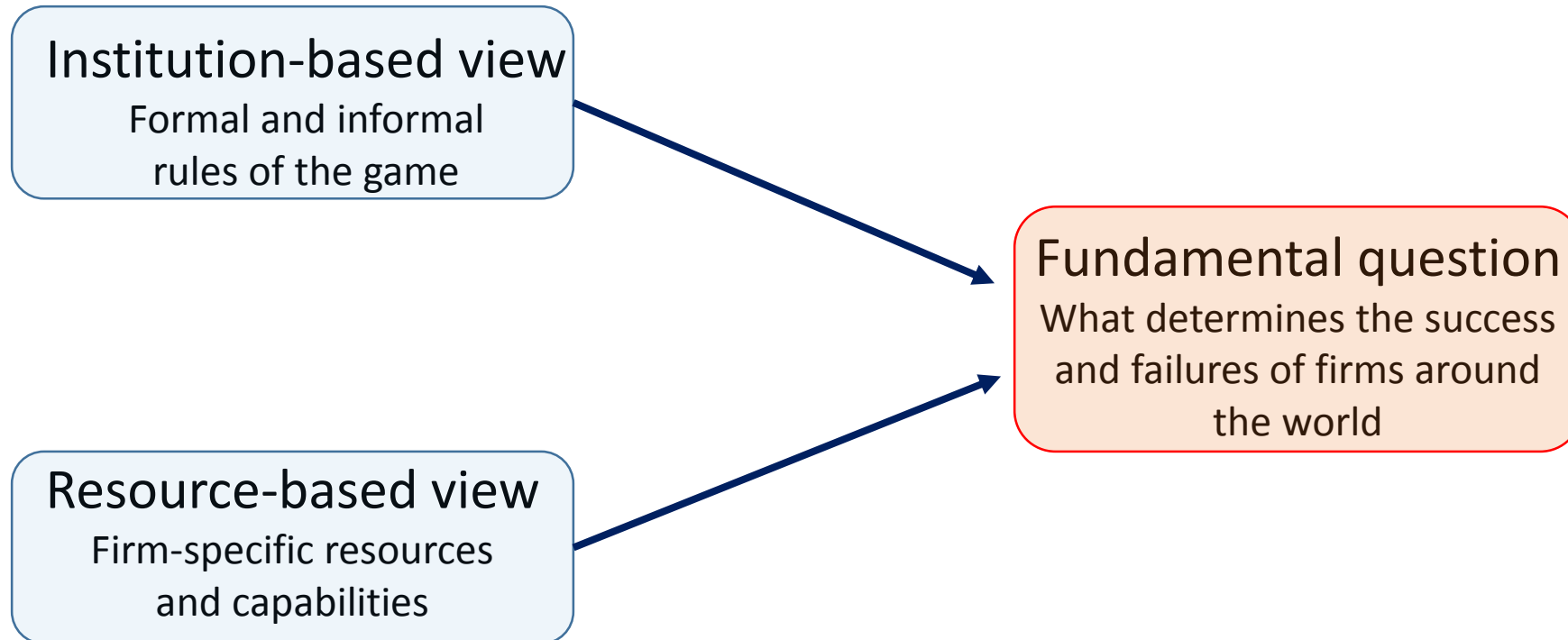
- Managing differences
  - Culture
  - Political system
  - Legal system
  - Level of economic development
- Ethical issues
  - Differences in labour and environmental standards
  - Differences in levels of corruption

# Reality of globalisation

## Liability of outsidership



# Fundamental question



# Alignment with module objectives

- Provide a systematic understanding of the fundamental aspects of the global business environment that influence business decisions and behaviour
- Provide a basic understanding of the challenges and opportunities involved in the operation of multinational enterprises