INTERNATIONAL FINANCE & FINANCIAL MARKETS MAF306

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Topic 1 - Introduction

Global Operation

- **Advantages from global operations:** Access to markets worldwide, global reach to find less expensive materials abroad and intellectual capital, thereby lowering its cost of designing and manufacturing products.
- **New profit opportunities from global operations**: Lower costs of goods sourced from countries with weakened currencies, more opportunities for lower cost outsourcing, expansion of industrial and financial services activities through purchases of companies or assets at reduced prices and lower U.S. debt financing costs.
- **Risks from global operations**: Currency risks, higher receivables delinquencies and bad debts, delays or cancellation of sales and orders, higher local currency financing costs, and a slowdown in established financial services activities.
    - Increased competition – abroad and domestic

Types of Multi-National Corporations (MNC)

- **Raw material seeker**: go abroad to exploit the raw materials that can be found there.
    - First type of MNC to exist.
- **Market seeker**: go overseas to produce and sell in foreign markets.
- **Cost minimiser**: invest in lower-cost production sites overseas to remain cost competitive both at home and abroad.
- **Knowledge seeker**: Related to human capital and advanced technology. Corporations might recruit a CEO with multinational exposure (example: recruitment of Nissan's CEO, who was working in Europe) or acquire a company to gain access to knowledge and experience of the company working abroad.

Why Foreign Direct Investment (FDI)

- FDI is most likely to be economically viable where the possibility of opportunism on the part of unrelated parties or contractual difficulties make it especially costly to coordinate economic activities via arm's length transactions in the marketplace.

They go overseas to more fully utilize their skills and other tangible and intangible assets.

- **Raw material seeker**:
    - Must have intangible capabilities in the form of technical skills and face contractual difficulties in the form of an inability to price their know-how or to write, monitor, and enforce use restrictions governing technology transfer arrangements;
    - Face problems of opportunism that make it very expensive to enter into long-term purchase contracts to fully utilize their production or distribution capability.
- **Market seeker**: These firms usually have intangible capital in the form of organizational skills that are inseparable from the firm itself.
    - Since it would be difficult, if not impossible, to unbundle these services and sell them apart from the firm, this form of market imperfection often leads to corporate attempts to exert control directly via the establishment of foreign affiliates.
- **Cost minimiser**:
    - The production or marketing edge they possess cannot be purchased or duplicated by local competitors.

Globalization effect on industry consolidation

- Companies must take advantage of economies of scale – increasing competition – increasing industry consolidation worldwide.
- Companies can be low-cost producers – becoming more competitive. To realise low costs, companies are forced to spread fixed costs over a large sales volume.

Costs and Benefits of internationalisation

- **Costs**:
    - Loss of national autonomy;
    - Loss of central bank control over MP and domestic banking;
    - Increased fragility and instability in financial markets, products and financial system.
- **Benefits**:
    - Gains from I/N trade – we get more of everything at lower cost;