CHAPTER ONE: Globalisation

→ Process of Globalisation

- Globalisation = involves the creation of linkages or interconnections between nations. Usually understood as a process in which barriers – physical, political, economic, cultural – separating different regions of the world are reduced or removed stimulating exchanges in goods, services, money, and people.
  - Removal of thus barriers → Liberalisation!
- Advantages;
  - New markets
  - Wider choice of suppliers for goods and services
  - Lower prices
  - Cheaper locations for investment
  - Less costly labour

→ Indicators of Globalisation

- Three main economic and financial indicators of globalisation;
  i) International trade in goods and services
  ii) Transfer of money capital from one country to another
  iii) Movement of people across national borders

→ International Trade

- Countries becoming more interconnected through the exchange of goods and services – through imports and exports.
- WTO (World Trade Organisation) – exports and imports together equate to 85% of Germany's gross domestic product, compared to around 60% for China and the UK and only a little more than ¼ for the USA.
- Multinational companies are major traders and account for a large proportion of international trade.

→ Financial Flows

The transfer of money capital across borders takes two forms;

i) Foreign Indirect Investment (FII or Portfolio Investment) – occurs where money is used to purchase financial assets in another country → Assets; foreign stocks, bonds issued by government or companies, currency.
ii) Foreign Direct Investment (FDI) – occurs when a firm establishes, acquires, or increases production facilities in a foreign country. MNC's are responsible for foreign direct investment and the massive increase in FDI.

The distinguishing feature between FII and FDI is that MNC's not only own the assets but also wish to exercise managerial control over them.

Greenfield and Brownfield investment:

- MNC investment overseas can be broken down into Greenfield and brownfield investment.
- Greenfield investment = involves the establishment of completely new production facilities, such as ford setting up its new car factory near st Petersburg in Russia.
- Brownfield investment = purchase of already existing production facilities.