Week 1 - Globalisation and Foreign Exchange

Globalisation

The increasing connectivity and integration of countries and corporations and the people within them.

BRIC countries (Brazil, Russia, India and China) have offered a lot of opportunities for expansion and demand for goods and services. China's demand for Australian exports (particularly resources) has increased the demand on the Australian dollar (in order to pay our exporters) and seen our currency flourish (at least up until recently).

Globalisation has led to trade liberalisation, enabling free (libre) trade between countries, which helps take advantage of specialisation and comparative advantages, lowering the overall cost of goods and services for everyone. In the 1960s, 20% of countries were "open", increasing to over 70% by 2000.

Securitisation

Securitisation came about around the same time as globalisation, and allowed banks and companies to hedge against certain financial risk (such as currency risk). This connects with specialisation. Companies no longer had to bother themselves with these risks, and expert financial institutions could account for it by creating securitisation instruments.

These securitisation instruments, however, led to an "opaqueness" in the financial system, and even with financial experts it was difficult to measure all facets of financial risk which a firm may be hedging against. This culminated in the GFC, where risk was inappropriately accounted for and led to a recession.

Multinational Corporations

Multinationals can enter foreign markets through:

- → Importing/Exporting
- → Licensing: giving local firms right to manufacture their products in exchange for a fee
- → Franchising: providing sales or service strategies in exchange for fees
- → Joint venture: two or more firms form a new legal entity, jointly owned by all of the firms
- → Greenfield: starting a new company from scratch

Another way to enter a foreign market is through foreign direct investment (FDI), whereby one company buys at least 10% of another located in a different country. FDI has grown 30-fold since 1980, with cross-border M&A being a large part of this trend.

Other Major International Entities

- → International Monetary Fund (IMF): Ensures the stability of the international monetary and financial system through surveillance and technical assistance
- → The World Bank: Designed to facilitate development, assist with poverty alleviation, and provide advisory assistance
- → Multilateral developed banks: Provide financing and grants in developing nations (eg The World Bank)
- → World Trade Organisation (WTO): Mediates trade disputes
- → Organisation for Economic Cooperation and Development (OECD): Coordinates policies in developed nations to foster sustainable economic growth and employment, and rising standards of living and financial stability
- → Bank for International Settlements (BIS): Fosters international monetary and financial cooperation (ie a central bank of central banks)
- → European Union (EU): Facilitates cooperation among countries in the region, supports the adoption and maintenance of the Euro to promote international business and prevent war