Global economic environment

Economy is a

System of

1. Resource allocation
2. Resource utilization
3. Value creation
4. Wealth distribution

[1]economy

noun | econ·o·my | \i-ˈkä-nə-mē, ə-, ē-\

Simple Definition of ECONOMY Popularity: Top 20% of words

: the process or system by which goods and services are produced, sold, and bought in a country or region

: careful use of money, resources, etc.

: something that makes it possible for you to spend less money

Source: Merriam-Webster's Learner's Dictionary

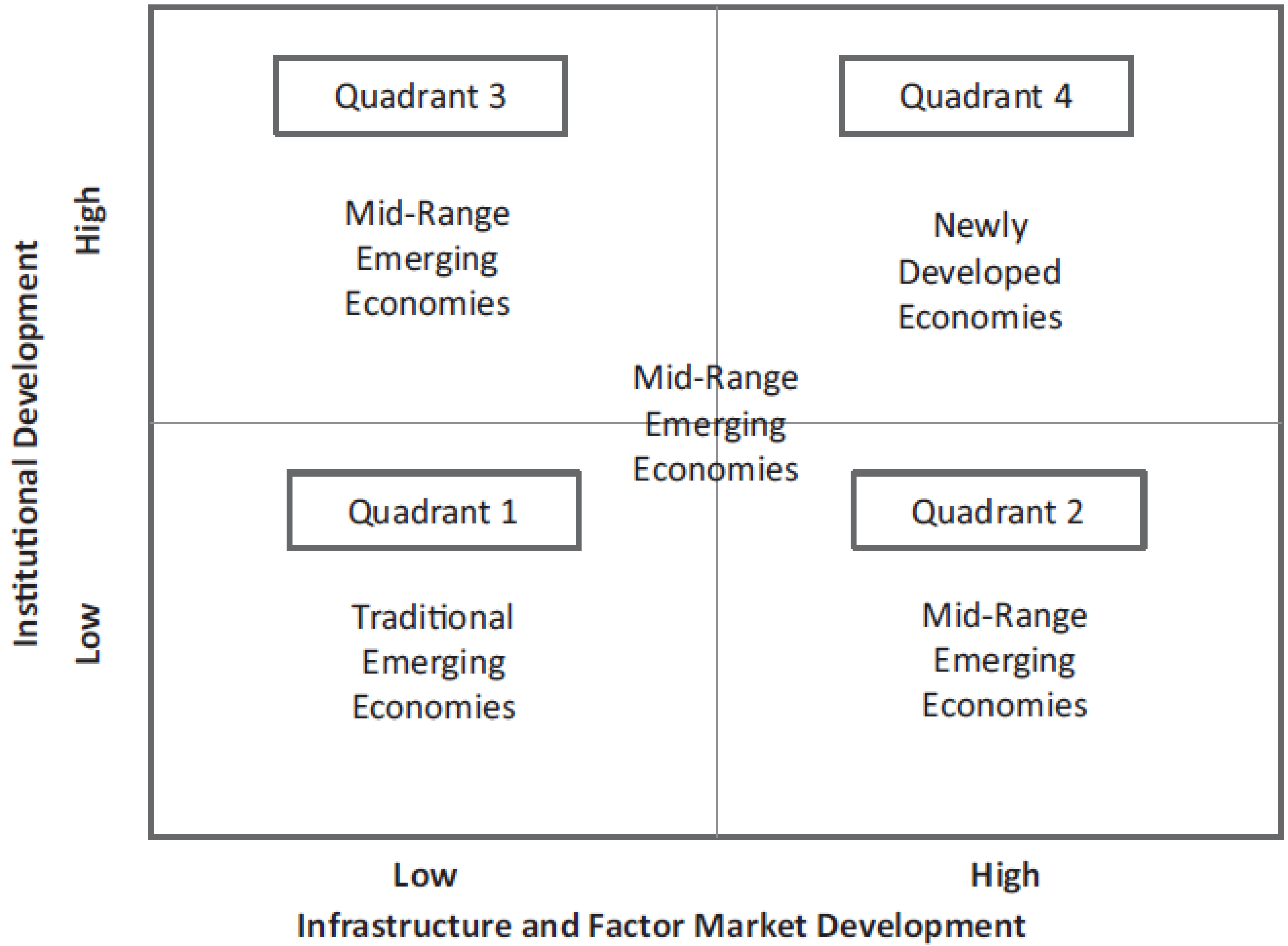
Learning Objectives

- **Measuring the economy**
  - Measuring economic growth
  - Measuring other economic conditions
- **Drivers of the economy**
- **The evolution of economies**
- **A regional perspective of the global economy**

Measuring the economy

- Variable based approach to measure economic status
- What do we measure?
  - Size
  - Growth
  - Openness
  - Stability
  - Equity of distribution

- Commonly understood categories:
  - Developed economies
  - Newly industrialized economies
  - Mid-range economies
  - Emerging economies
  - Less and least developed economies



Hoskisson, R. E., Wright, M., Filatotchev, I., & Peng, M. W. 2013. Emerging multinationals from mid-range economies: The influence of institutions and factor markets. ***Journal of Management Studies***, 50(7): 1295-1321.

Economic Indicators

- Gross domestic product (GDP): the total value of all final goods and services produced in a country in a given year
- GDP per capita (GDP/Population) = level of economic development?
- GDP per capita > average income > average consumer spending
- Shortcomings of GDP as a measure:
  - Per capita average takes no account of income inequality; country may have sizeable middle class
  - GDP takes no account of non-market household production
  - No account of quality of life, static measure

GDP

World Europe America Asia Africa Australia G20

Country	Last	Previous	Reference	Unit
United States	21200	20544	Dec/19	USD Billion
European Union	19100	18749	Dec/19	USD Billion
China	14200	13608	Dec/19	USD Billion
Euro Area	14000	13670	Dec/19	USD Billion
Japan	5110	4971	Dec/19	USD Billion
Germany	4040	3997	Dec/19	USD Billion
United Kingdom	2910	2855	Dec/19	USD Billion
France	2890	2778	Dec/19	USD Billion
India	2800	2719	Dec/19	USD Billion
Italy	2030	2074	Dec/19	USD Billion
Brazil	2020	1869	Dec/19	USD Billion
Russia	1750	1658	Dec/19	USD Billion
Canada	1740	1709	Dec/19	USD Billion
South Korea	1690	1619	Dec/19	USD Billion

TRADING ECONOMICS

Calendar News Indicators Markets Forecast

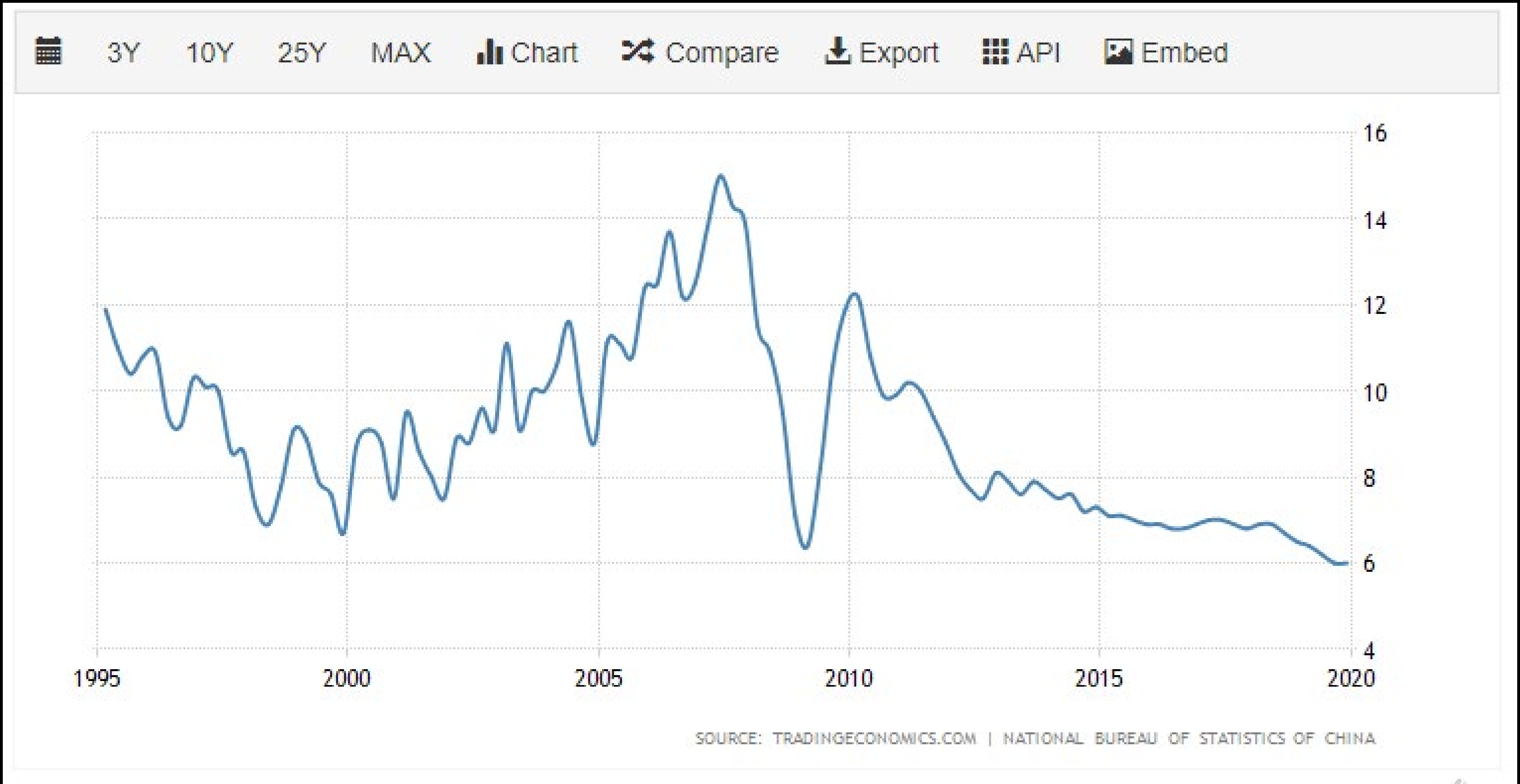
GDP Annual Growth Rate | G20

World Europe America Asia Africa Australia G20

Country	Last	Previous	Reference	Unit
China	6	6	Dec/19	%
Turkey	6	1	Dec/19	%
Indonesia	4.97	5.02	Dec/19	%
India	4.7	5.1	Dec/19	%
South Korea	2.3	2	Dec/19	%
United States	2.3	2.1	Dec/19	%
Australia	2.2	1.8	Dec/19	%
Spain	1.8	1.9	Dec/19	%
Brazil	1.7	1.2	Dec/19	%
Canada	1.7	1.9	Sep/19	%
Russia	1.7	0.9	Sep/19	%
Netherlands	1.5	1.9	Dec/19	%
Switzerland	1.5	1.1	Dec/19	%

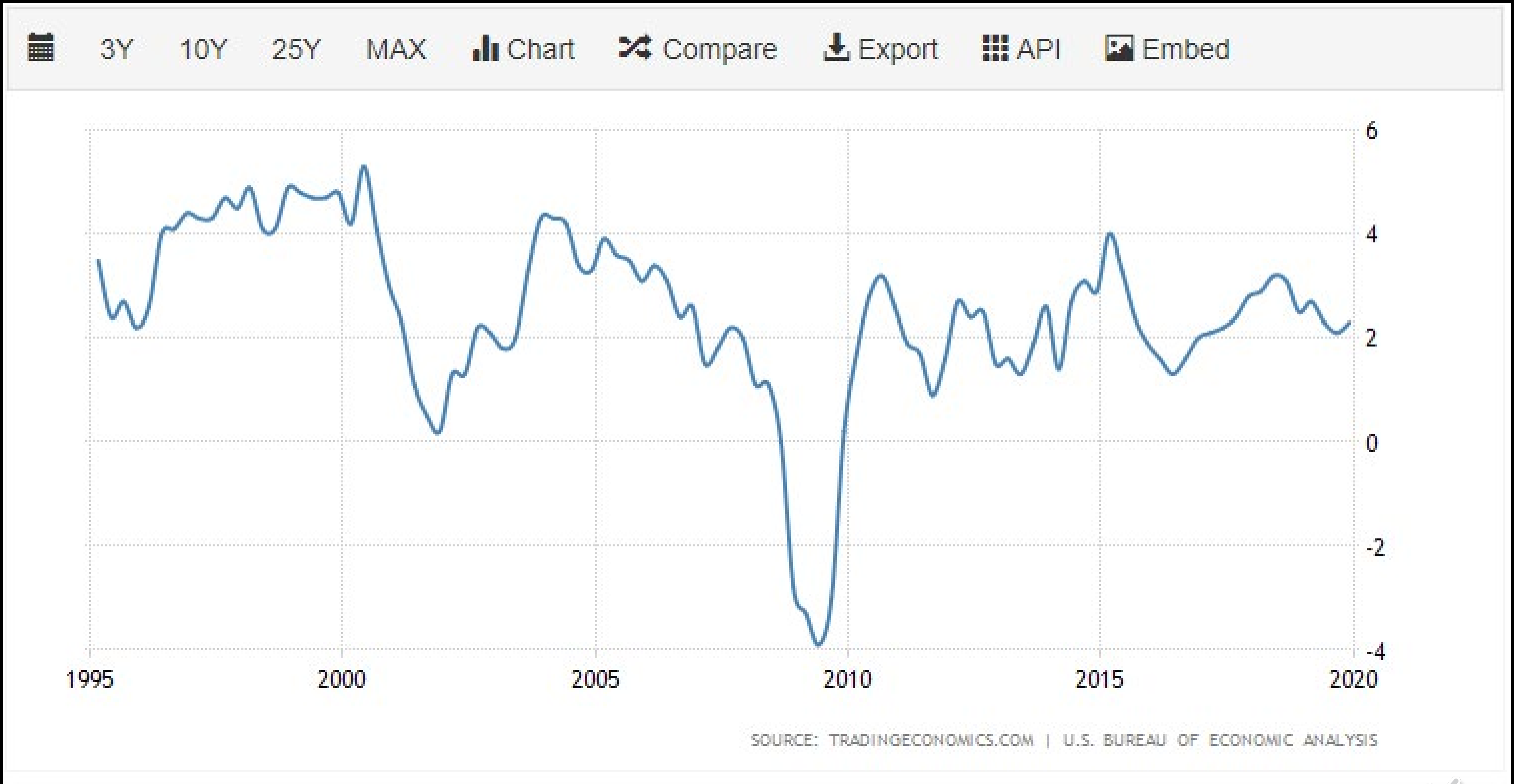
Economic Growth: China

25Y



Economic Growth: USA

25Y



Economic Growth: Australia

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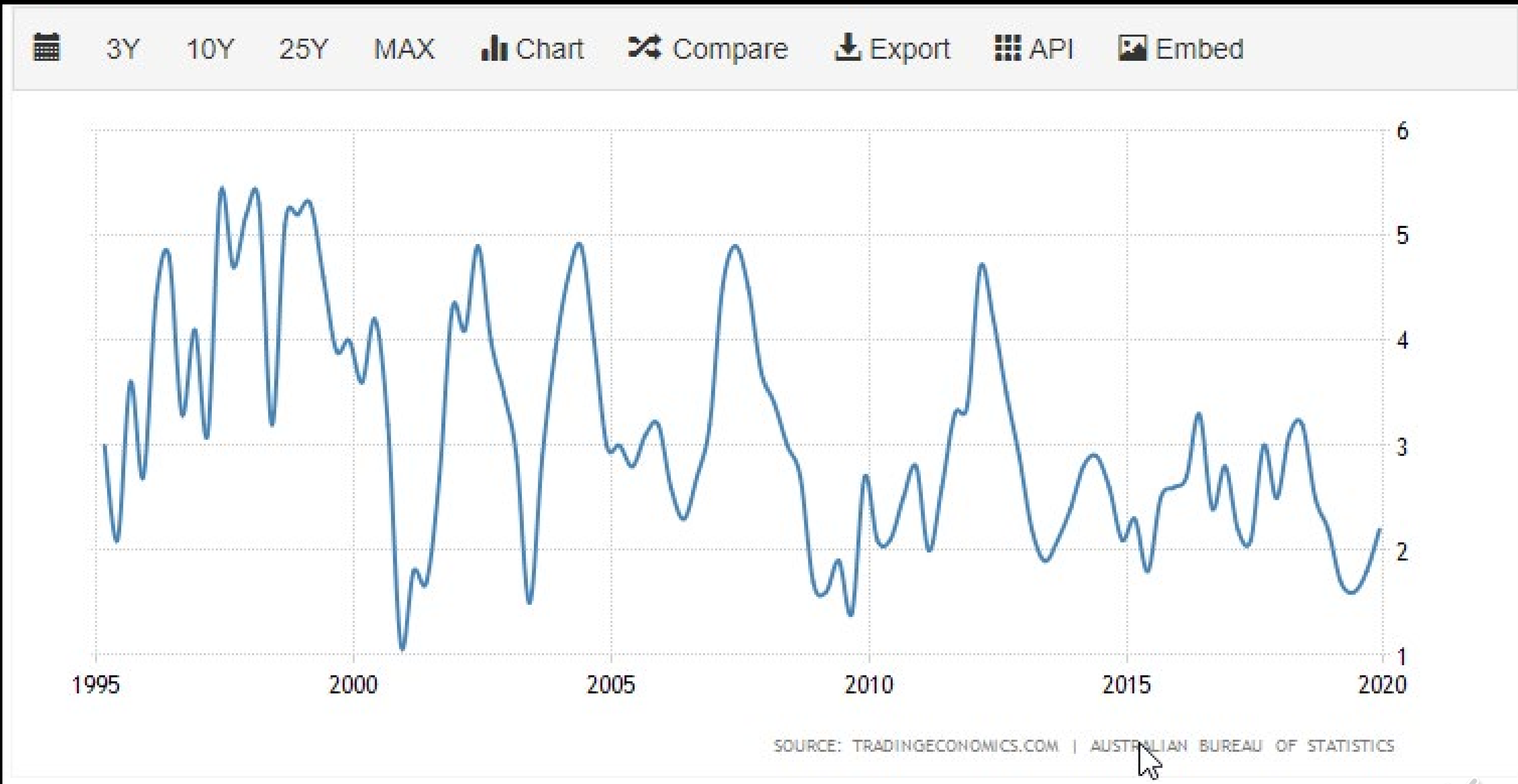


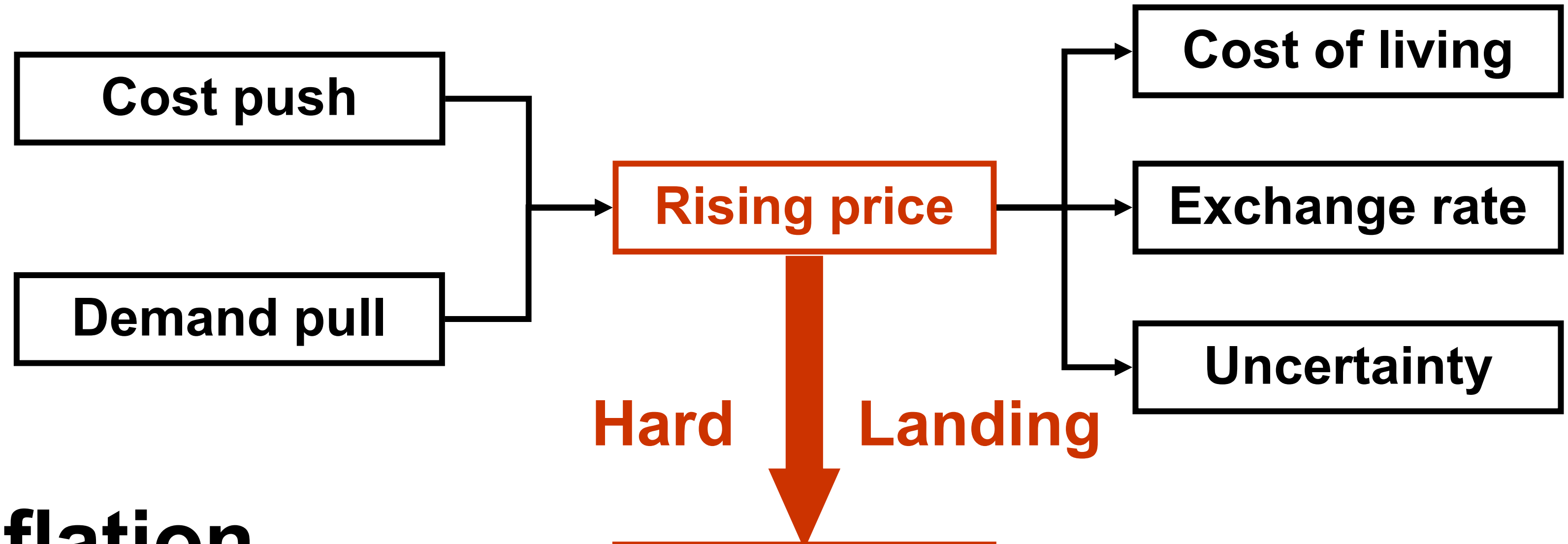
Other economic Indicators

1. Inflation and deflation
2. Unemployment
3. Debt
4. Income distribution
5. Poverty
6. Labour costs
7. Productivity
8. The balance of payments

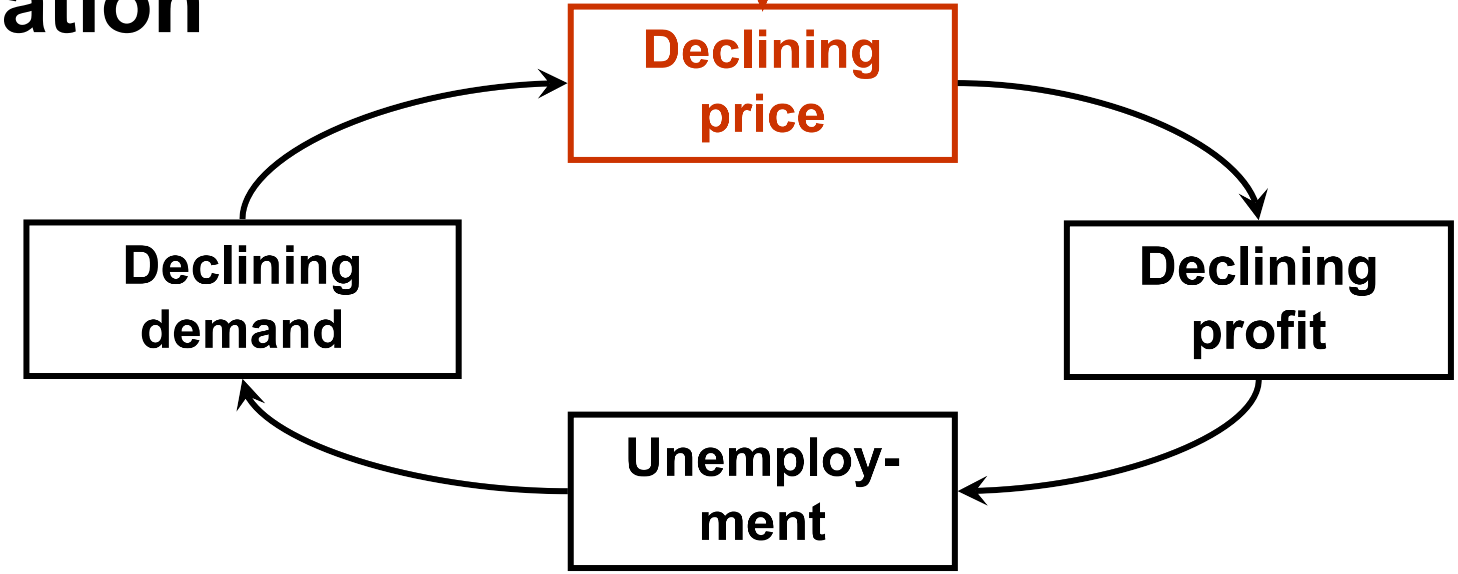




Inflation



Deflation

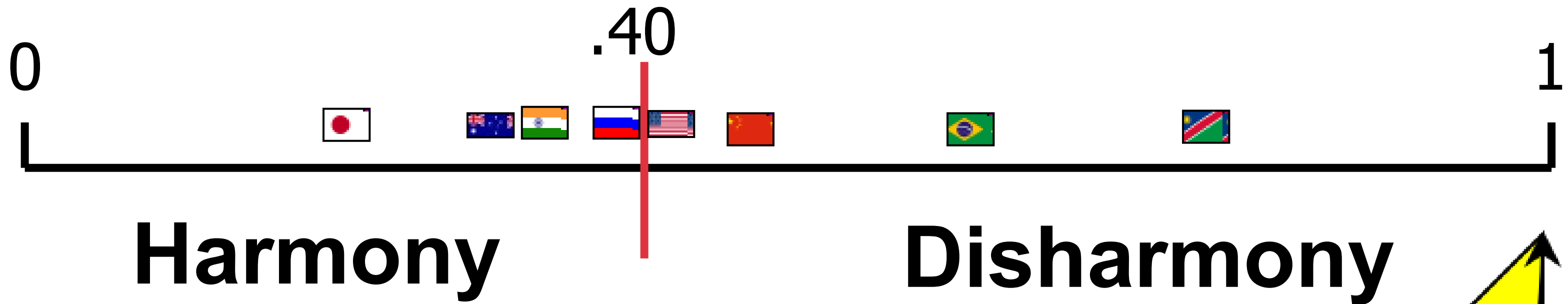


The Fed springs into action

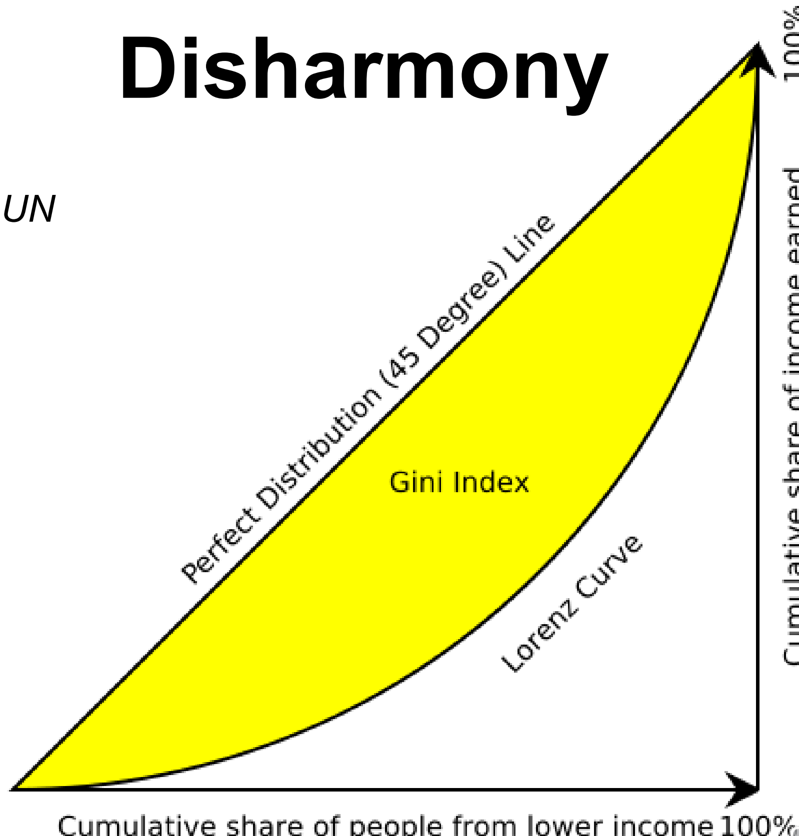
America's central bank acts to offset the impact of covid-19

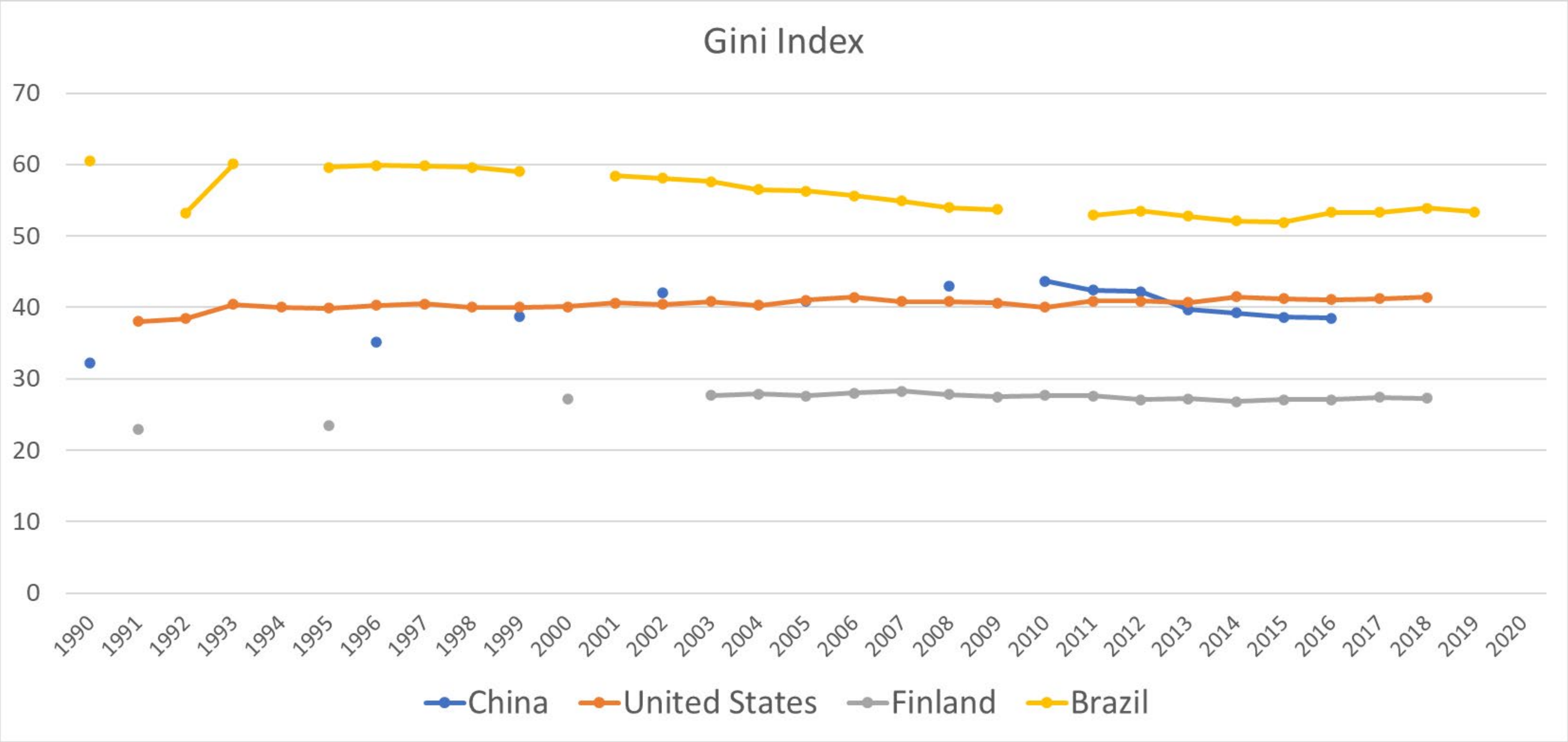
Expect other central banks to cut interest rates too

Distribution: The *Gini coefficient*



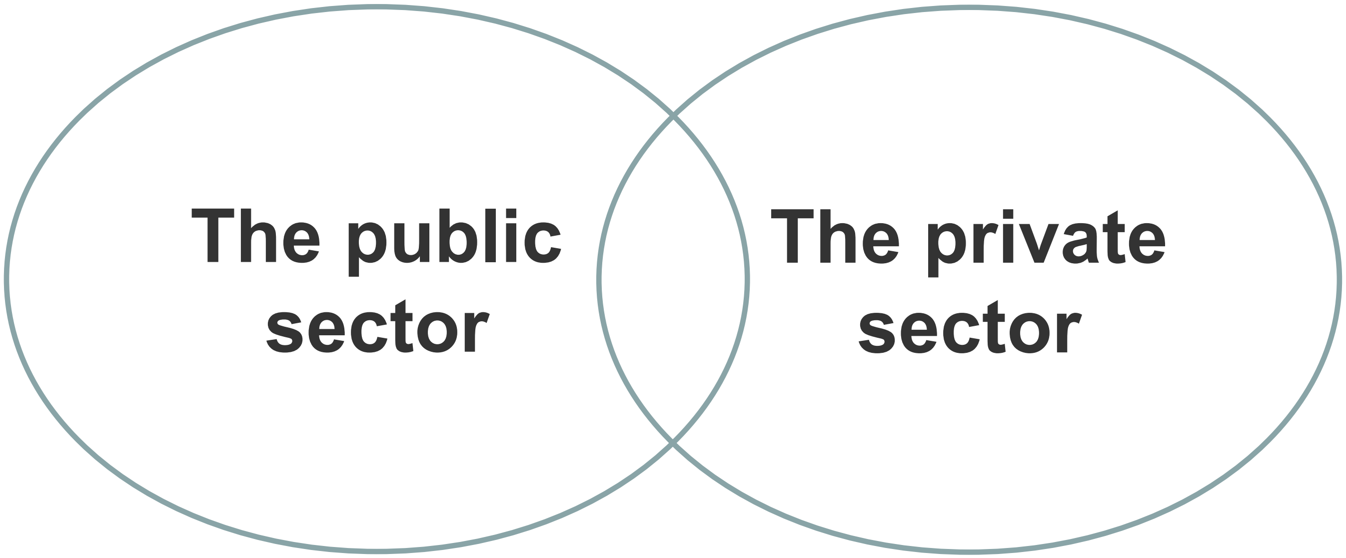
Source: Human development index online, UN





Source: https://data.worldbank.org/

What drives economic growth?



- The *developmental* state
- The *regulatory* state
- The *welfare* state
- The *predatory* state

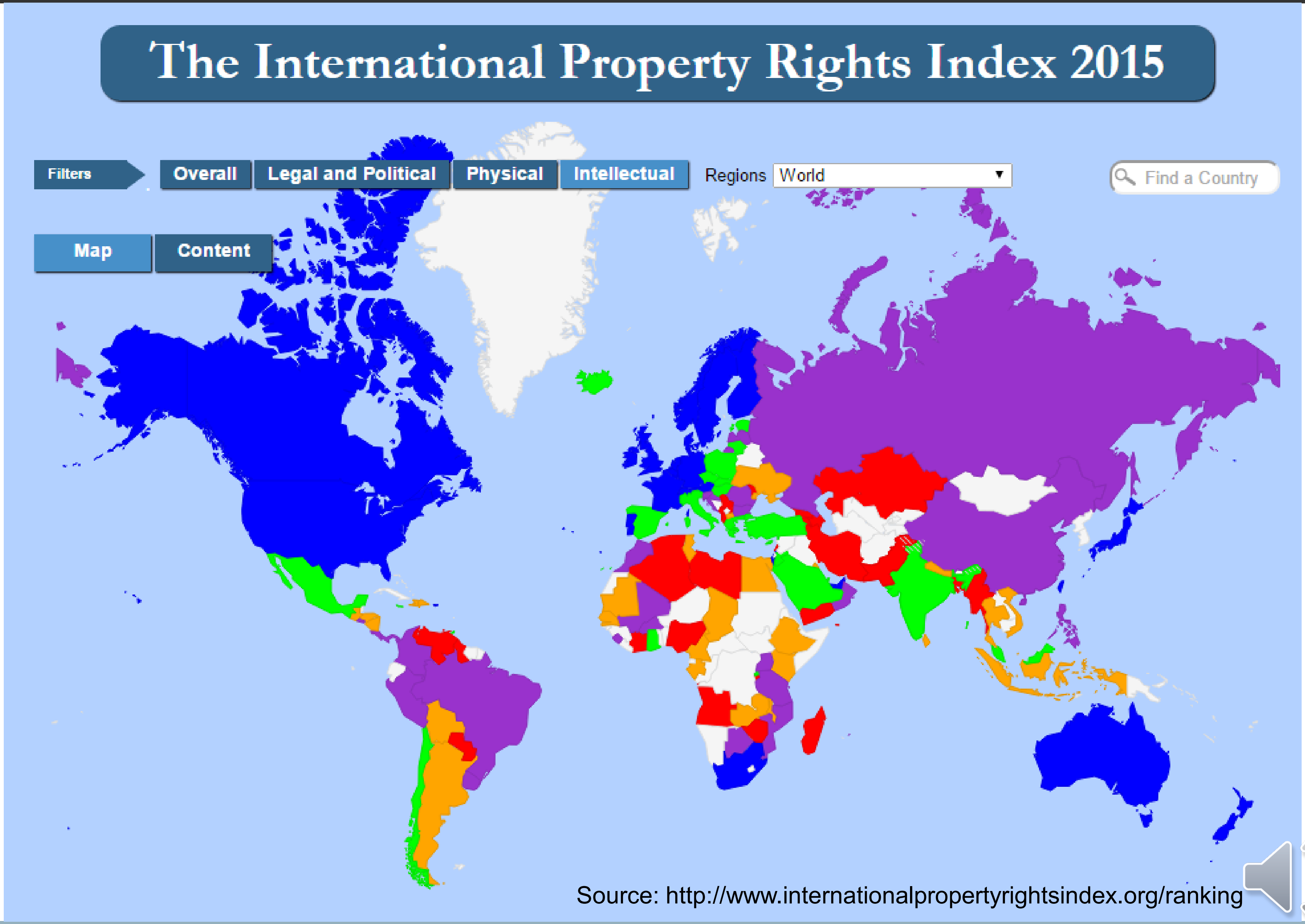
Economic Freedom Index

- Business freedom
- Trade freedom
- Monetary freedom
- Freedom from government
- Fiscal freedom
- Property rights
- Investment freedom
- Financial freedom
- Freedom from corruption
- Labour freedom

http://www.heritage.org/index/

Rank	Country	Overall Score
1	Hong Kong	90.2
2	Singapore	88.8
3	New Zealand	84.2
4	Switzerland	81.7
5	Australia	80.9
6	Ireland	80.4
7	Estonia	78.8
8	United Kingdom	78.0
9	Canada	77.7
10	United Arab Emirates	77.6
11	Iceland	77.0
12	Denmark	76.6
13	Taiwan	76.6
14	Luxembourg	76.4
15	Sweden	76.3
16	Georgia	76.2
17	Netherlands	76.2
18	United States	75.7
19	Lithuania	75.3
20	Chile	75.2

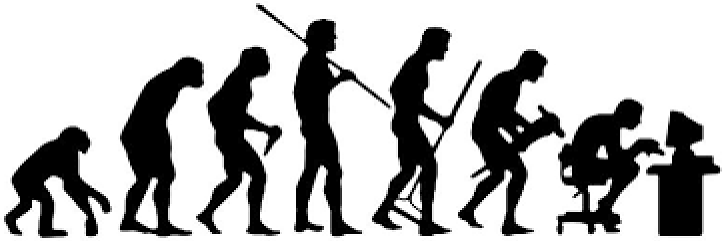
IP Right Index (2015)



Source: http://www.internationalpropertyrightsindex.org/ranking

The evolution of economies

- **The past**
  - Primary, secondary, and basic tertiary industries
- **The present**
  - Quaternary industries
- **The future**
  - Quinary industries



How AI can save our humanity | Kai-Fu Lee

382,733 views

TED

TED

Published on Aug 27, 2018

- https://youtu.be/ajGgd9Ld-Wc?t=682

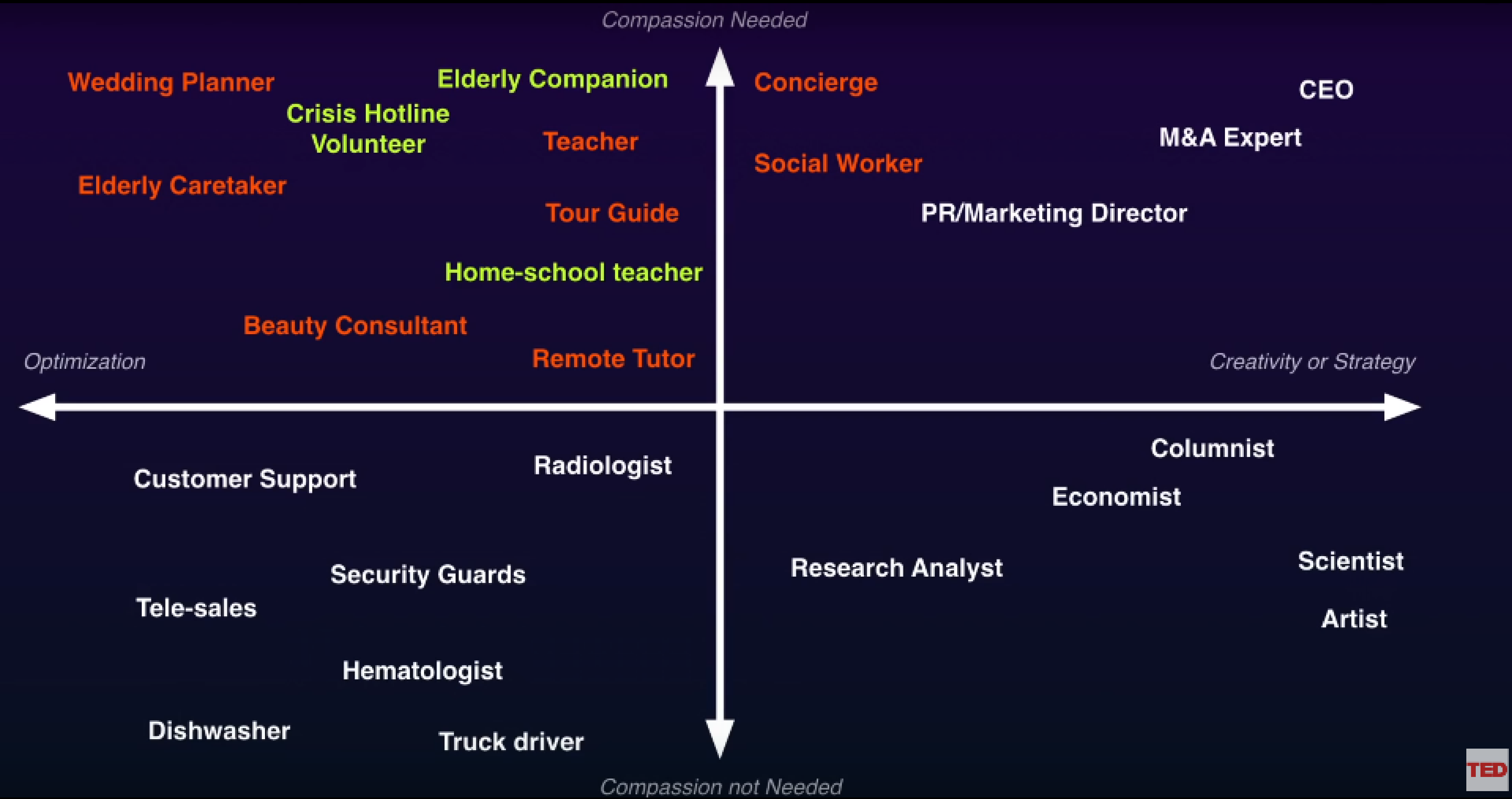
Optimization ⟷ *Creativity or Strategy*

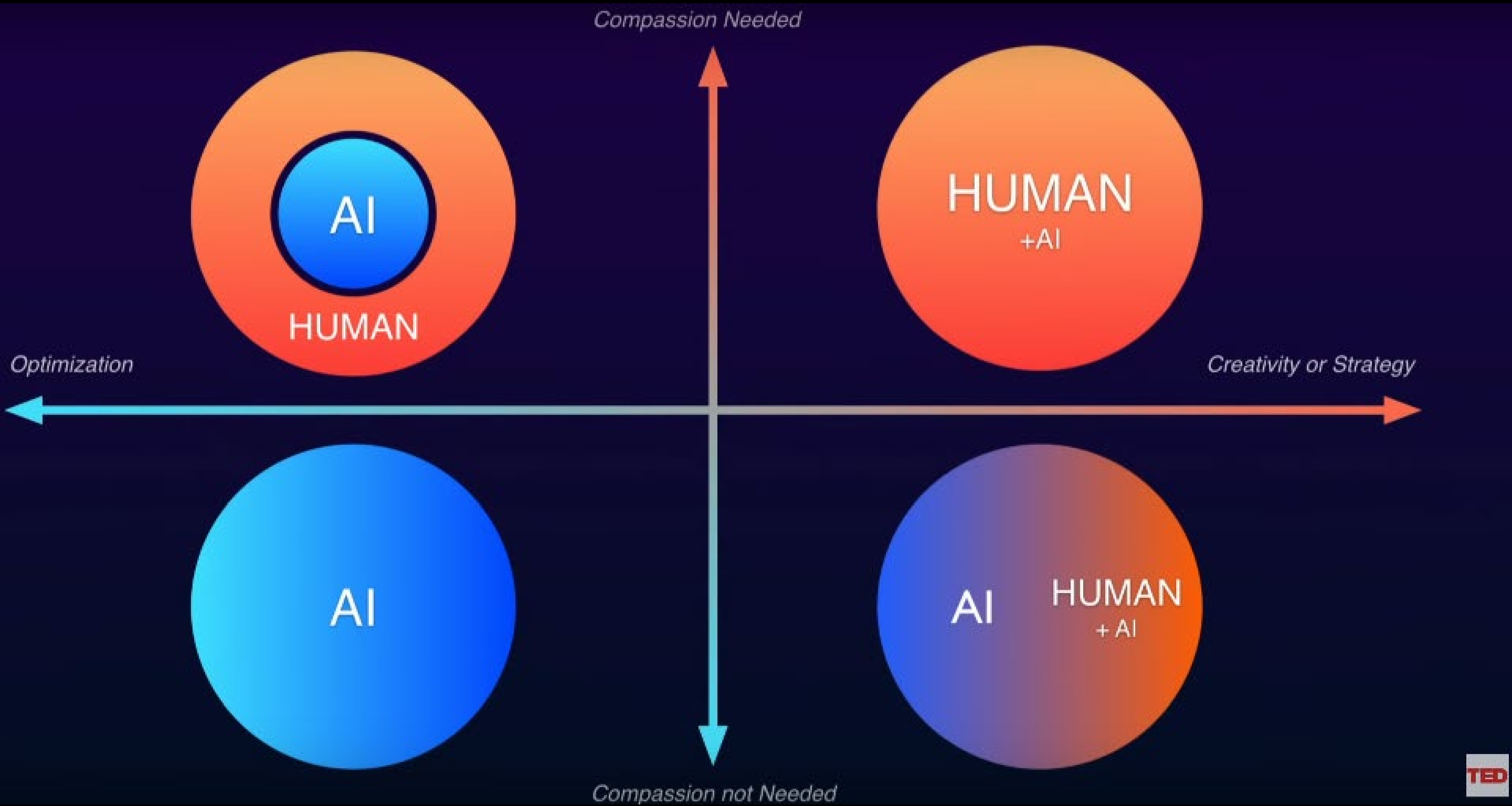
Repetitive	Routine	Optimizing	Complex	Creative
Tele-sales	Truck driver	Radiologist	CEO	Columnist
Dishwasher	Hematologist	Reporter	M&A Expert	Scientist
Customer Support	Security Guards	Research Analyst	Economist	Artist

Optimization ⟷ *Creativity or Strategy*

Repetitive	Routine	Optimizing	Complex	Creative
AI	AI	AI	CEO M&A Expert Economist	Columnist Scientist Artist
5 years	10 years	15 years	SAFE	SAFE

TED


Compassion Needed
Wedding Planner
Elderly Companion
Concierge
CEO
Crisis Hotline
Volunteer
Teacher
M&A Expert
Social Worker
Elderly Caretaker
Tour Guide
PR/Marketing Director
Home-school teacher
Beauty Consultant
Optimization
Remote Tutor
Creativity or Strategy
Columnist
Radiologist
Customer Support
Economist
Security Guards
Research Analyst
Scientist
Tele-sales
Artist
Hematologist
Dishwasher
Truck driver
Compassion not Needed
TED


Compassion Needed
AI
HUMAN
HUMAN
+AI
Optimization
Creativity or Strategy
AI
AI
HUMAN
+ AI
Compassion not Needed
TED

What makes us human?
-- Optimal inefficiency

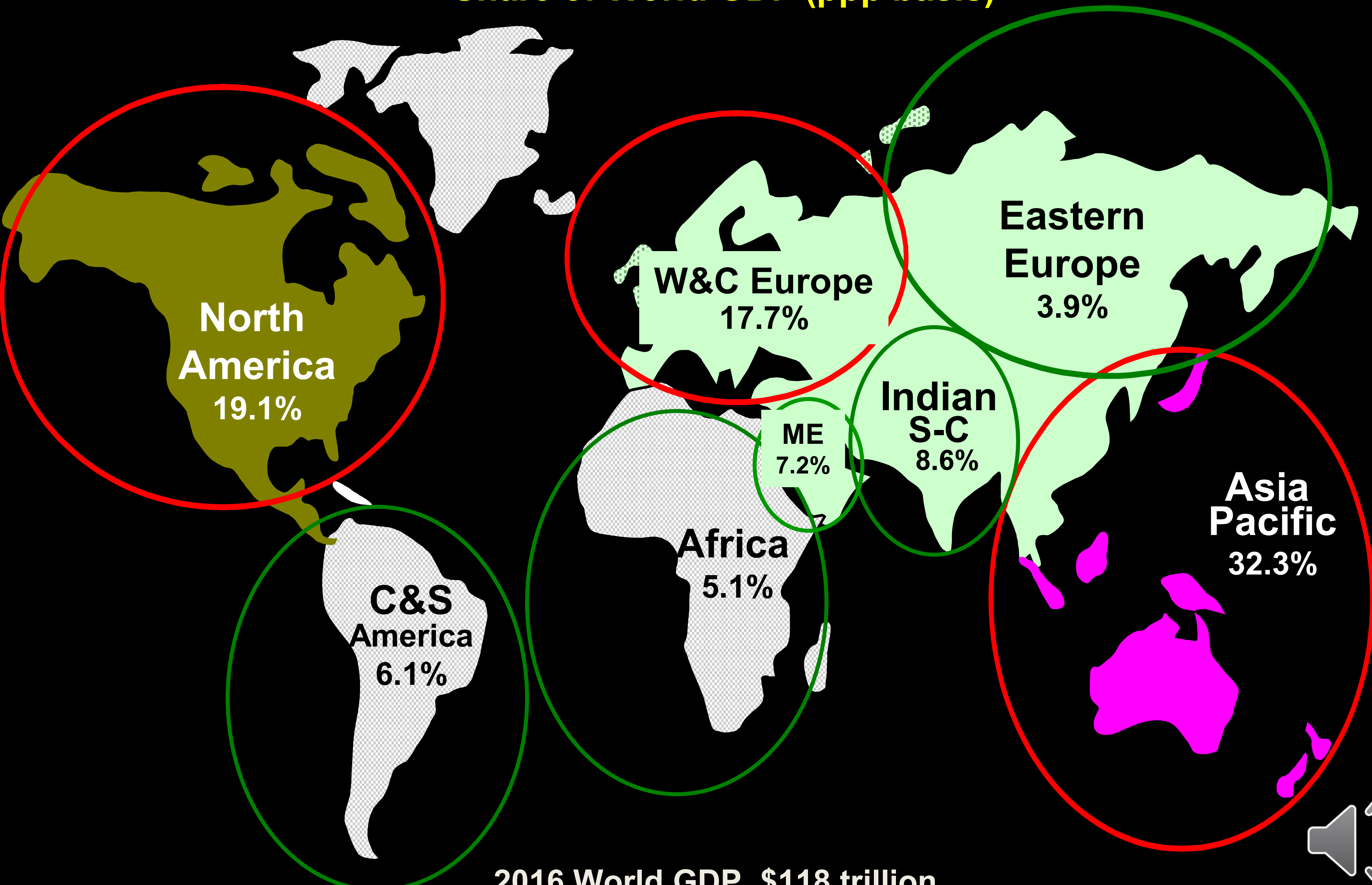
- Human intuition
- Exploratory learning (experimentation)
- Pasion and love
- Even (seemingly) random events

A regional perspective

- **Why geographical proximity matters?**
  - Transportation costs
  - Cultural similarity
  - Migration of population
  - Psychic distance
  - Natural environment

The World's Economic Regions In 2016

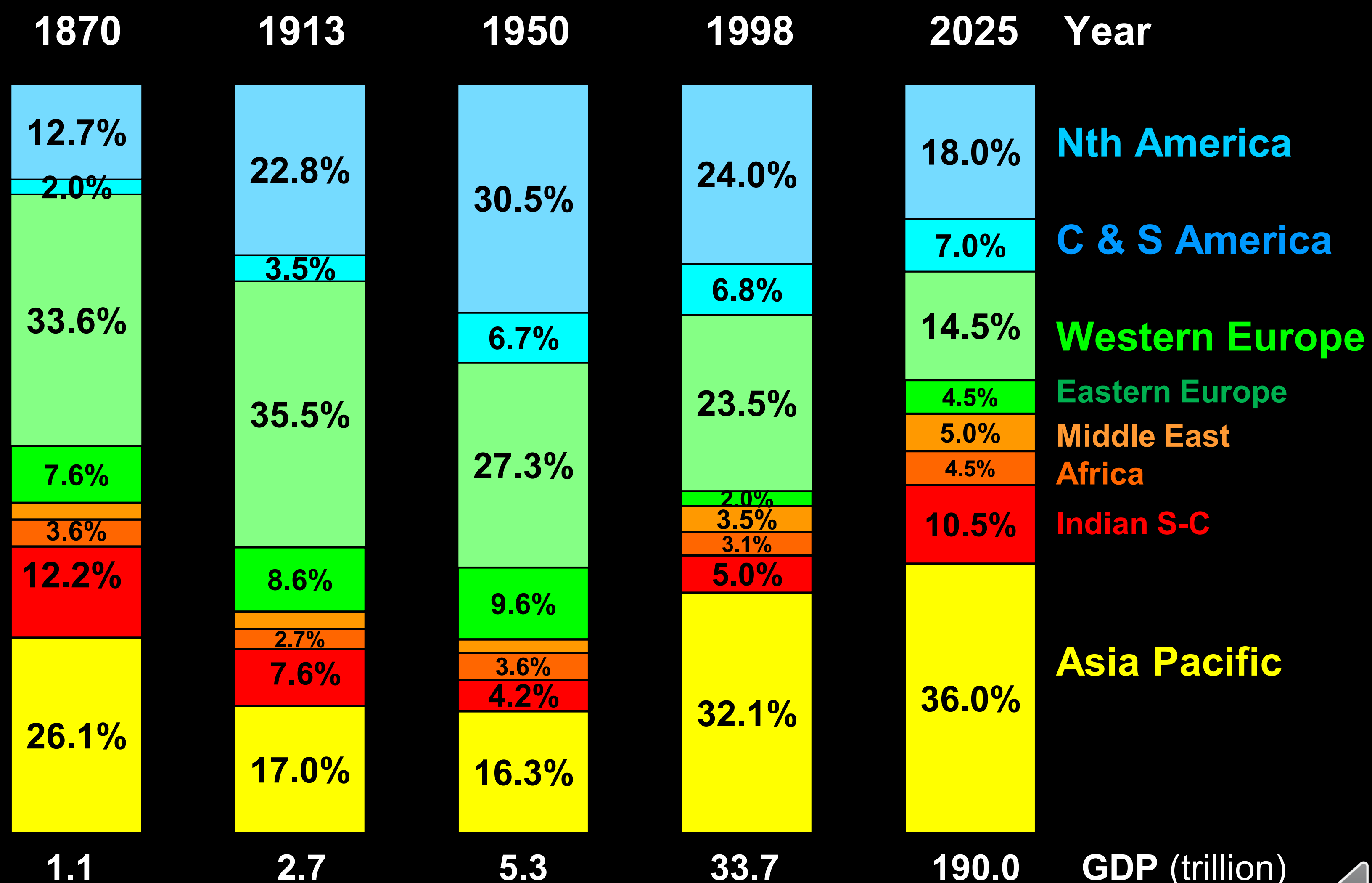
Share of World GDP (ppp basis)



2016 World GDP, $118 trillion

World Regions Importance

Changing importance, % of World GDP (ppp terms)



Source: OECD 31/03/15

Five forms of integration

Removal of trade barriers within

Coordination of taxes, regulations in resource allocation

Free movement of labour and capital

Members do not regulate currencies

Free Trade Area

NAFTA/LAFTA

Customs Union

Andean Community

Common market

Southern common market

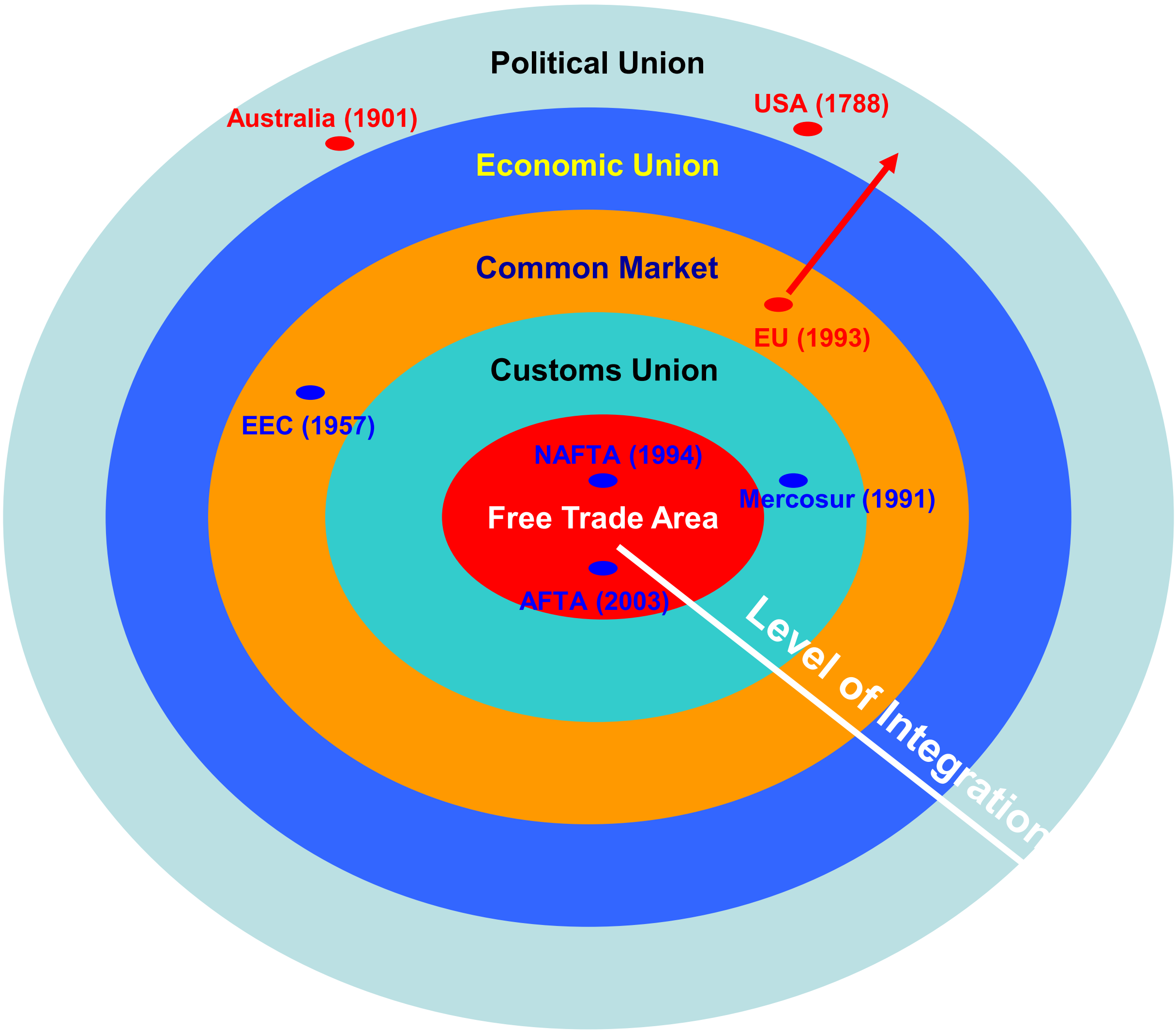
Monetary/ Economic union

EU & the Euro

Political Union

Merger of political barriers

Five Levels of Economic Integration



Regional Economic Integration: Benefits

- Trade creation
  - Trade creation occurs when low cost producers within the free trade area replace high cost domestic producers

- New employment opportunities
- New investment opportunities

- Greater consensus e.g. lower risk of violent conflicts
- Closer political cooperation results in greater collective influence in dealing with other nations

Regional Economic Integration: Drawbacks

- Trade diversion
  - Trade diversion occurs when higher cost suppliers within the free trade area replace lower cost external suppliers

- Shifts in employment

- Loss of national sovereignty

Implications for Managers

- Regional economic integration
  - Opens new markets
  - Allows firms to realise cost economies by centralising production in those locations where the mix of factor costs and skills is optimal
- But
  - Within each grouping, the business environment becomes competitive
  - There is a risk of being locked in a single bloc due to competition between blocs

Re-cap of Key Points

1. Economic conditions are measured by various proxies
2. The rules of the game and good players are what drive the economic growth
3. Economies evolve over time as industries emerge and decline
4. The global economy is clustered in regions
5. Regions pursue economic integration which can benefit and hinder businesses