

Global business management

GROUP 6

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INTEREST RATES

can be **increased** by the Central Bank



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WHAT IS GLOBALISATION

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What Is The Meaning Of Globalization ?

- Shift towards more integrated and interdependent world economy
- Moving from self- contained national economies toward global economic system
- 3 Important driver :
 - Lower barriers to trade (goods, services and factor movements)
 - Lower transportation costs
 - Lower communication costs



Globalization of market

- Global market instead of German, American market, ...
- No trade barriers, easier to sell globally
- Firms promote globalisation of markets to sell same product worldwide

Globalization of production

- Firms source goods and services all around the world to capitalize on national differences in costs and quality of factors of Production.
- Firms can lower their costs or improve in the functionality of their product



History Of Globalization

Always existing :

- Around 2000 BC the Sumerians produced bronze using tin from Cornwall and Central Asia
- In 1635 Spanish barbers in Mexico City complained the presence and competition of Chinese barbers



Globalization Debate

Pros :

- Increase in trade and cross border mean lower prices
- Greater economic growth
- Higher income
- More jobs
- Best way to improve for a poor nation

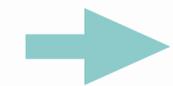
Cons :

- Job losses
- Environmental degradation
- Cultural imperialism
- Destruction of manufacturing jobs in advanced nations



Globalisation In Indonesia

- In 1990s and 1980s the government of Indonesia reduced barriers for international trade (focusing on international markets).



Increased globalisation in the country : **Social** and **economical consequences**

1

Social consequences

- Rise of conflicts in different groups
- Global tolerance towards Chinese culture, due to one of the presidents. He passed laws that gave Chinese same rights



2 Economical consequences

- Indonesia began to stimulate other markets (mostly manufacturing) through for example tax reforms (because they could no longer rely on oil income)
 - ➔ Made Indonesia one of the East Asia high performers
- Positive effects such as **rising per capita income, decreasing rate of inflation, increasing food supplies and the attainment of rice self-sufficiency, a rising share of manufacturing output in GDP and Sharply declining levels of poverty**
- According to a World Bank document, about one of the sharpest reductions in poverty in the developing world
- However, East Asian financial crisis : The rupiah collapsed.
Natural Disaster also struck Indonesia



Global Institutions And Initiatives

Reasons of founding

- Loss of power of certain political decisions for national governments due to globalisation → Regulations (vary between countries)
- Regulations can also affect other countries at the same time
- Hard to find a agreement between governments and increase of the workload of governments in the last decades → Delegation to other institutions
- Previous economical and financial crises are showing weaknesses, connections and relationships in the international system
→ Should be regulated by someone who has got the power and the overview to enforce the regulations.

Why?



Goals and functions

- Global institutions : monitor and structure transnational actions
- Global initiatives have no such legal rights, they are like NGO's which were founded by activists who care about a certain topic (example : Greenpeace)
- The tasks of global institutions are widespread but **social goals** are important (example : maintaining international peace). Majority refers to the **monitoring of the economic and political system**

Criticism

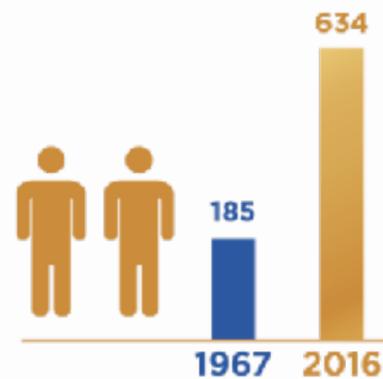
- Legal right to rule of global institutions ? (appointed to rule by a group of national governments)



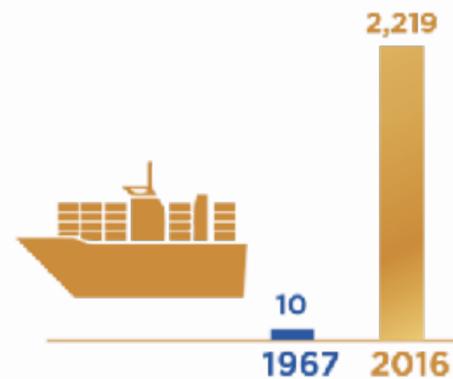
50 YEARS OF ASEAN

at a Glance

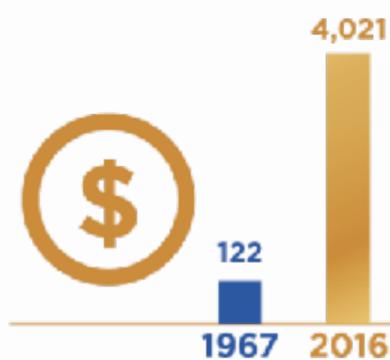
Population (in million)



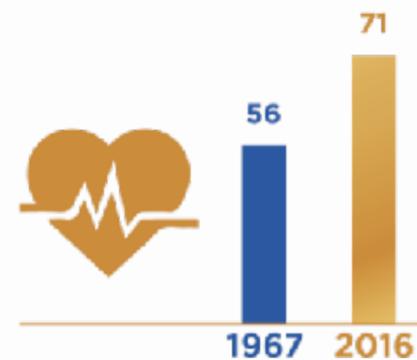
Trade (in US\$ billion)



GDP per capita (in US\$)



Life expectancy (in years)



Source: ASEAN Secretariat

TRADE

ASEAN total merchandise trade in 2016 stood at **US\$2.2 trillion**, with intra-ASEAN trade comprising the largest share at almost **24%**.

Evolution of ASEAN total merchandise trade (US\$ billion)



Shares of ASEAN in the world exports and imports of merchandise (%)



Evolution of ASEAN total trade in services (US\$ billion)



Trade in services quadrupled between 1999 and 2016 to reach **US\$681 billion**.

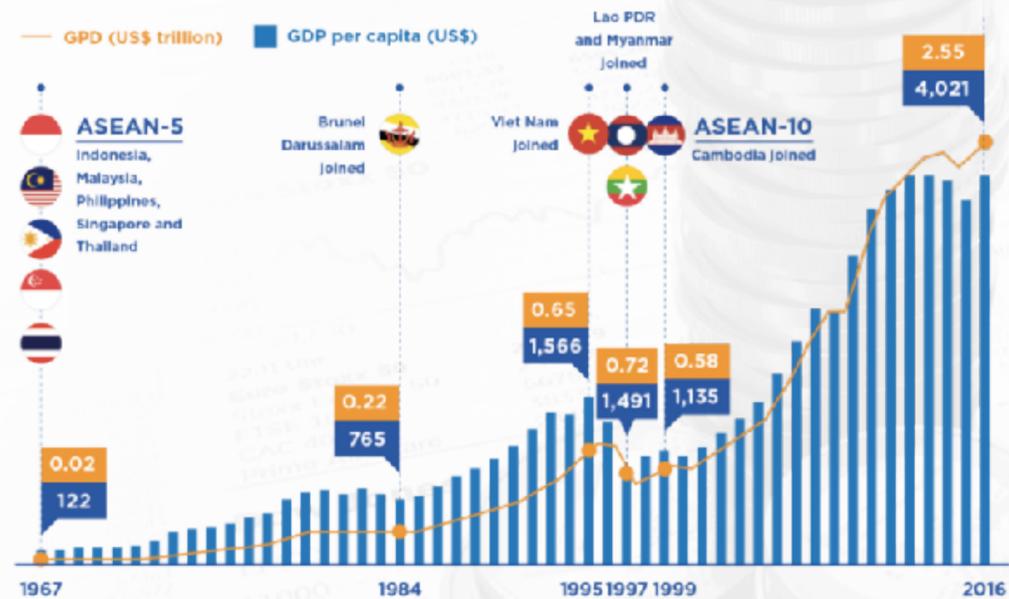
Source: ASEAN Secretariat



ECONOMIC PROGRESS

ASEAN has almost doubled its share in the world GDP from 3.3% in 1967 to 6.2% in 2016, to become **the 6th & Asia's 3rd largest economy.**

Evolution of ASEAN GDP and GDP per capita (at current prices)



Poverty has declined from

47% in 1990 to 14% in 2015, well above the combined ASEAN MDG target of 24%.

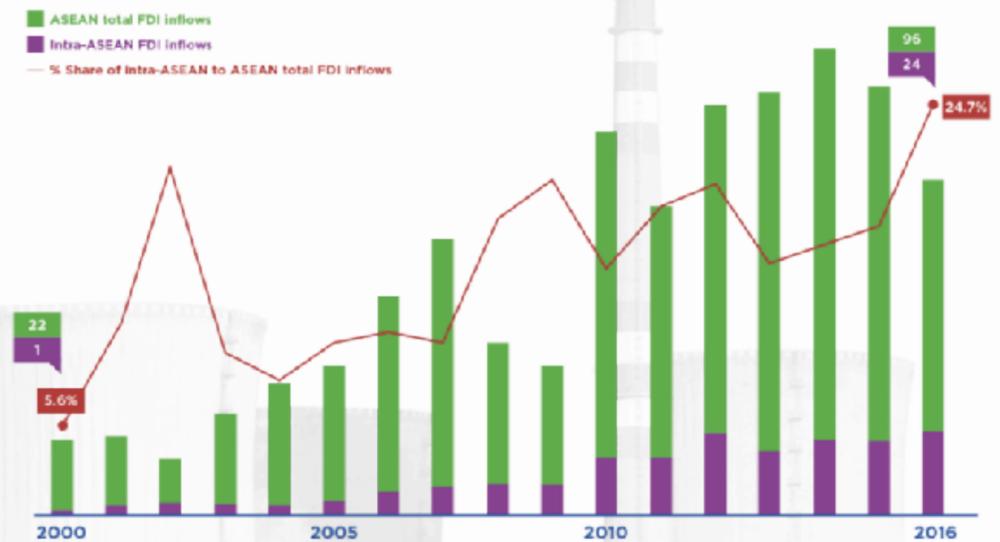
Poverty rate in ASEAN (% population living below \$1.25 PPP per day)



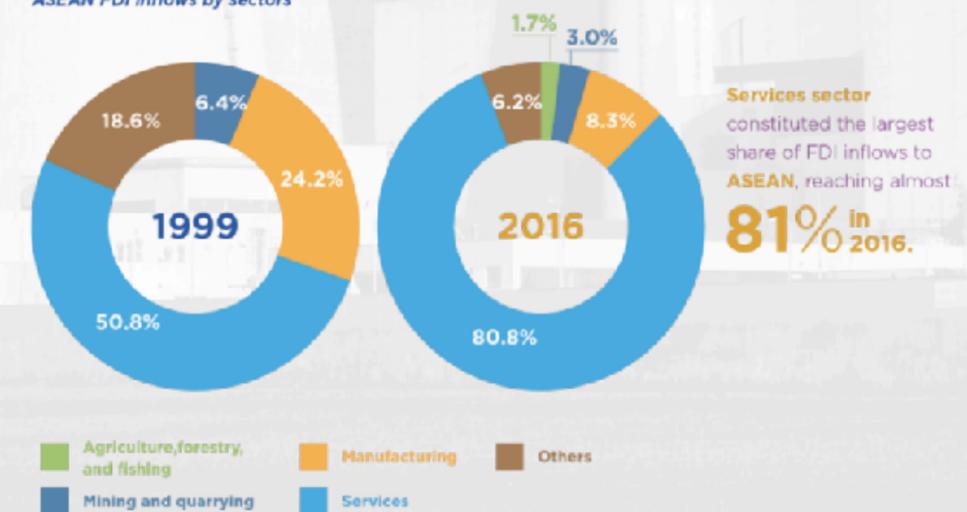
INVESTMENT

In 2016, ASEAN **US\$96** billion of FDI, with **Intra-ASEAN** investment attracted **US\$24** billion accounting for almost **25%** of total inflows.

Evolution of extra-ASEAN and intra-ASEAN FDI inflows (in US\$ billion) and share of intra-ASEAN to ASEAN total FDI (in %)



ASEAN FDI inflows by sectors



Services sector constituted the largest share of FDI inflows to ASEAN, reaching almost **81%** in 2016.

WTO

What is WTO ?

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.

What do they do ?

- Ensure that trade flows as smoothly, predictably and freely as possible
- Many roles :
 - Operates a global system of trade rules
 - Forum for negotiating trade agreements
 - Settles trade disputes between its members
 - Supports the needs of developing countries



WTO

Accession

- Government has to bring its economic and trade policies in line with WTO rules
- Indonesia : member since 1 January 1995 member of GATT (predecessor of WTO)



160 members
(98% of world trade)

Over 20 countries
are seeking to join it

WTO



Two Cases

- Protectionism in Indonesia
US&New Zealand vs Indonesia
- Paper discute
Australia vs Indonesia



Protectionism In Indonesia



- 1980s oil price drop => Indonesia boosted International trade
- Cheap imports caused local farmers to suffer
Food crisis 1999
- Recent years government has moved more towards protectionism
- Increasing import tariffs and restricting import of rice
- After financial crisis => restricting International trade in mining, farming and horticulture



Complaint

Background on the 2012 dispute between Indonesia and U.S.

- Indonesia is a big export market of the United States
- Since 2012, Indonesia had a licensing program that restricted US producers from selling on the Indonesia market
- Difficult trade environment for both U.S. suppliers and Indonesia importers because of the volatile and inconsistent import policies



Settlement

- WTO dispute settlement panel has found in favor of the United States and New Zealand's challenge to Indonesia's wide-ranging restrictions and prohibitions on horticultural products and animals products
- WTO Panel agrees that Indonesia's unfair trade restrictions are not consistent with WTO rules



Paper Discute

- Multiple Asian countries export cheap paper to Australia
- Australia's sole paper producer suffers
- Australia imposes an 'anti-dumping' policy -> increased tariffs



Complaint

- Australia's dumping duty is against WTO's policy of fair trade

Settlement

- No settlement yet



Brief Indonesia And Japanese History

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1940

1940

- Indonesia : divided area and Dutch colony. Dutch promoted segregation by shutting down nationalistic movements to prevent independence.

1942

1942

- Japan : powerful country but lack of natural resources : target Indonesia
- July 1942 : Sukarno accepted Japan's offer to rally the public in support of the Japanese war effort : supplied Indonesian nationalists with weapons and military training, propagande to unify the country, ...
- Japan's goals : **Wipe out Western influence and exploit Indonesia's economic and human resources**

TIME



G7 And IMF





G7 And IMF



NATURAL RUBBER

LIQUEFIED NATURAL GAS

COAL

MINERALS

SEAFOOD (SHRIMP, TUNA)

PAPER PULP

COFFEE



Several Japanese Investment Projects In Indonesia

1 Coal-fired power plant Batang

| | |
|----------|----------------------|
| Location | Batang, Central Java |
| Value | +/- US\$ 4.2 billion |
| Status | Ongoing |

2 Coal-fired power plant Carbon

| | |
|----------|----------------------|
| Location | Cilegon, Banten |
| Value | +/- US\$ 460 million |
| Status | Planned |

3 Coal-fired power plant Tanjung Jati-B expansion

| | |
|----------|--------------------|
| Location | Jepara, central |
| Value | +/- US\$ 4 billion |
| Status | Ongoing |

4 Coal-fired power plant Lontar expansion

| | |
|----------|----------------------|
| Location | Lontar, Banten |
| Value | +/- US\$ 450 million |
| Status | Ongoing |

5 Gas based facility and coal based power plant Medan

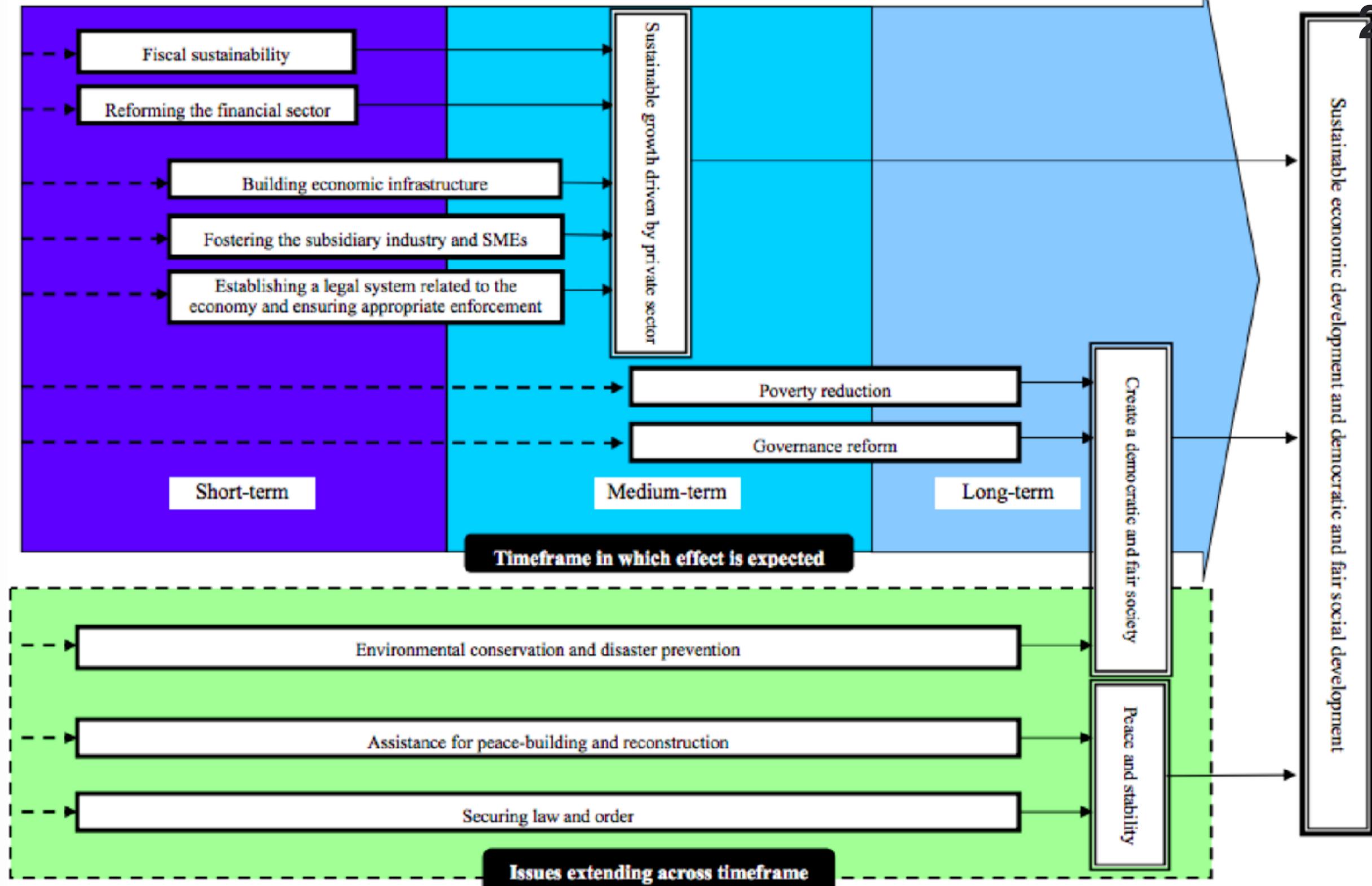
| | |
|----------|----------------------|
| Location | Medan, north Sumatra |
| Value | +/- US\$ 250 million |
| Status | Ongoing |

6 Patimban deep-sea port

| | |
|----------|--------------------|
| Location | Subang, West Java |
| Value | +/- US\$ 3 billion |
| Status | Planned |



Source :
mofa.go.jp
Ministry of Foreign
Affairs of Japan



What is G7 ?

The basic concepts

- International Governmental Organization (IGO)
- A group of countries promoting each others' economical growth
 - France, Italy, Japan, Canada, UK, Germany, US



What is IMF ?



- Organisation of 180 countries
- Governs capital in different currencies, paid by the member countries
- Lending capital on a short term basis to support countries in crises
- Assures depression is not repeated
- Helped Indonesia recover from financial crisis in late 1990's by bailout package



The IMF agreements (4)



- Closure of 16 privately-owned banks
- Winding down of food and energy subsidies
- Indonesian Central Bank (Bank Indonesia) to raise interest rates
- Provisions for a social safety net
- Gradual phasing out of certain public subsidies and the tackling of Suharto's patronage system by ending monopolies of a number of his cronies
- Large food subsidies for low-income households were granted
- The budget deficit was allowed to widen
- Privatization of state-owned companies, faster action on bank restructuring, new bankruptcy law, new court to handle bankruptcy cases.
- Close monitoring of its implementation
- Allowed the budget deficit to widen further while new funds were pumped into the economy

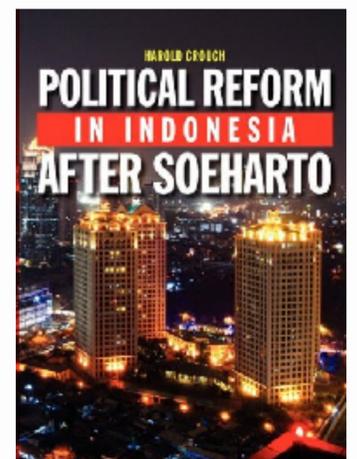


Outcome

- Strengthened the rupiah
- Inflation eased drastically
- Jakarta stock exchange started to rise and non-oil exports started to revive
- Rise in export revenues due to an improving international environment

“Indonesia’s democratisation and reform process since 1998 has increased its stability and security, and resulted in strengthened U.S.-Indonesia relations.”

Source:



What is OBOR ?

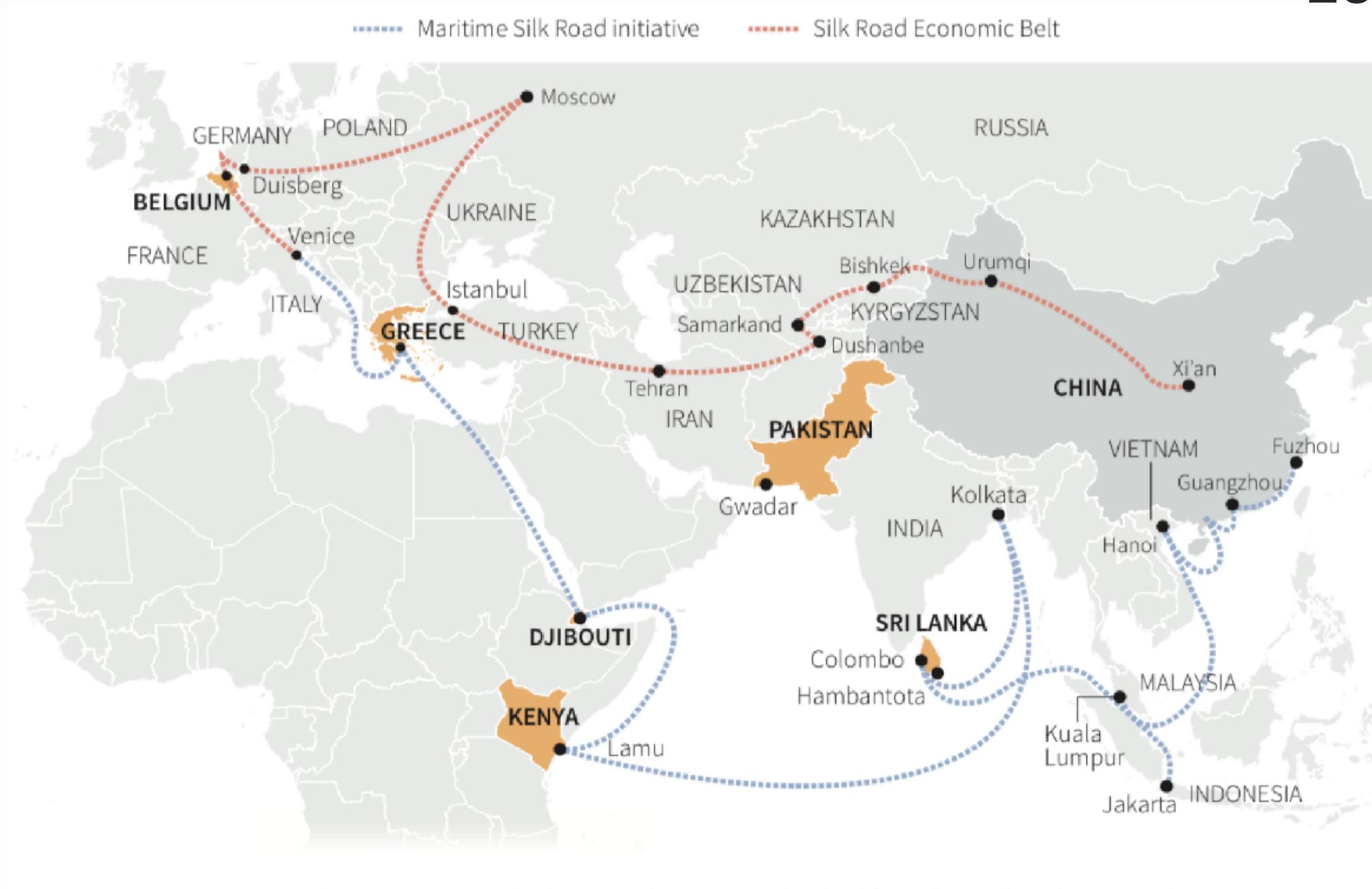
Xi Jinping on OBOR:

« What we hope to create is a big family of harmonious co-existence. »

Infrastructure connecting Eurasia

65 countries involved

Trillions of dollars invested



OBOR

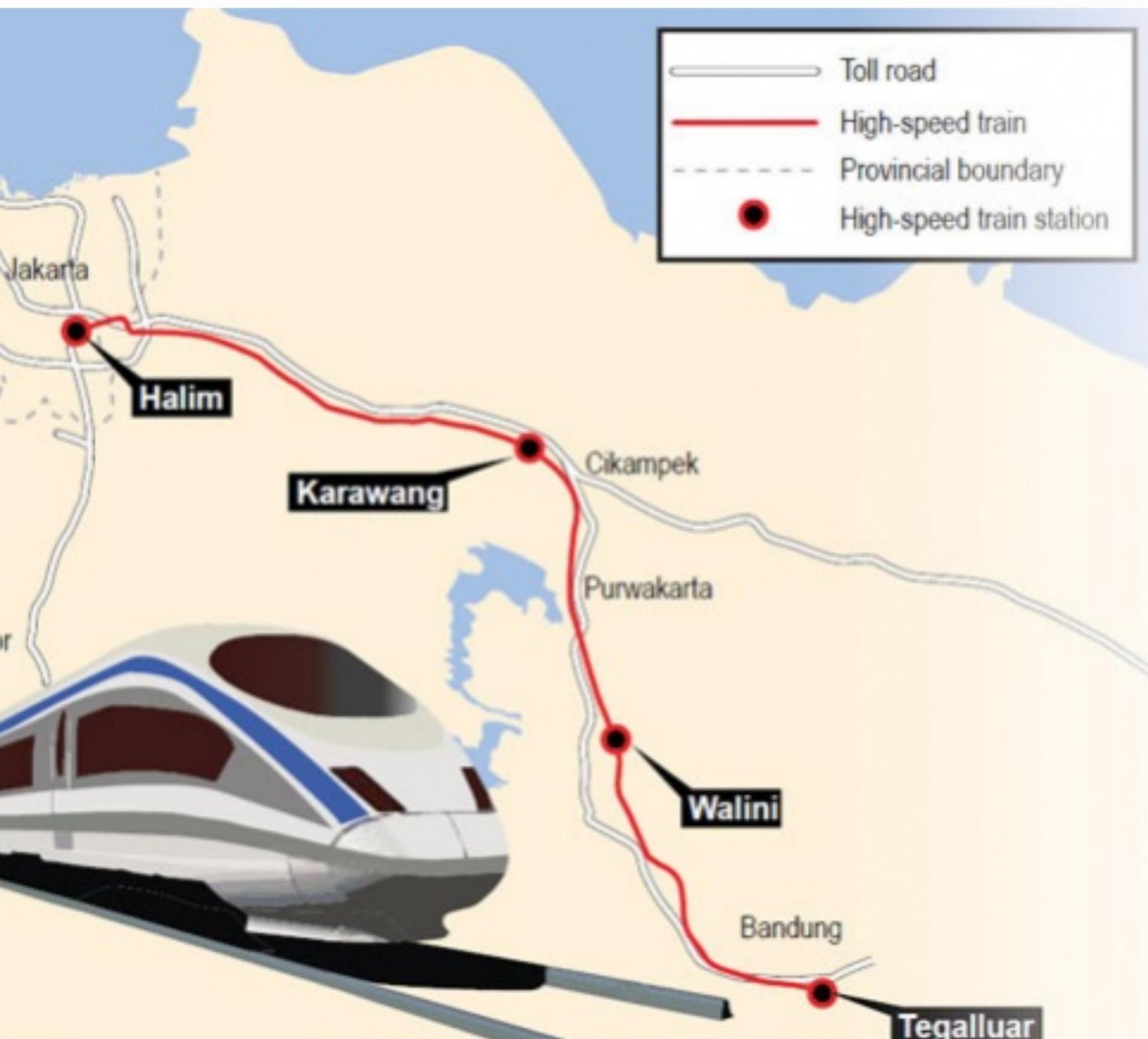


Indonesia and OBOR

- Indonesian government in favour of OBOR
- Hopes to improve infrastructure, reduce poverty and increase trade
- 2013, China became largest trading partner



OBOR investment example

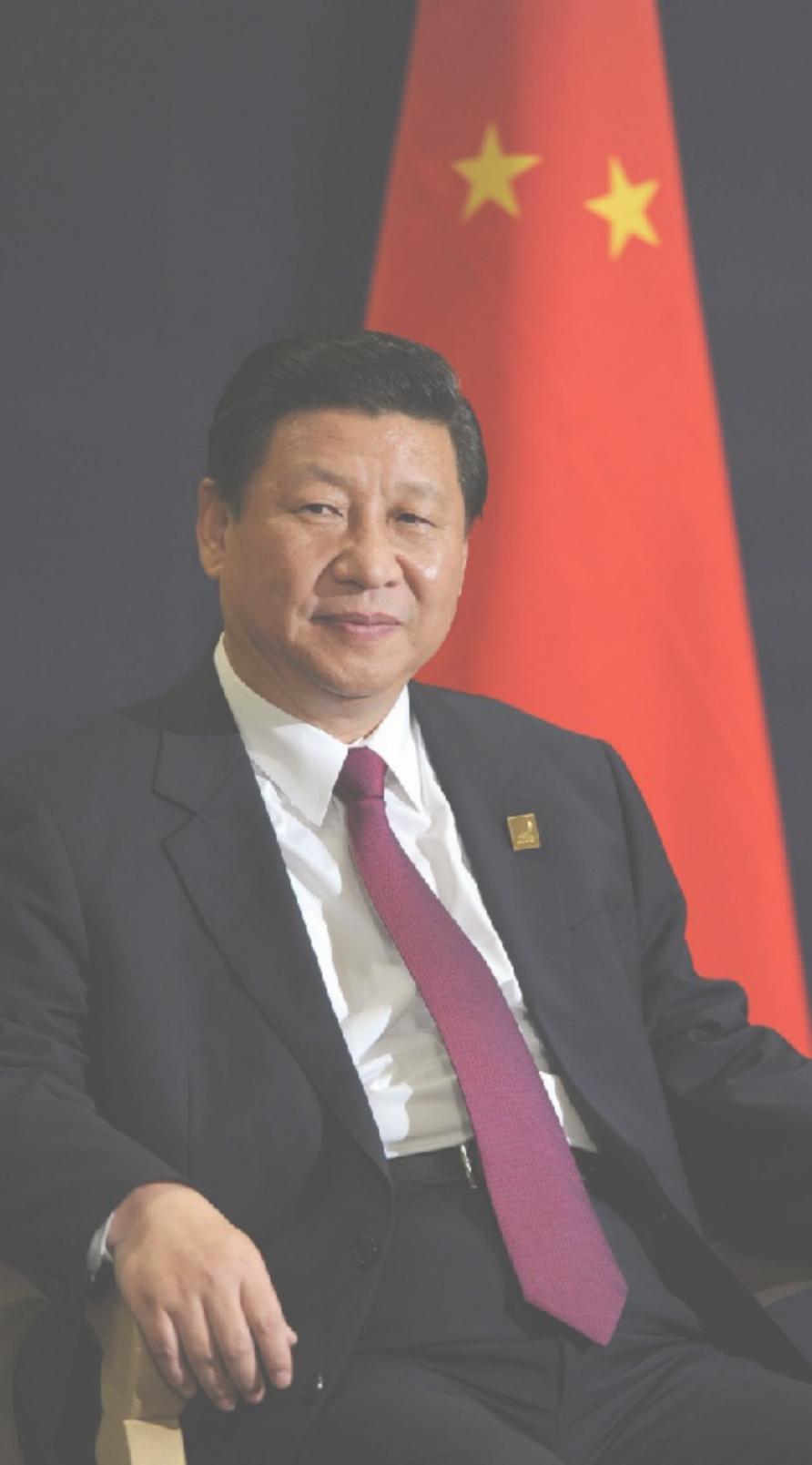


Jakarta-Bandung High Speed Rail

- US\$ 5 Billion
- Chinese....
- Standards, material, technology, workers, equipment
- A solution for China's excess production?



Future outlook



| Foreign direct investments | 2010 (In US\$ million) | 2013 (In US\$ million) | 2016 (In US\$ million) |
|----------------------------|---------------------------|---------------------------|---------------------------|
| Singapore | 5.565 | 4.671 | 9.200 |
| Japan | 713 | 4.713 | 5.400 |
| China and Hong-Kong | 173 | 296 | 4.900 |





Q&A

