



# Our previous lecture :



1

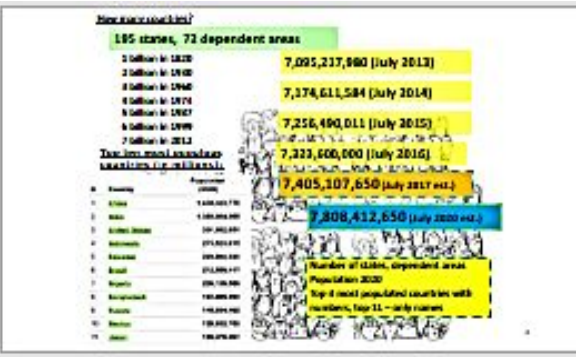


World economy  
main  
preliminary  
indicators

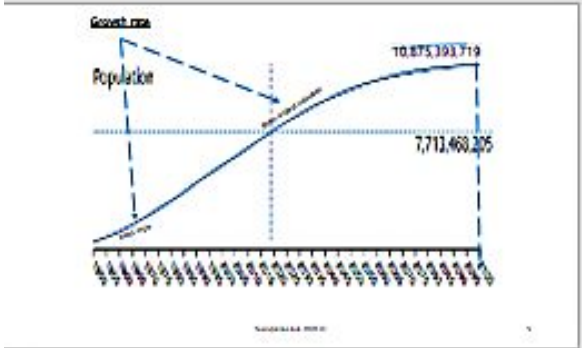
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1. Population  
Connected  
indicators (and  
tools)

3



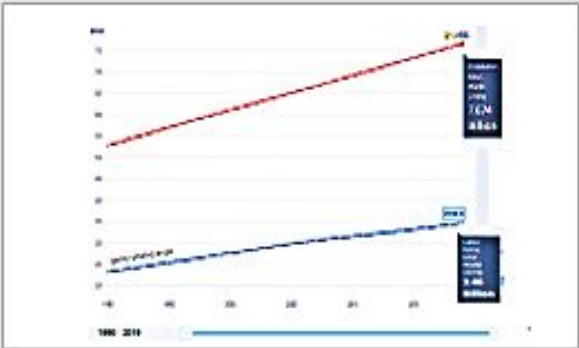
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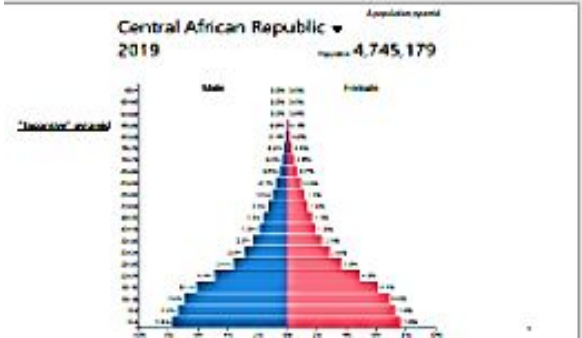
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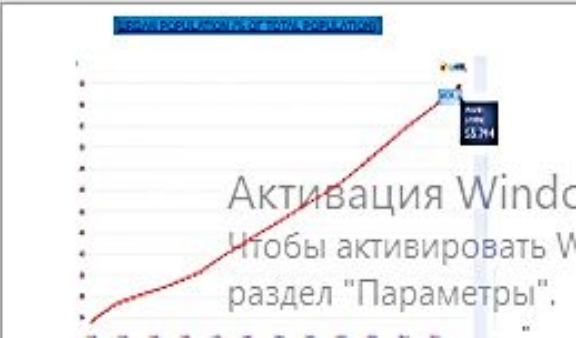
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Timofeeva A.A. 2020 c



## MAJOR AGGLOMERATIONS OF THE WORLD

Rank	Name	English Name	Country	Population
1	Guangzhou	Canton	China	46,700,000
2	Tokyo	Tokyo	Japan	40,400,000
3	Shanghai	Shanghai	China	39,600,000
4	Jakarta	Jakarta	Indonesia	31,300,000
5	Deli	Deli	India	30,300,000
6	Manila	Manila	Philippines	25,700,000
7	Bombay	Bombay	India	25,100,000
8	Seoul	Seoul	Korea (South)	24,800,000
9	Ciudad de Mexico	Mexico City	Mexico	23,000,000
10	Sao Paulo	Sao Paulo	Brazil	22,400,000
11	New York	New York	United States of America	22,100,000
12	Al-Ghazal	Cairo	Egypt	21,000,000
13	Dacca	Dacca	Bangladesh	20,200,000
14	Beijing	Beijing	China	19,800,000
15	Lagos	Lagos	Nigeria	19,400,000
16	Krungsri	Bangkok	Thailand	18,800,000
17	Karachi	Karachi	Pakistan	17,800,000
18	Los Angeles	Los Angeles	United States of America	17,700,000
19	Osaka	Osaka	Japan	17,700,000
20	Moscow	Moscow	Russia	17,300,000

## 2. Production Connected indicators

### RICHEST CITIES

Rank	City	GDP (Billion)
1	Tokyo	\$1,320
2	New York	\$1,210
3	Los Angeles	\$798.7
4	Seoul	\$779.4
5	London	\$733.2
6	Paris	\$669.2
7	Osaka	\$664.8
8	Chicago	\$619.6
9	Moscow	\$520.1
10	Shanghai	\$516.5

### Agglomerations

Rank	Name	Population	Rank	City	GDP (Billion)
1	Guangzhou	46,700,000	1	Tokyo	\$1,320
2	Tokyo	40,400,000	2	New York	\$1,210
3	Shanghai	39,600,000	3	Los Angeles	\$798.7
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5	Deli	30,300,000	5	London	\$733.2
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7	Bombay	25,100,000	7	Osaka	\$664.8
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9	Ciudad de Mexico	23,000,000	9	Moscow	\$520.1
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14	Beijing	19,800,000			
15	Lagos	19,400,000			
16	Krungsri	18,800,000			
17	Karachi	17,800,000			
18	Los Angeles	17,700,000			
19	Osaka	17,700,000			
20	Moscow	17,300,000			

### GDP PPP (constant 2017 International \$)

\$182.25 trillion (2018 est.)  
\$127.25 trillion (2017 est.)  
\$128.25 trillion (2016 est.)  
\$128.87 trillion (2015 est.)  
\$128.87 trillion (2014 est.)  
note: data are in 2018 US dollars

### World GDP - real growth rate

2.87% (2018)  
8.6% (2017)  
8% (2016)  
8.2% (2015)  
8.8% (2014)

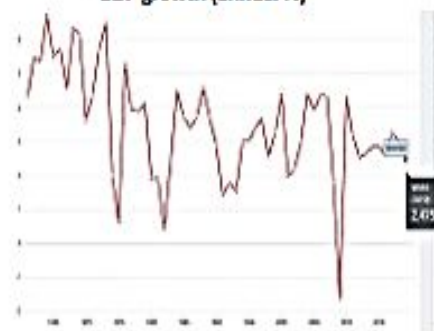
### GDP per capita, PPP (constant 2017 International \$)

\$17,814 (2017)  
\$17,800 (2016)  
\$16,900 (2015)  
\$16,000 (2014)  
\$15,800 (2013)

World GDP growth rate  
World GDP per capita



### GDP growth (annual %)



### GDP - composition by sector

Agriculture 4%  
Industry 37%  
Services 59% (2017 est.)



## 3. International economic relations ind.

### International economic relations



**Resident**  
a legal or natural person,  
registered as residing in this state

**Nonresident**—

1) organization without legal entity status, established in accordance with the legislation of a foreign state or  
2) diplomatic representative offices of foreign states or other official organizations located in the territory of the Russian Federation

3) natural person residing outside the Russian Federation for more than 183 calendar days within last 12 months, that is, not having permanent residence in the territory of the Russian Federation

Business relations between residents and non-residents of the country including factors of production moving and all accompanying operations

### The forms of international economic relations

#### International trade in goods and services

✓ The international movement of capital

✓ Labour migration;

✓ International exchange of knowledge;

✓ The international currency and settlement relations.

The forms of international economic relations (page 1)

### International trade in goods and services

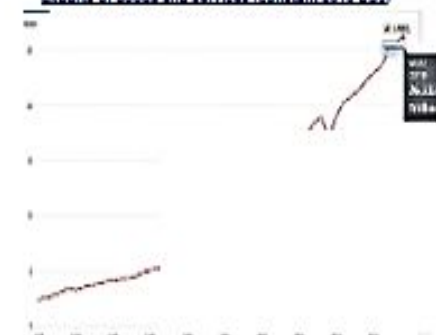


#### Exports - commodities:

top ten - share of world trade:

- ✓ electrical machinery, including computers 16.8%
- ✓ mineral fuels, including oil, coal, gas, and refined products 14.0%
- ✓ nuclear reactors, boilers, and parts 14.2%
- ✓ cars, trucks, and buses 8.9%
- ✓ scientific and precision instruments 2.5%
- ✓ plastics 2.0%
- ✓ iron and steel 2.7%
- ✓ organic chemicals 1.6%
- ✓ pharmaceutical products 1.6%
- ✓ diamonds, pearls, and precious stones 1.9%

### Exports of goods and services (constant 2010 US\$)



# The forms of international economic relations

- ✓ International trade in goods and services;
- ✓ The international movement of capital;
- ✓ Labour migration;
- ✓ International exchange of knowledge;
- ✓ The international currency and settlement relations.

The forms of international  
economic relations (open ?)

# Capital





*narrow*

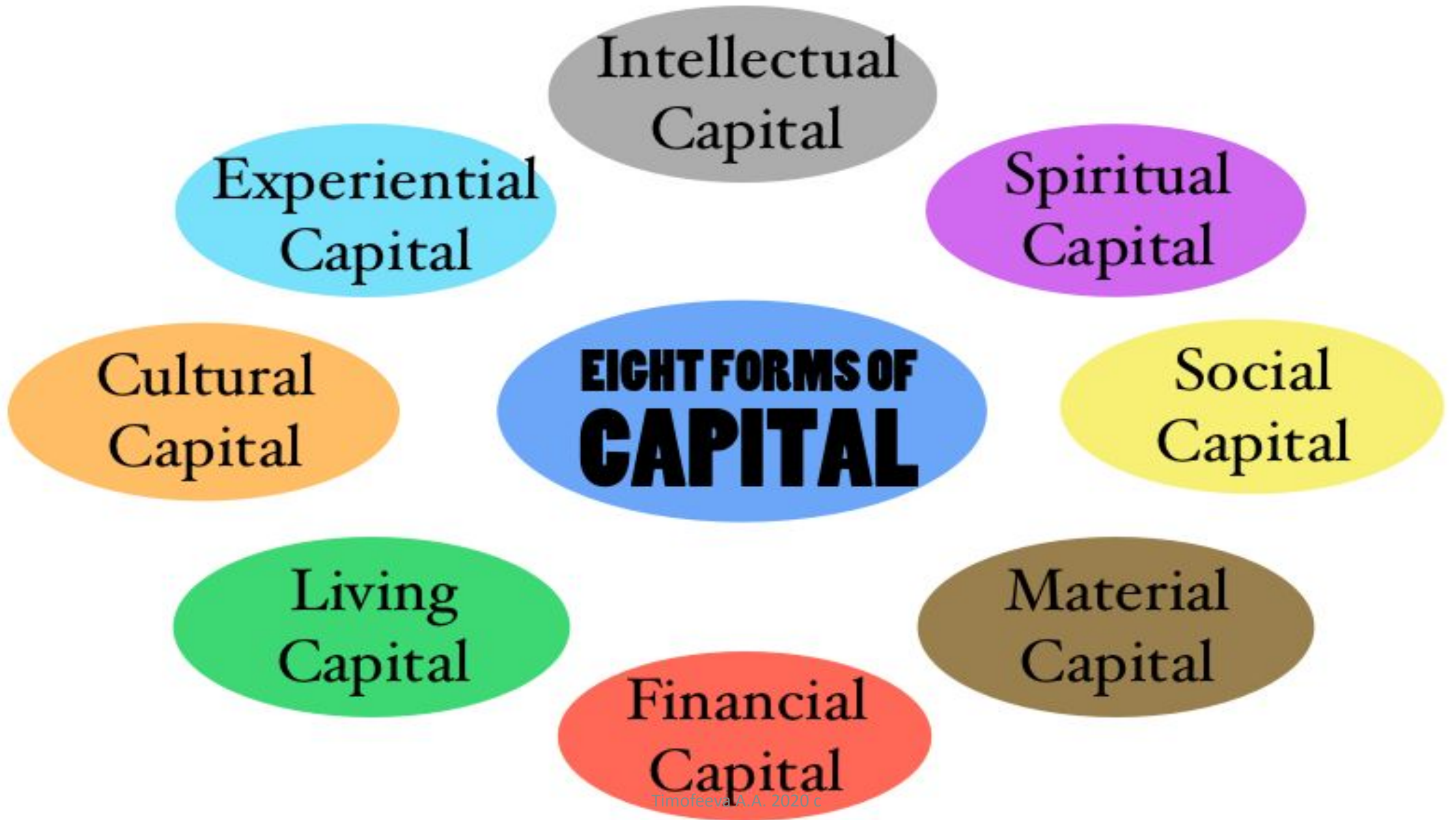
✓ ***wealth, esp. money used to produce more wealth through investment or a new business***

✓ ***money that used for investment or for starting a business***

✓ ***value that brings in surplus value***

✓ ***Capital is an important factor of production.*** It consists of those goods which are produced by the economic system and are used as inputs in the production of further goods and services.

*broad*



## Form of Capital

### • Its Currency and Manifestations

Social

•Connections: influence & relationships

Material

•Materials and "natural resources":tools, buildings, infrastructure.

Financial

•Money: financial instruments & securities

Living

•Carbon, Nitrogen, Water: soil, living organisms, land, ecosystems

Intellectual

•Ideas, Knowledge: words, images, "intellectual property"

Experiential

•Action: embodied experience, wisdom

Spiritual

•Prayer, Intention, Faith, Karma: spiritual attainment

Cultural

•Song, story, ritual: community

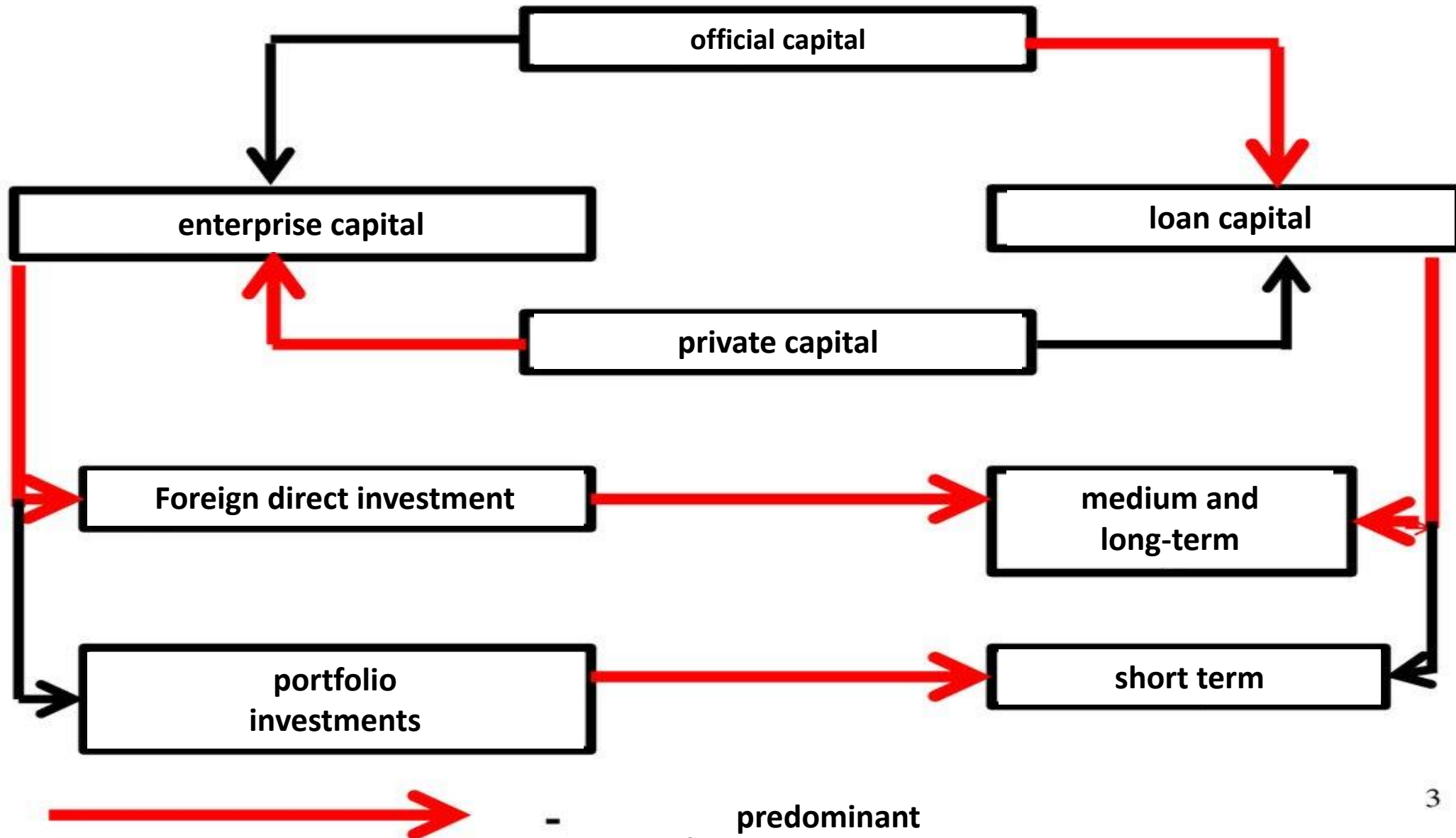
*If about international movement of capital as form of international economic relations...*

# **Forms of international capital movement**

# Forms of international capital movement



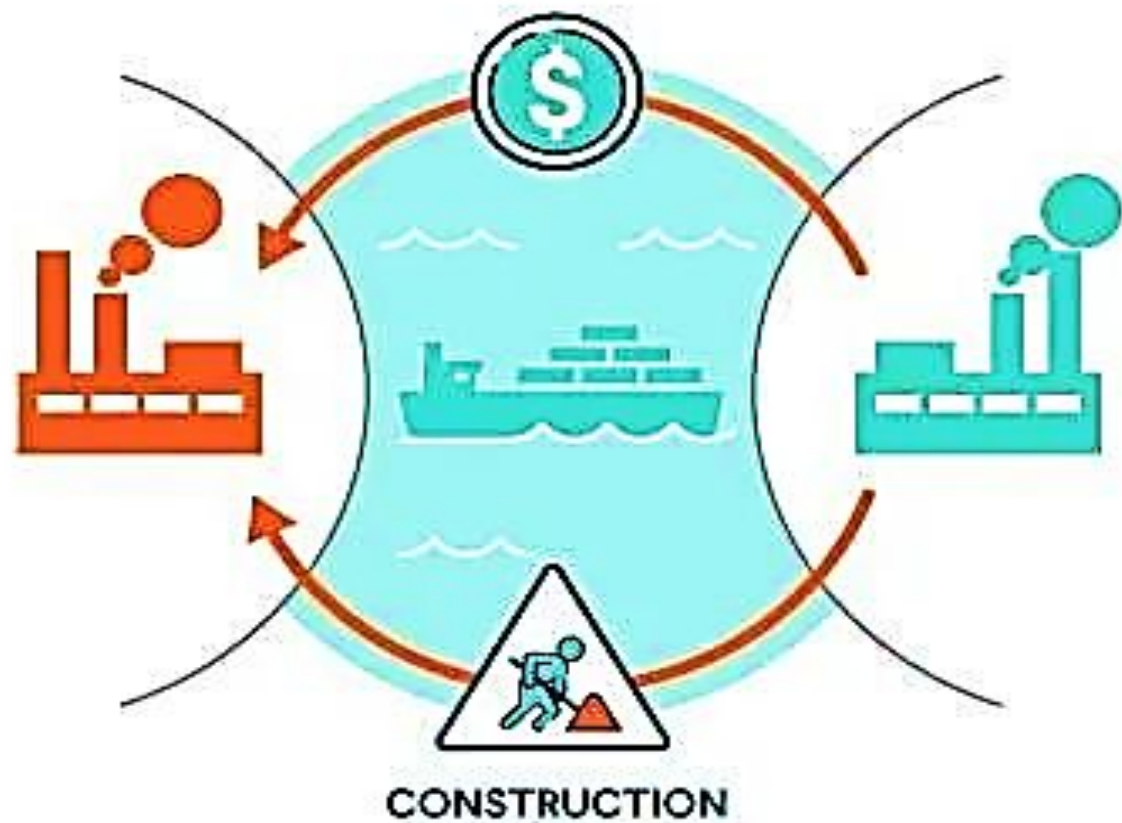
# Forms of international capital movement



# What is Foreign Investment?

## A: Foreign Direct Investment

A company buying or building a factory in another country



## B: Foreign Portfolio Investment

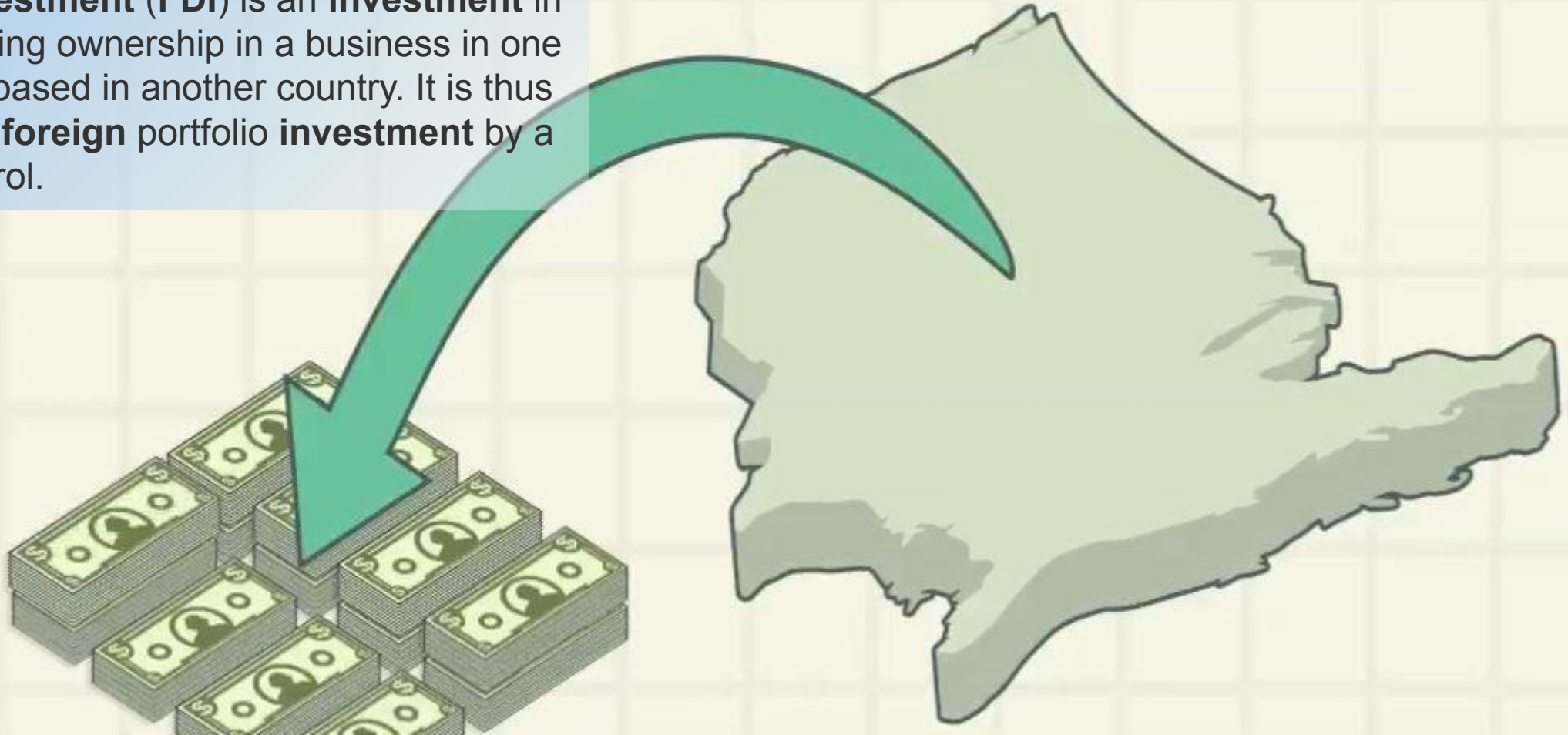
Buying stocks and bonds from another country



**FDI**

# FDI

A **foreign direct investment (FDI)** is an **investment** in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from a **foreign portfolio investment** by a notion of **direct** control.



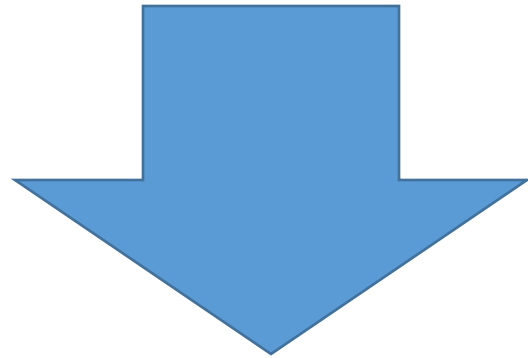


Broadly, foreign direct investment includes

- ✓ mergers and acquisitions,
- ✓ building new facilities,
- ✓ reinvesting profits earned from overseas operations,
- ✓ intra company loans

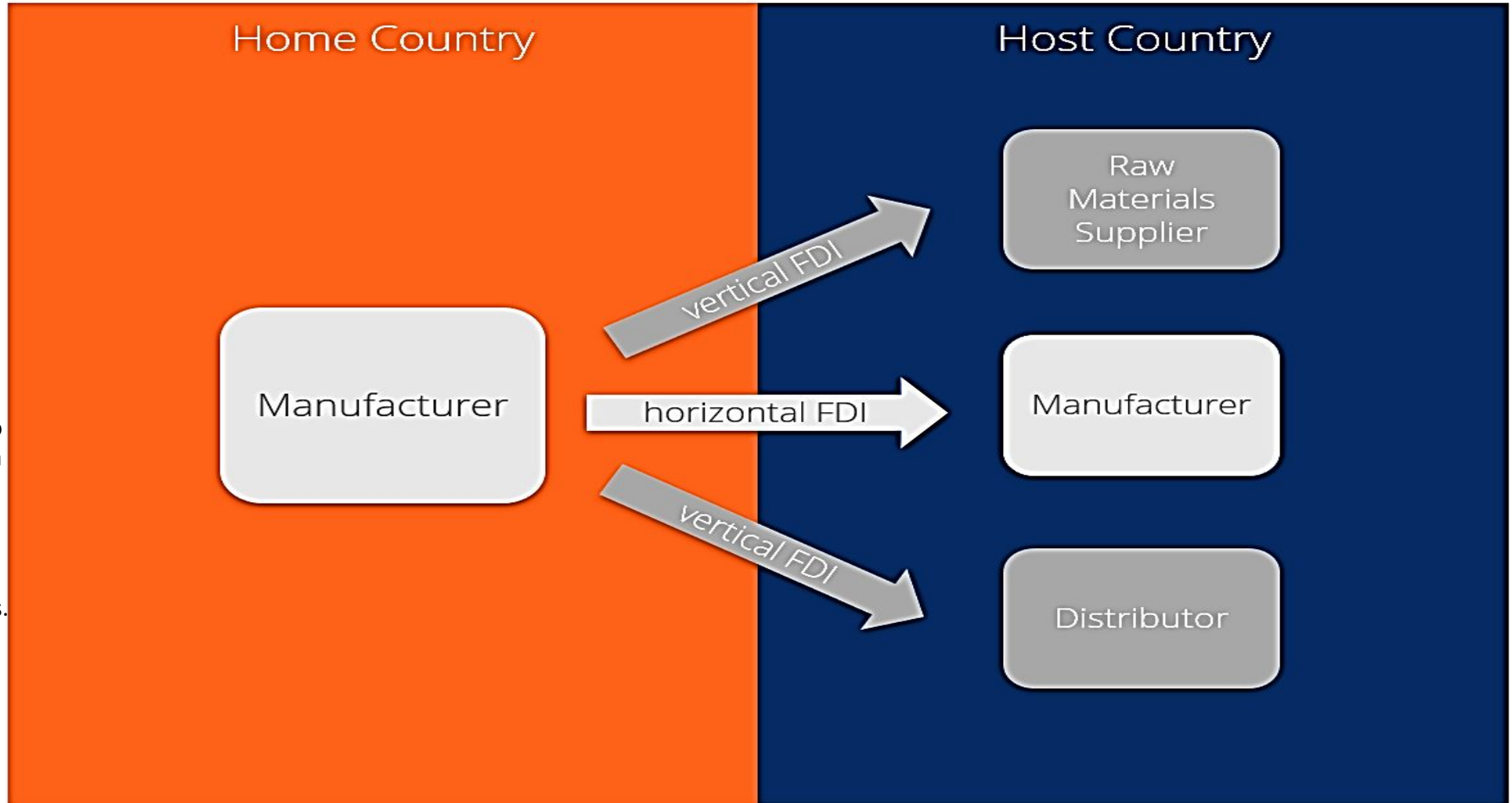
In a narrow sense, foreign direct investment refers just to building new facility, and a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

# FDI TYPES



# Foreign D I

**Horizontal:** a business expands its domestic operations to a foreign country. In this case, the business conducts the same activities but in a foreign country. For example, McDonald's opening restaurants in Japan would be considered horizontal FDI.

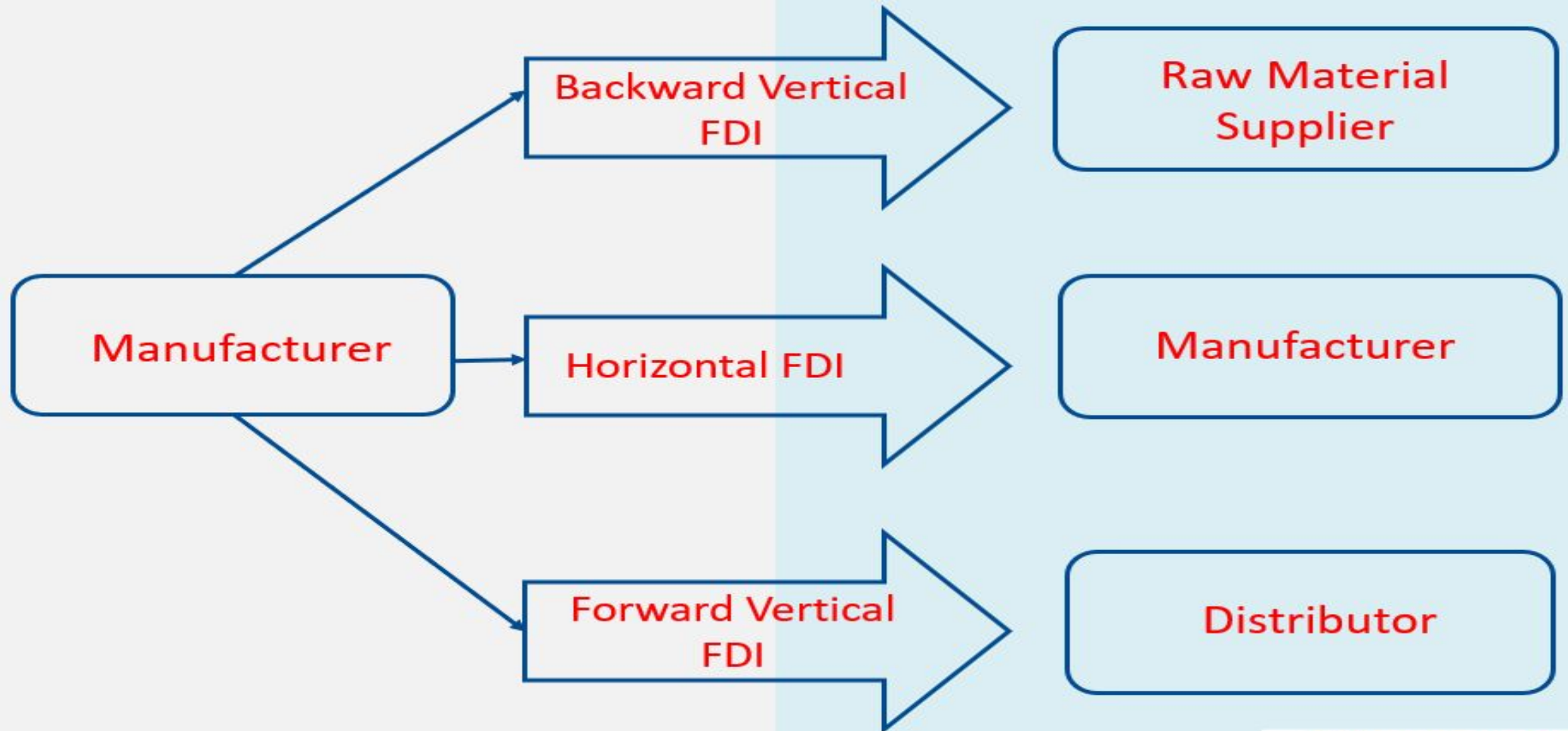


**Vertical:** a business expands into a foreign country by moving to a different level of the supply chain. In other words, a firm conducts different activities abroad but these activities are still related to the main business. Using the same example, McDonald's could purchase a large-scale farm in Canada to produce meat for their restaurants.

# Foreign Direct Investment (FDI)

**Home Country**

**Host Country**

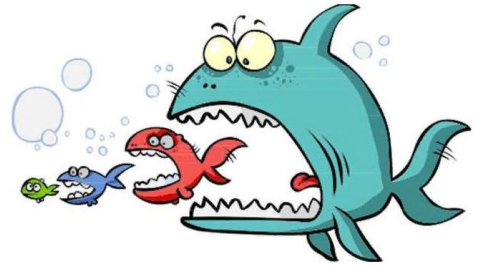


# Platform:

**Platform:** a business expands into a foreign country but the output from the foreign operations is exported to a third country. This is also referred to as export-platform FDI. Platform FDI commonly happens in low-cost locations inside free-trade areas. For example, if Ford purchased manufacturing plants in Ireland with the primary purpose of exporting cars to other countries in the EU



# Types of FDI



## Greenfield Investments

- Building new manufacturing facilities in foreign countries.
- Example: Honda built USA facility in early 1980s

## Cross-Border Mergers and Acquisitions (M&A)

- Merge with or buy foreign companies.
- Example: Ford bought Mazda (Japan) and Jaguar (UK).

# FDI + and -

# Foreign Direct Investment

## Pros



Diversifies investors  
portfolios



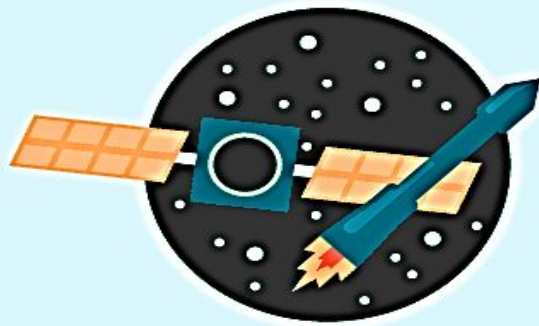
Promotes stable long  
term lending



Provides financing to  
developing countries



Provides technology to  
developing countries



Not suitable for strategically  
important industries



Unethical access  
to local markets

# FOREIGN DIRECT INVESTMENT

**BOOST ECONOMIC RESILIENCE BY:**



**CREATING MORE AND  
BETTER-PAID JOBS**



**LIFTING PEOPLE OUT  
OF POVERTY**



**BOOSTING  
PRODUCTIVITY**

For country

## Advantages of FDI

- ✓ Increase investment level and thereby income & employment
- ✓ Increase tax revenue of government
- ✓ Facilitates transfer of technology
- ✓ Encourage managerial revolution through professional management
- ✓ Increase exports and reduce import requirements
- ✓ Increase competition and break domestic monopolies
- ✓ Improves quality and reduces cost of inputs

## Disadvantages of Foreign Direct Investment

- Displacement of local businesses
- Profit repatriation

# Foreign Direct Investment

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## **Advantages**

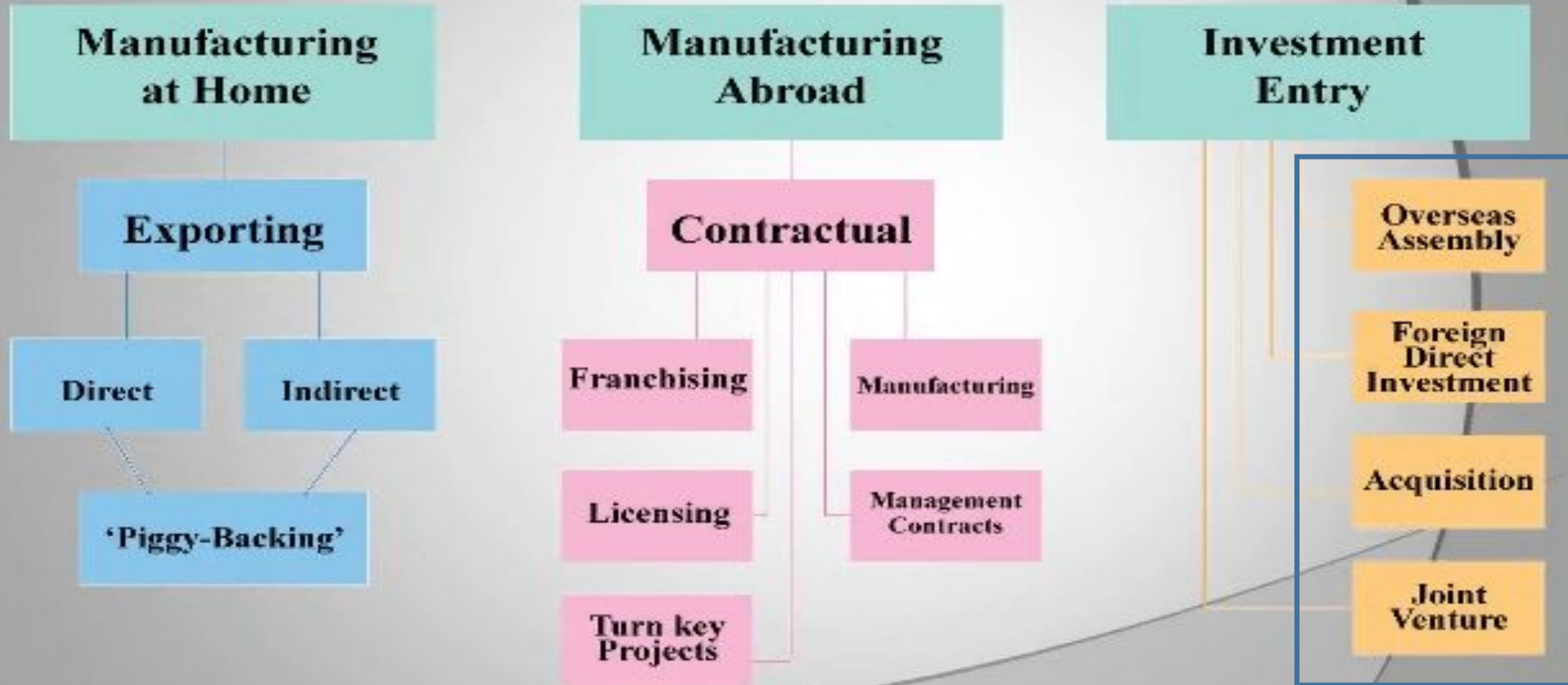
- High profit potential
- Maintain control over operations
- Acquire knowledge of local market
- Avoid tariffs and NTBs

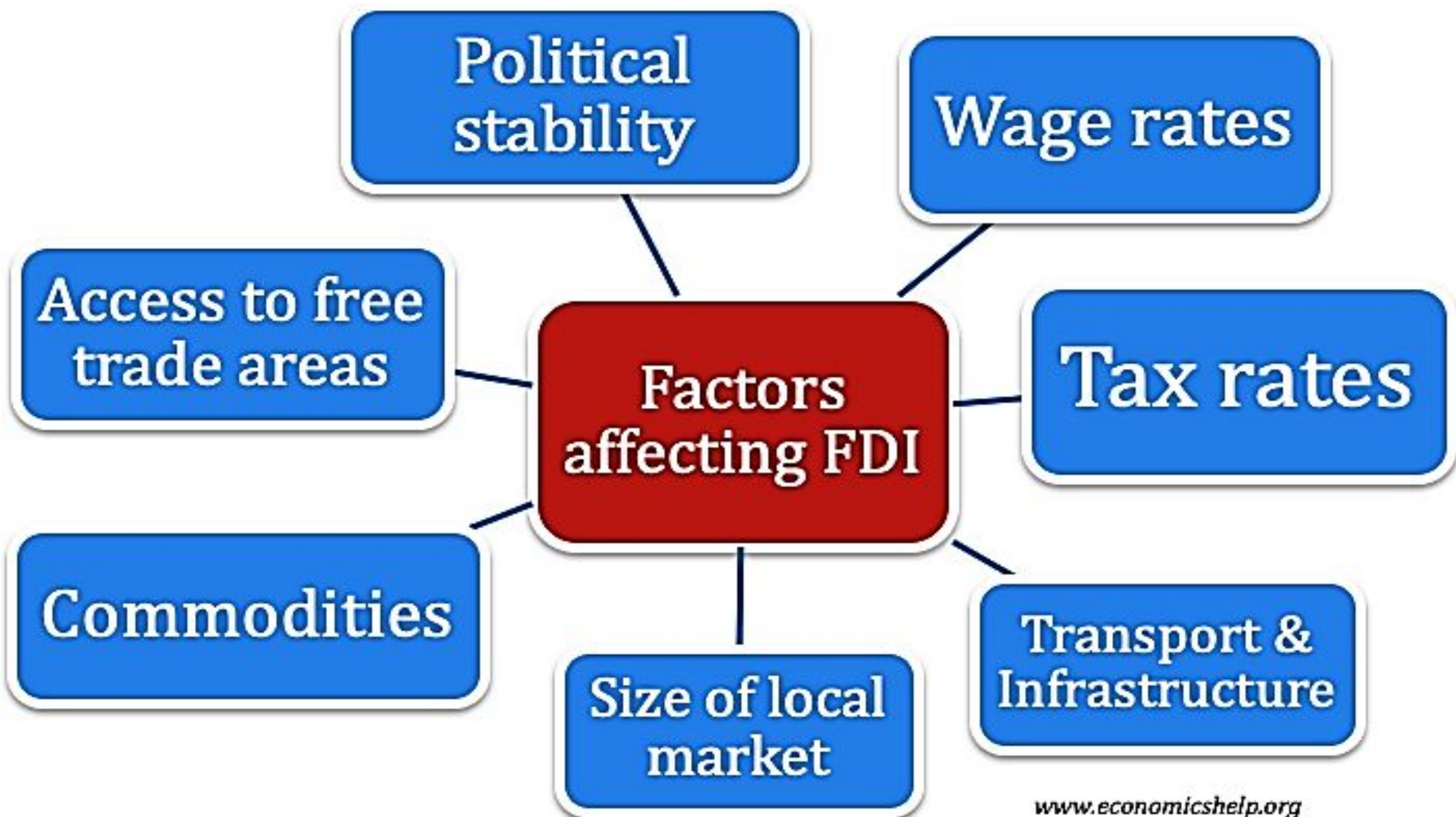
## **Disadvantages**

- High financial and managerial investments
- Higher exposure to political risk
- Vulnerability to restrictions on foreign investment
- Greater managerial complexity

# FDI in strategies

# Global Market Entry Strategies





# FDI in numbers

# The international movement of capital

## Stock of direct foreign investment - abroad:

\$33.6 trillion (31 December 2017 est.)

\$28.4 trillion (31 December 2016 est.)

\$26.2 trillion (31 December 2014 est.)

FDI / number

Definition of FDI in  
comparison with portfolio  
investment

Why attract Foreign Direct  
Investment? (video)

Types of FDI (video: what is  
FDI))



Forms of international movement of capital are typically  
installed in countries investment and banking legislation

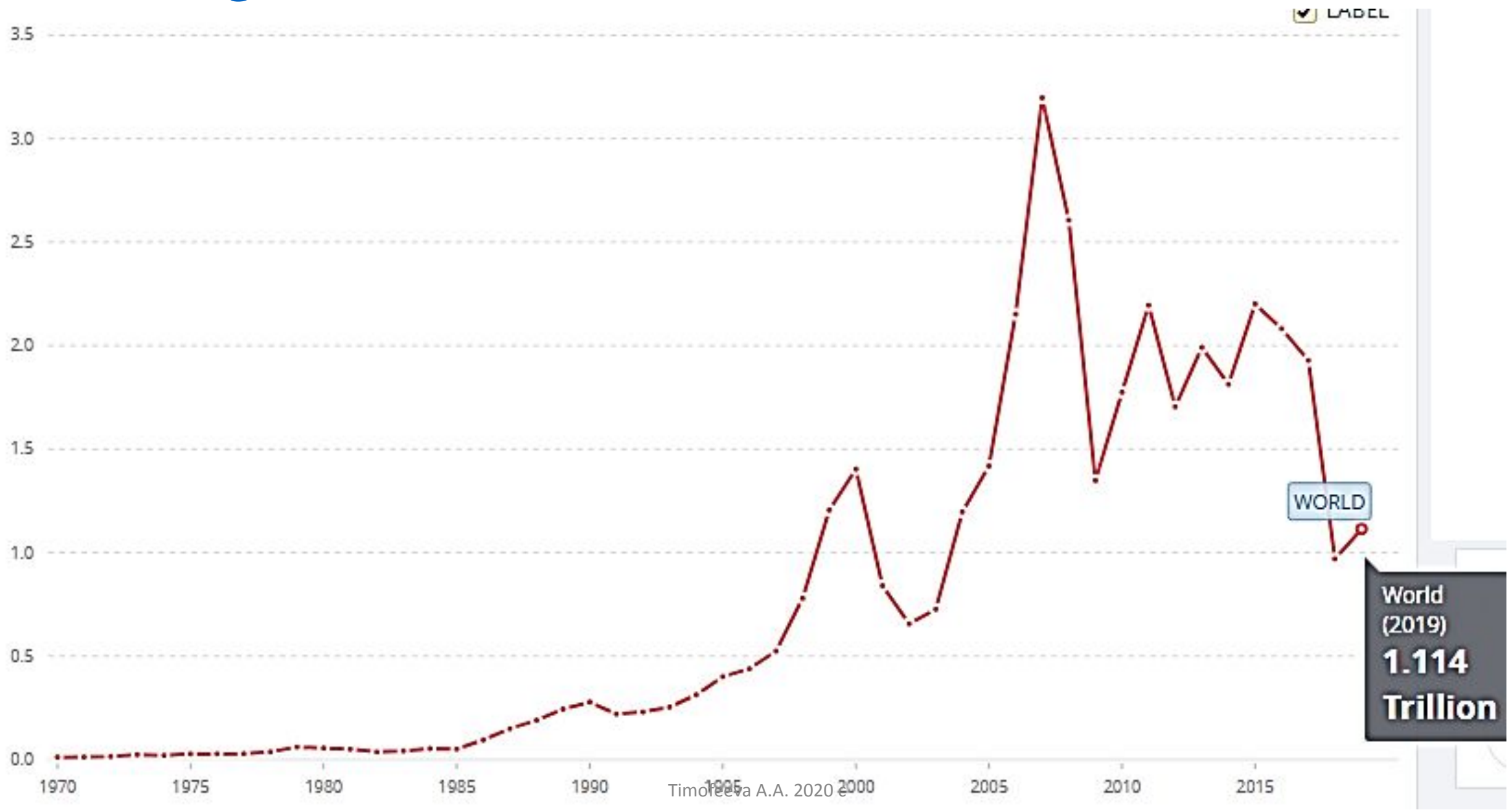


Types of FDI  
(video: what is  
FDI))



Why attract  
Foreign  
Direct  
Investment

# Foreign direct investment, net outflows (BoP, current US\$)



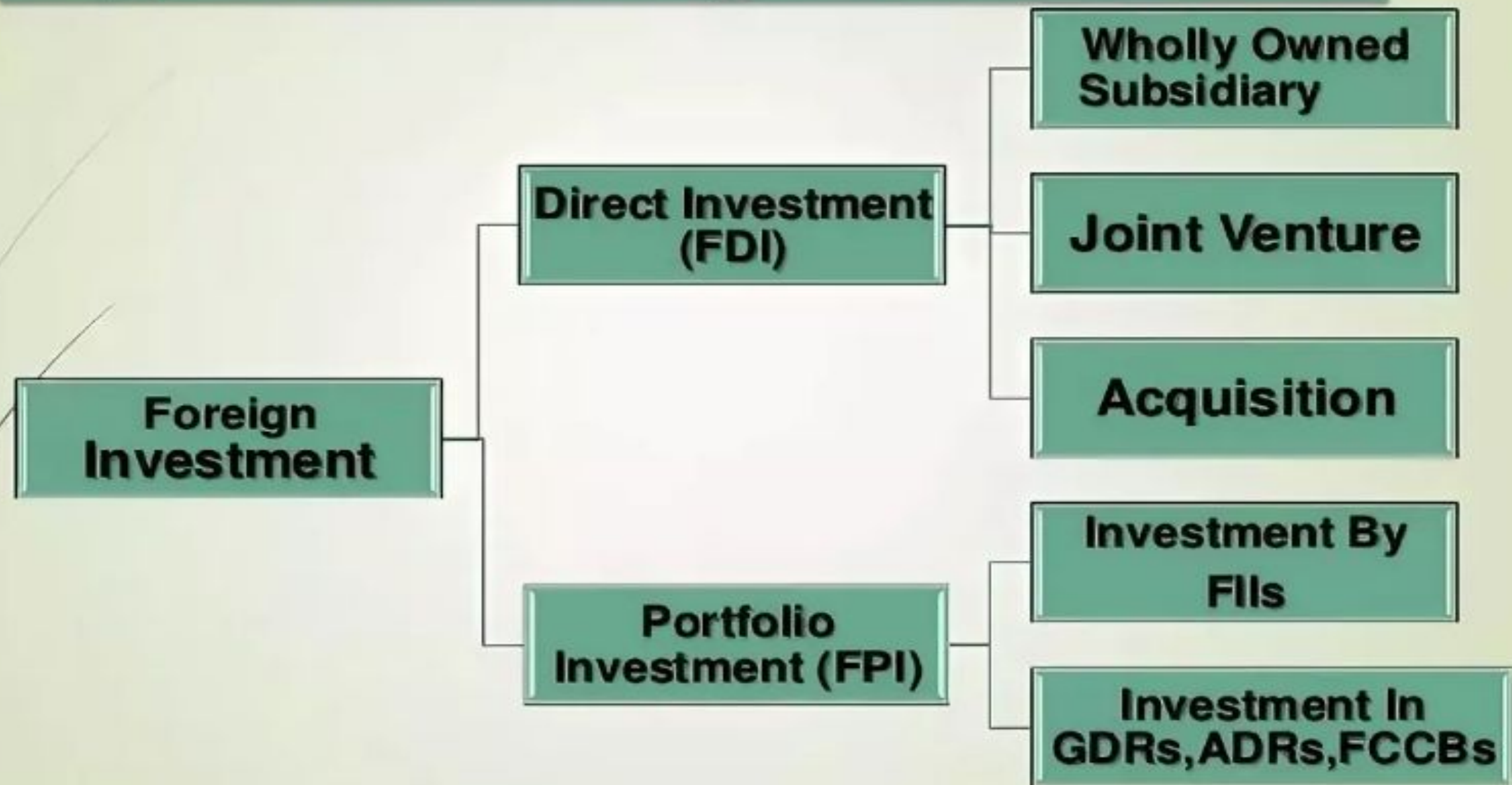


top 15 countries and jurisdictions receiving FDI inflows:

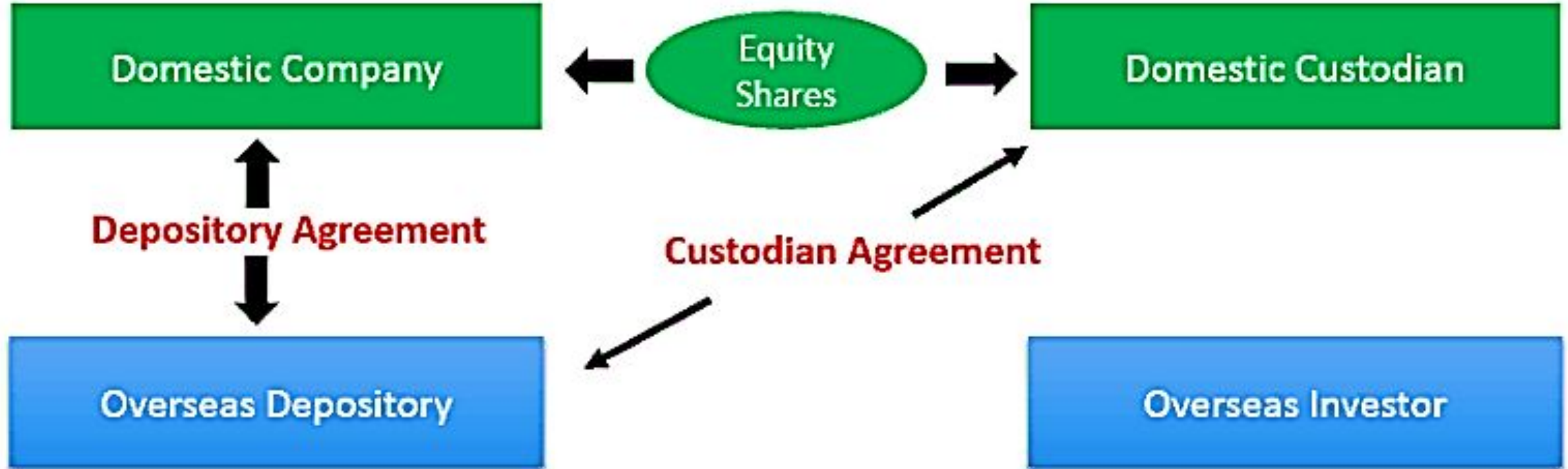
Rank	Jurisdiction	FDI Inflows
#1	United States	\$275.4 billion
#2	China	\$136.3 billion
#3	Hong Kong (SAR)	\$104.3 billion
#4	Brazil	\$62.7 billion
#5	Singapore	\$62.0 billion
#6	Netherlands	\$58.0 billion
#7	France	\$49.8 billion
#8	Australia	\$46.4 billion
#9	Switzerland	\$41.0 billion
#10	India	\$39.9 billion
#11	British Virgin Islands	\$38.4 billion
#12	Cayman Islands	\$37.4 billion
#13	Germany	\$34.7 billion
#14	Mexico	\$29.7 billion
#15	Ireland	\$29.0 billion

# Portfolio investment

# Types Of Foreign Investment



# What is Global Depository Receipts (GDR)?



# What are American Depositary Receipts (ADR)?



# The forms of international economic relations

- ✓ International trade in goods and services;
- ✓ The international movement of capital;
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- ✓ The international currency and settlement relations.

The forms of international  
economic relations (open ?)