

Macroeconomics, Globalization and Business

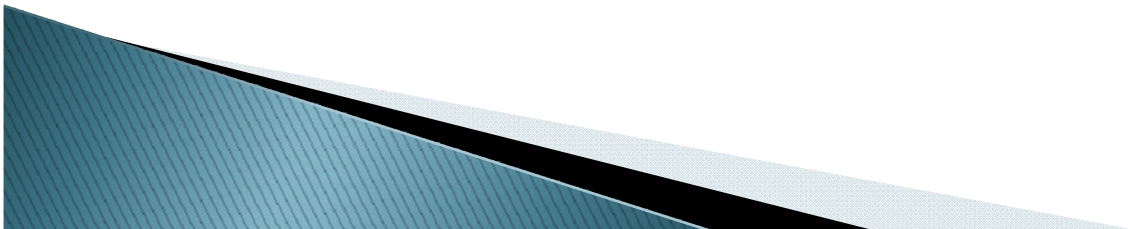
EE 488 (2/2012)

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& Dr. Peera Charoenporn

*This slide is adapted from that of Aj.Pawin Siriprapanukul

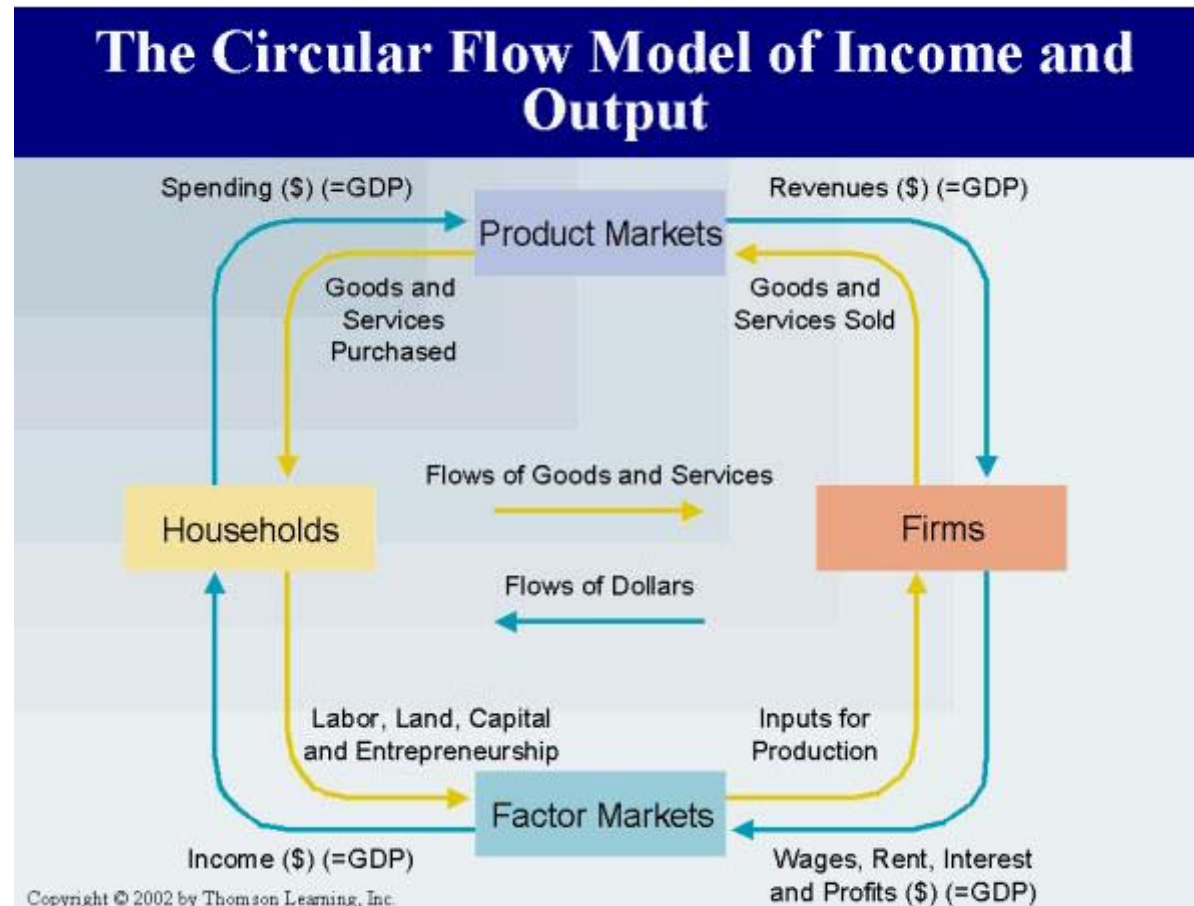
Outline

1. Economic Environment and Economic Forecast
2. Global Trends
3. Globalization and Business
4. The World Economy
5. Thailand's SWOT analysis



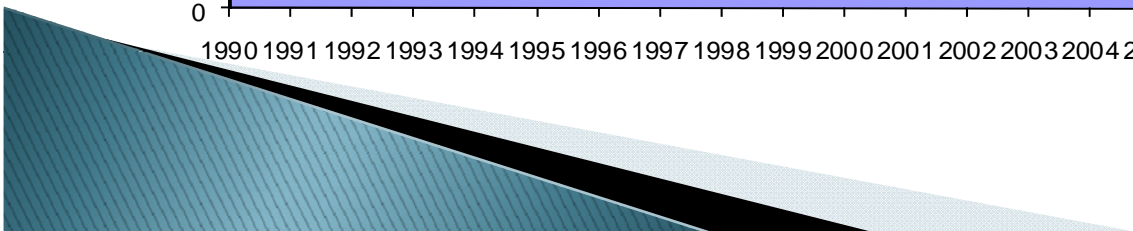
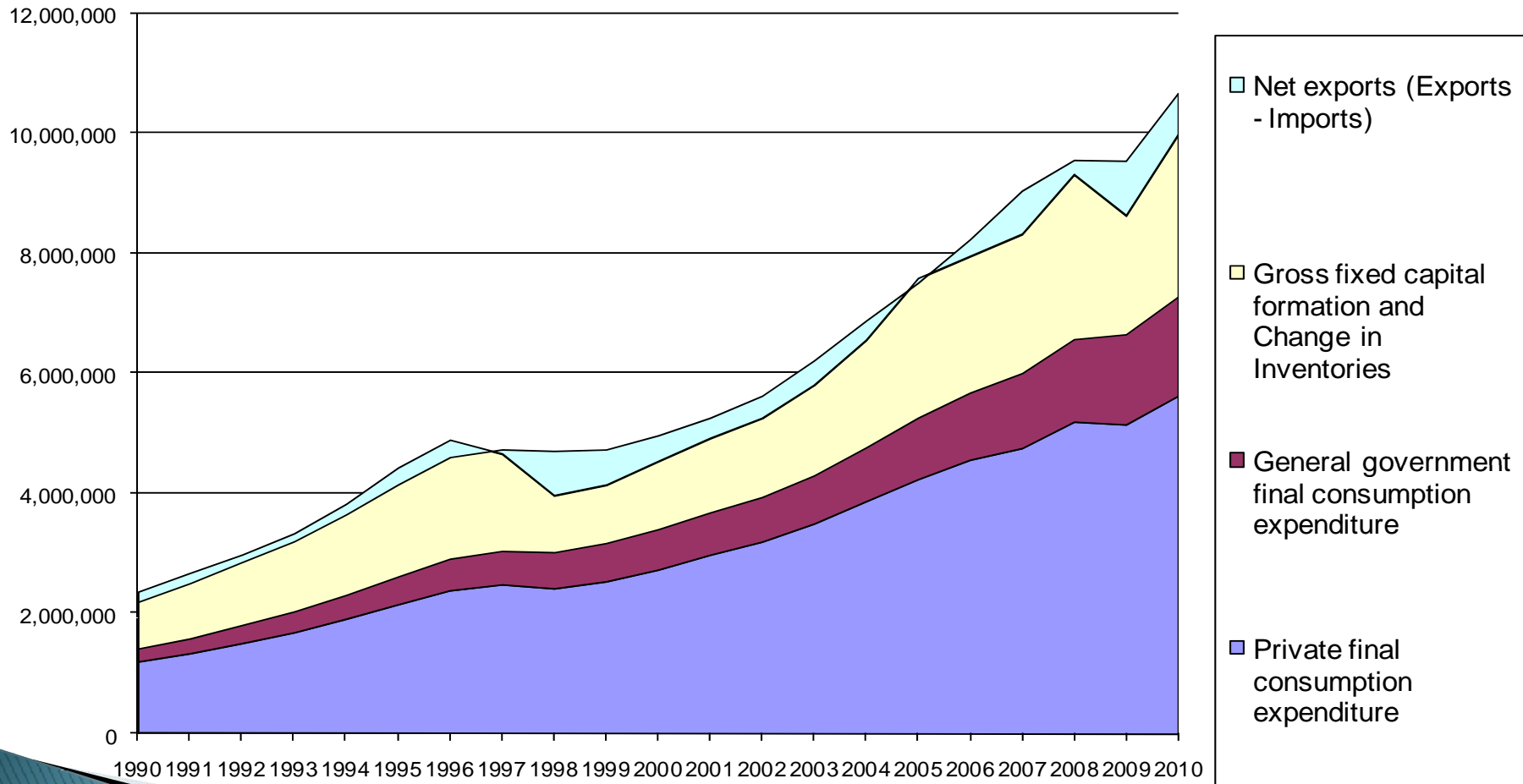
»» Part 1: Economic Environment
and Economic Forecast

GDP (gross domestic product)



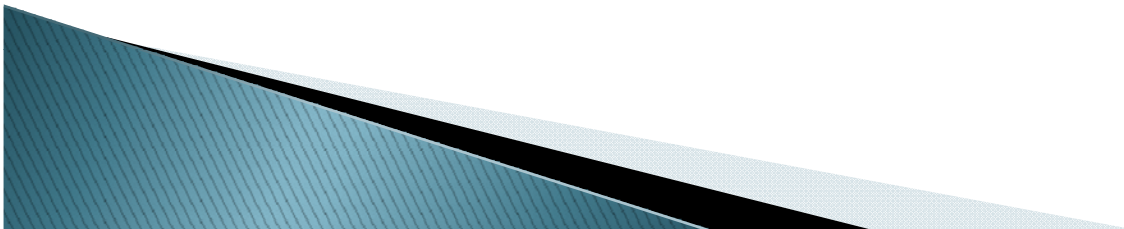
Production = Expenditure = Income

Expenditure on GDP at Current Market Prices

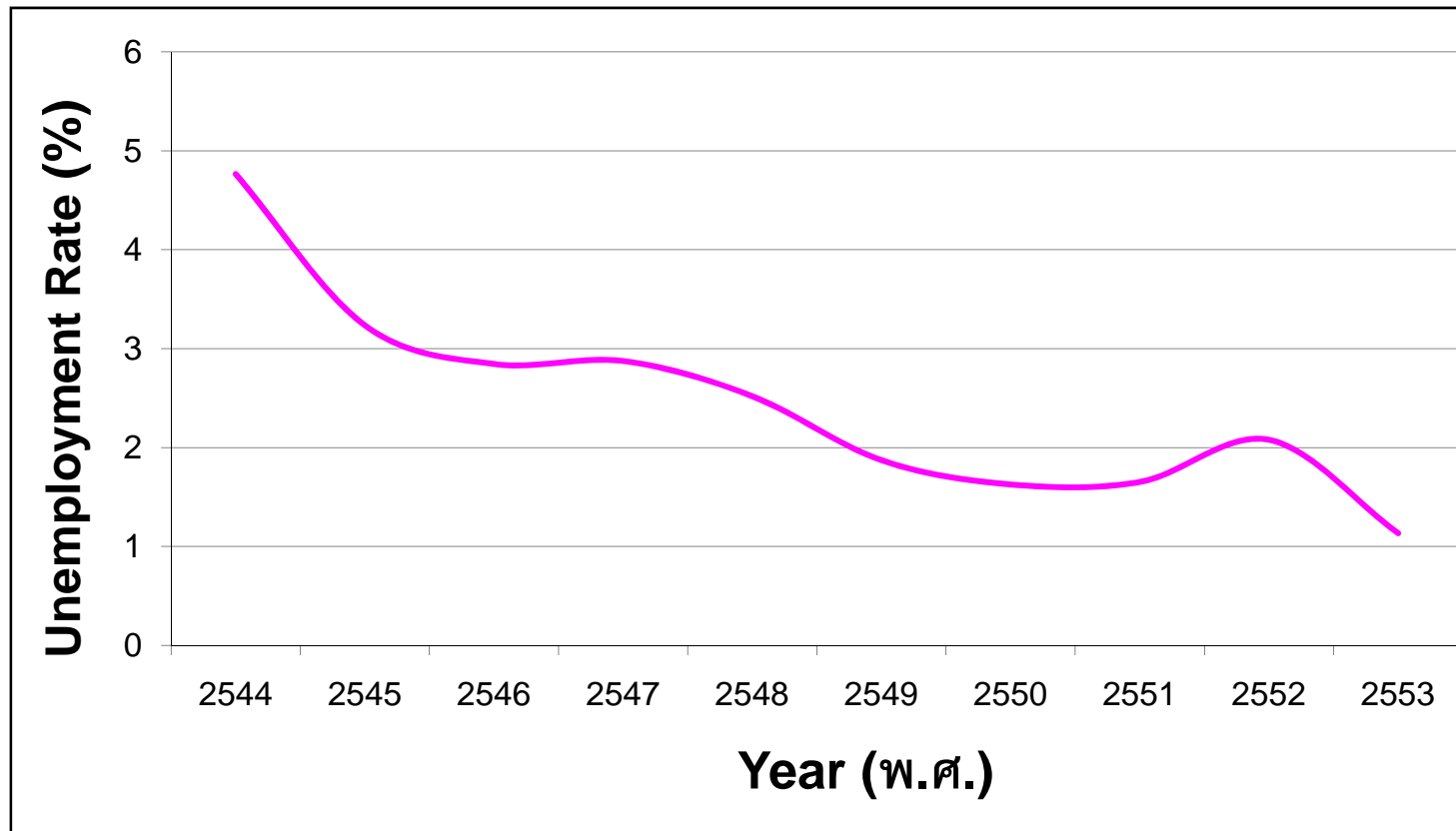


Macroeconomic Indicators

- ▶ Employment
- ▶ Inflation
- ▶ Exchange Rate
- ▶ Export, Import
- ▶ Oil Price, Commodity Prices
- ▶ Etc.

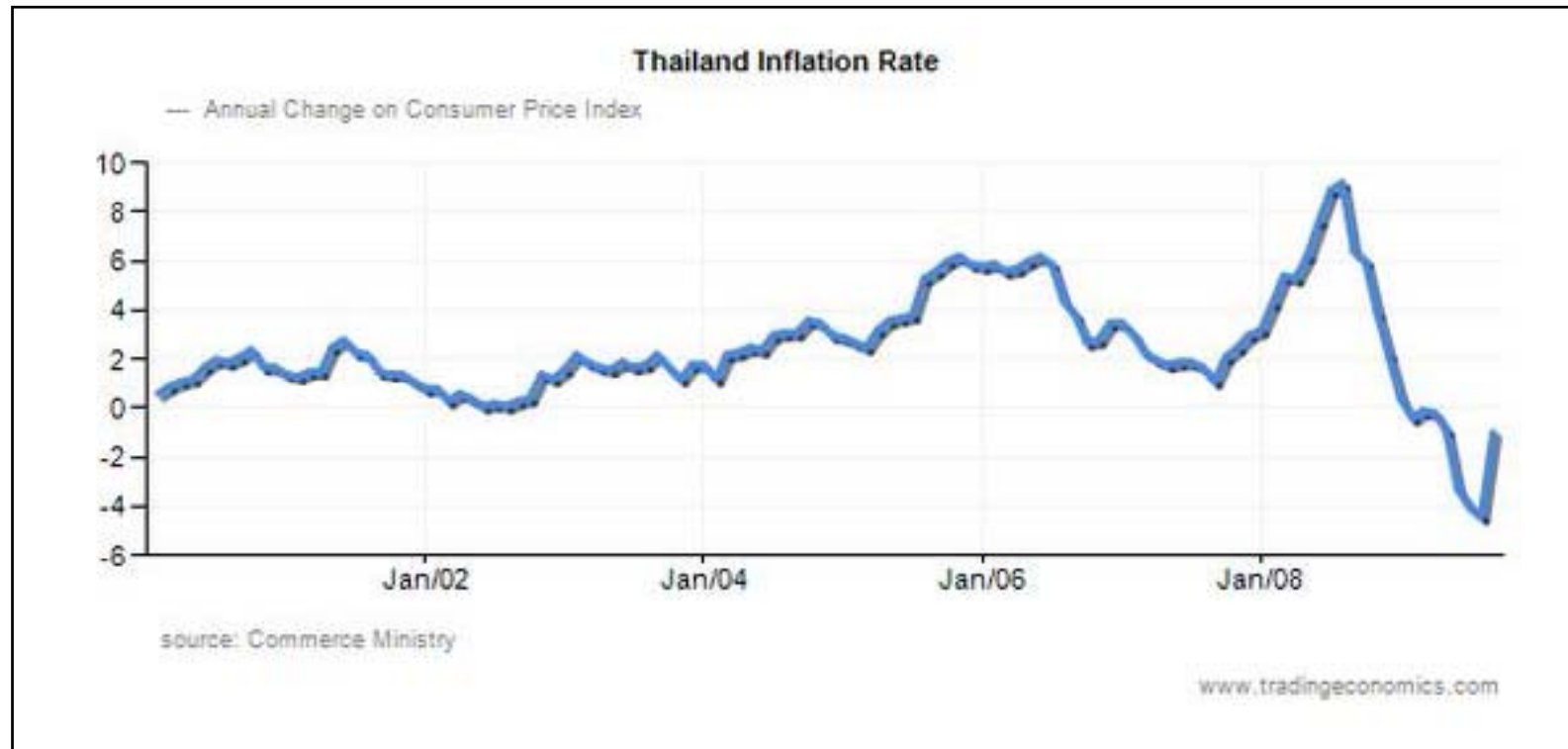


Thai Unemployment Rate

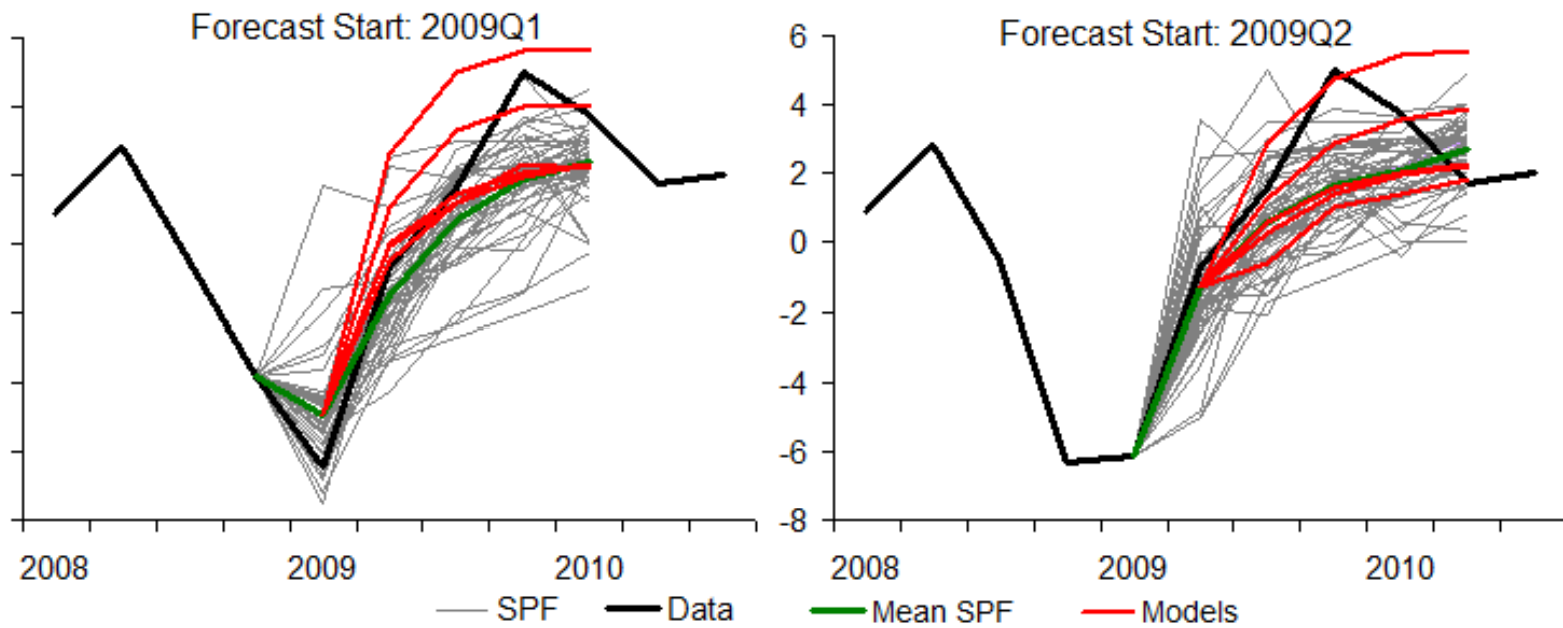


Source: Thailand National Statistical Office

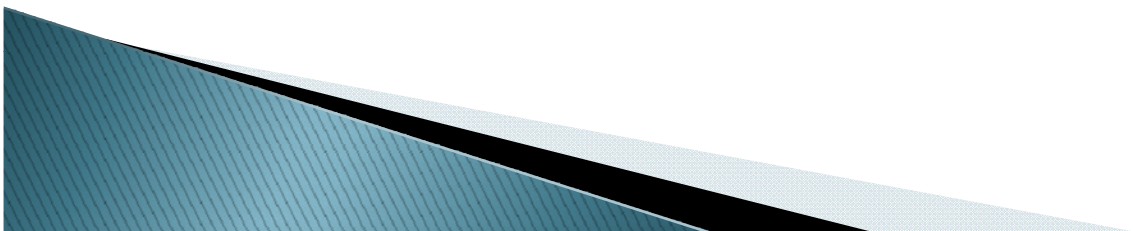
Thailand's Headline Inflation



Source: Ministry of Commerce

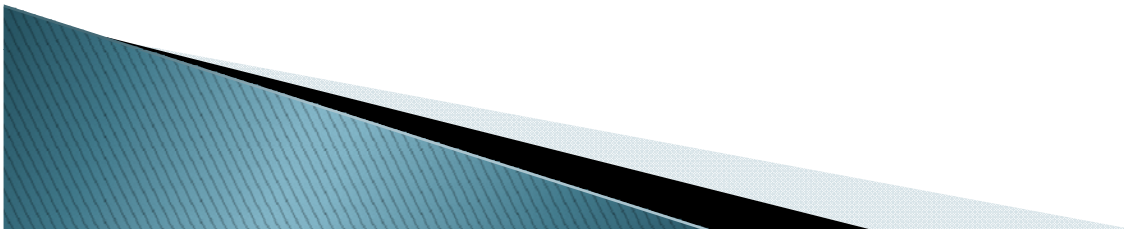


MONITORING



Monitoring the Economy

- ▶ Why?
- ▶ We want to know the well-being of the economy
 - Help generate useful policies
 - Prevent severe impacts from recessions
 - Etc.
- ▶ It takes too long to gather important macroeconomic data
- ▶ Some variables are easier to collect and can be used as proxies
- ▶ What are they?



Expenditure Approach

$$Y = C + I + G + NX$$

where

$Y = \text{GDP}$

$C = \text{Consumption}$

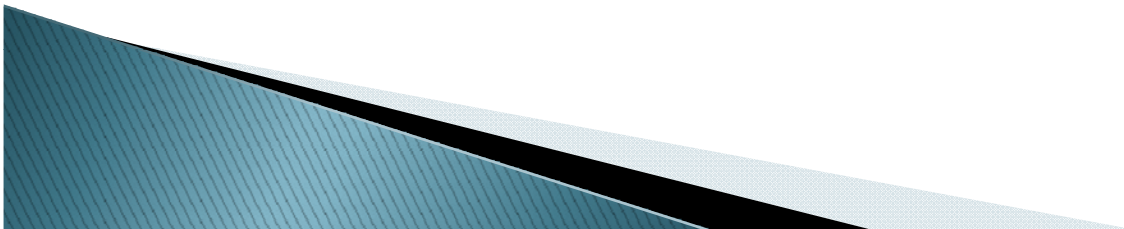
$I = \text{Investment}$

$G = \text{Government Spending}$

$NX = \text{Net export} = \text{Exports} - \text{Imports}$

Private Consumption (C)

- Private Consumption Index (PCI)
- Household Electricity Consumption
- Fuel Index
- VAT (Real Terms)
- Import of Consumer Goods (Real Terms)
- Car index

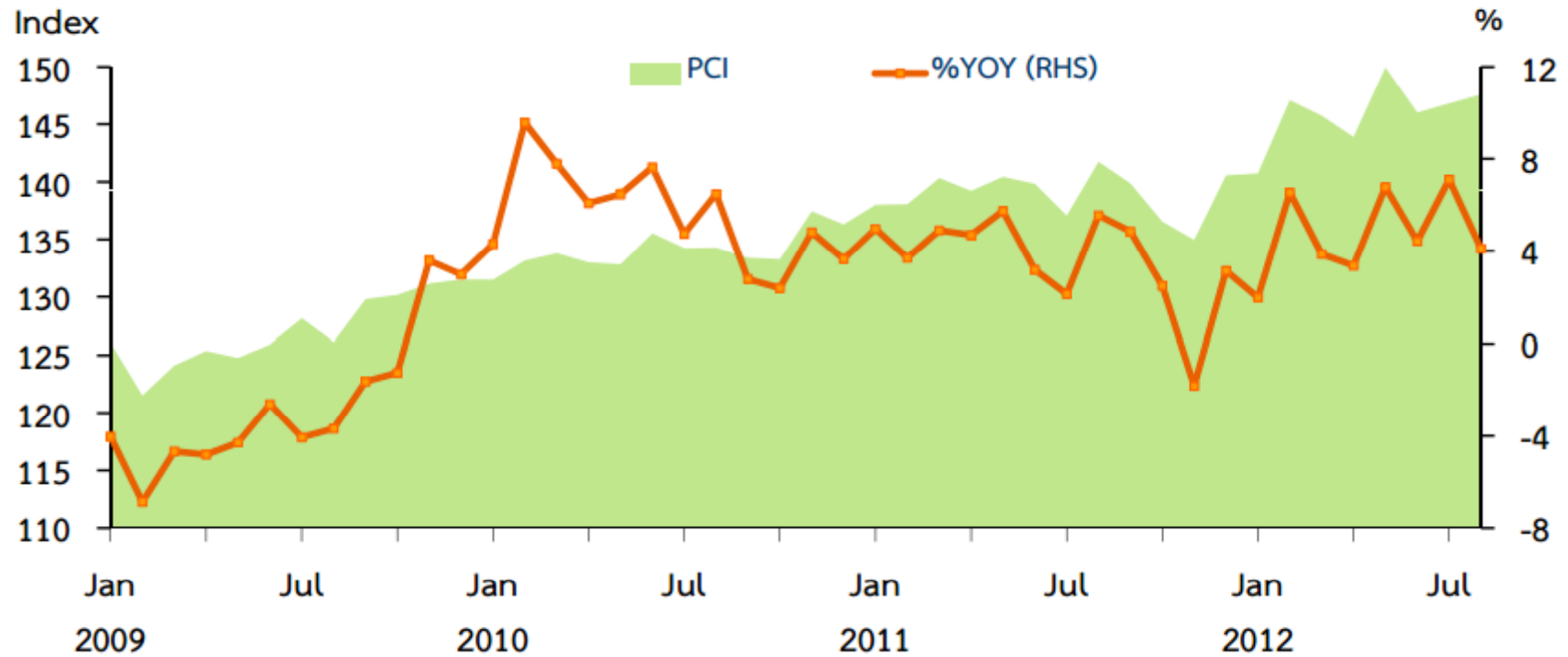


Private Consumption Index (PCI)

(Seasonally adjusted, 2000=100)

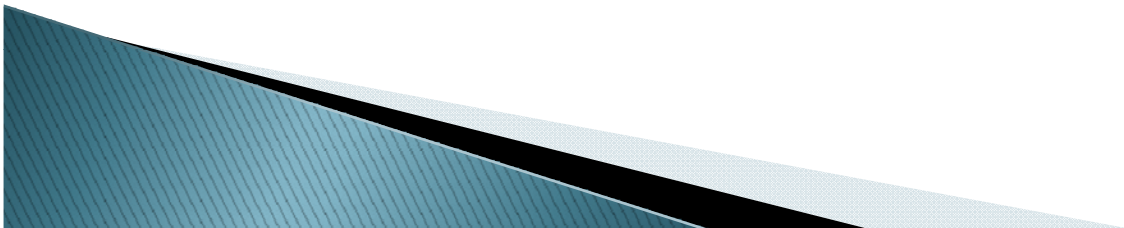
	2011	2011		2012				
		H1	H2	H1	Q1	Q2	Jul	Aug
PCI	138.9	139.3	138.5	145.6	144.5	146.6	146.8	147.6
%YoY	3.6	4.5	2.7	4.5	4.1	4.9	7.1	4.1
%MoM, %QoQ	-	-	-	-	5.2	1.5	0.5	0.5

P = Preliminary data



Investment (I)

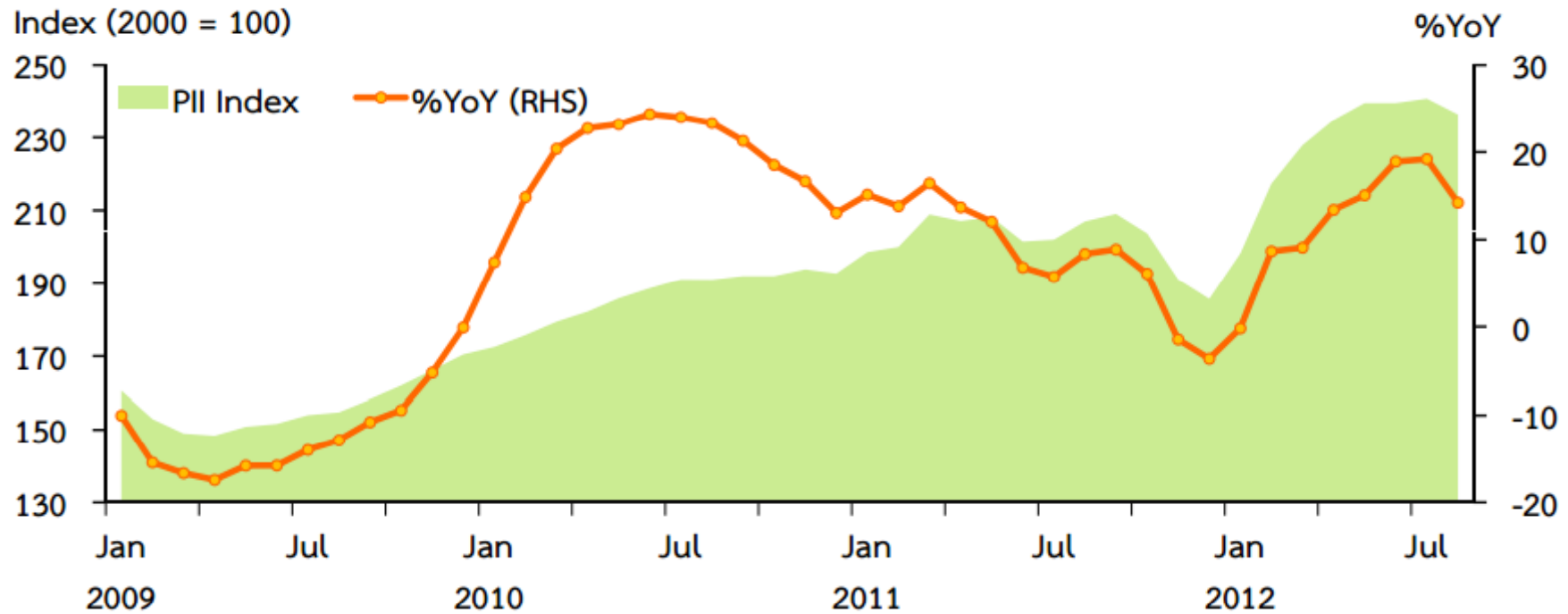
1. Private Investment Index (PII)
2. Manufacturing Production Index (MPI)
3. Capacity Utilization
4. Business Sentiment Index



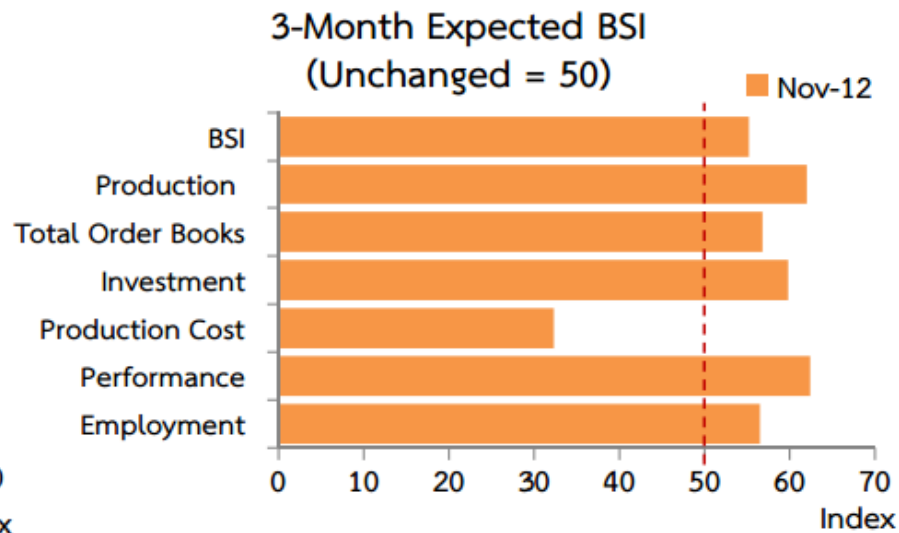
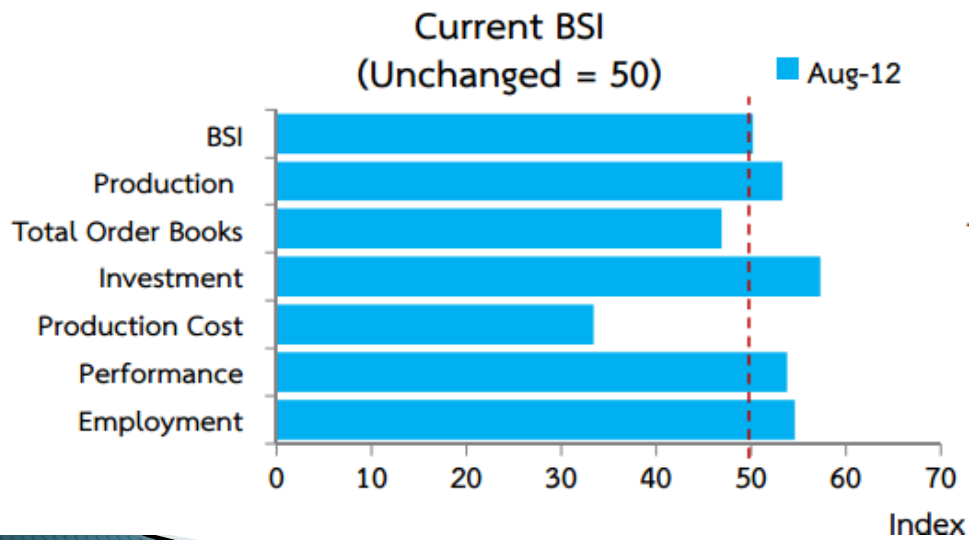
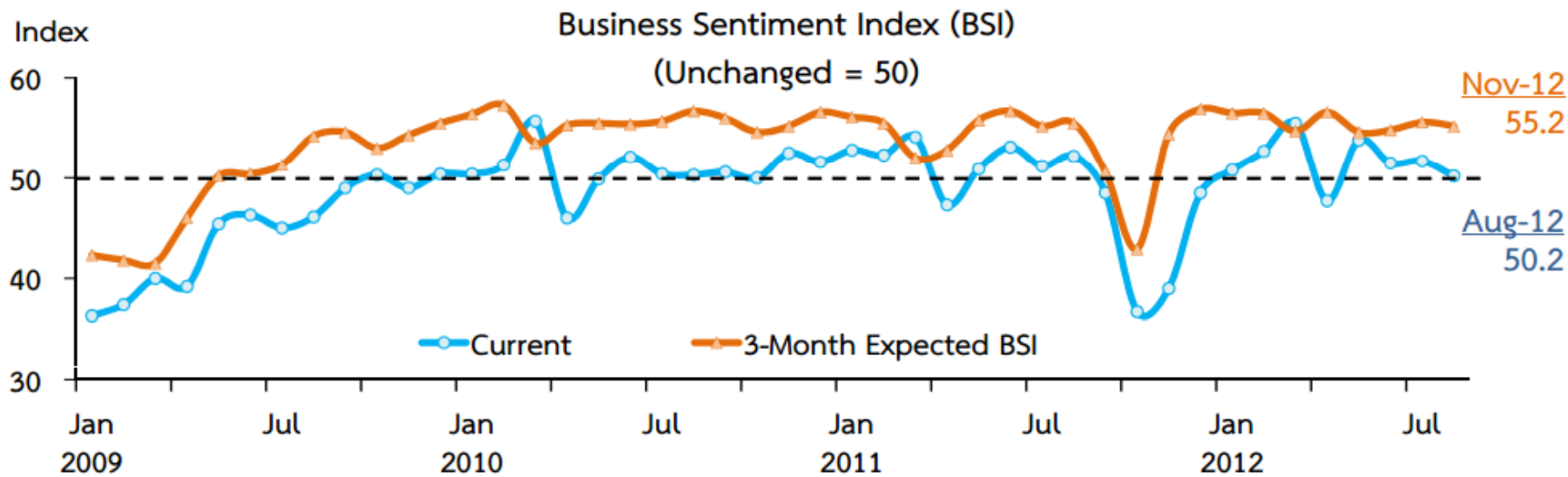
Private Investment Index (PII)

Seasonally adjusted, 3-month moving average

	2011	2011		2012				
		H1	H2	H1 ^P	Q1	Q2 ^P	Jul ^P	Aug ^P
PII	201.3	205.2	197.3	233.8	227.9	239.6	240.8	236.4
%YoY	7.0	11.5	2.6	13.9	9.1	18.9	19.2	14.2
%QoQ, %MoM	-	-	-	-	22.7	5.1	0.5	-1.8

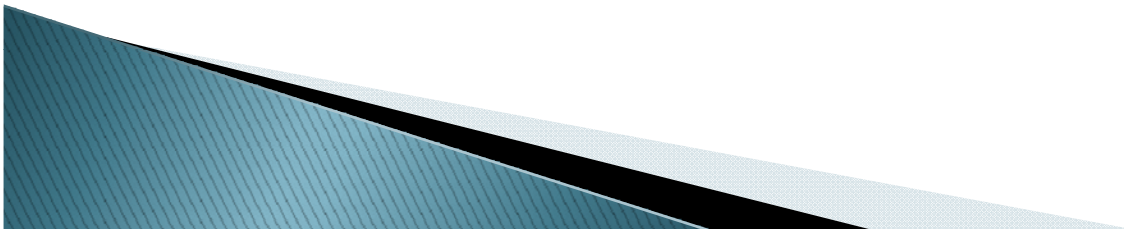


Note: PII series are rebased according to MOC import prices index. Hence, data from 2000 onwards are disseminated.



Government Expenditure (G)

- ▶ Government Revenue
- ▶ Government Expenditure
- ▶ Government Cash Balance



Government Cash Balance

Billion Baht	FY 2011	FY 2012			
	Year ^{P/}	H1 ^{P/}	Q3	Jul	Aug
Revenue ^{1/}	1,892.0	812.2	629.3	127.4	156.5
(%yoy)	(10.7)	(4.2)	(2.8)	(28.2)	(24.2)
Expense ^{2/}	2,003.3	1,213.8	459.4	178.5	159.1
(%yoy)	(17.0)	(8.2)	(11.9)	(25.6)	(13.7)
Budgetary B/L	-111.3	-401.7	169.8	-51.2	-2.6
Non-Budgetary B/L	-48.7	-58.3	-19.6	2.8	4.3
o/w SP2 ^{3/}	-61.4	-11.4	-4.8	-2.1	-1.9
Cash B/L (CG)	-159.9	-460.0	150.2	-48.3	1.7

Note: P = Preliminary

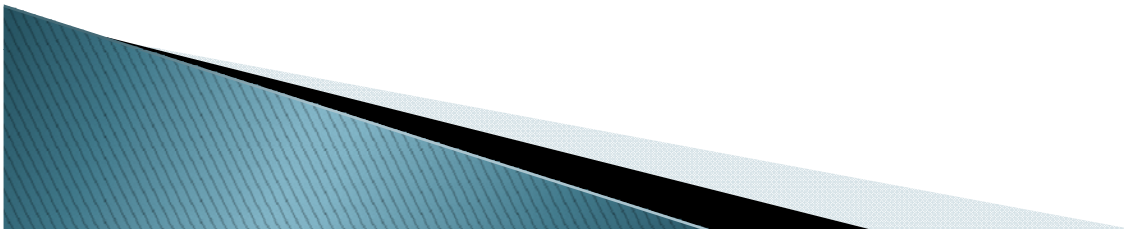
1/ Cash basis

2/ Includes cash payments for operating activities and purchase of non-financial assets, except loan repayment.

3/ Only Emergency Decree

Net Export (X-M)

- ▶ Export Value
- ▶ MPI of Export Producers
- ▶ Import Value
- ▶ No. of Foreign Tourists



Export Growth (in terms of US\$)

Jul 2012 = \$ 19.2 Bn (-3.9%)

Aug 2012 = \$ 19.6 Bn (-5.1%)

%YoY	2011 ^P	2011 ^P		2012 ^P				
		H1	H2	H1	Q1	Q2	Jul	Aug
Agriculture	41.0	52.3	30.8	-24.3	-25.4	-23.1	-14.8	-28.8
Fishery	6.5	7.0	6.0	2.2	1.4	2.9	-6.2	-24.6
Manufacturing	13.3	19.6	7.7	4.1	2.0	6.1	-1.3	-8.5
Agro-manufacturing Products	27.0	25.4	28.6	8.0	12.9	3.7	5.4	-3.9
Electronics	-2.5	4.2	-8.9	-2.2	-8.3	3.8	-14.9	-14.5
Automotive	3.8	10.2	-1.9	16.4	2.6	33.7	20.2	5.5
Petro-chemical Products	31.6	44.4	20.8	-3.6	-2.3	-4.8	2.0	-8.2
Electrical Appliances	7.6	18.4	-2.5	-3.3	-7.9	1.0	-9.8	-6.4
Petroleum products	30.6	31.7	29.9	35.8	68.1	14.8	1.3	-24.7
Metal & Steel	13.0	14.0	12.0	-2.9	-5.4	-0.6	14.4	16.0
Apparels and Textile Materials	7.1	18.9	-3.1	-15.5	-15.3	-15.7	-14.0	-14.4
Chemicals	43.9	52.0	36.8	2.2	8.3	-2.9	8.7	-1.3
Total	14.3	20.8	8.4	0.2	-1.3	1.7	-3.9	-5.1
Price	5.6	6.8	4.4	0.8	1.1	0.4	-0.2	-0.2
Quantity	8.3	13.1	3.8	-0.6	-2.4	1.3	-3.7	-4.8

Note: Data have been revised in accordance with the sixth edition of the balance of payment manual and reclassified product groups by the BOT.

Import Growth (in terms of US\$)

Jul 2012 = \$ 18.8 Bn (13.3%)

Aug 2012 = \$ 18.0 Bn (-11.0%)

%YoY	2011 ^P	2011 ^P		2012 ^P				
		H1	H2	H1	Q1	Q2	Jul	Aug
Consumer	24.2	27.5	21.2	13.9	14.5	13.3	23.6	7.4
Raw material & Intermediate	19.8	26.0	14.1	3.6	7.6	0.2	7.5	-9.5
o/w Fuel	35.7	35.0	36.3	18.1	29.2	9.5	-0.4	-17.6
Capital	27.2	33.8	21.2	20.4	14.1	26.9	31.1	1.0
Automotive	10.1	12.4	8.1	34.9	16.8	56.7	62.2	34.9
Total Value	24.9	26.9	23.0	10.0	9.6	10.3	13.3	-11.0
Price	10.1	10.2	9.9	3.7	5.9	1.6	-0.3	-0.9
Quantity	13.4	15.1	11.9	6.0	3.5	8.5	13.6	-10.2

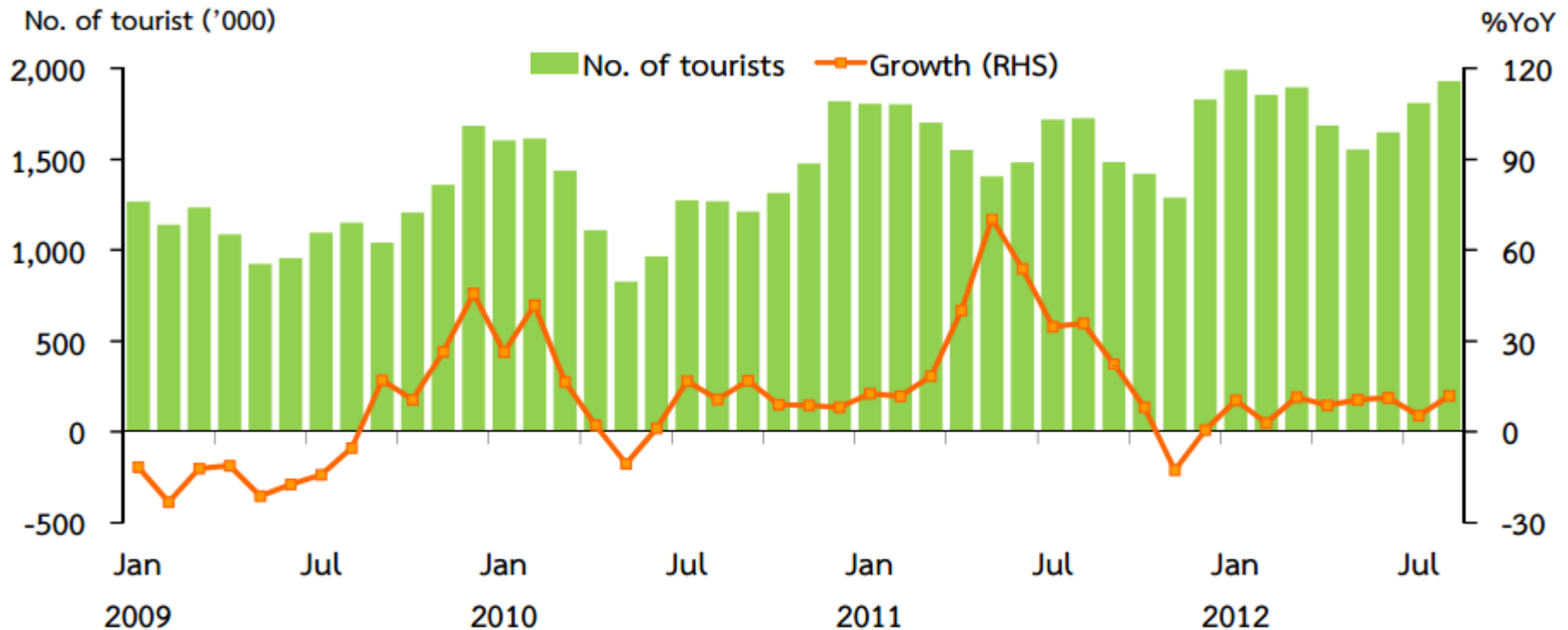
Note: Data have been revised in accordance with the sixth edition of the balance of payment manual and reclassified product groups by the BOT.

P= Preliminary data

No. of Foreign Tourists and Occupancy Rate

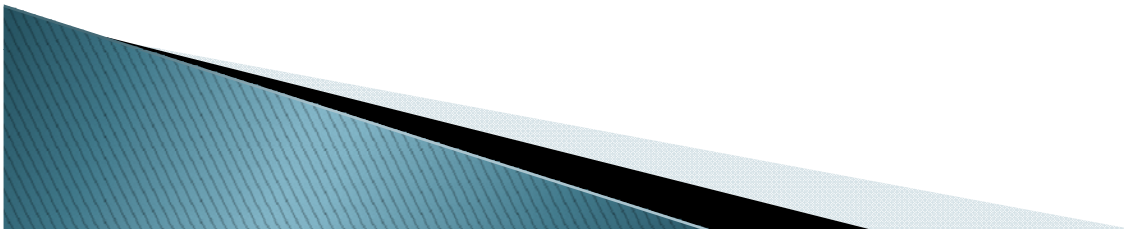
	2011	2011		2012				
		H1	H2	H1	Q1	Q2	Jul ^P	Aug ^P
No. of tourists ('000)	19,230	9,755	9,475	10,632	5,741	4,891	1,810	1,930
%YoY	20.7	29.0	13.1	9.0	8.1	10.0	5.3	11.8
Occupancy rate (%)	57.8	59.3	56.5	61.0	66.4	55.2	57.9	61.1

P = preliminary data



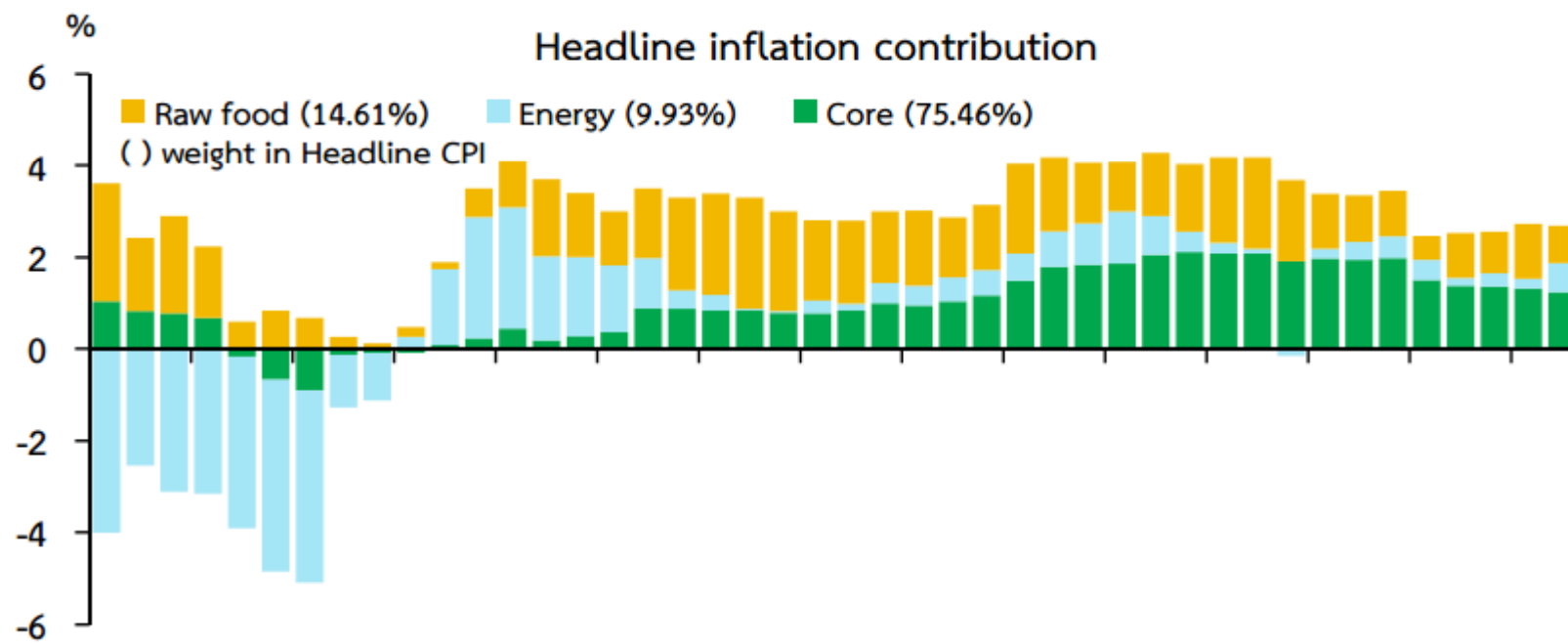
Other Indicators

- ▶ Inflation rate
- ▶ Unemployment rate
- ▶ Foreign Direct Investment (FDI)
- ▶ Exchange Rate



Headline and Core Inflation Rates

	2011	2011		2012				
		H1	H2	H1	Q1	Q2	Jul	Aug
Headline	3.81	3.56	4.05	2.95	3.39	2.52	2.73	2.69
Core	2.36	1.91	2.80	2.37	2.74	2.00	1.87	1.76
PPI	5.5	6.1	4.8	1.5	2.4	0.5	0.7	0.1

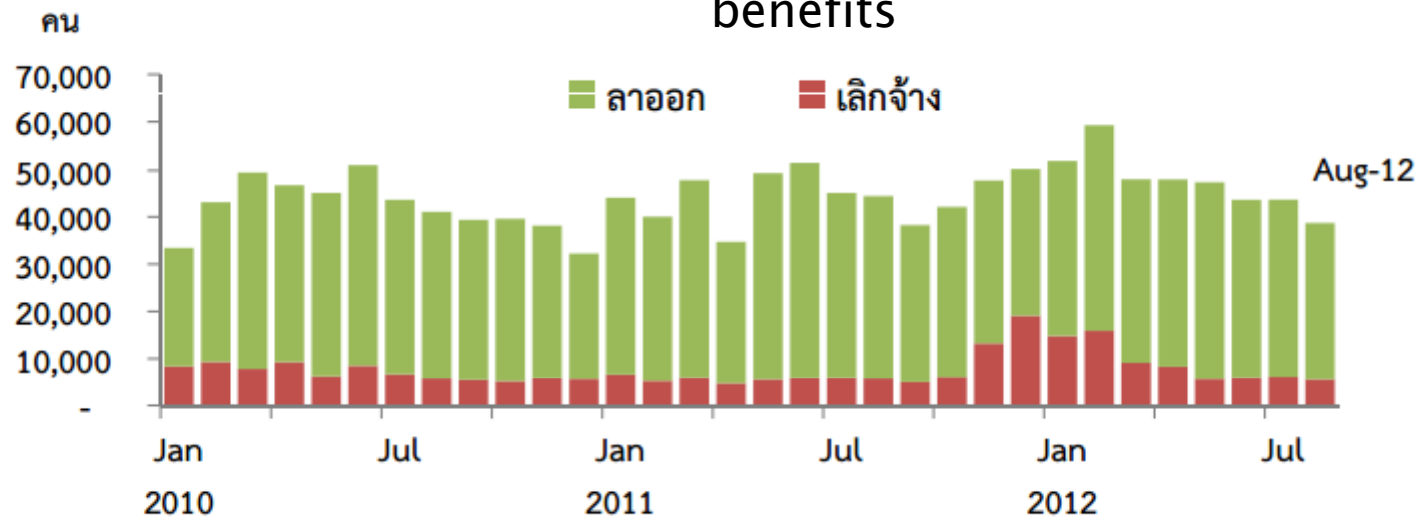


Unemployment Rate

%	2011				2012			
	Year	H1	Q3	Q4	Q1	Q2	Jun	Jul
Unemployed persons ('000)	264.3	274.5	262.4	245.9	278.0	338.4	266.9	226.0
Unemployment (s.a.)	0.7	0.7	0.7	0.6	0.7	0.9	0.7 (0.7)	0.6 (0.7)

Source: Labor Force Survey, NSO

Number of workers who apply for unemployment benefits



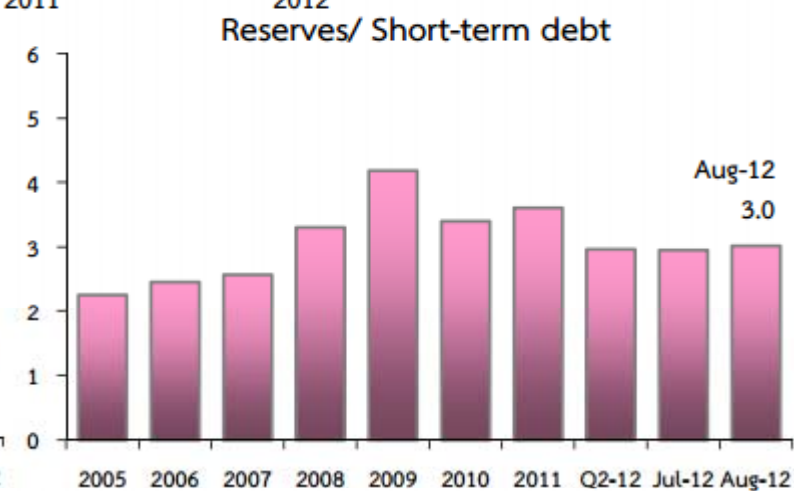
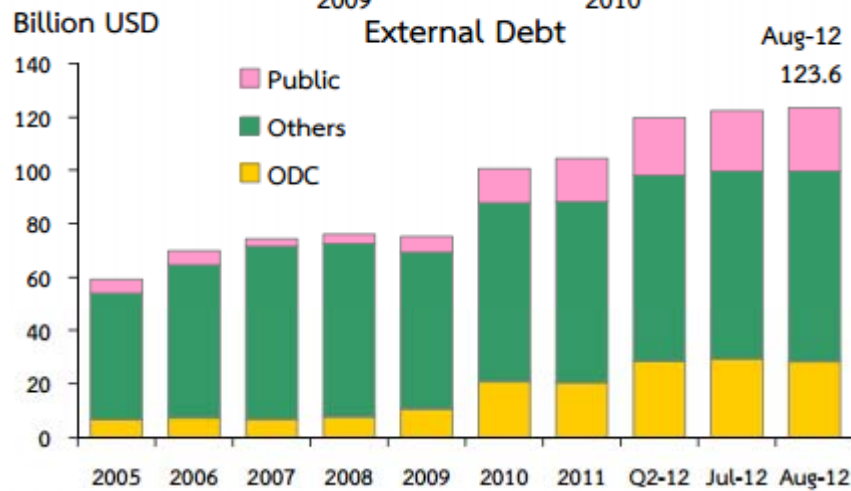
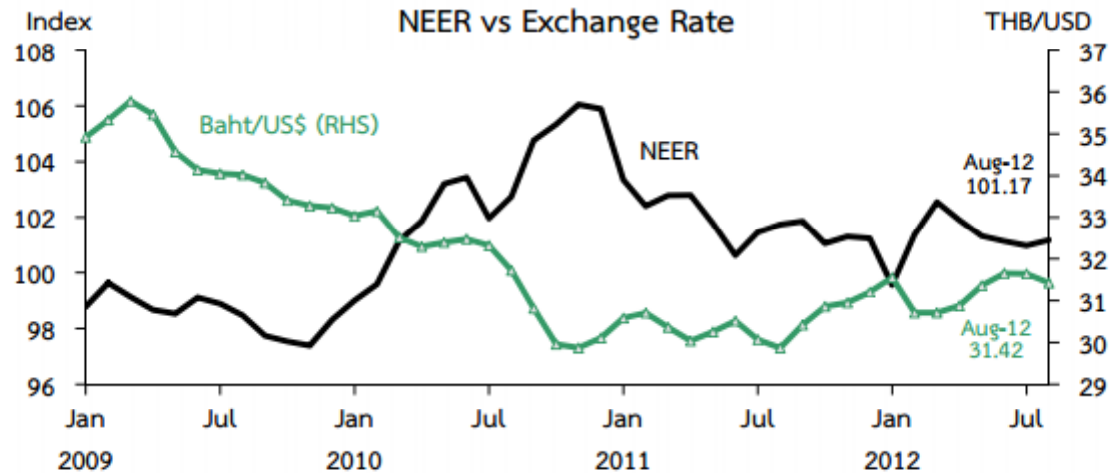
Foreign Investment

Millions of USD	2012 ^E				
	H1	Q1	Q2	Jul ^P	Aug ^E
1. Assets	-19,887	-13,742	-6,144	-1,138	1,569
TDI	-6,890	-3,643	-3,247	-371	-1,015
Thai portfolio investment	-6,771	-4,995	-1,776	1	1,472
- Equity sec. investment	-463	-317	-145	88	155
- Debt sec. investment	-6,308	-4,677	-1,631	-87	1,317
Loans	-2,342	-1,033	-1,309	-367	134
Other Investment	-3,884	-4,072	188	-400	978
- Trade Credit	-1,581	-1,409	-173	310	189
- Deposit Abroad	-2,148	-2,723	575	-664	450
2. Liabilities	23,485	17,675	5,809	3,018	1,772
FDI	4,344	2,510	1,834	761	979
Foreign Portfolio investment	7,589	6,315	1,274	798	1,293
- Equity sec. investment	2,245	2,571	-326	83	268
- Debt sec. investment	5,344	3,744	1,600	714	1,025
Loans	9,409	5,958	3,450	955	-1,513
Other Investment	2,142	2,892	-749	506	1,013
- Trade Credit	1,899	2,080	-181	51	829
Total Financial flows (1+2)	3,598	3,933	-335	1,881	3,341

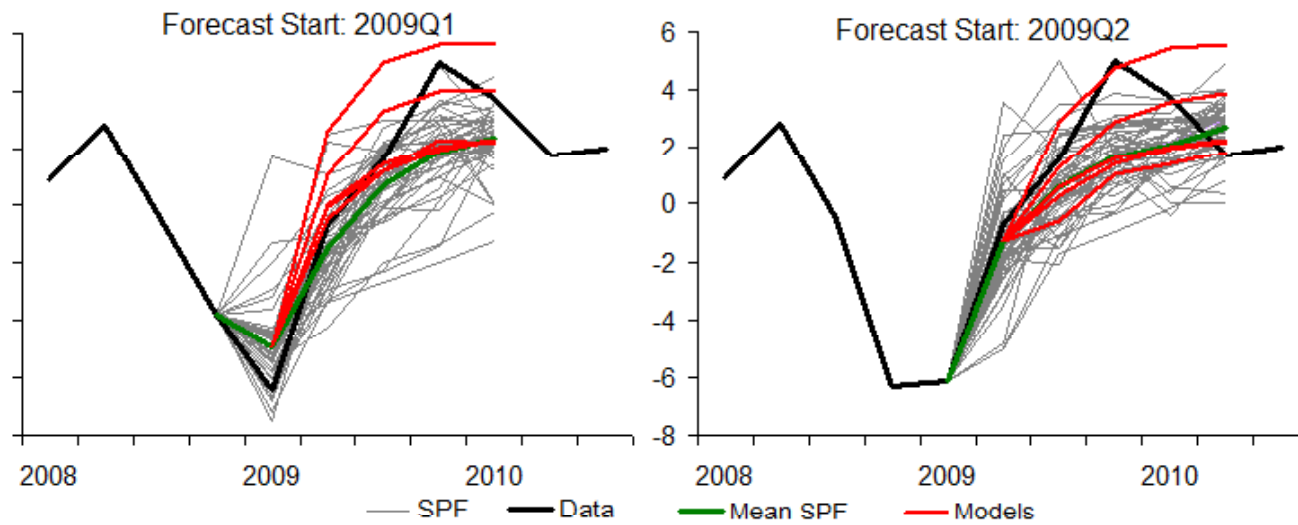
E =Estimated data P=Preliminary data

Note: Data have been revised in accordance with the sixth edition of the balance of payment manual.

NEER and Exchange Rate



Note : Data on the Balance of Payment have been revised in accordance with the sixth edition of the balance of payment manual.



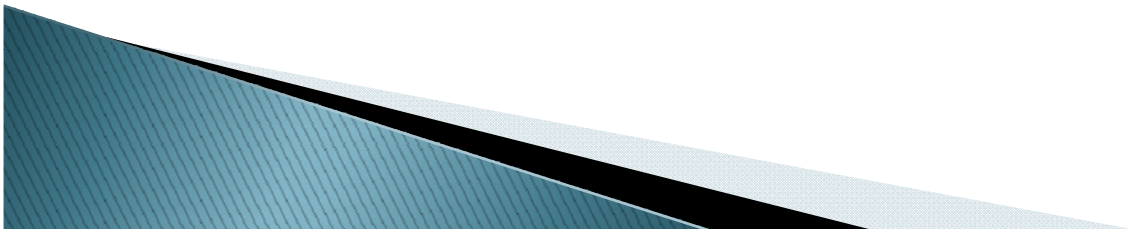
FORECASTING

Monitoring the Economy

- ▶ Why?
- ▶ Economic conditions fluctuate
 - Unexpected events are, by definition, not predictable.
 - But even a totally unexpected shock is likely to set in motion a predictable series of events.
- ▶ If we know what will happen, we can stabilize the economy
- ▶ It takes too long to gather important macroeconomic data
- ▶ Some data can signal the future trend of the economy
- ▶ What are they?

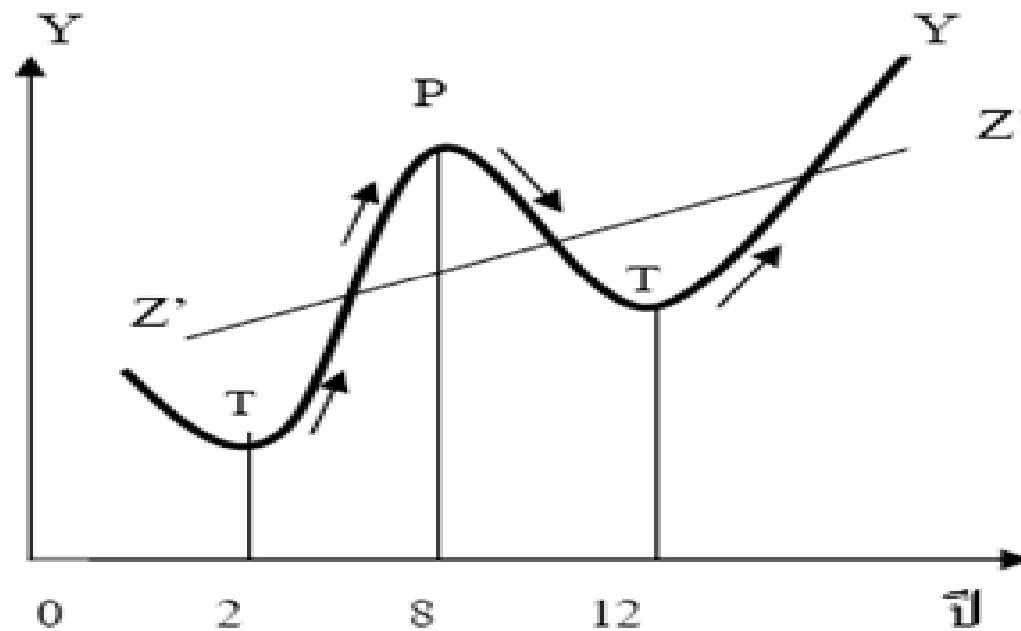
What Sorts of Factors Are Predictable?

- ▶ An inverted yield curve is usually followed by a recession the following year.
- ▶ Sales of cars and housing will follow changes in short-term rates with an average lag of about two quarters.
- ▶ Changes in the stock market will affect capital spending with a lag of two to four quarters.
- ▶ Changes in the value of dollar will affect net export with a lag of three to six quarters.



Leading Indicators

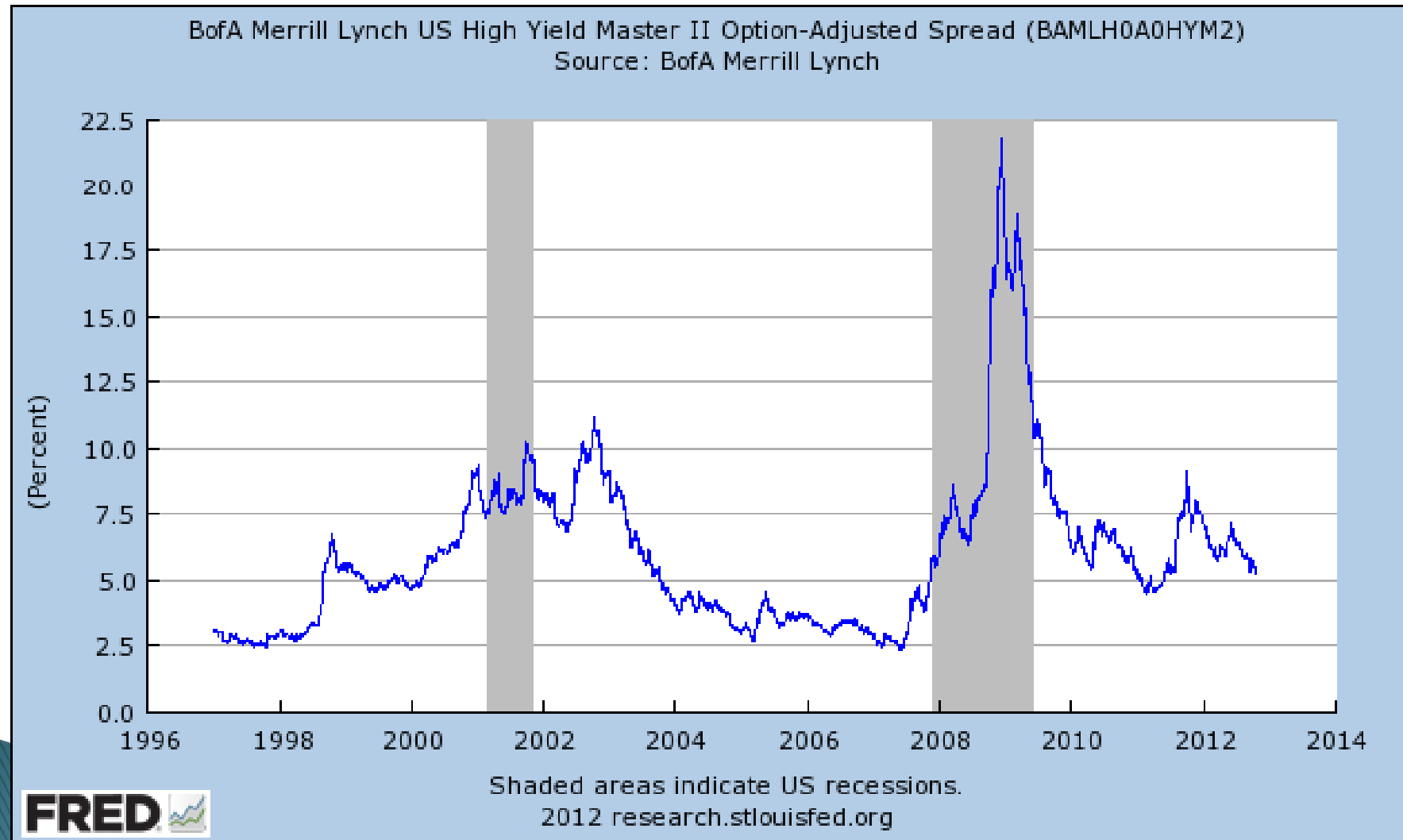
- ▶ Business Cycle Movement



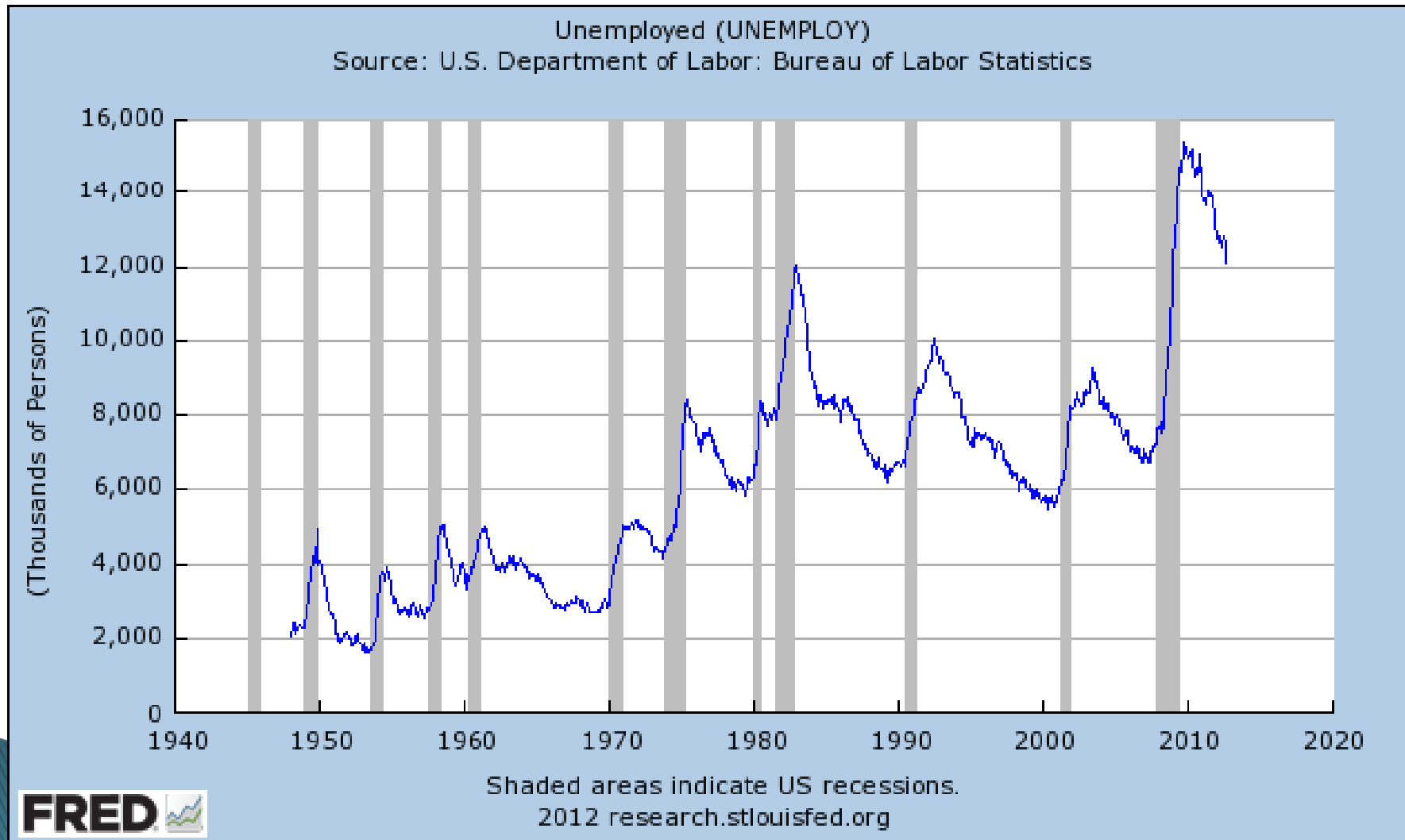
Leading Indicators

- ▶ Figure out business cycle movement of each indicator and compare it with business cycle movement of the target variable.
- ▶ Choose the best indicators that lead the movement of the target variables.
 - Leading Indicators
 - Coincident Indicators
 - Lagging Indicators

Yield Spread is a Leading Indicator

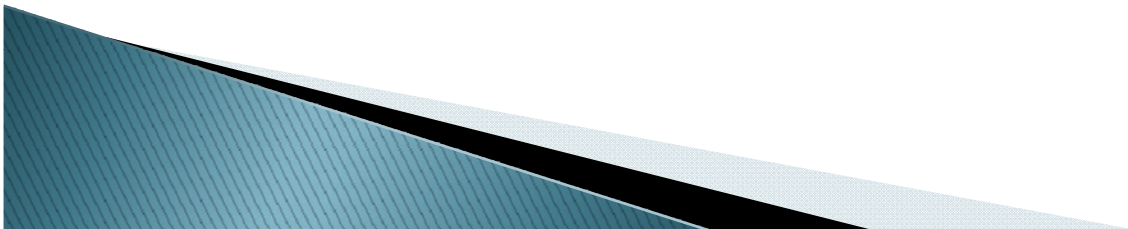


Unemployment Rate is *not* a Leading Indicator



Leading Indicators

- ▶ In the U.S., each recession was predicted. However, they have predicted several downturns that never happened.
- ▶ Nonetheless, they should not be ignored. This index did a very credible job in predicting the 2001 recession at a time when most economists missed it.



»» Global Trends

Q: What do you expect to
happen in the future?



More complicated rules/restrictions

home > trade topics > regional trade agreements

Regional trade agreements



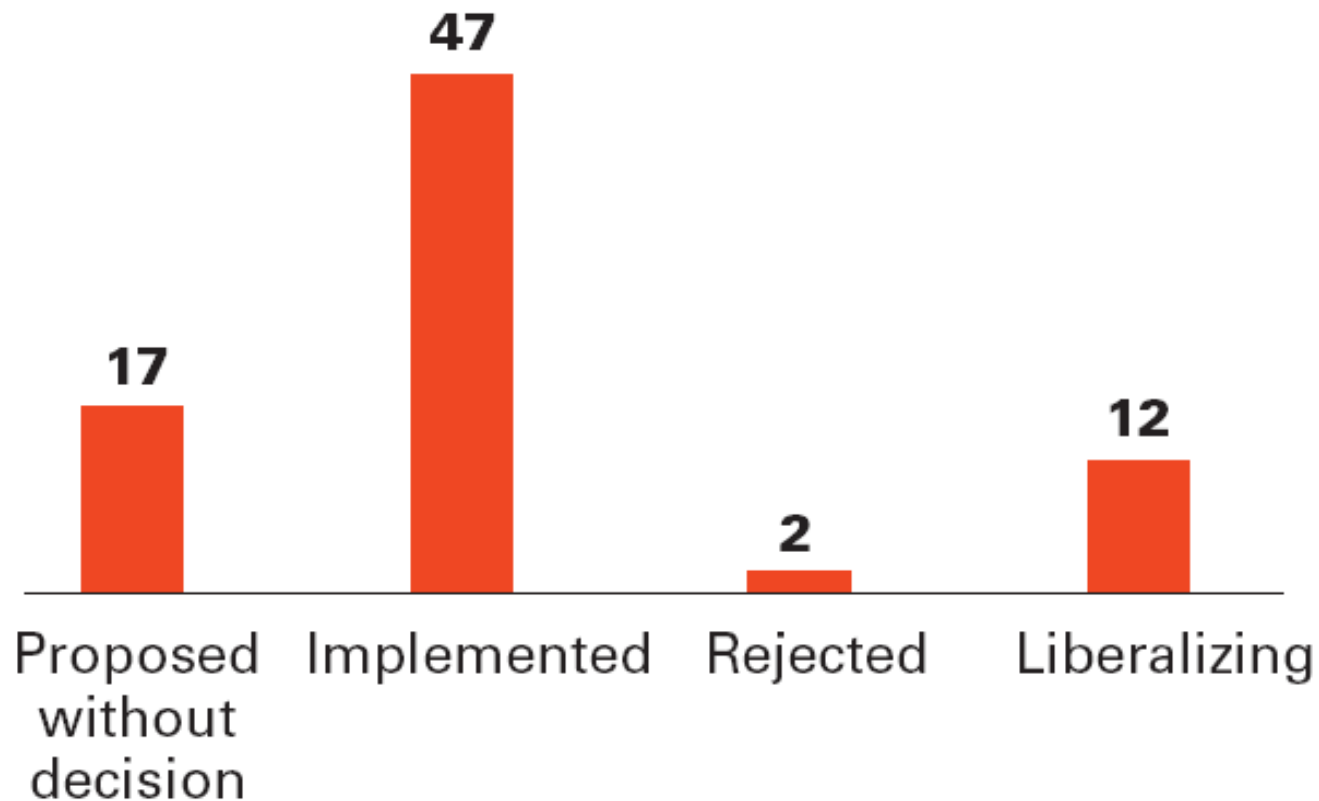
Regional trade agreements (RTAs) have become more numerous since January 2012, some 511 notifications of RTAs (including the GATT/WTO). Of these, 319 were in force. WTO also receives notifications of reciprocal trade agreements between two or more countries. These are available in the [RTA Database](#).

The WTO also receives notifications from WTO members of unilateral trade preferences. In the WTO, PTAs are unilateral trade preferences. These are available in the [PTA Database](#).

FTA รายละเอียด

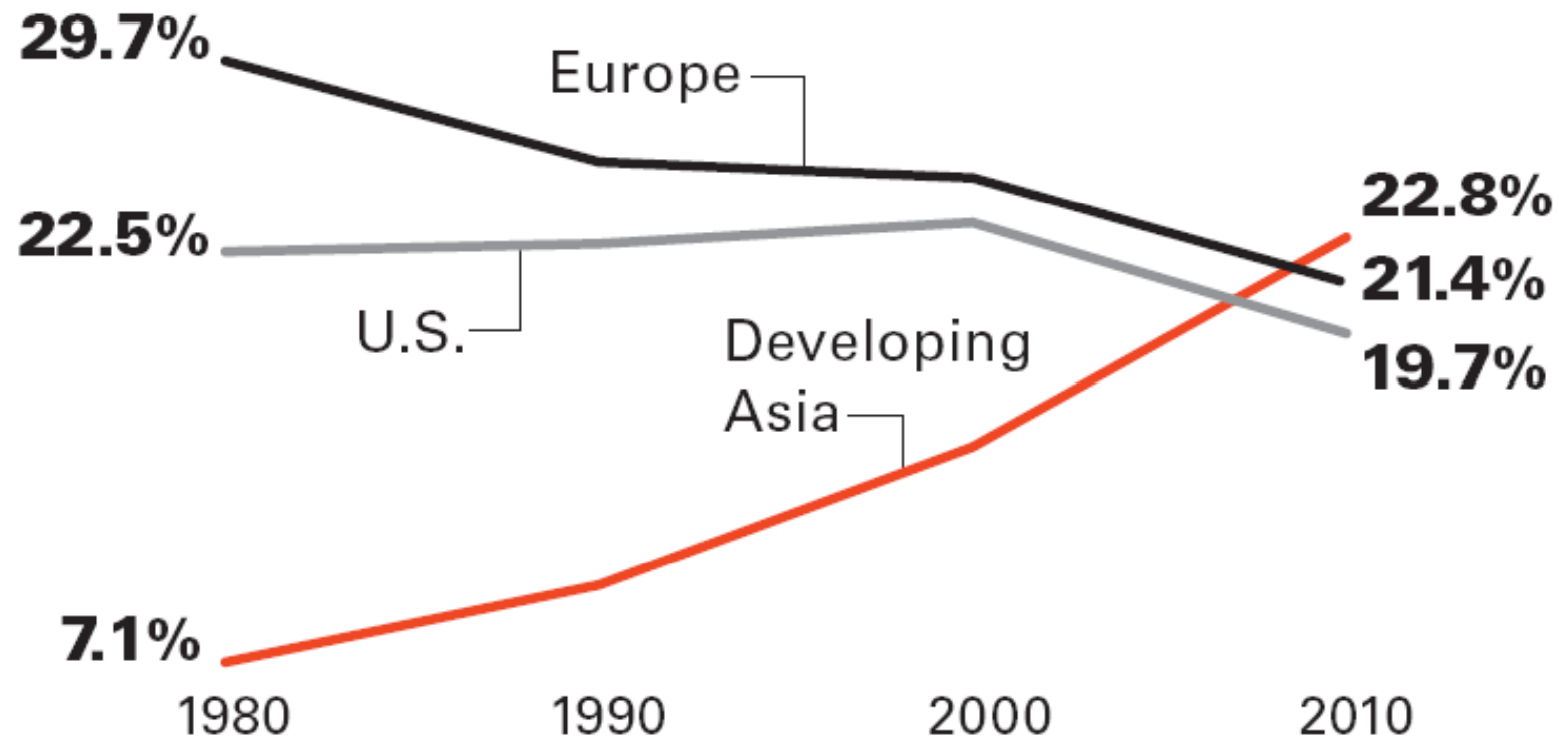
- ▶ ไทย-ชิลี (7/4/2554 8:32:54)
- ▶ ไทย-สหภาพยุโรป (22/4/2553 13:44:31)
- ▶ อาฟตา (20/4/2553 10:58:22)
- ▶ อาเซียน+6 (23/6/2552 10:13:51)
- ▶ อาเซียน+3 (23/6/2552 9:55:37)
- ▶ อาเซียน-จีน (17/4/2551 15:54:56)
- ▶ อาเซียน-ออสเตรเลีย-นิวซีแลนด์ (ลงนามแล้ว) (17/4/2551 15:52:37)
- ▶ อาเซียน-อินเดีย (17/4/2551 15:52:10)
- ▶ อาเซียน-เกาหลีใต้ (17/4/2551 15:14:46)
- ▶ อาเซียน-ญี่ปุ่น (17/4/2551 14:20:58)
- ▶ บิมสเทค (27/9/2550 10:06:24)
- ▶ ไทย-เปรู (ลงนามแล้ว) (27/9/2550 10:04:44)
- ▶ ไทย-ญี่ปุ่น (27/9/2550 10:03:51)
- ▶ ไทย-อินเดีย (27/9/2550 10:02:26)
- ▶ ไทย-นิวซีแลนด์ (ลงนามแล้ว) (27/9/2550 10:01:48)
- ▶ ไทย-ออสเตรเลีย (ลงนามแล้ว) (27/9/2550 9:59:24)

Protectionist measures taken by G-20 nations Oct. 2008–Feb. 2009



Source: World Bank

Changing Shares of Global GDP



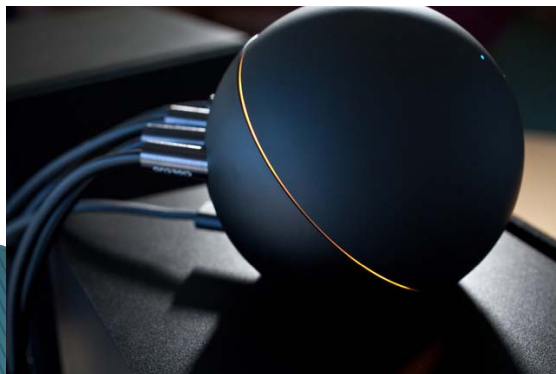
Source: IMF World Economic Outlook Database

GDP per capita (current US\$)

Country Name	2006	2007	2008	2009	2010	2011
East Asia & Pacific	4,942	5,492	6,292	6,427	7,408	8,484
European Union	29,699	34,188	36,588	32,584	32,199	34,892
South Asia	769	962	967	1,045	1,253	1,371
Sub-Saharan Africa	982	1,112	1,230	1,124	1,336	1,466
China	2,069	2,651	3,414	3,749	4,433	5,445
Thailand	3,078	3,643	3,993	3,838	4,614	4,972
United States	44,623	46,349	46,760	45,305	46,612	48,112

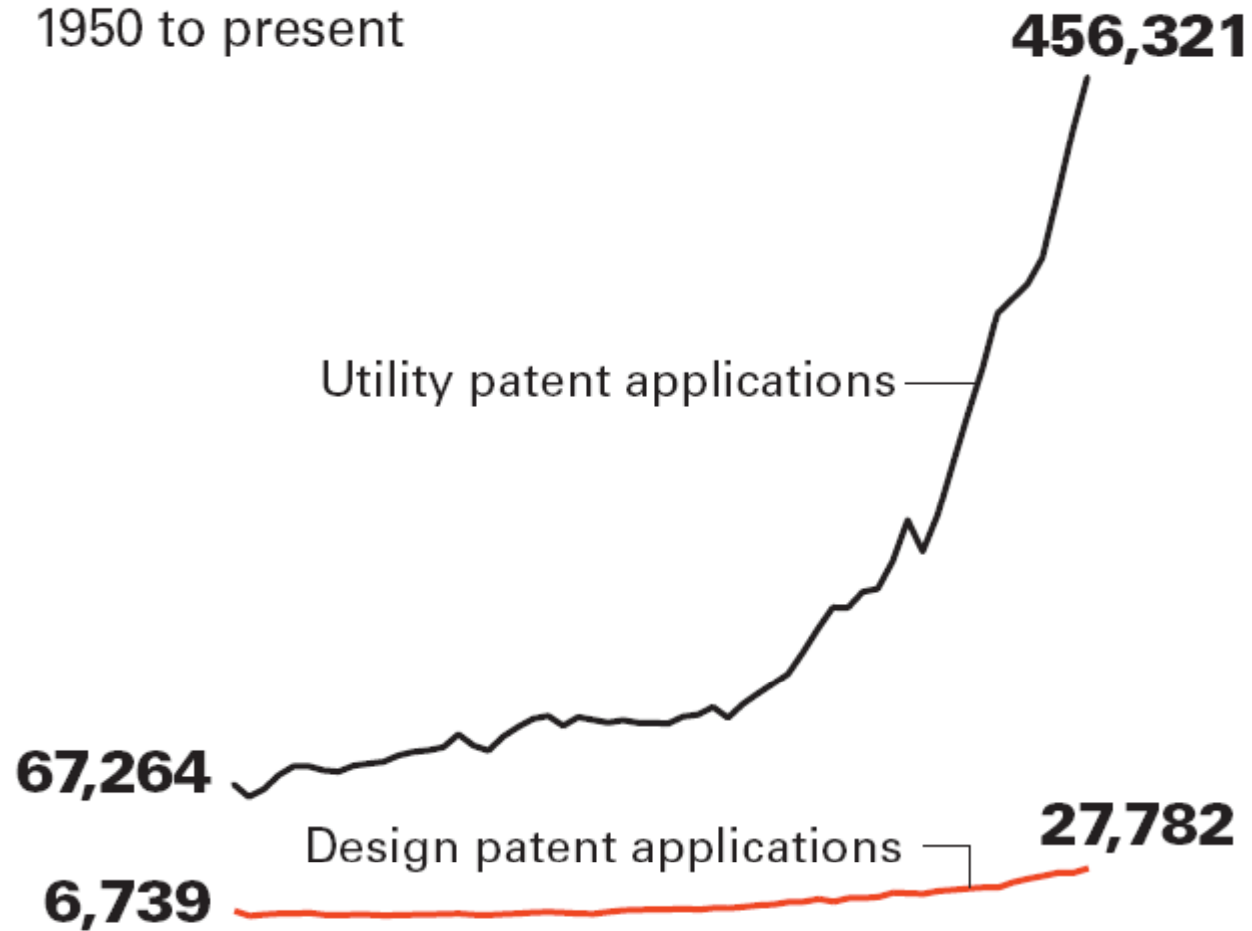
source: World Bank

Technology is fast-growing



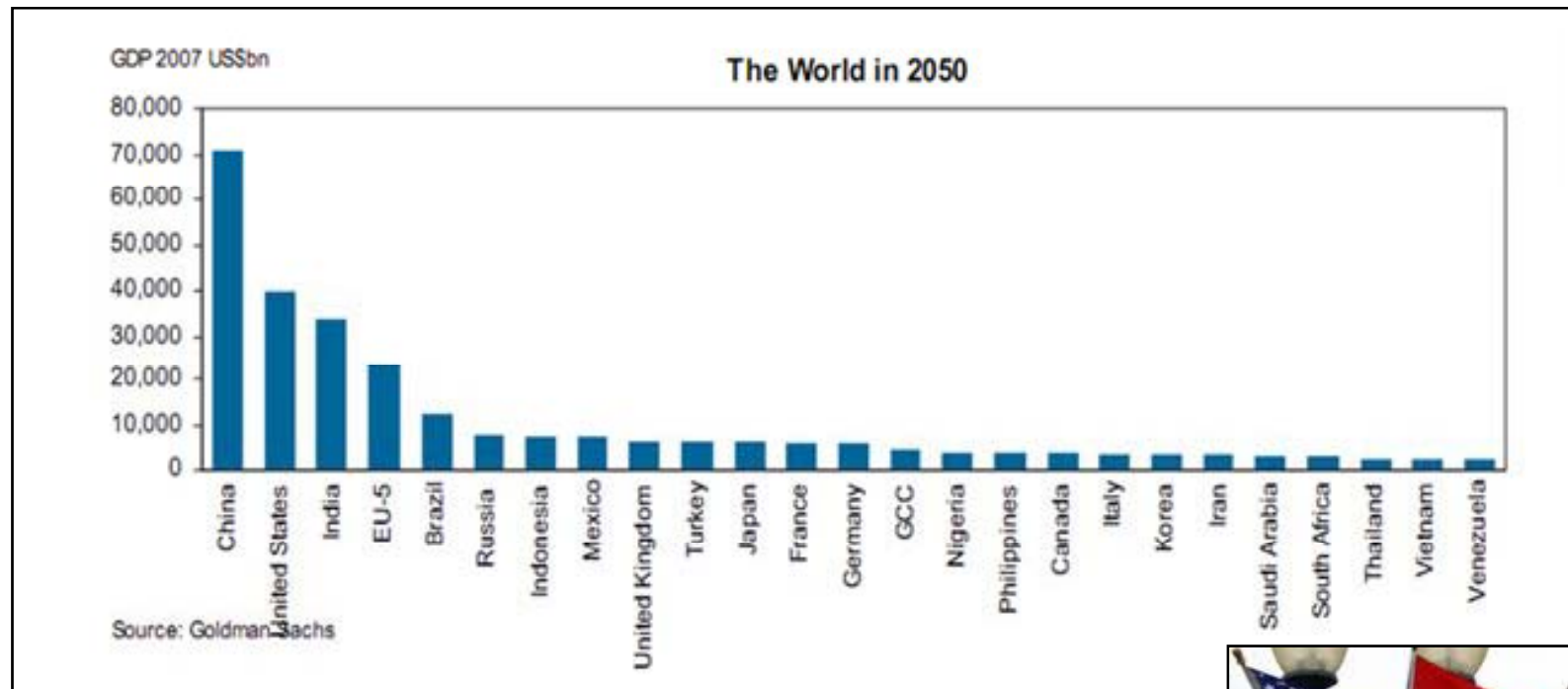
U.S. patent applications

1950 to present



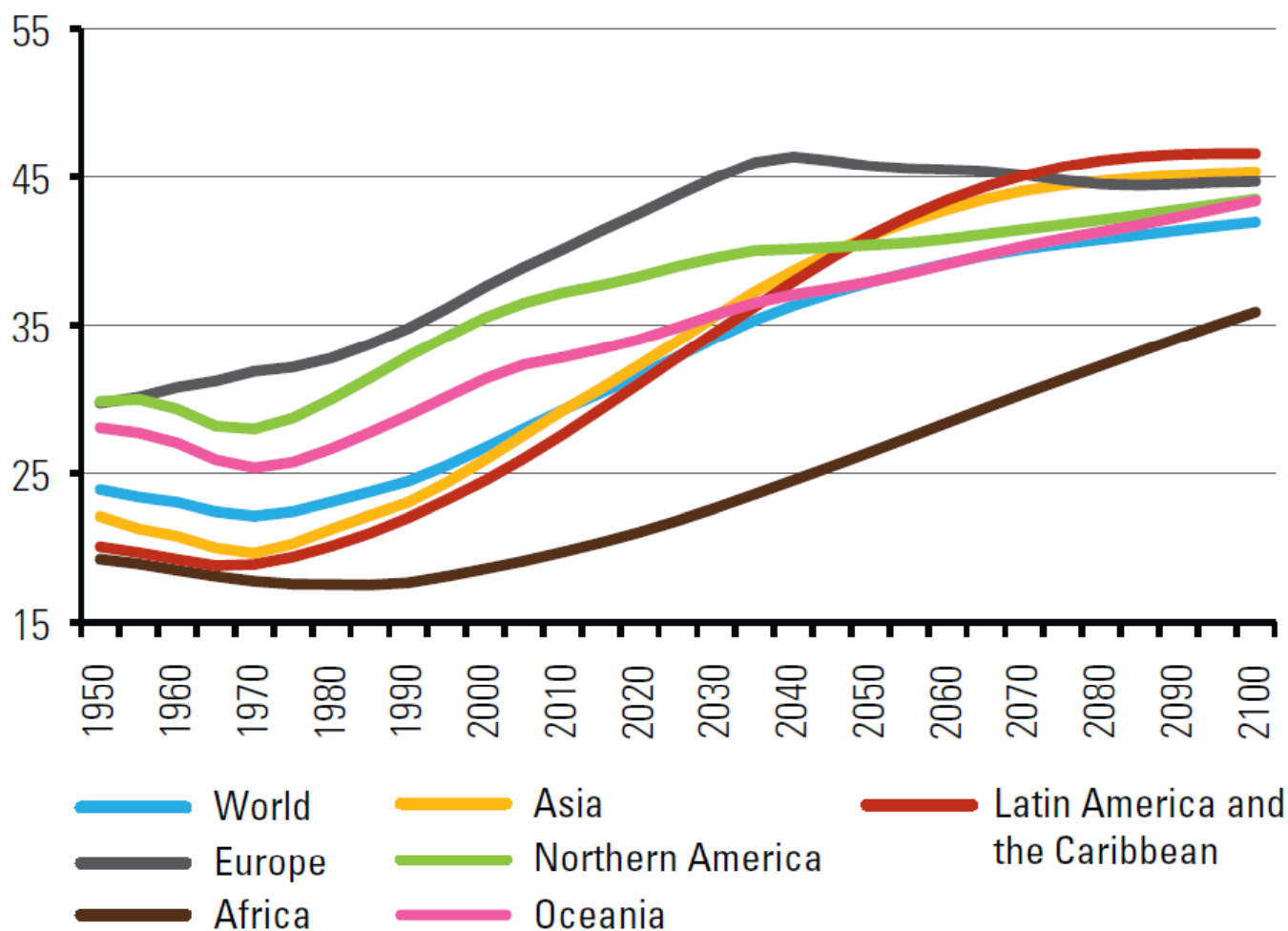
Source: U.S. Patent and Trademark Office

Is China becoming the world leader?



Aging Society Ahead

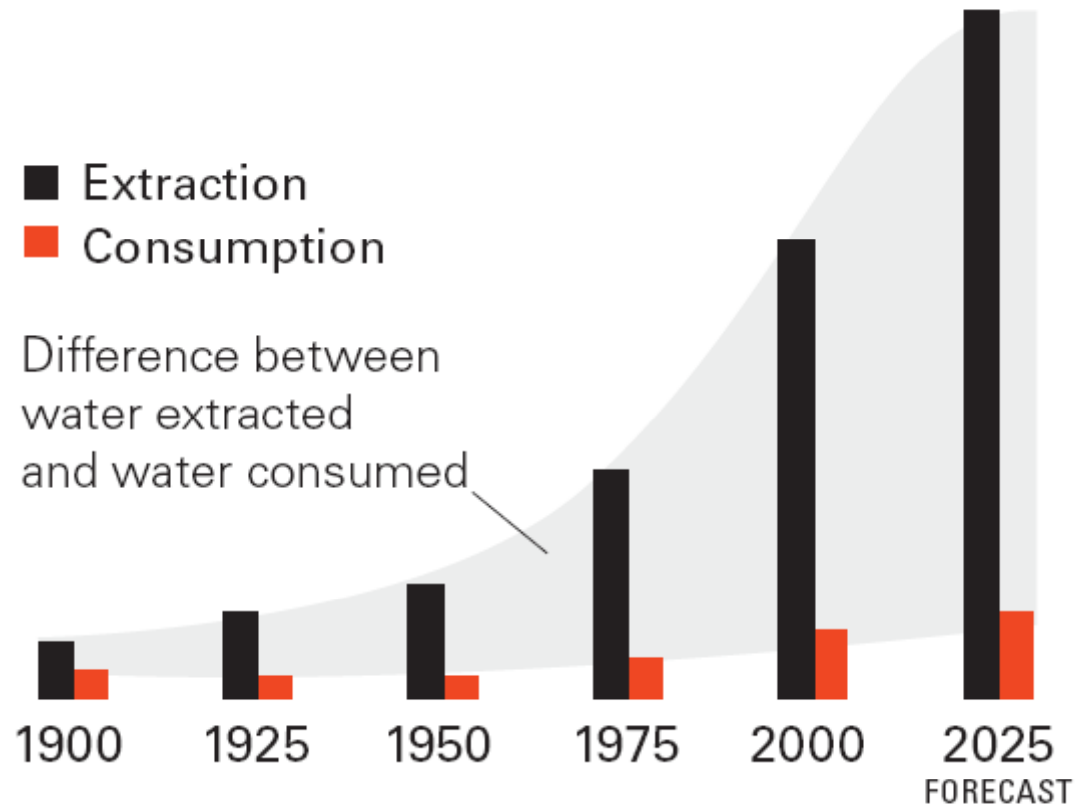
Median age of population



Source: United Nations, Department of Economic and Social Affairs, Population Division (2011): World Population Prospects, the 2010 Revision. New York

Pathway to Sustainability?

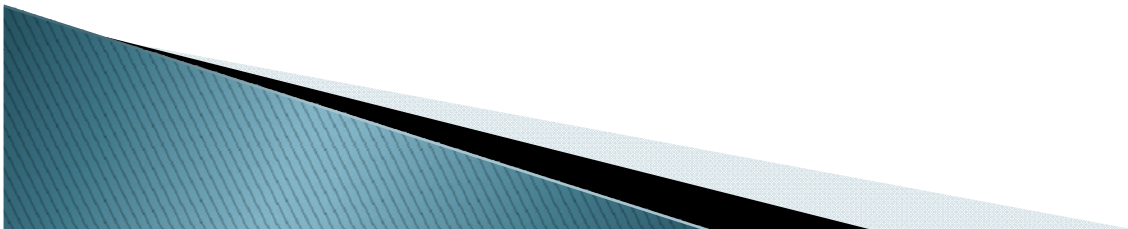
Global industrial waste of water



Source: UNEP/GRID-Arendal

Any Other Trends?

▶ ... ?



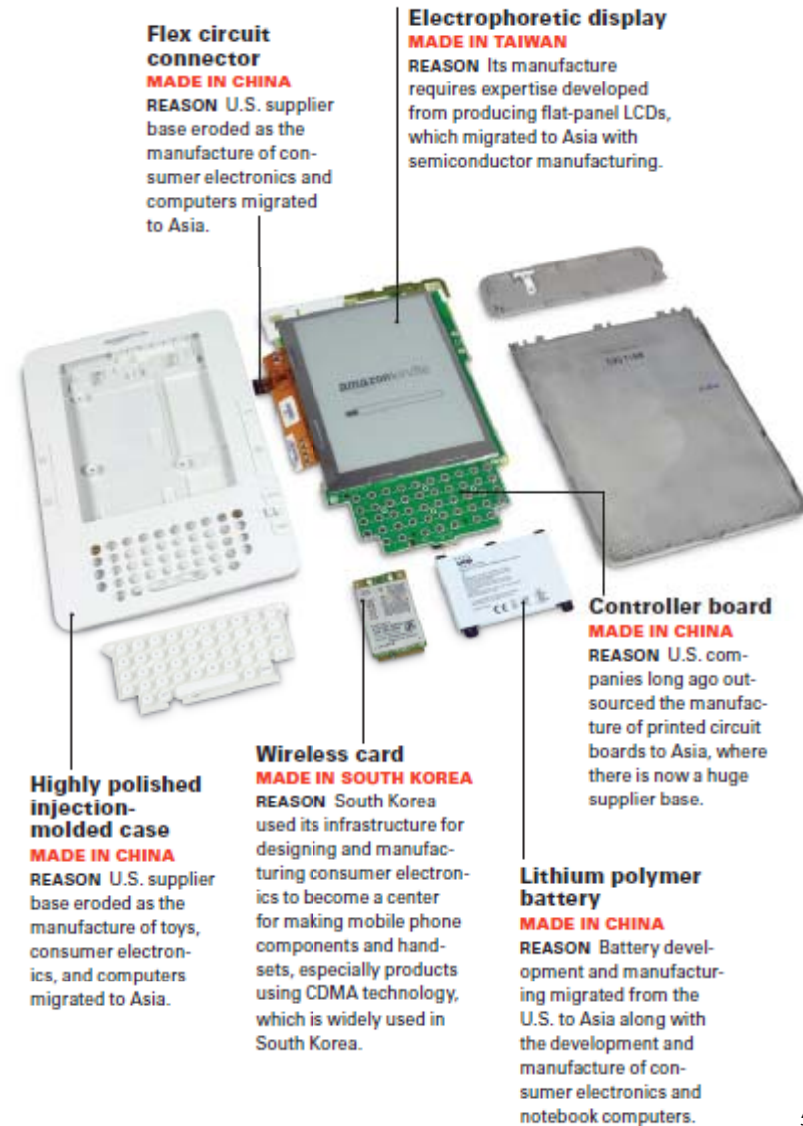
»» Globalization and Business

Case Study 1 : Amazon Kindle

Why Amazon's Kindle 2 Can't Be Made in the U.S.

The Kindle 2 e-reader was designed by Amazon's Lab126 unit in California. The vast majority of its components are made in China, Taiwan, and South Korea, and it is assembled in China, a center for such work.

What is the problem?





Case Study 2 : KFC

How does KFC go international?

- ▶ Adapt to the locals' tastes
- ▶ Use local management personels
- ▶ Enter the appropriate market segment
- ▶ Etc.





PEPSICO

INTERNATIONAL



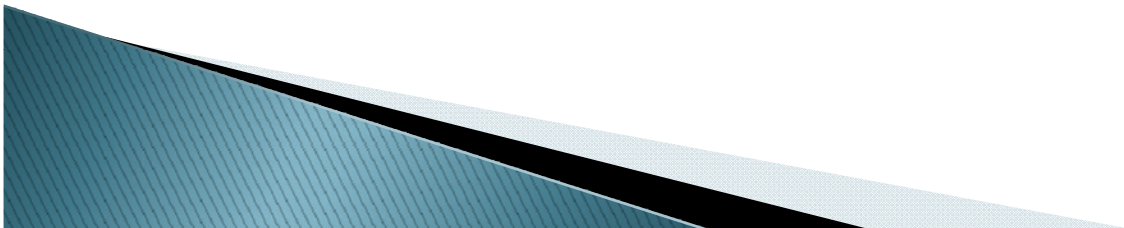
Tropicana



Case Study 3 : Pepsi grows potatoes in China

What kind of products does Pepsico sell?

- Pepsi
- KFC
- Lays
- Tropicana
- Quaker Oatmeal
- etc.
- (mostly processed food)



Who is Pepsico's most powerful competitor?

- If you have to name only one, then it should be



What strategies did Pepsico adopt in order to maximize profit?

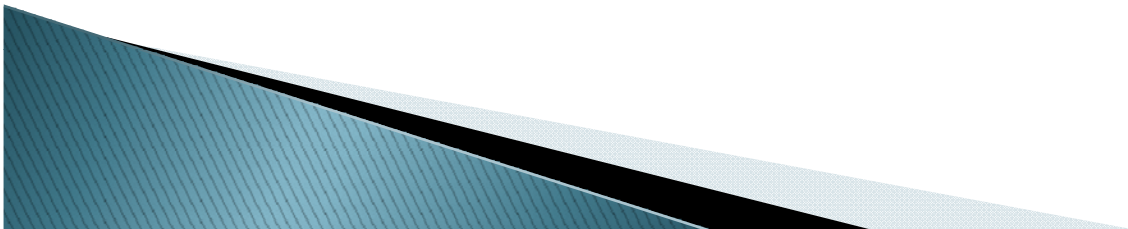
- Avoid rigorous price-cutting competition
- Differentiate its products
- Diversify its types of products
 - Tropicana
 - Quaker Oatmeal
 - **Lays**

China's Food Processing Industry

- ▶ China's food processing industry grows at 13.1% between 1980 – 2000.
 - 30% of food is processed
 - For western countries, about 80% of food is processed.
 - There are many small food processors in China, 14% of them are foreign enterprises.
- ▶ Rapid growth of supermarkets opens an opportunity for the processed food industry.

China's Infrastructure

- ▶ Poor infrastructure
 - Not enough *electricity* to store produces in remote areas
 - Poor *railway* system
 - But the *highway* system is developing fast

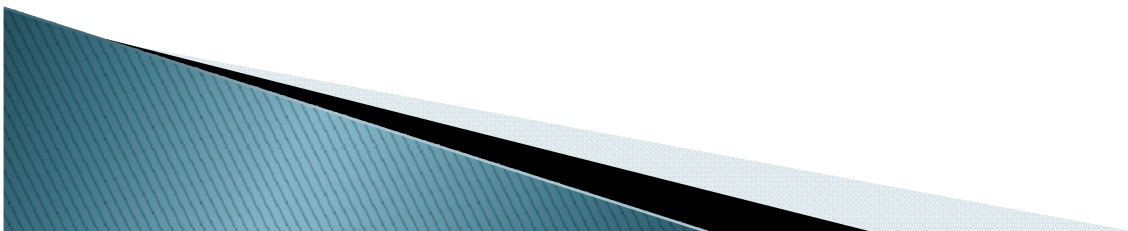


China's Potato Industry

- ▶ Back in 2004, China produced about 20% of the world's potatoes.
- ▶ Potatoes consumption/head = 18 kg
 - Western Europe = 90 kg
 - US = 60 kg
- ▶ Still, 70% of frozen potatoes in China are imported. Why?

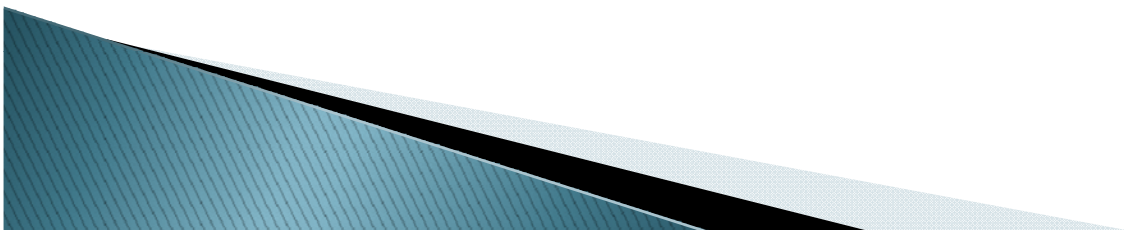
China's Potato Industry

- ▶ The Chinese don't grow the type of potatoes Lays wants.
- ▶ Even when they grow, they don't know how to handle the potatoes
- ▶ Results in low productivity



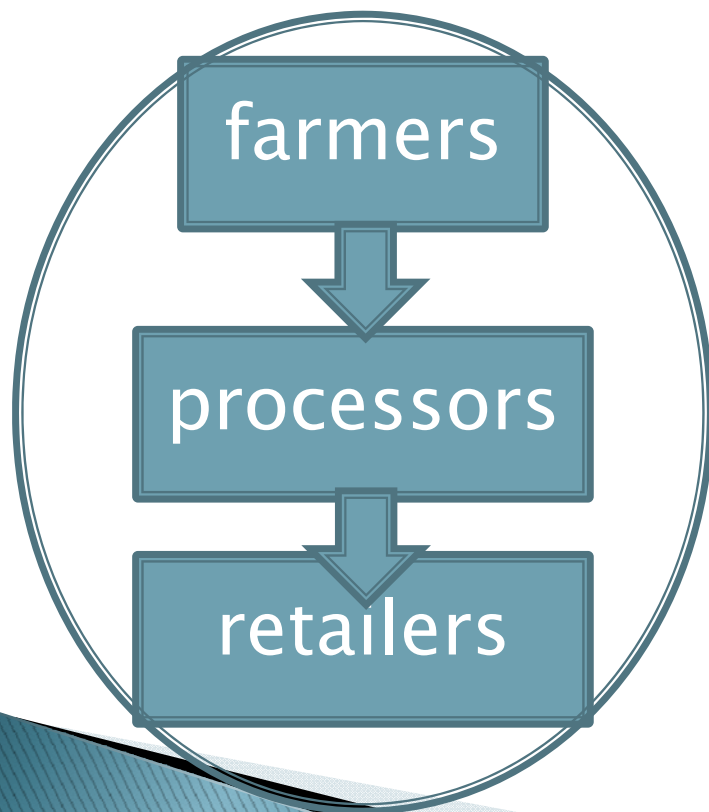
How can Pepsico find potatoes?

- ▶ Option 1 : Contract Farming (hire the local farmers and train them to grow potatoes)
- ▶ Option 2 : Invest in growing potatoes themselves
- ▶ Option 3 : Outsource to a professional potatoes supplier company called [“Black Gold”](#)

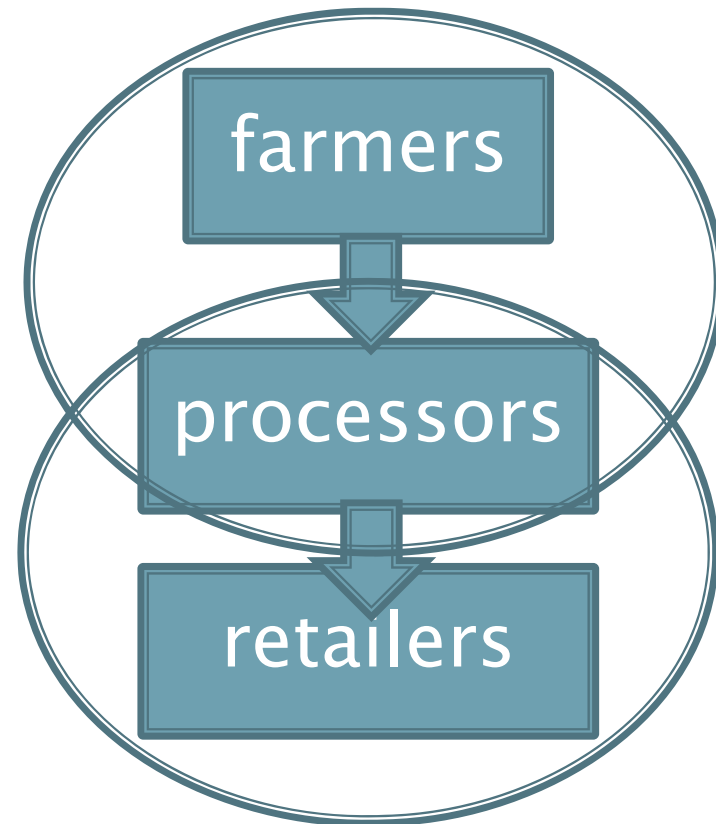


Vertical Integration vs. Outsourcing

- ▶ Vertical Integration – firms at different levels of the supply chain merge

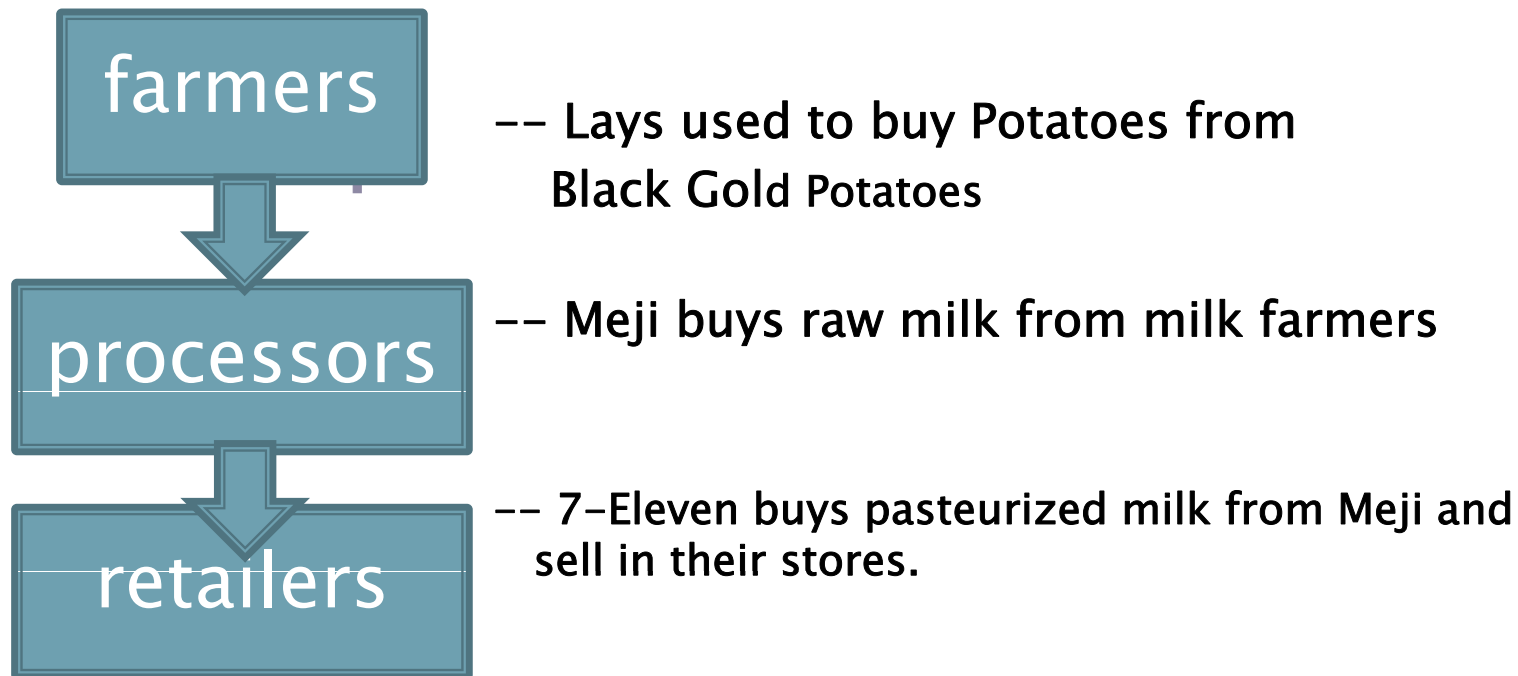


OR



Vertical Integration vs. Outsourcing

- ▶ Outsourcing- downstream firms buy from upstream firms.

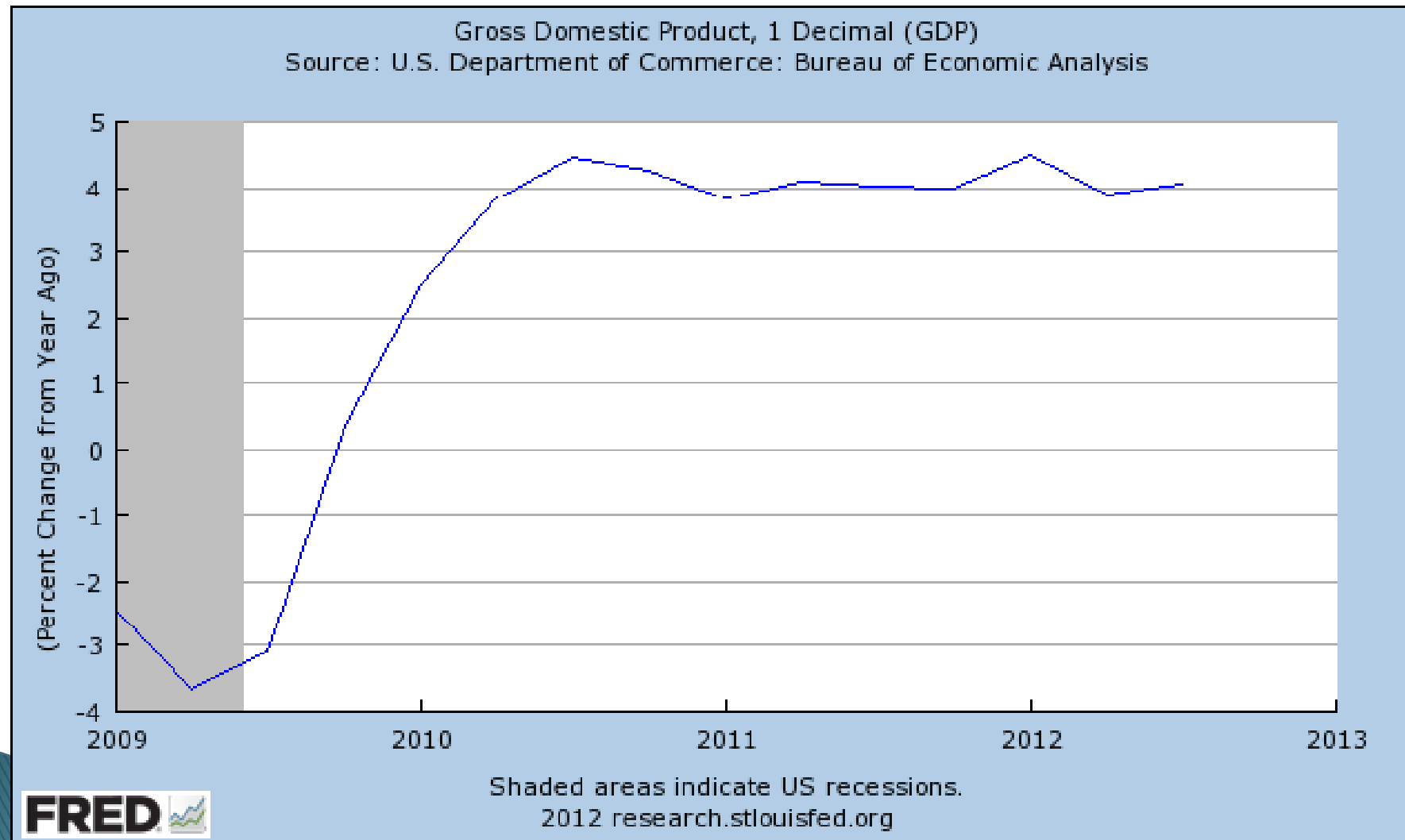


»» The World Economy

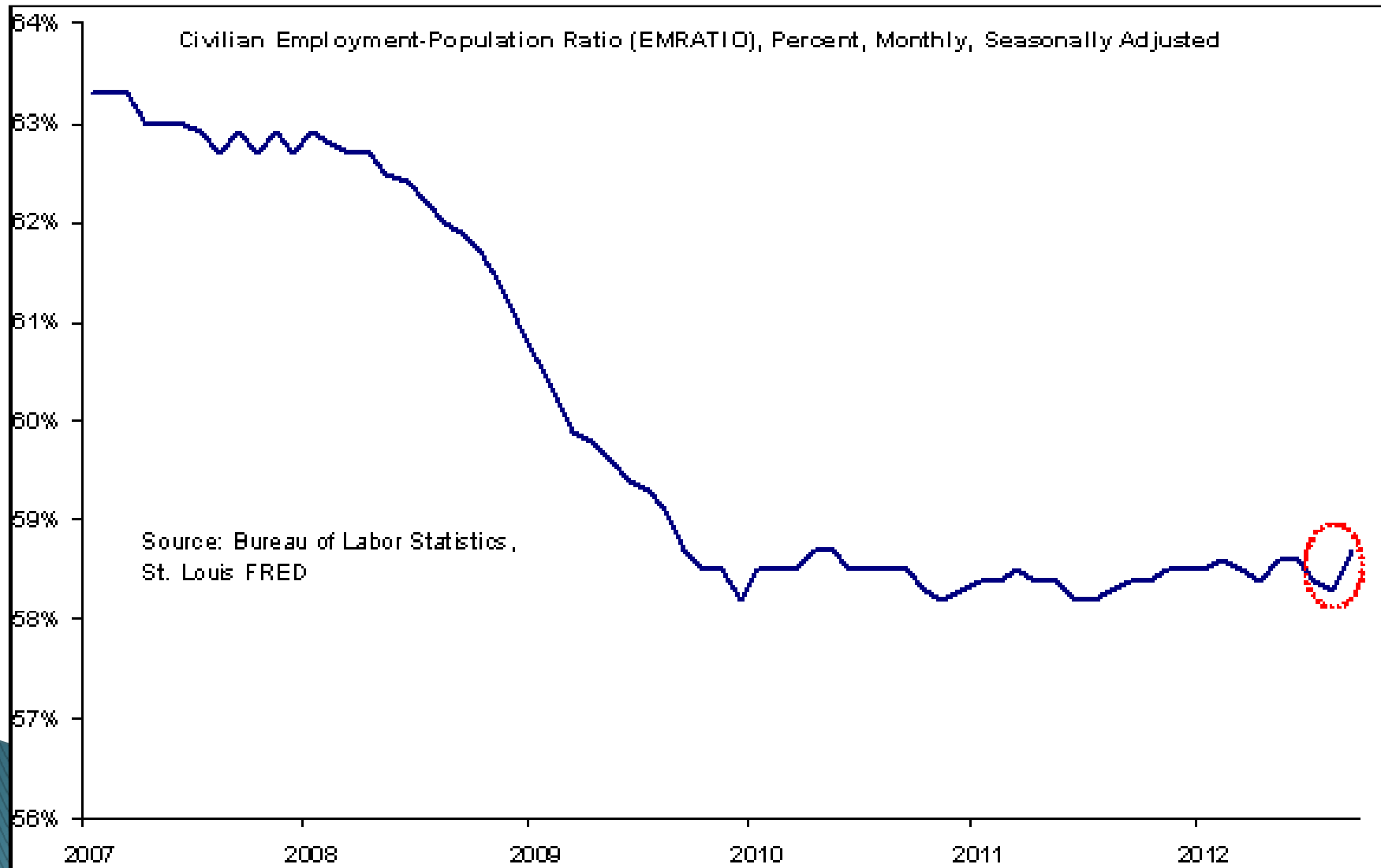
Main Economies

- ▶ Global
 - *US*
 - *Europe*
 - *East Asia and Pacific*
 - South Asia
 - Middle East
 - Africa
 - Etc.

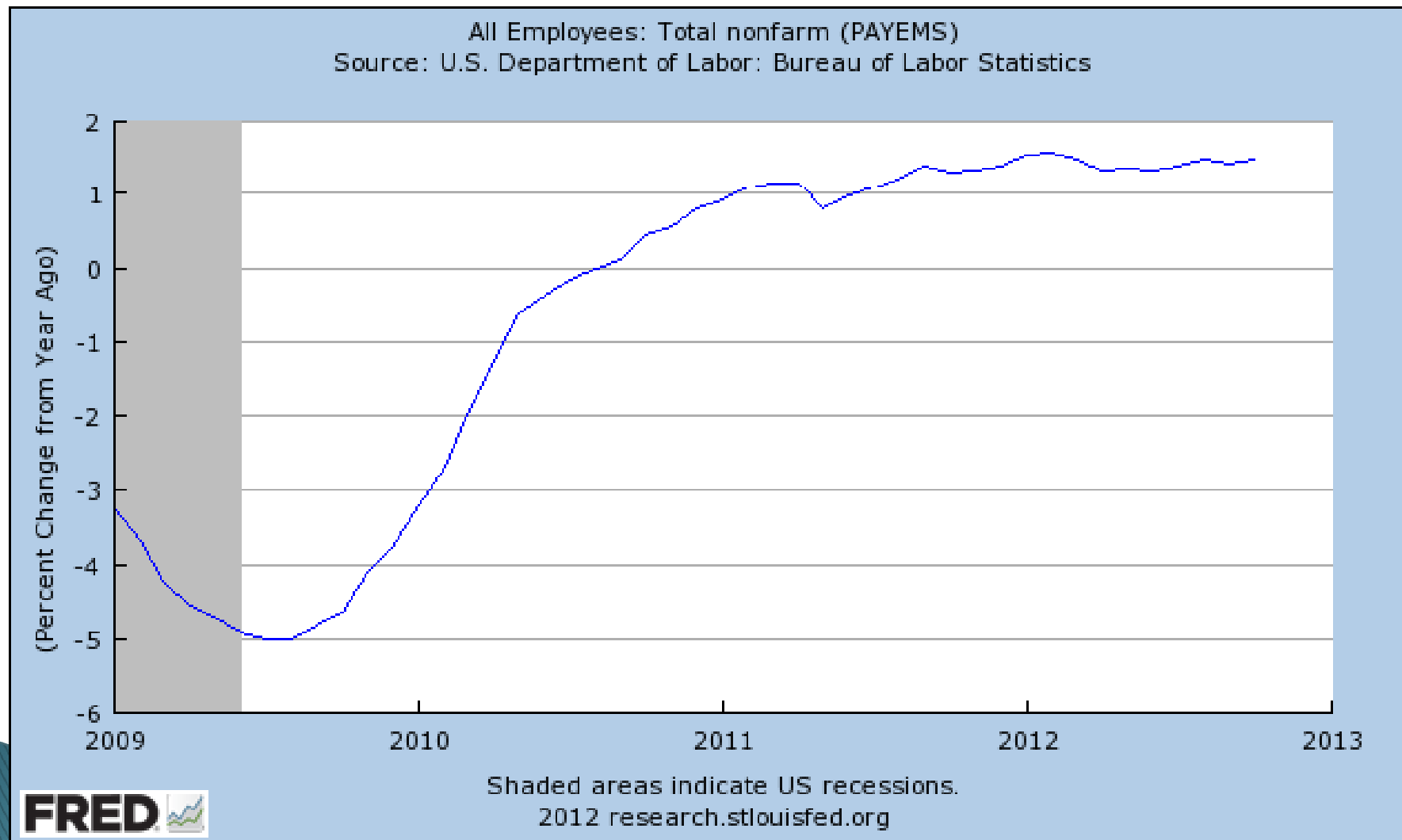
US : GDP Growth



US : Employment Rate



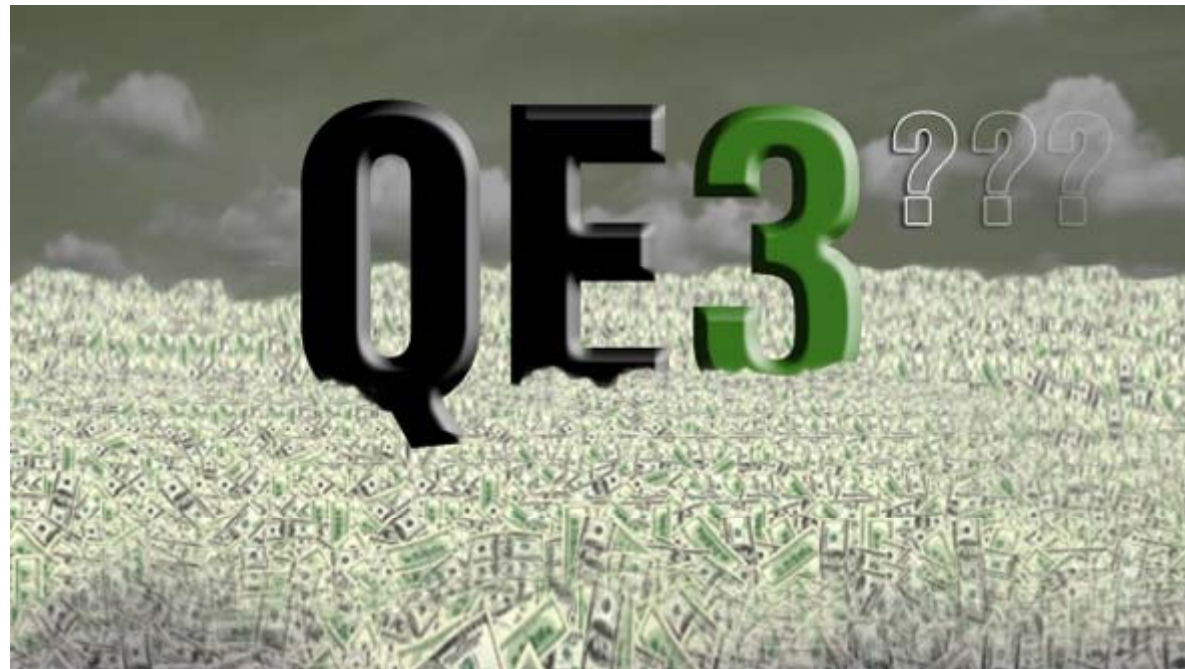
US : Unemployment Rate



US Fiscal Cliff



US : QE3



EU Economy



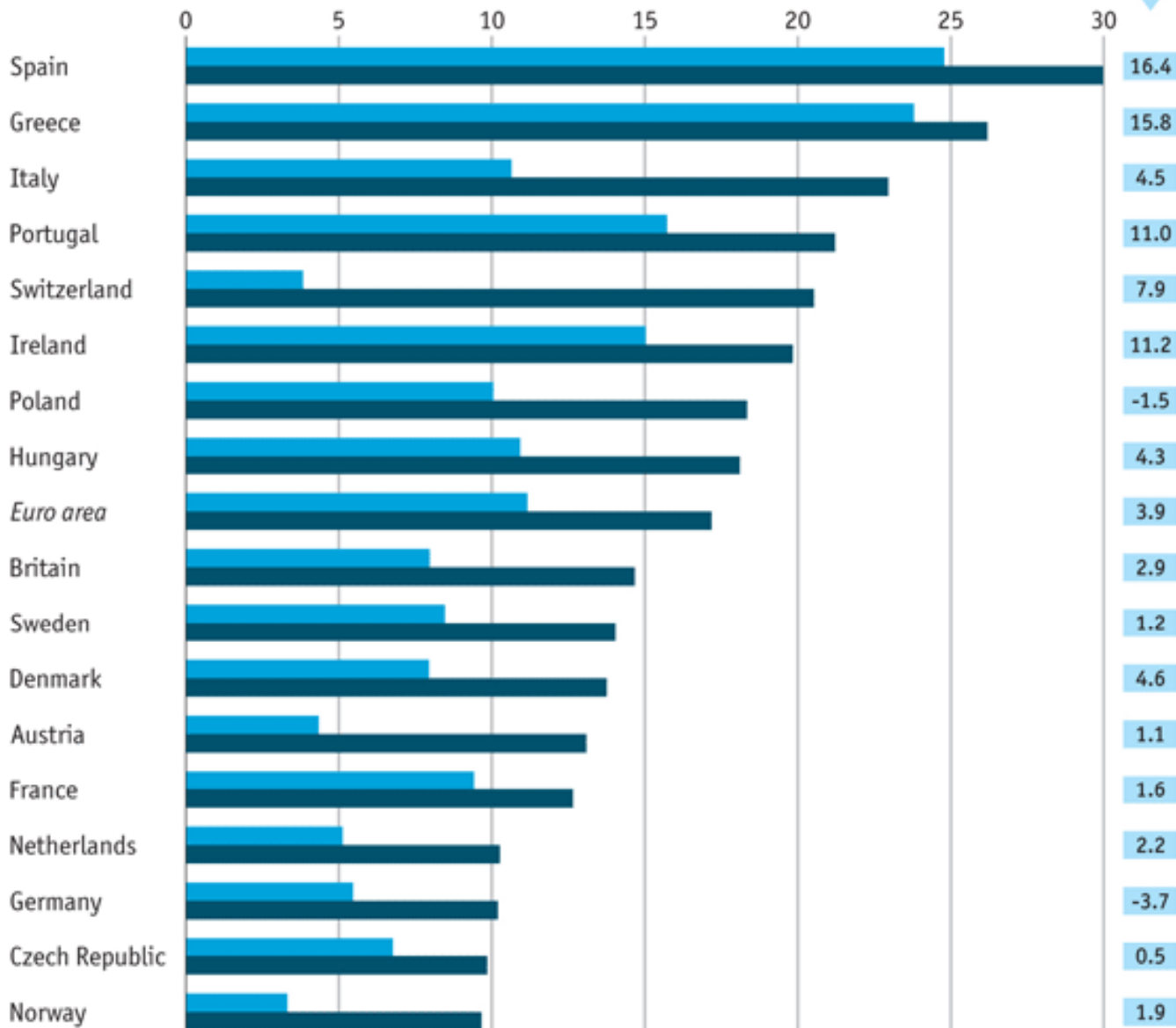
Unemployment in Europe

Selected countries, 15-64 year-olds, Q2 2012, %

■ Unemployment rate

■ Broad unemployment rate*

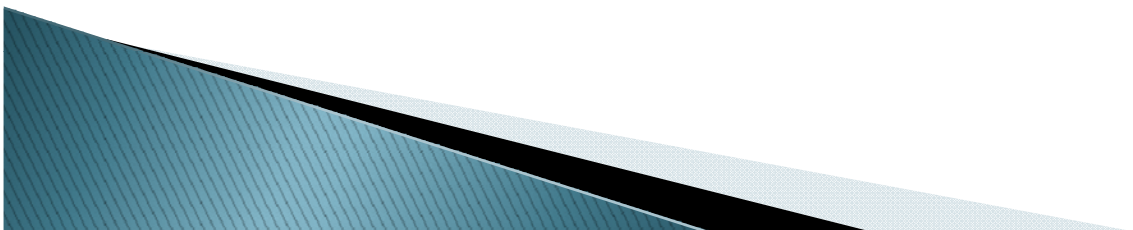
Broad unemployment rate, percentage-point change since Q2 2007



Source: Eurostat

*Includes inactive population willing to work

What is the EU problem?



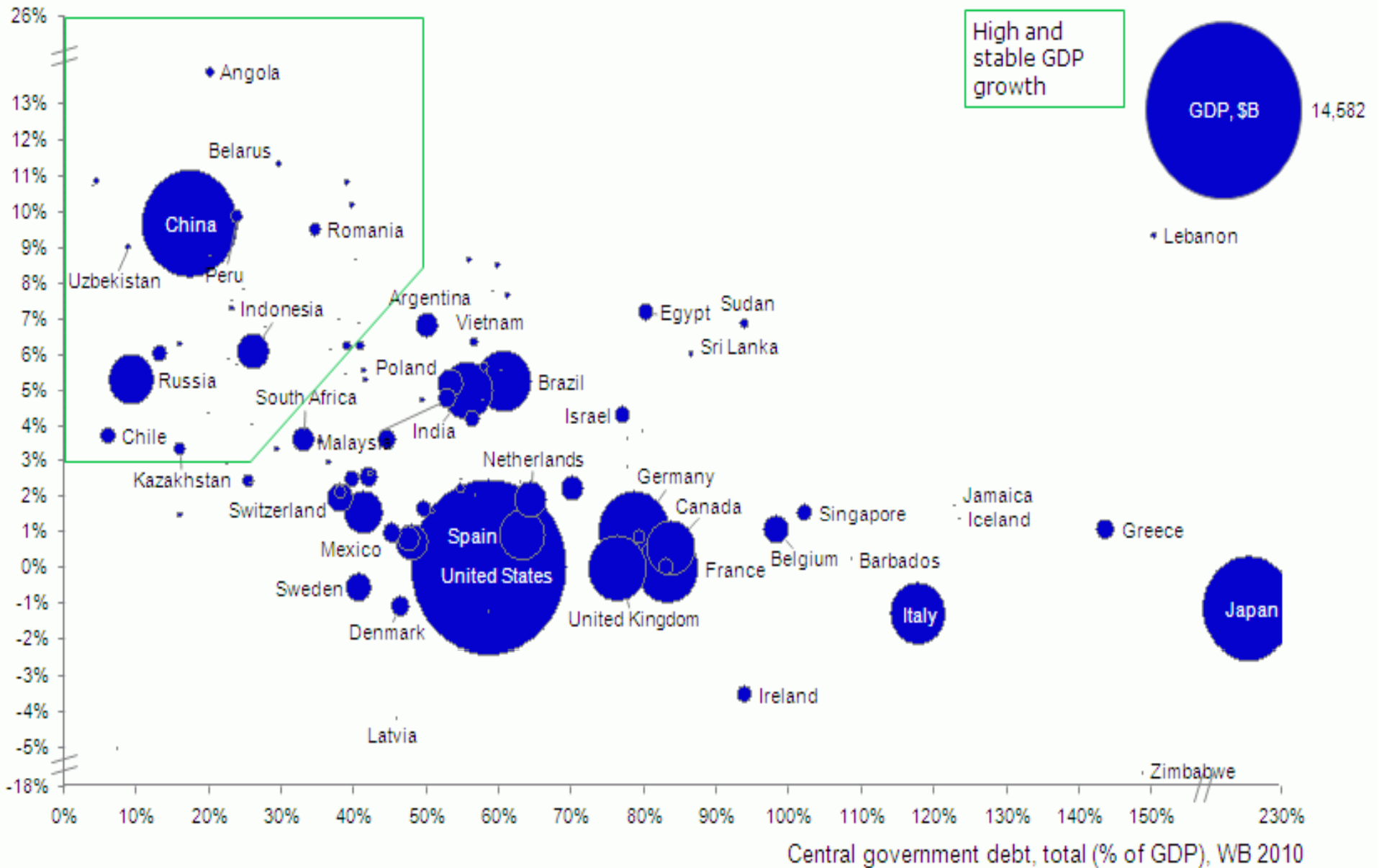
EU : Government Debt as % of GDP



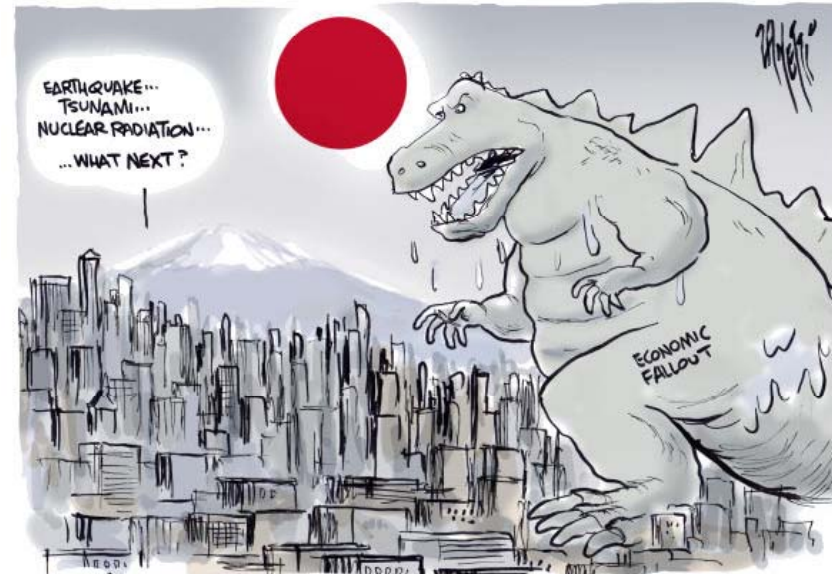
The Treaty on European Union, (the Maastricht Treaty 1993) stipulates that the **ratio of general-government debt to gross domestic product** can't exceed 60% at the end of the year preceding a country's admission to the euro. If not, then the ratio must have sufficiently diminished and must be approaching 60% at a "satisfactory pace." Only five euro-zone countries hit this target in 2011 and the debt burden of many governments relative to GDP is higher than it was a year ago.

Government debt, % of GDP (2010) vs. Real GDP growth (2008)

GDP growth (annual %), WB 2008



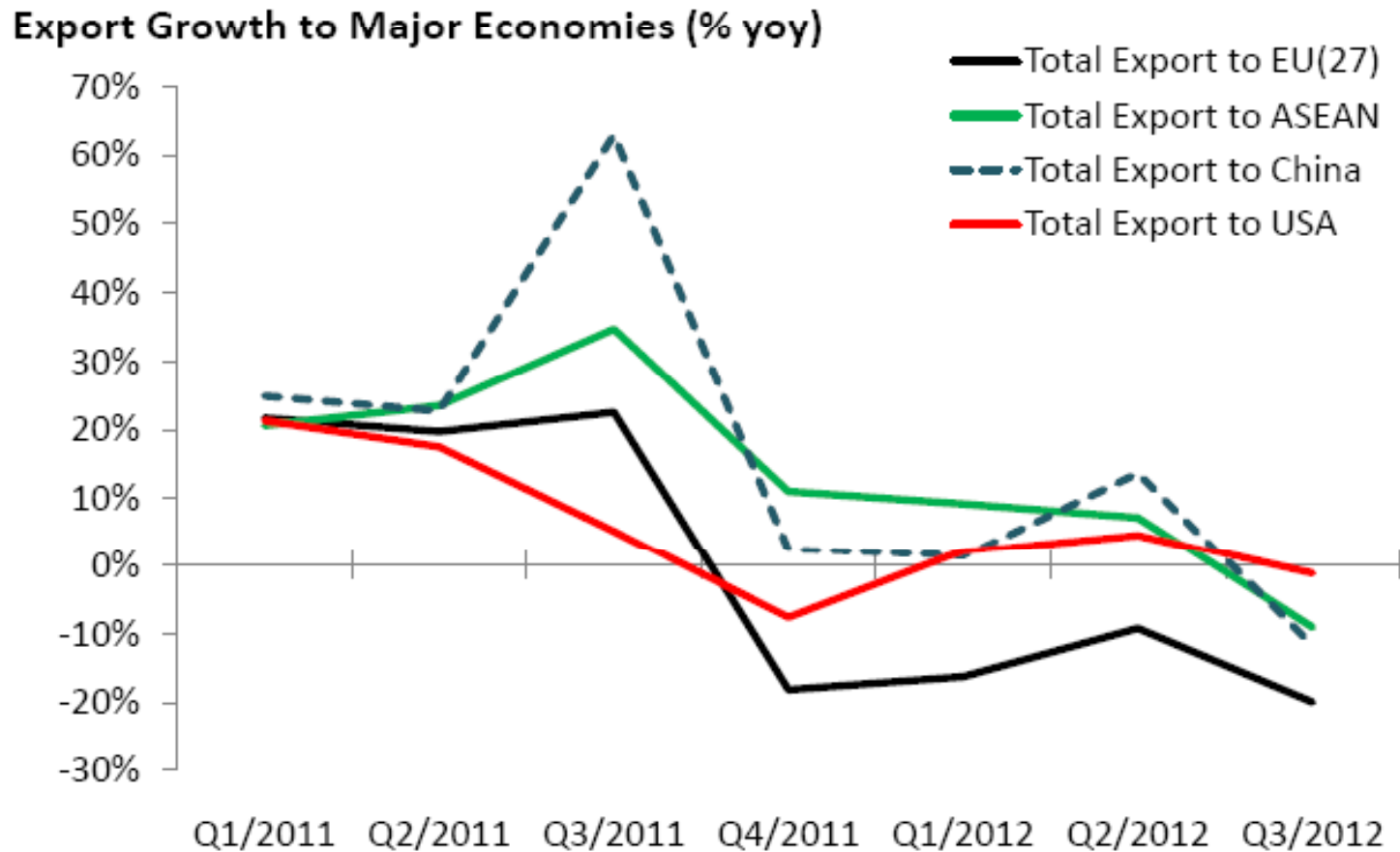
Other economies?



» Thailand's SWOT Analysis

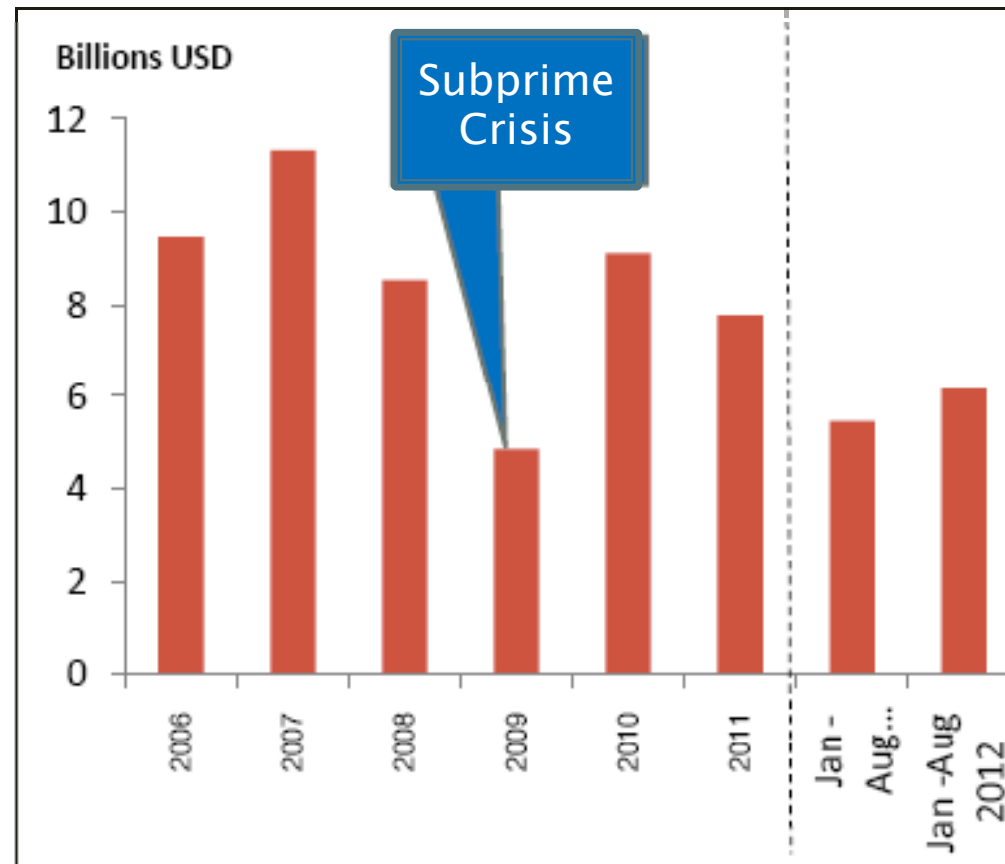
»» Some Background information

The Euro Crisis Slowed down Thailand's export



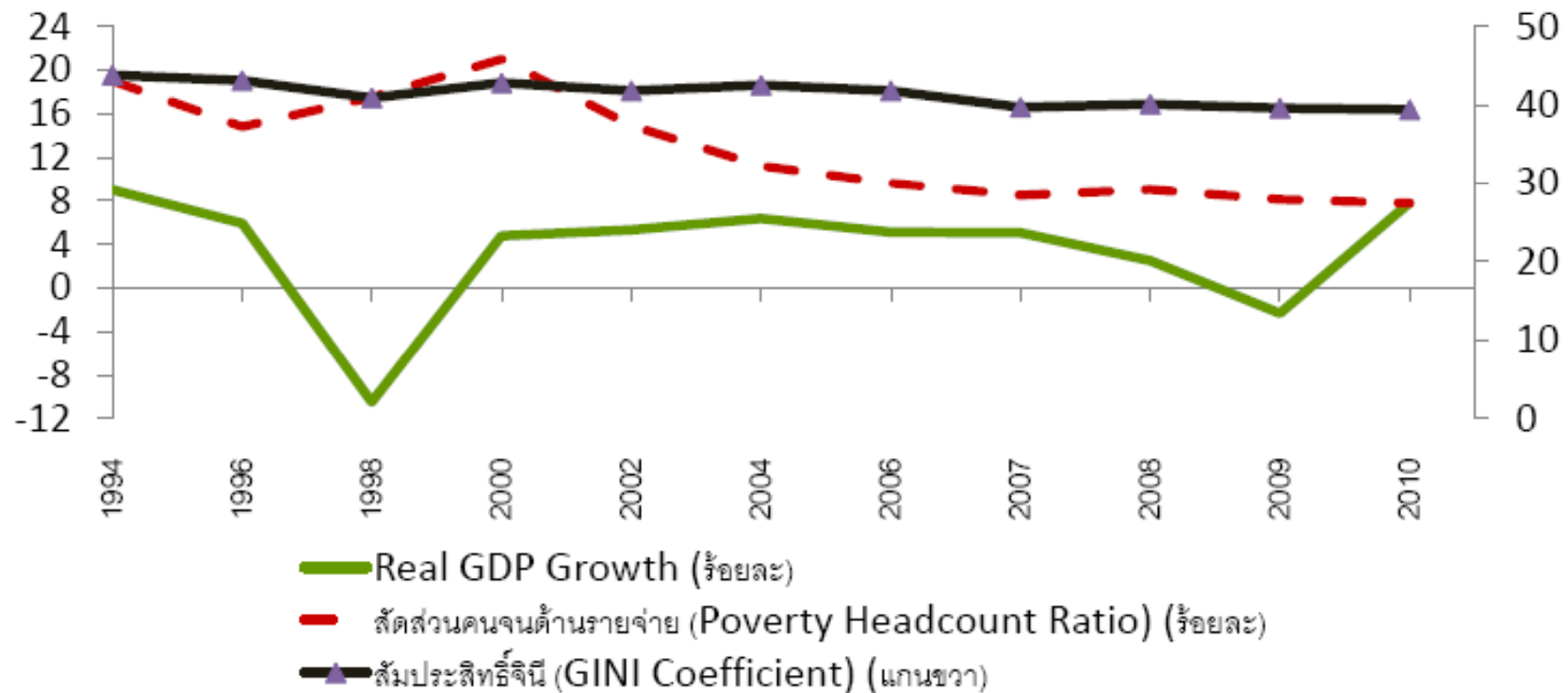
Source: ministry of commerce and The World Bank

Foreign Direct Investment (FDI) to Thailand



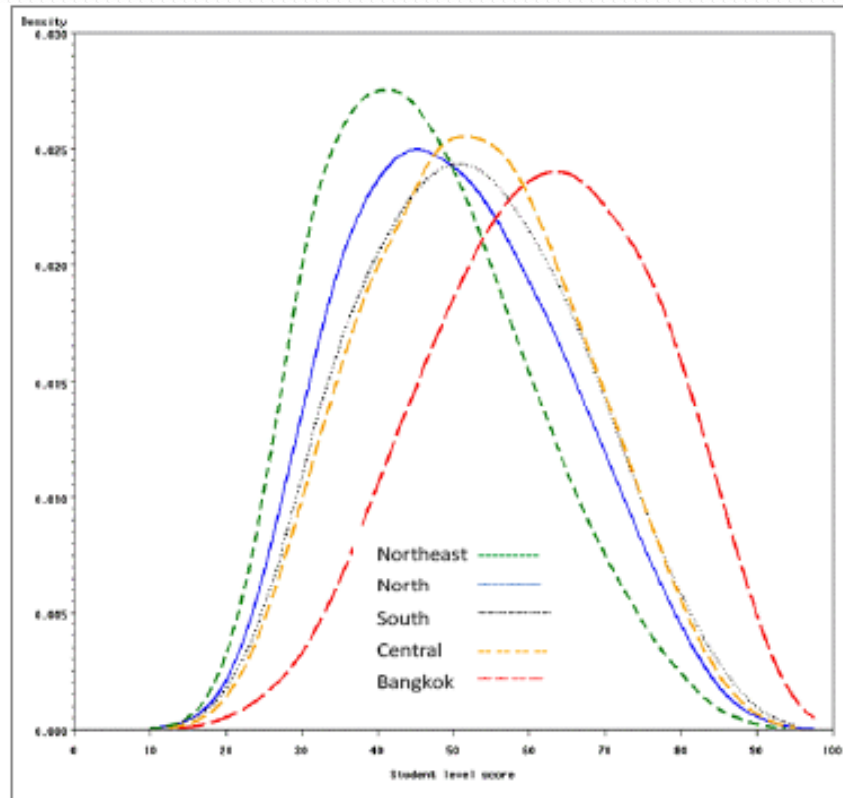
Source: Bank of Thailand and The World Bank

Thailand achieves lower poverty but persistent income inequality



Source: The World Bank

High Education Discrepancies



Distribution of O-NET scores
Source: The World Bank

- ▶ Students from the Northeastern region tend to receive much lower scores
- ▶ Students from Bangkok outperform students from the rest of the country.

We need to improve on creativity, information tech., English and Leadership

TABLE 2.4 Comparative skill gaps among professionals

	Creativity	Information technology	English	Leadership	Communication	Problem solving	Work attitude	Technical skills	Numeracy/literacy
Cambodia	—			Decision making		Lack of analytical skills			
Vietnam	—	—		—		—			
Mongolia									
Philippines									
Indonesia									
Thailand									
Malaysia									

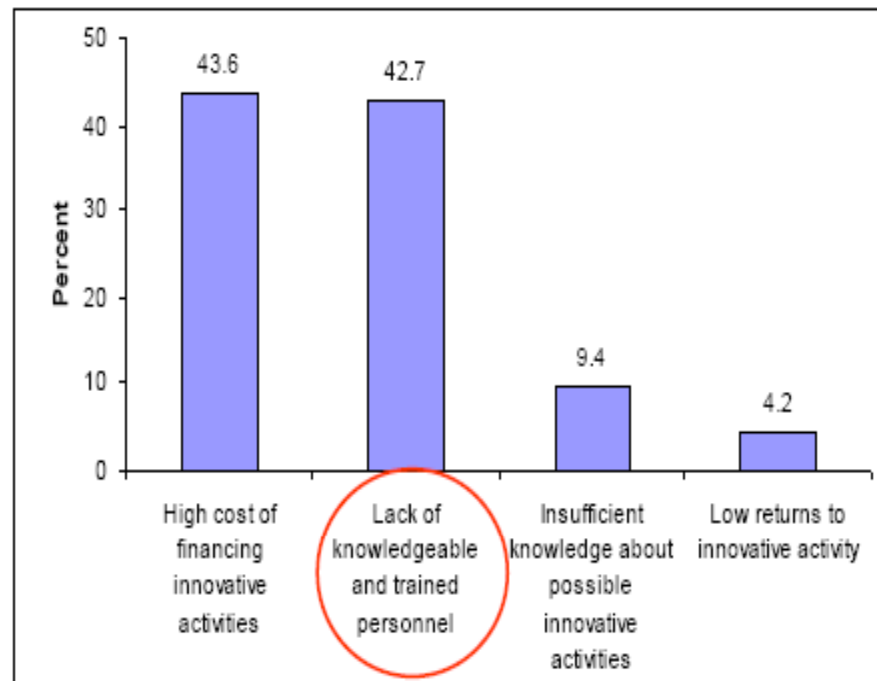
Source: Appendix J (employer and employee surveys).

Note: The darker the shade, the stronger the gap (within each country only). Dotted cells indicate gaps that became less serious, and hashed cells indicate gaps that became more serious, in relation to the current demand for that skill.

— = not available

Source: The World Bank

Why don't companies invest in innovation?



Investment in Innovation

- ▶ Buy new machines
- ▶ Improve production technology
- ▶ Create new product
- ▶ Initiate business cooperation
- ▶ Create brand, trademarks

Source: The World Bank

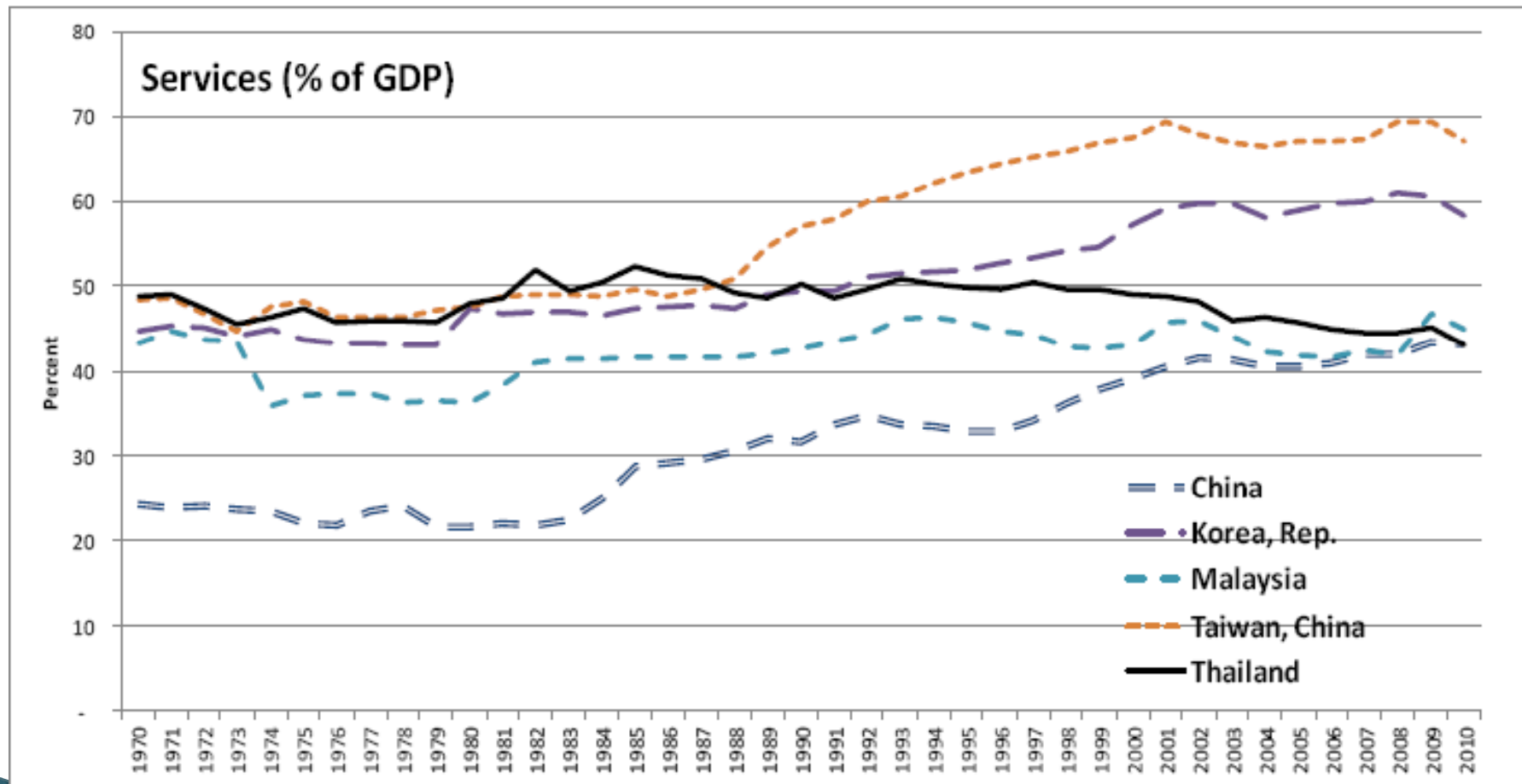
Knowledge Economy index (KEI)

Rank in 2012	Change from 2000	
1	0	Sweden
13	3	Taiwan, China
22	-5	Japan
23	-3	Singapore
29	-5	Korea, Rep.
48	-3	Malaysia
60	-1	Brazil
66	-6	Thailand
84	7	China
104	9	Vietnam

- ▶ Thailand's KEI is getting worse
- ▶ China and Vietnam may become better than us soon?

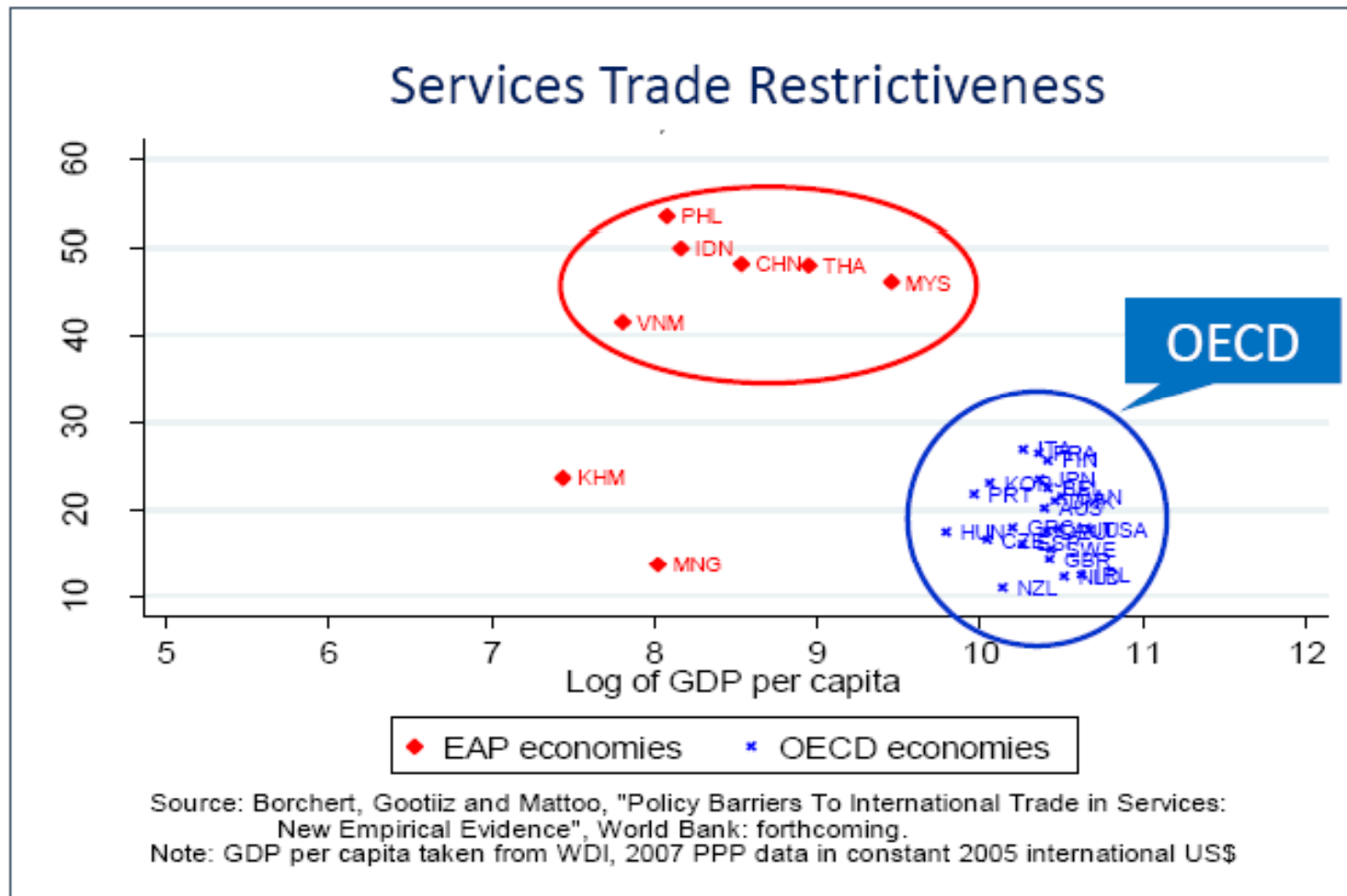
Source: The World Bank

Our share in the service sector has been falling



Source: The World Bank

We have high restrictions in the service sector



Source: The World Bank

Thailand's SWOT Analysis

- »» What are Thailand's
 - S – Strengths
 - W – Weaknesses
 - O – Opportunities
 - T – Threats