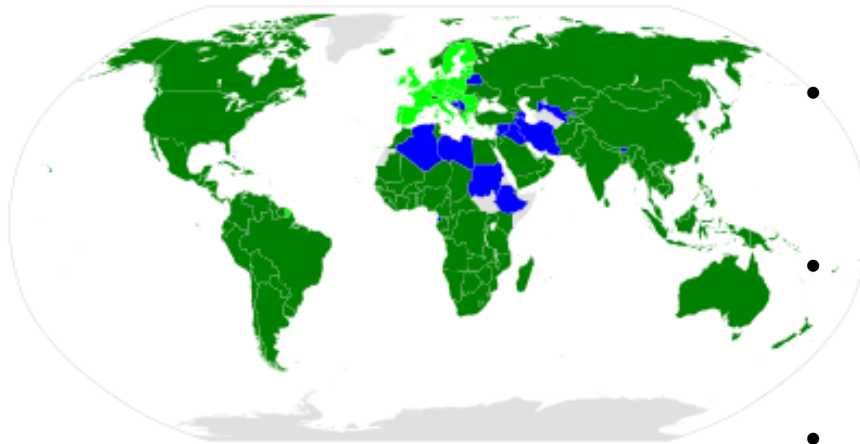**Business Strategies – Globalization**

Excursus: Trump´s ideas on Free Trade Restrictions and their Potential Consequences

- **Political Statements of US President**
- **WTO**
- **US Current Account Defizit**
- **Intended Consequences**
- **Probable Consequences**
- **The view of Singapur**

W.T.O. World Trade Organisation

- 164 Members, 23 Observers (China 2001; Russia 2012; 32 Least Developed Countries; Japan, EU, US, Canada = Quad)
- Established in 1994, following GATT
- Main functions: Framework of Trade Policies; Settlement of Disputes
- Organs: Ministerial Conference (2years); General Council (5 Councils); Dispute Settlement Body (Panel – Appelate Body); Trade Policy Review Body;
- 60 different agreements, which have the status of legal texts: i.e. Trade in Service, Agriculture, Intellectual Property Rights
- Administration in Geneva; 630 people under General Secretary Roberto Azevedo

THE PRESIDENT'S 2017 TRADE POLICY AGENDA – Ensuring that….

- US Workers and businesses have a fair opportunity to compete for businesses
- Breaking down unfair trade barriers
- US owners of intellectual property (IP) have a fair opportunity to profit from their IP
- Prevent the US market from beiing distorted by dumped or subsidized imports
- Resisting efforts by other countries or members of international bodies like the WTO to advance interpretations that would weaken the rights or benefits of the various trade agreements
- US trade policy contributes to the economic strength and manufacturing base necessary to maintain – and improve – the national security.

Top Priorities
- Defending national sovereignity over trade policy
- Strictly enforcing US Trade Laws (e.g. Antidumping)
- Using leverage to open foreign markets (It´s time for a more agressive approach)
- Negotiationg new and better trade deals

President Trump´s Attitude Towards Free Trade

"As a general matter, we believe that these goals can be best accomplished by focusing on bilateral negotiations rather than multilateral negotiations "

March 2018: Tariffs of 25% on Steel and 10% on Aluminium, exempt are Canada and Mexico during Nafta Negotiations

US's trade deficit is due to "very stupid" deals and policies.

Donald J. Trump
✔ @realDonaldTrump
If the E.U. wants to further increase their already massive tariffs and barriers on U.S. companies doing business there, we will simply apply a Tax on their Cars which freely pour into the U.S. They make it impossible for our cars (and more) to sell there. Big trade imbalance! 7:53 PM - Mar 3, 2018

Trump is weirdly optimistic about "trade wars" Trump is left to rely on his own instincts on this subject, which are strangely unsound. (VOX, 8.3.2018)

President Trump´s Attitude Towards Free Trade

July,12, 2018: Announcing plans for **additional tariffs on $200 billion** of imports, the Trump administration has taken another dangerous step toward escalating its trade war on China
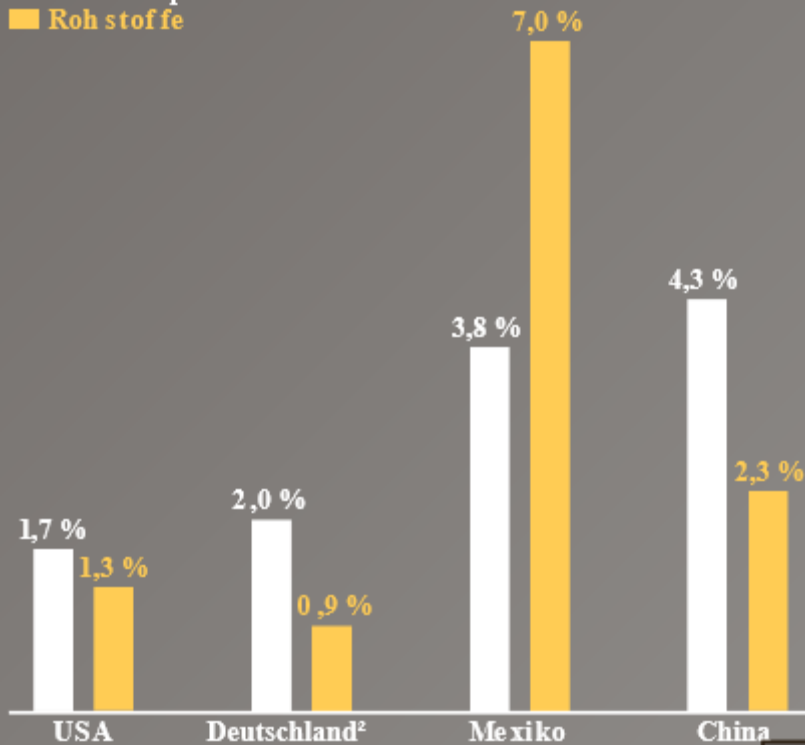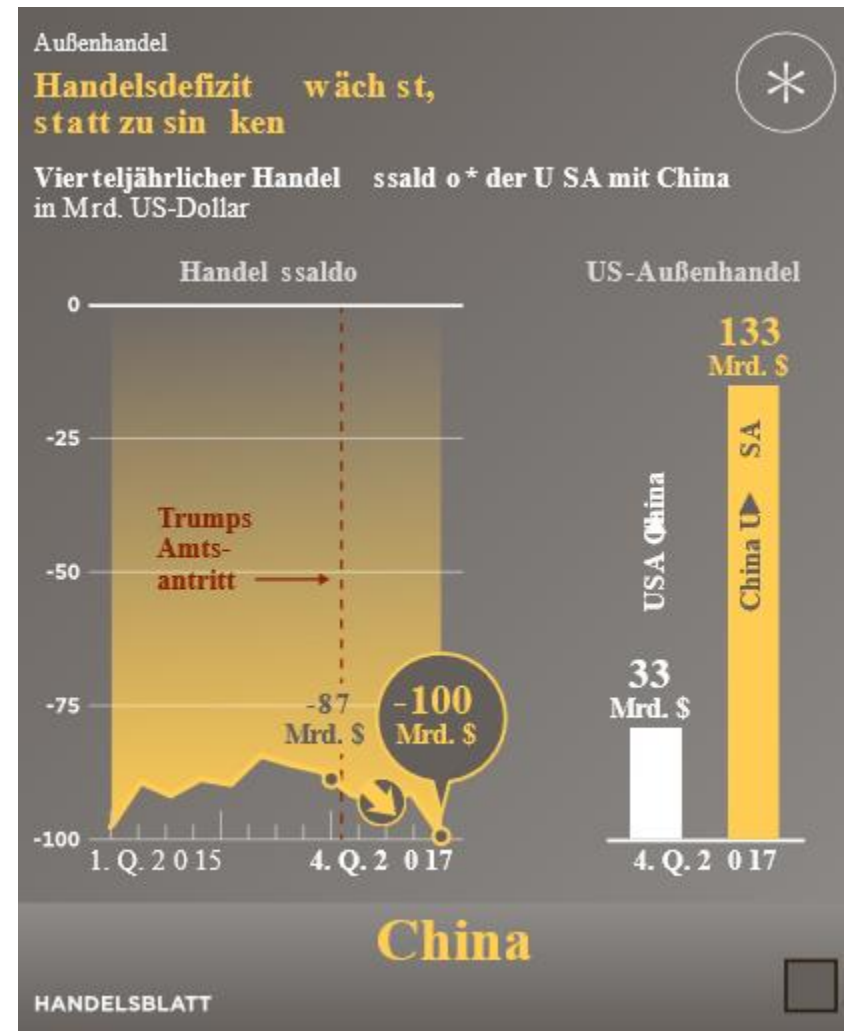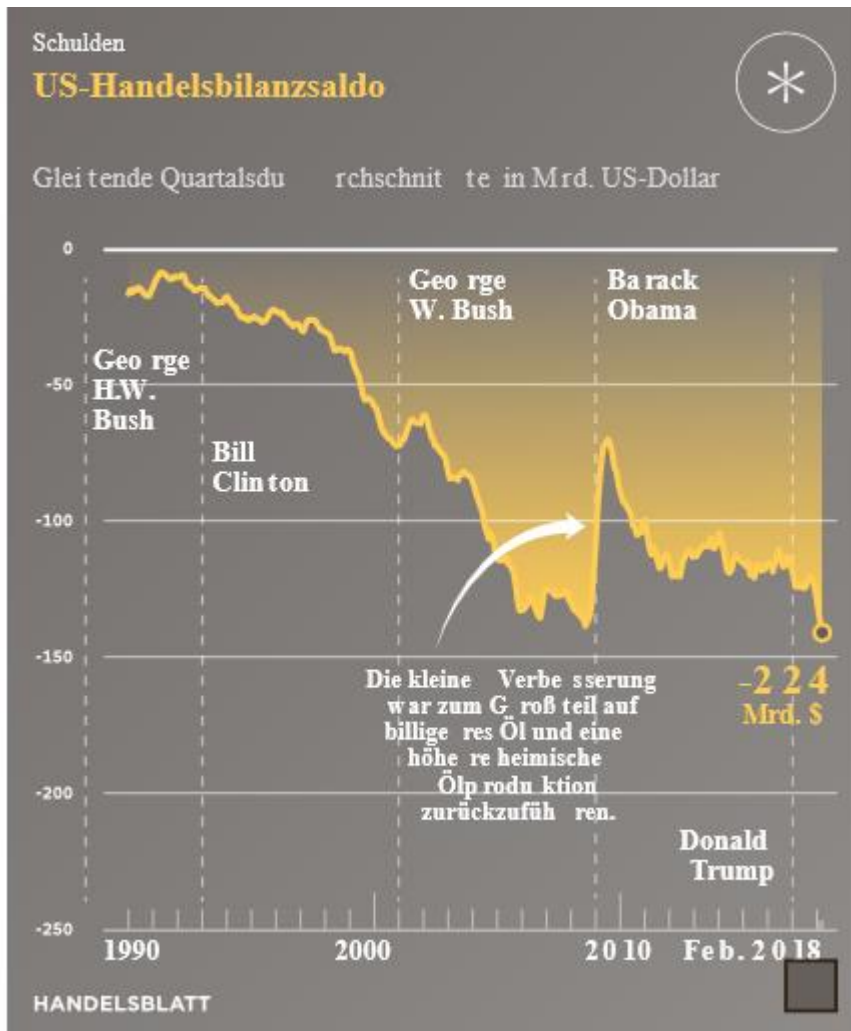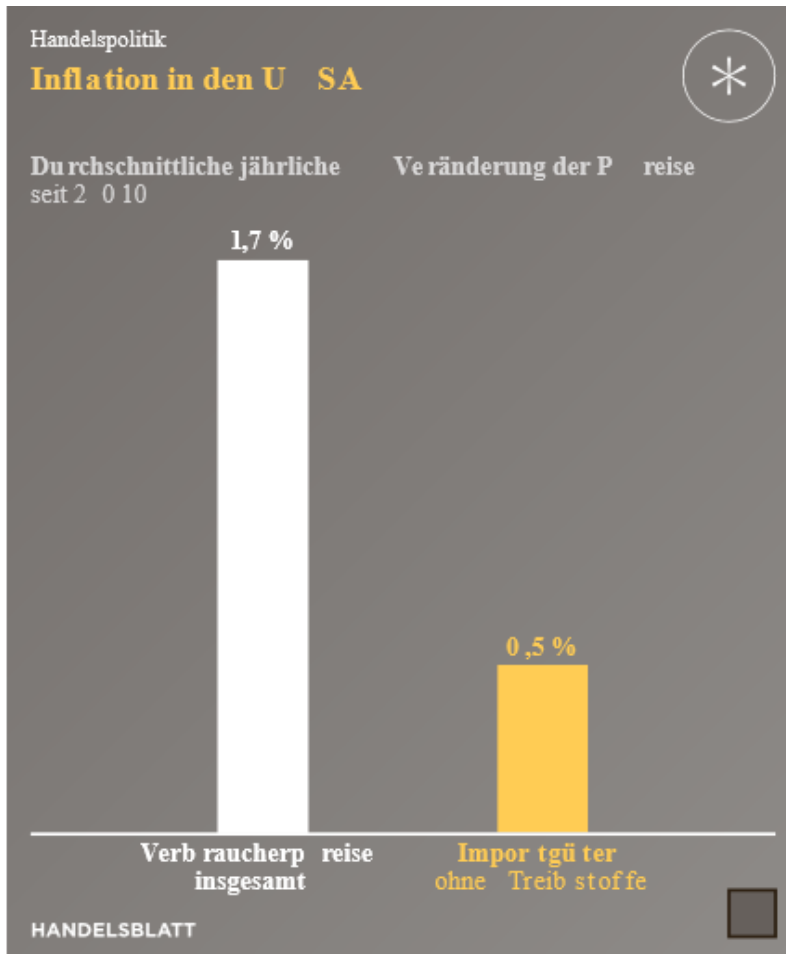
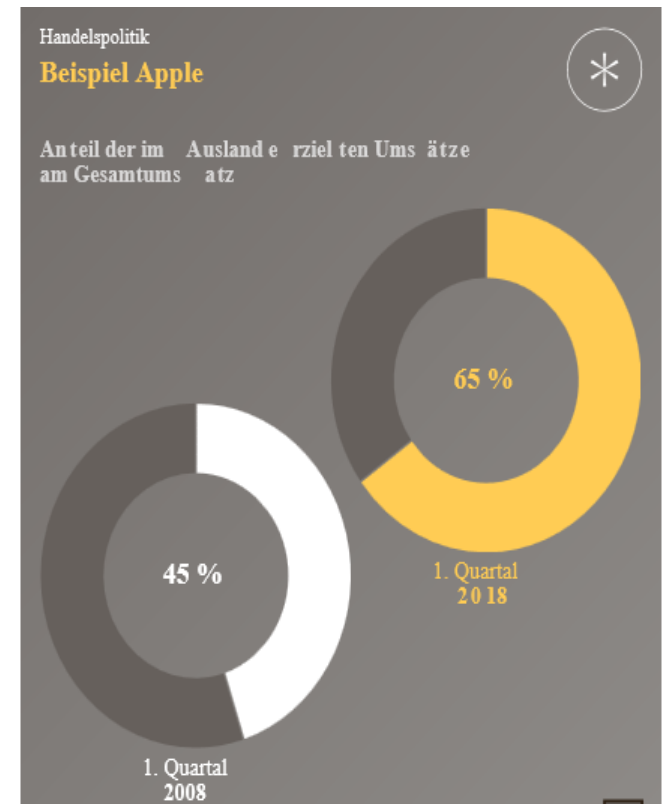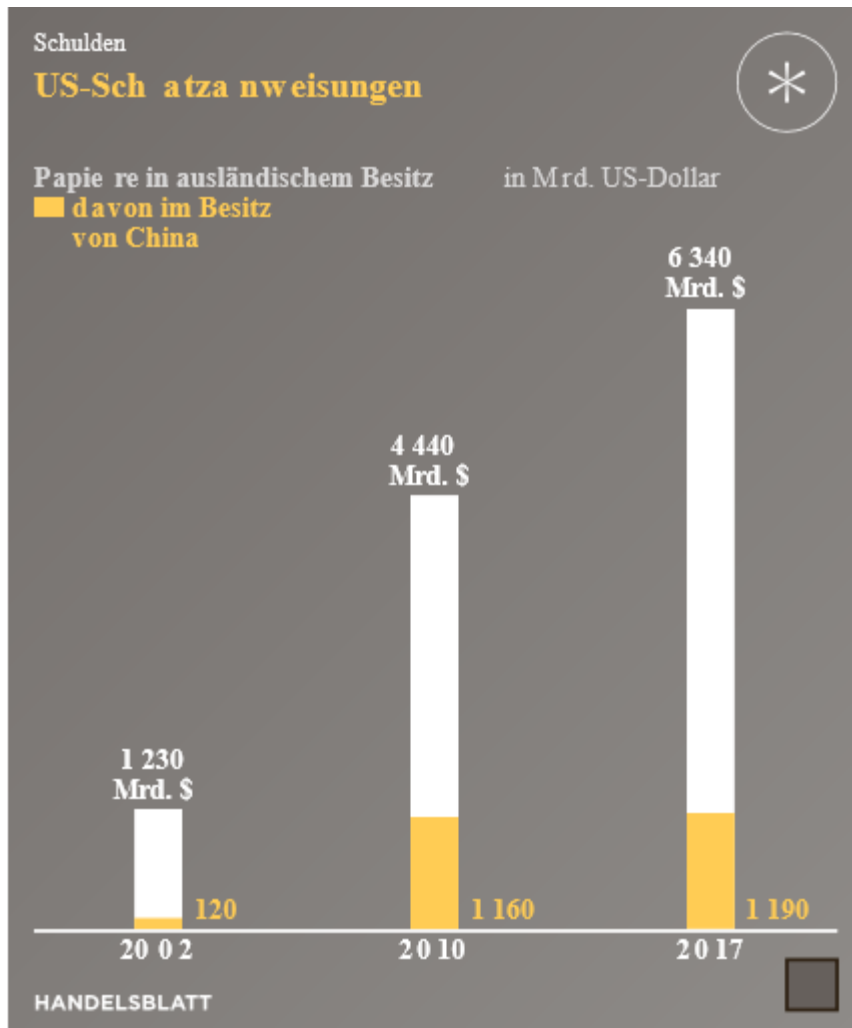In fact the import taxes are lower than in other countries.

Since years the US trade balance deficit is enormous

Less imports would increase the consumer prices

As well there is a probability that the exports from US into other countries would suffer – with a damaging effect for the whole economy

Schulden
US-Sch atza nw eisungen

Papie re in ausländischem Besitz   in Mrd. US-Dollar
■ d a v o n im Besitz
    von China

6 340
Mrd. $

4 440
Mrd. $

1 230
Mrd. $

120   1 160   1 190

20 0 2   2 0 10   2 0 17

HANDELSBLATT

US State Budget is profiting from the fact that other countries are holding this high debts.

If foreign countries would buy less US bonds, the costs of public debts could increase substantially

US Trade Deficit Largest since 2008

SOURCE: TRADINGECONOMICS.COM | U.S. CENSUS BUREAU

The U.S. trade deficit widened to USD 59.8 billion in December of 2018 from an upwardly revised USD 50.3 billion in the previous month and compared with market expectations of a USD 57.9 billion gap. It is the **largest deficit since October of 2008** as exports declined for the third month and imports recovered. In **2018**, the country's trade gap widened to a **10-year high**, with the goods gap with China jumping to a record high despite tariffs on USD 250 billion worth of Chinese imports.

Interview Ministry of Economy Singapur, on Trade War Background and Singapurs´ Position

https://uk.finance.yahoo.com/video/singapore-trade-industry-minister-budget-

Business Strategies – Economics and Mathematics of Strategy

3.1. Why Economics of Strategy?

There are many ways to study strategy …

It is **not enough** to   "*be close to the customer*"
"*stick to the knitting*"
" *have a bias for action*"

     Peters & Waterman 1982

or   "to *put the right people at the right place*"
"*search for levels' 5 Leaders*"
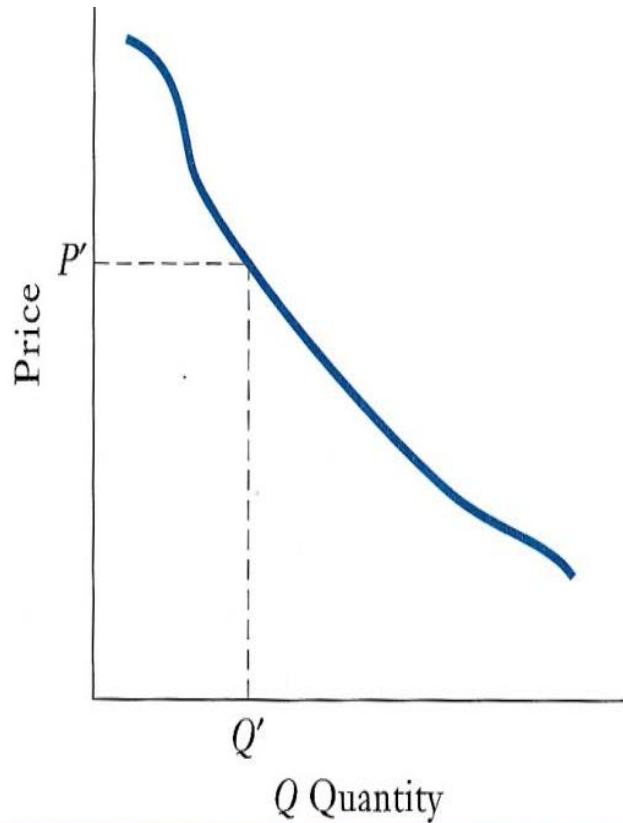"*stick to a culture of discipline*"

Collins 2001

Economic modelling abstracts from the situational complexity that individuals and firms face.

Besanko et al. (2013, p. 5): "***Success is*** *often **no accident**. […] We can* [...] Discuss other principles
*why firms succeed or fail when we analyze decision making in terms of **consistent principles of market economics**.*

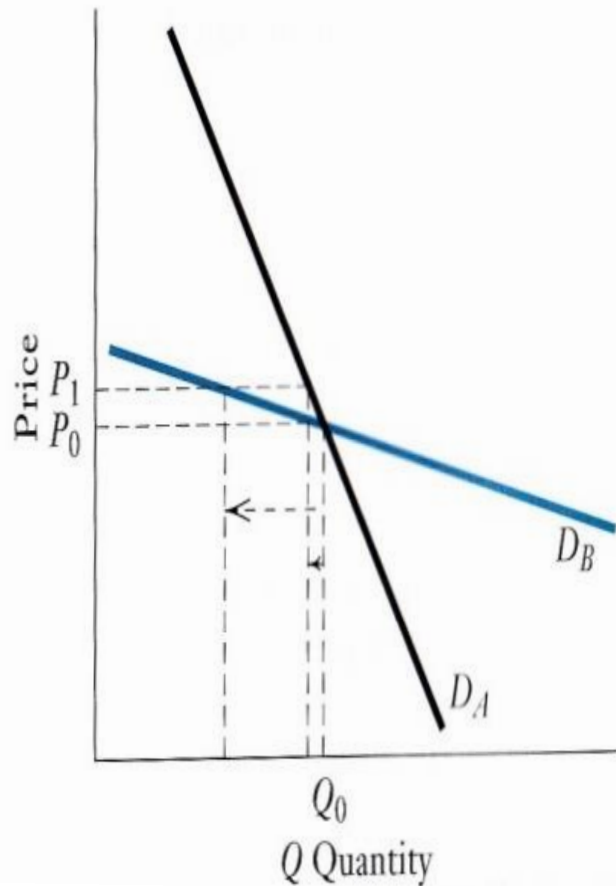## 3.2. Demand- and Revenue-Functions I

Demand curve

— **Downward slope**: The higher the price, the smaller the quantity of demand (exception: prestige products)

3.2. Demand- and Revenue-Functions II

Price sensitivity and the shape of the demand curve

$$\text{Price Elasticity(EP)} = \frac{\Delta \text{ quantity change}}{\Delta \text{ price change}}$$
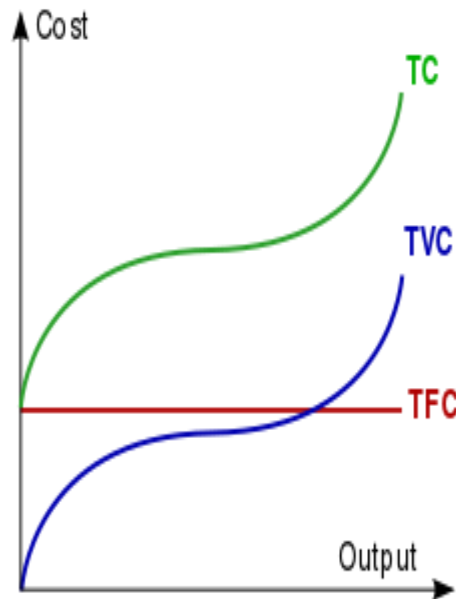
- **EP > 1:** Price change brought higher proport. Volume sold („price elastic" demand)
- **EP < 1:** Quantity change is prop. smaller than price change („price inelastic" demand)
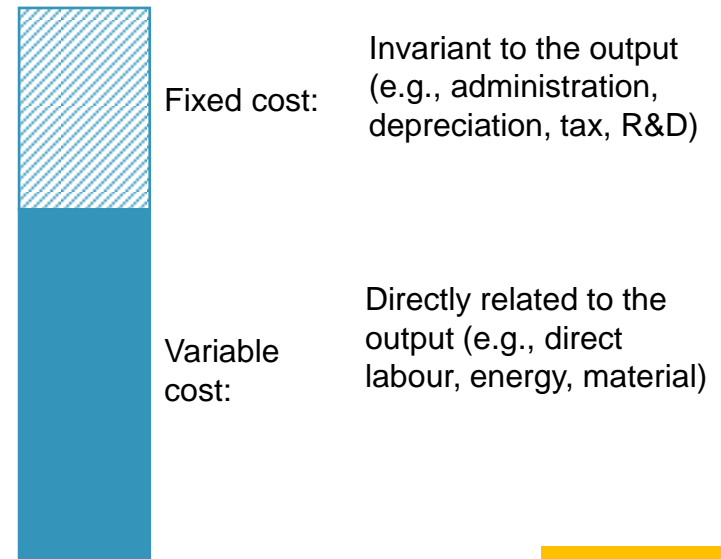
3.3. Cost Functions I

For output decisions (Q), it is necessary to know the cost curves!

Total Cost

Definition of Total Cost

Fixed cost: Invariant to the output (e.g., administration, depreciation, tax, R&D)

Variable cost: Directly related to the output (e.g., direct labour, energy, material)

Please define

– Total cost function shows an efficiency relationship, given cost levels at that moment.
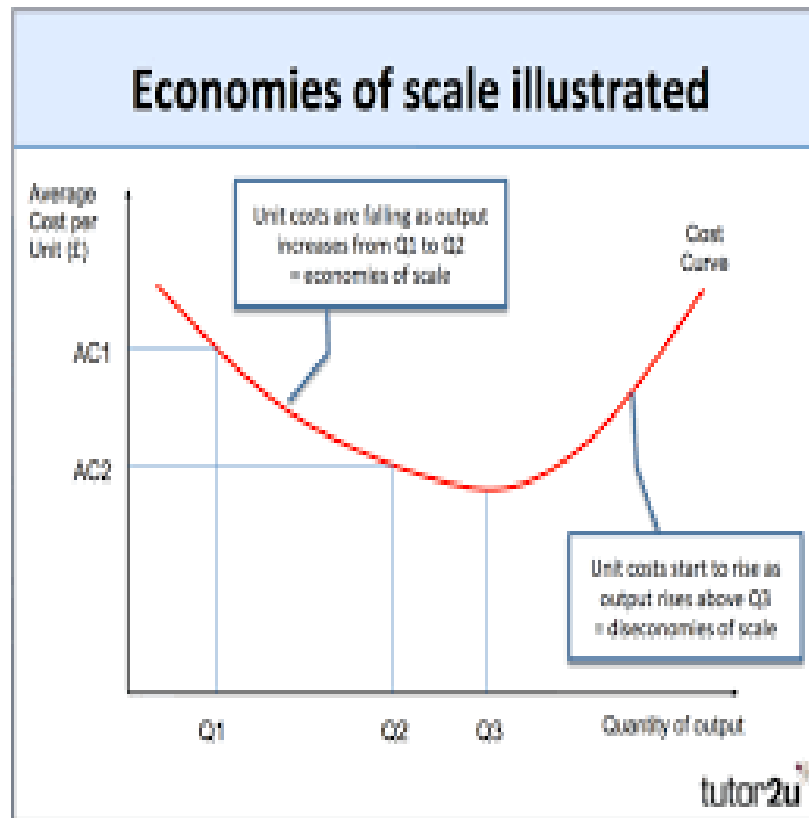– Improving efficiency lowers the total cost curve.

– Fixed or not fixed depends on **the time horizon**.

Business Strategies – Economics and Mathematics of Strategy

3.3. Cost Functions II
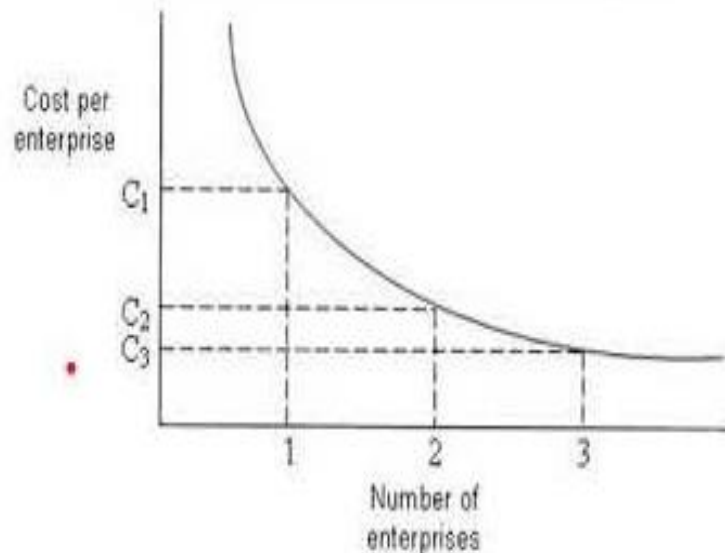
Average costs and economies of scale

− Economies of scale are benefits gained when increasing volume results in lower unit cost.

− here: average cost function shows economies of scale, constant returns (Q1 – Q2) and diseconomies (> Q3)

3.3. Cost Functions IV

Economies of scope ("Verbundvorteile")

Occurs when a firm can gain efficiencies from producing a wider variety of products. It make it cheaper to produce a range of products together than to produce each one of them on its own. Often this is the case, when the business owns a lot of enterprises.

"Efficiencies formed by variety, not volume"

❖ Justifies diversification

❖ Advantages: flexibility in product mix/ design; repeatability of processes; better control; transferable knowledge; less risk

Discuss the different concepts with examples!
What is a learning curve? Value chain integration?
Discuss pros & cons of diversification!

Business Strategies – Economics and Mathematics of Strategy

3.4. Financial Analysis I

Three areas of analysis:

❖ Conjunctional analysis (compare data for more years)

❖ Cross sectional analysis (compare against competitors or other industries)

❖ Ratio analysis
  ➢ performance ratios   (a)
  ➢ efficiency ratios   (b)
  ➢ liquidity ratios   (c)
  ➢ investors ratios   (d)

Business Strategies – Economics and Mathematics of Strategy

3.4. Financial Analysis II

(a) Performance ratios: How well turn inputs into profit?

➤ Return (PBIT) on capital employed (%) = $\dfrac{Profit\ before\ interest\ and\ tax\ (PBIT)}{Total\ capital\ employed} \times 100$

➤ Return (PBIT) on sales (%) = $\dfrac{(PBIT)}{total\ sales\ (turnover)} \times 100$

➤ Gross marging (%) = $\dfrac{Gross\ profit\ (profit\ after\ direct\ costs)}{total\ sales\ (turnover)} \times 100$

3.4. <u>Financial Analysis</u> III

(b) Efficiency ratios: How efficiently assets are used to generate sales?

➢ Sales per employee (€) = $\dfrac{total\ sales\ (turnover)}{number\ of\ employees}$

➢ Profit per employee

(c) Liquidity ratios: How well the company can meet the short term debts?

➢ Current ratio (%) = $\dfrac{total\ liabilities}{total\ assets} \times 100$

(d) Investors ratios: How good is the investment for the investor?

➢ Earnings per share (€) = $\dfrac{profit\ after\ interest\ and\ tax}{number\ of\ shares}$

➢ Price/ Earnings ratio (P/E) = $\dfrac{market\ price\ of\ shares}{EPS\ (earning\ per\ shares)}$

$\dfrac{dividend\ per\ share}{share\ price}$

Bkup: VW 2017 analysis of performance ratio