

# GLOBAL BUSINESS ACTIVITIES IN LIGHT OF THE IMPACTS OF THE ECONOMIC RECESSION

PETER KUZMIŠIN

## 1 INTRODUCTION

Economic recession between the years 2008-2009 has had significant effects on the areas of manufacturing, investments, foreign trade, employment and public finances and many of the impacts can still be seen. It is interesting to observe that the recession has impacted mainly the developed economies. Several indicators in the area of economies' development show, that between 2008-2009, many of the developing as well as developed economies experienced economic growth. The forecasts of the IMF (International Monetary Fund), OECD (Organisation for Economic Co-operation and Development) and European Union (EU) anticipate that in 2010 and 2011 the growth of the World GDP shall be higher than 4%, mainly thanks to the growth rate in developing countries (anticipated growth rate more than 6%). Among the developed countries, the GDP (Gross Domestic Product) growth is expected to be higher than 2%, in the USA almost more than 3%. The risk factor in numerous economies is the development of public finances, characterised by the sharp rise of governmental debts and deficits. Financial stability still remains very fragile. The most adverse impact of the recession is the unemployment with its economic and social manifestations. Due to the increase in unemployment, household incomes have either decreased or disappeared completely, which led to lower consumption, lower GDP, worsening credit repayments, especially with mortgages, which in turn increased bank losses and worsened the situation at the real estate market. After the decrease in inflation in 2009, its slight increase is anticipated in 2010 as a result of the revival in the area of economic activities and demand, rise in prices of energies and commodities. However, the rise of global macroeconomic imbalance still remains a problem: the existence of countries with deficient current account within the balance of payments deepens its deficit and creates problems with financing it. IMF, therefore, emphasizes the importance of economic growth restructuring in the way, that the economies with significant surpluses in current account strengthen their domestic demand and exchange rates, whereas the economies with deficit in current account should focus towards the strengthening of exports through enhancing the structural reforms.

In the EU, the situation is quite difficult. It is the region, which was affected by the recession more strongly and economic revival possibility is lower and insecure. For example, if the economic growth in the world in 2010-2011 is

expected to be slightly above 4%, in the EU as well as the Eurozone the growth expectations are about 1-2%. Among individual countries, the differences in growth potential are very strong. A grave problem in the EU is mainly finding the compromise between the consolidation of public budgets and supporting economic growth. Historical evidence warn that inappropriate orientation away from deficit budgeting and financing, and thus away from budget stimulating measures would mean a real danger of long stagnation for the economy. Therefore, attention needs to be paid towards such public-spending supporting measures that would in the long term increase economic growth, e.g. investments into technologies, infrastructure and education (Kuzmišinová, 2009). The important determinant of decisions in the economic policy with relation to this is mainly the indebtedness rate of individual countries and their ability to repay debts. The average indebtedness rate (expressed as the ratio of cumulated debt to GDP) in EU27 in 2009 was 74% and between 2010-2011 it is expected to increase to 80-84%. In order to characterise the ability to repay debts, the financial markets use the ratio of paid interests to budget inflows as an indicator. For the group of EU countries, such as Greece, Spain, Portugal, Ireland and Italy, the question of finding the solution to public finances deficit is a priority, even for the price of lower economic growth. Among larger EU countries, more than average growth is expected in Germany and France, and the fastest growth in 2010-2011 is expected in Slovakia and Poland (3-4%). The problem of unemployment belongs to the most pressing issues in relation to the economic recession. If the average of unemployment rate in EU27 countries were less than 10%, several countries, e.g. Spain, Ireland, Greece, or Slovakia would be over the limit (table 2). By the same token, the consolidation of financial system and manifestations of global imbalance that both determine future growth of economies, can be considered very pressing issues.

*Table 1- Projection of economic growth according to the IMF (in %)*

| <b>IMF</b>                  | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| GDP – world                 | 5,2         | 3,0         | -0,6        | 4,2         | 4,3         |
| USA                         | 2,1         | 0,4         | -2,4        | 3,1         | 2,6         |
| EU                          | 3,1         | 0,9         | -4,1        | 1,0         | 1,8         |
| Japan                       | 2,3         | -1,2        | -5,2        | 1,9         | 2,0         |
| China                       | 13,0        | 9,6         | 8,7         | 10,0        | 9,9         |
| India                       | 9,4         | 7,3         | 5,7         | 8,8         | 8,4         |
| Russia                      | 8,1         | 5,6         | -7,9        | 4,0         | 3,6         |
| Developed countries         | 2,7         | 0,5         | -3,2        | 2,3         | 2,4         |
| Developing countries<br>*DC | 8,3         | 6,1         | 2,4         | 6,3         | 6,5         |
| World trade**               | 7,3         | 2,8         | -10,7       | 7,0         | 6,1         |

Note: Years 2010 and 2011 – April Forecast by IMF

Source: IMF (2010), pp. 2

\*DC – developing countries      \*\* Goods and Services

*Table 2 – Selected indicators of economic development in the Eurozone in 2007-2011\**

| <b>Indicator</b>                     | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| GDP                                  | 2,8         | 0,6         | -4,1        | 0,9         | 1,5         |
| Private consumption                  | 1,6         | 0,4         | -1,1        | 0,0         | 1,1         |
| Public consumption                   | 2,3         | 2,1         | 2,3         | 0,9         | 0,3         |
| Investments                          | 4,8         | -0,6        | -10,8       | -2,6        | 1,8         |
| Employment                           | 1,7         | 0,6         | -2,1        | -1,0        | 0,1         |
| Unemployment rate **                 | 7,5         | 7,5         | 9,4         | 10,3        | 10,4        |
| Inflation                            | 2,1         | 3,3         | 0,3         | 1,5         | 1,7         |
| Balance of public budgets (in % GDP) | -0,6        | -2,0        | -6,3        | -6,6        | -6,1        |
| Public deficit (v % GDP)             | 66,0        | 69,4        | 78,7        | 84,7        | 88,5        |
| Current account balance (in % GDP)   | 0,1         | -1,1        | -0,8        | -0,6        | -0,5        |

\*Annual growth rates, if not indicated differently

\*\* = from workforce, \*\*\* according to harmonised index of consumer prices

Source: ECFIN, Economic Forecast Spring (2010b), p. 16

## **2 METHODOLOGY**

### **2.1 Index of investor confidence**

Up until the beginning of the economic recession, the biggest challenges in the world economy (WE) for global firms have been the threats related to the climate change and natural resources being depleted. From the territorial point of view, it was the onset of new developing markets in Asia and Middle East. As far as capital exporters are concerned, the increase in capital from developing countries has been the most significant.

When different overviews or prognoses for business activities in the segment of foreign direct investments are concerned, the index of investor confidence, which is the result of a survey among the representatives of the biggest world corporations and is published by the world consultancy firm A.T. Kearney, is the most respected one. The results of the survey from 2007 showed a continuing growth in global flows of FDI, which according to the qualified estimates on UNCTAD reached a record of \$1.5 trillion in 2007. This significant increase is predominantly the result of massive investments into two most populated world economies: China and India. Among other Asian countries, apart from the traditional ones such as Hong Kong and Singapore, Malaysia and Indonesia have been added along with Vietnam, the new target for global investments, which is related to its entry into the WTO, stable political situation and ongoing economic reforms as well as borders with China.

Among the countries around the Gulf of Persia, the United Arab Emirates deserve much attention, mainly thanks to their increasing wealth, population growth as well as diversification of economic activities. Among the countries rich in natural resources, Russia, Brazil, and Canada are dominant, and as the only African country South Africa can be found on the list.

It may be surprising that from the WE point of view, in 2007 the decrease in investor confidence in new EU member states has been detected. In the top 25, only the Czech Republic and Poland can be found. These countries, however, have the trust of the EU15 countries. From the FDI structure point of view, Slovakia and Czech Republic are highly ranked in the area of automobile industry, and the interest in high-tech is increasing as well. In the FDI forecasts, Asian countries were of high interest. A controversial ranking was received by the USA, which can be related to the current economic trends, and in the case of Russia, it may have been the political aspects that were creating ambiguity in the confidence in their economy.

*Table 3 - Index of investor confidence (2007)*

| Country              | Index of investor confidence |
|----------------------|------------------------------|
| China                | 2,21                         |
| India                | 2,09                         |
| USA                  | 1,86                         |
| Great Britain        | 1,81                         |
| Hong Kong            | 1,78                         |
| Brazil               | 1,78                         |
| Singapore            | 1,75                         |
| United Arab Emirates | 1,72                         |
| Russia               | 1,70                         |
| Germany              | 1,70                         |
| Australia            | 1,68                         |
| Vietnam              | 1,67                         |
| France               | 1,67                         |
| Canada               | 1,65                         |
| Japan                | 1,63                         |
| Malaysia             | 1,63                         |

Source: A.T. Kearney: Foreign Direct Investment Confidence Index. Vienna (Virginia), 2008

As far as exports are concerned, developing countries are increasingly becoming a competition for developed countries. It is related to the global macroeconomic imbalance in the WE, where there are high deficits in balance of payments on one hand (USA), and on the other hand high surpluses being accumulated in certain developing economics, such as China or oil and gas producers. The example of China points out to the usage of accumulated foreign currency to invest through so-called **sovereign funds**, in the background of which there are

concentrated investments. In the case of China, the majority of investments are directed towards Africa, whereas in the case of India, the investments from private firms are prevailing. As a competition to FDI, **hedge funds** and **private equity funds** are emerging.

To the most significant factors to sustain global economic growth in the next 20 years, according to the A.T. Kearney, belong: The competition in the area of natural resources (66%), Climate change (55%), Competition for non-energetic resources (47%), Pollution from developing countries (44%), Income gap (38%), Increasing prices of primary services (33%), Chronic binary deficit of USA (29%). It is interesting, that 53% of investors invest within the challenge of economic sustainability in ecologically and energy saving products, processes and technologies.

To the most important factors, which according to the A.T. Kearney survey influenced **investors' decision making process**, belonged: Decrease in economic growth rate of the USA (55%), Volatility of USD (45%), Increasing interest rates (39%), Increasing government regulation (38%), and the Volatility of energy prices (37%).

In terms of regions within the WE, to the **main risks of economic development in the USA** belonged: war expenditures in USA (30%), high indebtedness (18%), decrease in the highly educated workforce (15%), sustaining binary deficit (15%), protectionism as a reaction to globalisation (15%). On the other hand, investors regarded these as **long-term comparative advantages of the USA**: stable economic environment, wide consumer market, tendency to long-term economic growth, access to excellent research and science, relatively advantageous regulation environment.

Asia is currently undergoing a very successful period, too, mainly in China and India. China is on the first place of investor confidence ranking, whereas its advantage is a fast-growing economy with sufficient cheap labour force, continuing liberalisation of the economy, improving infrastructure and growing middle class. On the other hand, A.T. Kearney considers problems in the institutional environment and, mainly low legal enforcement as risks. In addition to these, the overheating effect of Chinese economy, which is manifested by increasing inflation as well as potential bubbles in the stock market and real estate markets, were considered risky as well. To other risks for investors in China in the next 5 years belong: 1) Danger of losing the intellectual property (50%), 2) Unpredictable institutional environment (44%), 3) Bubbles in the stock market and real estate markets (32%), 4) Overheating of the economy (31%), 5) Protectionism against Chinese goods and services (30%). It is known, that the majority of investments to China flows through Hong Kong. This way, China facilitates the access of firms operating in Hong Kong, which is a challenge mainly for the investors in financial sector. This way, Hong Kong is becoming an increasingly important global financial centre. A favourable environment for investors can be found in Singapore, with quality business environment as well as legal enforcement mechanisms in the area of intellectual property, along with

beneficial strategic location, financial sector support, logistics and strategic services for firms.

Although Europe was showing lower economic growth rates, it is a reliable region for FDI. For example, favourite destination for investors investing in services is the Great Britain, which relies heavily on London being the world financial centre. Similar advantageous predispositions can be found in Germany and France. Among the new EU member states were in the forefront of FDI interest V4 as well as Baltic countries, whereas further development will depend on the development of technologically and knowledge intensive activities. An ambiguous evaluation is in the case of Romania and Bulgaria, where an opportunity of cheap, yet highly qualified labour force can be found.

At the edge of investor interest Africa can be found, where the biggest problems are the political instability, weak infrastructure in the area of IKT, low level of education, insufficient public infrastructure and excessive bureaucracy. A better position has the South Africa, some countries rich in natural resources, e.g. Nigeria, Egypt, whereas further development is dependent mainly on the course of reforms as well as sustaining political stability.

The published results of the Index of investor confidence 2010<sup>1</sup> are the reflection of the economic recession after 2008. The current economic climate is not yet consolidated enough to motivate further investment flows. There is rather a climate of “suspended investments”, resulting from the insecurity in the markets and problems with acquiring credits. The decisive “post-crisis” factor of FDI is the security of investments. Compared to the previous evaluation, the positions of China, India and Brazil have been re-confirmed, mainly in the area of investments, as for these countries investors have the highest expectations. Turning point is expected to occur in 2011.

The A.T. Kearney report 2010 considers paradox the fact, that the willingness to invest exists for such markets, whose economic growth is debatable. For example, 22% of investors have negative opinion about the future economic growth of the USA and only 17% evaluates this aspect as positive, but in terms of trust USA is ranked right after China. Similar results were found in the case of Canada, Australia or Germany – even despite the expectations of relatively low economic growth, these countries have been considered interesting economies in terms of investment prospects (Figure 2).

---

<sup>1</sup> See: [www.atkearney.com](http://www.atkearney.com)

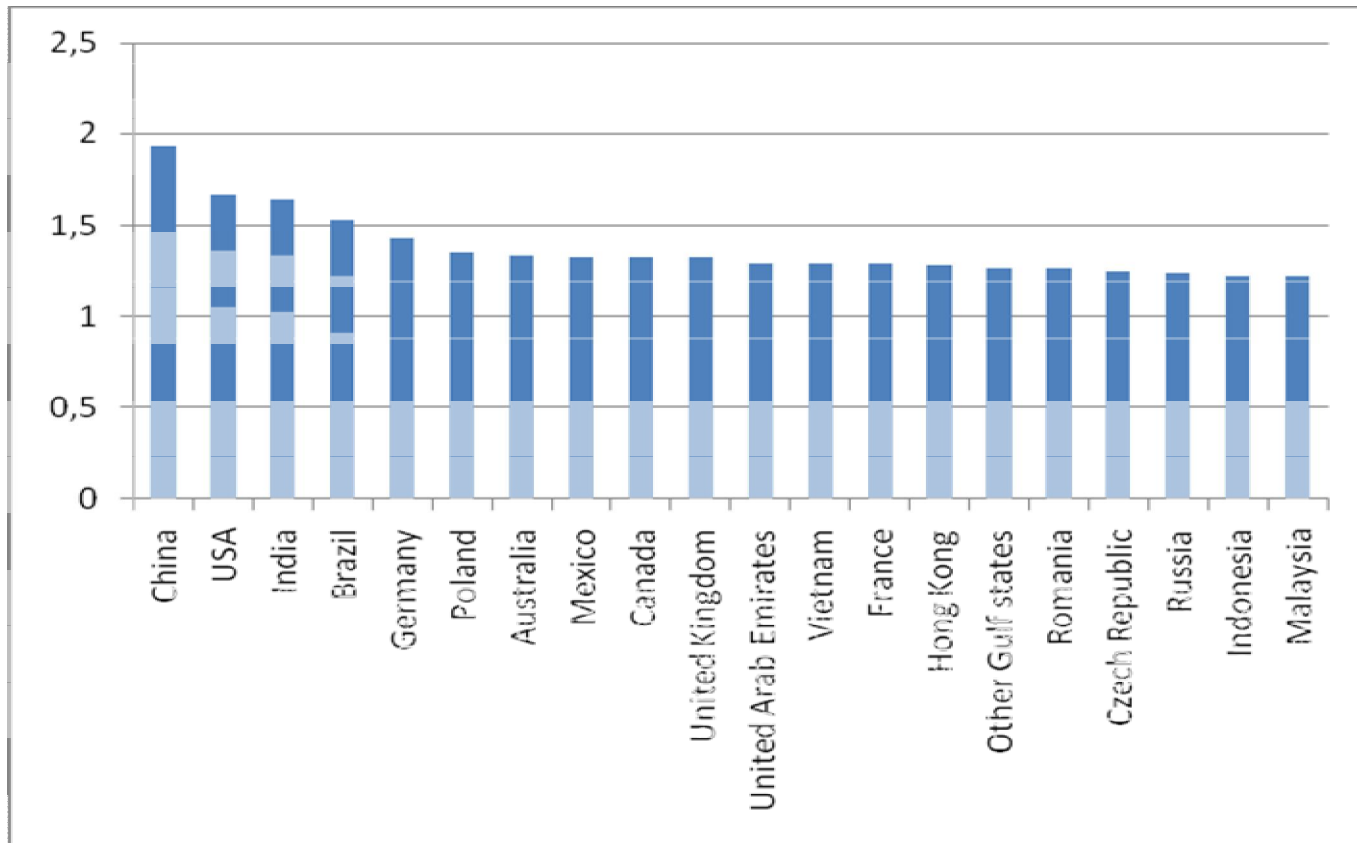


Figure 1 - Index of investor confidence 2010  
 Note: Other Gulf States: Bahrain, Kuwait, Oman, Qatar  
 Source: www.atkearney.com

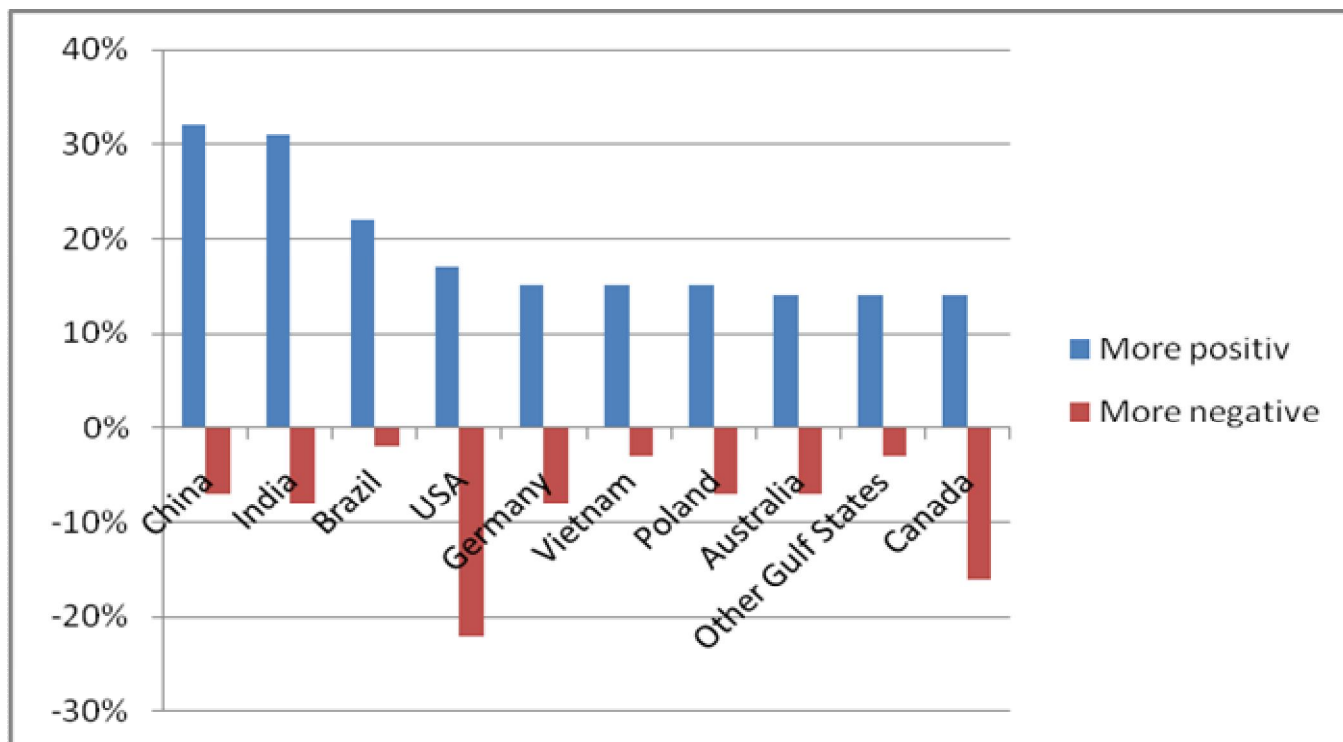


Figure 2 - Change in investor outlook compared to 2007  
 Source: www.atkearney.com

From the regional point of view, important investors prefer rather geographically near countries (e.g. near abroad). For example, for Asian investors 8 out of 10 cases were located in Asia and from non-Asian countries it was only the USA and Brazil. European investors prefer Europe in 6 out of 10 cases. It is assumed

that orientation towards the security of investments (e.g. escape to the safety area) could have a long-term effect on global business environment (Figure 3).

| Asian Investors | European investors | North American investors |
|-----------------|--------------------|--------------------------|
| 1.China         | 1.China            | 1.USA                    |
| 2.Vietnam       | 2.USA              | 2.China                  |
| 3.USA           | 3.India            | 3.India                  |
| 4.India         | 4.Germany          | 4.Brazil                 |
| 5.Hong Kong     | 5.Brazil           | 5.Mexico                 |
| 6.Indonesia     | 6.Romania          | 6.Poland                 |
| 7.Brazil        | 7.Italy            | 7.United Kingdom         |
| 8.Australia     | 8.France           | 8.Canada                 |
| 9.Thailand      | 9.Poland           | 9.Australia              |
| 10.UAE          | 10.Russia          | 10.Germany               |

*Figure 3 - Investors' top regional preferences*

*Note: Colour indicates countries in the same region*

*Source: www.atkearney.com*

In Table 4, we are showing the ranking of top 25 countries in terms of attraction and the comparison to their ranking in 2007.

*Table 4 – Ranking of TOP25 countries according to the attraction in FDI*

| Country                             | Ranking 2007 | Ranking 2010 | Change 2010/2007 |
|-------------------------------------|--------------|--------------|------------------|
| China                               | 1            | 1            | 0                |
| USA                                 | 3            | 2            | +1               |
| India                               | 2            | 3            | -1               |
| Brazil                              | 6            | 4            | +2               |
| Germany                             | 10           | 5            | +5               |
| Poland                              | 22           | 6            | +16              |
| Australia                           | 11           | 7            | +4               |
| Mexico                              | 19           | 8            | +11              |
| Canada                              | 14           | 9            | +5               |
| Great Britain                       | 4            | 10           | -6               |
| United Arab Emirates                | 8            | 11           | -3               |
| Vietnam                             | 12           | 12           | 0                |
| France                              | 13           | 13           | 0                |
| Hong Kong                           | 5            | 14           | -9               |
| Other states in the Gulf of Persia* | 17           | 15           | +2               |
| Rumania                             | -            | 16           | N/A              |
| Czech Republic                      | 25           | 17           | -8               |
| Russia                              | 9            | 18           | -9               |
| Saudi Arabia                        | -            | 19           | N/A              |



|           |    |    |     |
|-----------|----|----|-----|
| Indonesia | 21 | 20 | +1  |
| Malaysia  | 16 | 21 | -5  |
| Chile     | -  | 22 | N/A |
| Turkey    | 20 | 23 | -3  |
| Singapore | 7  | 24 | -17 |
| Egypt     | -  | 25 | N/A |

*\*Includes: Bahrain, Kuwait, Oman, Qatar*

*N/A – country ranked first in 2010*

*Source: edited according to: www.atkearney.com*

## 2.2 The Ten

The economic recession 2008-2009 changed the shape and dynamics of world economy. Besides the individuality of Chinese economy and in a certain sense of BRIC countries, a group called “The Ten” is being formed. It is the countries, whose economy should be the new engine of WE. Economic potential of these countries is provided in Table 5. Their nominal GDP was in 2008 \$5.6billion, in the purchasing power parity (PPP) \$8.8billion, which exceed the GDP of Japan and Germany together. The group “The Ten” is the third biggest economic group in the WE after EU and USA. WE thus obtains a new form with five congregations.

Trade type “south-south” is currently the most dynamic part of global economy. This is not only a factor of BRIC country type, Brazil, India and Russia formed only 5.8% of the Chinese trade. The most significant influence of China was on other arising markets. These new arising markets were saved by Chinese economy in 2008 from sharp decline. If we compare inter-year entries about exports in November 2009, Chinese exports to EU fell by 8%, its exports to the USA fell by 1.7%, Chinese exports to the ASEAN countries, however, increased by significant 20.8% and Chinese imports from these countries increased by 45%. The data from this decade, based on current trade trends, indicate that “south-south” trade could overrun the trade among G7 countries, as well as outdo “north-south” trade. Thanks to the increasing population and increased FDI, countries not belonging to G7 shall probably produce more than a half of world GDP in a few years’ time. To compare, currently the G7 economies produce 57% of nominal global GDP. Although G7 countries stay richer than other countries, and it is very probable that they will continue exploiting their original advantage of higher education and technological innovations, their long tradition of western cultural dominance and political influence meets new challenges. New world order due to the recession will probably less predictable, more culturally eclectic and potentially containing some features of chaos. The characteristic feature of “The Ten” growth as a new engine for global economy is the combination of various attributes and characteristics: Brazilian music, Mexican singers, Turkish literature, Argentinean dance, Thai sports, Polish architecture, Saudi calligraphy and Indonesian design will compete with each other on the new large market along with the Hollywood movies, Russian space tourism and Chinese products.

The contributions can be expected in the wider variety as well as possible diversion recently probable conflict between China and Western world.

*Table 5 - The Aggregation of „The Ten“*

|   | <b>GDP nominal*</b>     | <b>2009 estimate</b> | <b>GDP by PPP</b>     |
|---|-------------------------|----------------------|-----------------------|
| European Union  | 18.4                    | 17.8                 | 15.2                  |
| USA   | 14.4                    | 14.0                 | 14.3                  |
| China   | 4.4                     | 4.7                  | 7.9                   |
| BRIC  | 4.5                     | 4.7                  | 7.5                   |
| The Ten   | 5.6                     | 5.9                  | 8.8                   |
| <i>Note: Under ether measurement of GDP, these five groups account for 78 % of global GDP</i> |                         |                      |                       |
| <i>*All sums in USD trillions</i>   |                         |                      |                       |
| <b>The Ten</b>  | <b>2008 GDP nominal</b> | <b>GDP (PPP)</b>     | <b>GDP per capita</b> |
| 1. Mexico*  | 1.10                    | 1.6                  | 14,500 USD            |
| 2. South Korea*   | 0.93                    | 1.4                  | 27,600 USD            |
| 3. Turkey*  | 0.73                    | 0.9                  | 13,100 USD            |
| 4. Poland*  | 0.51                    | 0.7                  | 17,500 USD            |
| 5. Indonesia*   | 0.47                    | 0.9                  | 4,000 USD             |
| 6. Saudi Arabia*  | 0.40                    | 0.6                  | 23,800 USD            |
| 7. Taiwan   | 0.34                    | 0.7                  | 30,900 USD            |
| 8. Iran   | 0.33                    | 0.8                  | 11,000 USD            |
| 9. Argentina*   | 0.33                    | 0.6                  | 14,400 USD            |
| 10. Thailand  | 0.27                    | 0.6                  | 8,200 USD             |
| <b>TOTAL</b>  | <b>5.60</b>             | <b>8.8</b>           | ---                   |

Source: [www.atkearney.com](http://www.atkearney.com)

### 3 CONCLUSION

Based on the analysis of the impacts of recent economic recession on selected centres of global economy, the aim of this paper was to identify the opportunities for business activities, mainly in the area of investments.

The economic recession of 2008-2009 brought significant losses in manufacturing, investments, foreign trade, it lead to a major increase in unemployment and decrease in the standard of living.

Between 2010-2011, the global GDP rise is expected to be above 4%. In the EU and the Eurozone, however, the expected growth rate is to be only about 1-2%.

The primary interest of business environment after economic recession is the security of investments. One of the most respected evaluations in this area is the Index of investor confidence, which is compiled by the consultancy firm A.T. Kearney.

The results of the Index of investor confidence 2010 are the reflections of the economic recession after 2008. Current economic climate is not yet consolidated enough to motivate wide investment flows. There is rather a climate of “suspended investments”, mainly due to the insecurity in financial markets and problems with acquiring credits.

Changes in the positions of individual subjects in the global economy were manifested by creation of the new group of countries, called “The Ten” and which are assumed to be the engine of growing global economy in the growing phase. The countries are: Mexico, South Korea, Turkey, Poland, Indonesia, Saudi Arabia, Taiwan, Iran, Argentina, and Thailand.

## REFERENCES

ECFIN: *Economic Forecast Spring (2010)*, Luxembourg: European Commission, Directorate General ECFIN – Economic and Financial Affairs, European Economy 2/ 2010(b).

Global Market Consultant (2010): Retrieved 15 October 2010, from <http://www.atkearney.com>.

IMF: *World Economic Outlook (2010)*. Washington D.C., International Monetary Fund 2010. ISBN 978-1-58906-915-2.

Kuzmišinová, V. (2009), *Podniky – univerzity – samospráva (regióny)*, Košice: Technická univerzita v Košiciach, Ekonomická fakulta, ISBN 978-80-553-0297-3.

OECD (2010), *OECD Economic Outlook 2010*, No. 87, Paris: OECD, ISBN 978-92-64-08521-3.

---

## ABOUT THE AUTHOR

**Assoc. Prof. Peter Kuzmišin, DrSc.**, Technical University of Kosice, Faculty of Economics, e-mail: [peter.kuzmisin@tuke.sk](mailto:peter.kuzmisin@tuke.sk)