

User name: Feng Helen Liang **Book:** International Business: Competing in the Global Marketplace, 10th Edition **Page:** 369. No part of any book may be reproduced or transmitted by any means without the publisher's prior permission. Use (other than qualified fair use) in violation of the law or Terms of Service is prohibited. Violators will be prosecuted to the full extent of the law.

Critical Thinking and Discussion Questions

1. Why has the global capital market grown so rapidly in recent decades? Do you think this growth will continue throughout the next decade? Why?
2. In 2008–2009, the world economy retrenched in the wake of a global financial crisis. Did the globalization of capital markets contribute to this crisis? If so, what can be done to stop global financial contagion in the future?
3. A firm based in Mexico has found that its growth is restricted by the limited liquidity of the Mexican capital market. List the firm's options for raising money on the global capital market. Discuss the pros and cons of each option, and make a recommendation. How might your recommended options be affected if the Mexican peso depreciates significantly on the foreign exchange markets over the next two years?
4. Happy Company ~~580,348,414~~ ^{For \$2 million} ~~liang~~ debt financing. The funds are needed to finance

working capital, and the firm will repay them with interest in one year. Happy Company's treasurer is considering three options:

- a. Borrowing U.S. dollars from Security Pacific Bank at 8 percent.
- b. Borrowing British pounds from Midland Bank at 14 percent.
- c. Borrowing Japanese yen from Sanwa Bank at 5 percent.

If Happy borrows foreign currency, it will not cover it; that is, it will simply change foreign currency for dollars at today's spot rate and buy the same foreign currency a year later at the spot rate then in effect. Happy Company estimates the pound will depreciate by 5 percent relative to the dollar and the yen will appreciate 3 percent relative to the dollar in the next year. From which bank should Happy Company borrow?

Research Task



globaledge.msu.edu

Global Capital Markets

Use the globalEDGE website (globaledge.msu.edu) to complete the following exercises:

Exercise 1

The top management team of your not-for-profit organization would like to find out more about investing in environmentally responsible companies in Europe. *FTSE* develops various indexes for the global financial markets. A series of indexes, called ESG, cover social, environmental, and good governance standards. One of these is the Environmental Europe 40 Index. Download the index's factsheet for your analysis. Evaluate the top

10 companies, countries, and industries represented in this index. What patterns do you see?

Exercise 2

The *Bureau of Economic Analysis* is an agency of the U.S. Department of Commerce. It lists data about the U.S. economic accounts, including current investment positions and the amount of direct investment by multinational corporations in the United States and abroad. Prepare a brief report regarding the direct investments of other countries in the United States. Include in your report the leading countries in foreign direct investment.

CLOSING CASE

Industrial and Commercial Bank of China

In October 2006, the Industrial and Commercial Bank of China, or ICBC, successfully completed the world's largest ever initial public offering (IPO), raising some \$21 billion. It beat Japan's 1998 IPO of NTT DoCoMo by a wide margin to earn a place in the record books (NTT raised \$18.4 billion in its IPO). The ICBC offering followed the IPOs of a number of other Chinese banks

and corporations in recent years. Indeed, Chinese enterprises have been regularly tapping global capital markets for the past decade, as the Chinese have sought to fortify the balance sheets of the country's largest companies, to improve corporate governance and transparency, and to give China's industry leaders global recognition. Since 2000, Chinese companies have raised more than

User name: Feng Helen Liang **Book:** International Business: Competing in the Global Marketplace, 10th Edition **Page:** 370. No part of any book may be reproduced or transmitted by any means without the publisher's prior permission. Use (other than qualified fair use) in violation of the law or Terms of Service is prohibited. Violators will be prosecuted to the full extent of the law.



A man walks into a branch of the Industrial and Commercial Bank of China.

\$100 billion from the equity markets. About half of that came in 2005 and 2006, largely from the country's biggest banks. Shares sold by Chinese companies are also accounting for a greater share of global equity sales—about 10 percent in 2006 compared to 2.8 percent in 2001, surpassing the total amount raised by companies in the world's then second-largest economy, Japan.

To raise this amount of capital, Chinese corporations have been aggressively courting international investors. In the case of ICBC, it simultaneously listed its IPO shares on the Shanghai stock exchange and the Hong Kong exchange. The rationale for the Hong Kong listing

was that regulations in Hong Kong are in accordance with international standards, while those in Shanghai have some way to go. By listing in Hong Kong, ICBC signaled to potential investors that it would adhere to the strict reporting and governance standards expected of the top global companies.

The ICBC listing attracted considerable interest from foreign investors, who saw it as a way to invest in the Chinese economy. ICBC has a nationwide bank network of more than 18,000 branches, the largest in the nation. It claims 2.5 million corporate customers and 150 million personal accounts. Some 1,000 institutions from across the globe reportedly bid for shares in the IPO. Total orders from these institutions were equivalent to 40 times the amount of stock offered for sale. In other words, the offering was massively oversubscribed. Indeed, the issue generated a total demand of some \$430 billion, almost twice the value of Citi, the world's largest bank by market capitalization. The listing on Hong Kong attracted some \$350 billion in orders from global investors, more than any other offering in Hong Kong's history. The domestic portion of the stock sales, through the Shanghai exchange, attracted some \$80 billion in orders. This massive oversubscription enabled ICBC to raise the issuing price for its shares and reap some \$2 billion more than planned.²⁸

Case Discussion Questions

1. Why did ICBC feel it was necessary to issue equity in markets outside mainland China? What are the advantages of such a move? Can you see any disadvantages?
2. What was the attraction of the ICBC listing to foreign investors? What do you think are the risks for a foreigner associated with investing in ICBC?

Endnotes

1. Susan Lund et al., "Financial Globalization: Retreat or Reset?" McKinsey Global Institute, March 2013; "Blocked Pipes," *The Economist*, October 4, 2008, pp. 73–75; "On Life Support," *The Economist*, October 4, 2008, pp. 77–78; M. Boyle, "The Fed's Commercial Paper Chase," *BusinessWeek Online*, October 8, 2008, p. 5; and M. Gordon, "TARP Bailout Costs to Taxpayers Expected to Be Lower," *Christian Science Monitor*, December 17, 2012.
2. D. Waller, "Daimler in \$250m Singapore Placing," *Financial Times*, May 10, 1994.
3. J. O. Jackson, "The Selling of the Big Pink," *Time*, December 2, 1996, p. 46; S. Ascarelli, "Privatization Is Worrying Deutsche Telekom," *The Wall Street Journal*, February 3, 1995, p. A1; "Plunging into Foreign Markets," *The Economist*, September 17, 1994, pp. 86–87; and A. Raghavan and M. R. Sesit, "Financing Boom: Foreign Firms Raise More and More Money in the U.S. Market," *The Wall Street Journal*, October 5, 1993, p. A1.
4. B. Solnik, "Why Not Diversify Internationally Rather Than Domestically?" *Financial Analysts Journal*, July 1974, p. 17.
5. C. G. Luck and R. Choudhury, "International Equity Diversification for Pension Funds," *Journal of Investing* 5, no. 2 (1996), pp. 43–53.
6. W. N. Goetzmann, L. Li, and K. G. Rouwenhorst, "Long Term Global Market Correlations," *The Journal of Business*, January 2005, pp. 78–126.