



Revenue & Treasury Management Conference

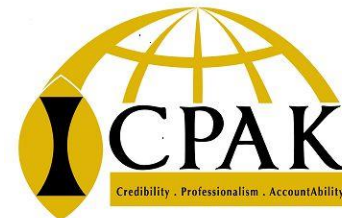
Globalization and Technological Trends: Opportunities & Threats to Corporate & Public Revenues

Presentation by:

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Wednesday, 31st July 2019

Presentation Outline



- ❑ Forms of Globalizations
- ❑ Benefits and Challenges of Globalization – some Facts
- ❑ Globalization –Implications on Revenues
- ❑ Technological Trends –Implications on Revenue
- ❑ Any practical implications for Kenya's Corporate & Public Sector

A teaser!!

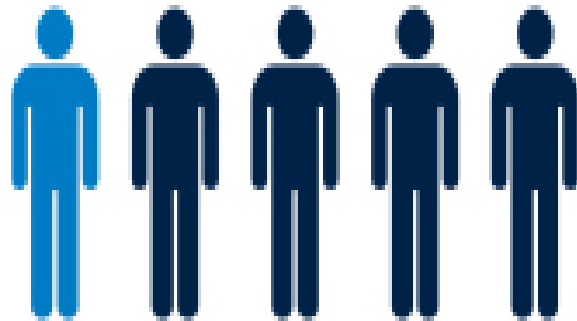


THANK GOODNESS JUNIOR
KNOWS HOW TO FIX
MY LAPTOP!



**Any body who has
never made an
online purchase
in the room?**

Some Facts: UNCTAD World Investment Report 2013



Global supply chains account
for nearly 80% of global trade
and 1 out of 5 jobs¹

40%

of the revenues of firms in the
S&P 500 and 50% of the MSCI
Europe Index are sourced from
outside their home markets²

¹ UNCTAD, World Investment Report 2013: Global Value Chains: Investment and Trade for Development, United Nations Publication, 2013. ILO (2015) World Employment and Social Outlook, ILO, Geneva.

² Gupta, Abhishek, and Subramanian, Madhu, "Economic Exposure in Global Investing: Tilting Portfolios Based on Macroeconomic News," MSCI, October 2014; Silverblatt, Howard, "S&P 500 2016- Global Sales," S&P Dow Jones Indices, July 2017; S&P data.

Main Forms of Globalization



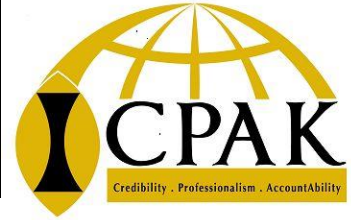
- **Political** – the political co-operation that exists between different countries
- **Social** – sharing of ideas and information between and through different countries
- **Economic** – interconnectedness of economies through trade and exchange of resources

Benefits of Globalization



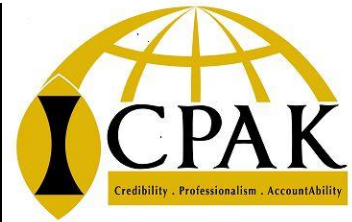
- **Improved Living standard** – World bank estimates that extreme poverty has reduced by 35% since 1990 (about 1.1 billion people moved from below the poverty line; the MDG target of halving extreme poverty of 1990 by 2015 was achieved 5 years earlier in 2010)
- **Increased Creativity & Innovation** – free movement of labour and capital means enhanced exchange of ideas
- **Cost advantages** – inexpensive manufacturing & logistics has increased not only variety goods & services but also at less money to the people of the world
- **Access to foreign culture** – foods, music, movies & art (this are multi-billion dollar industries today)

Challenges of globalization



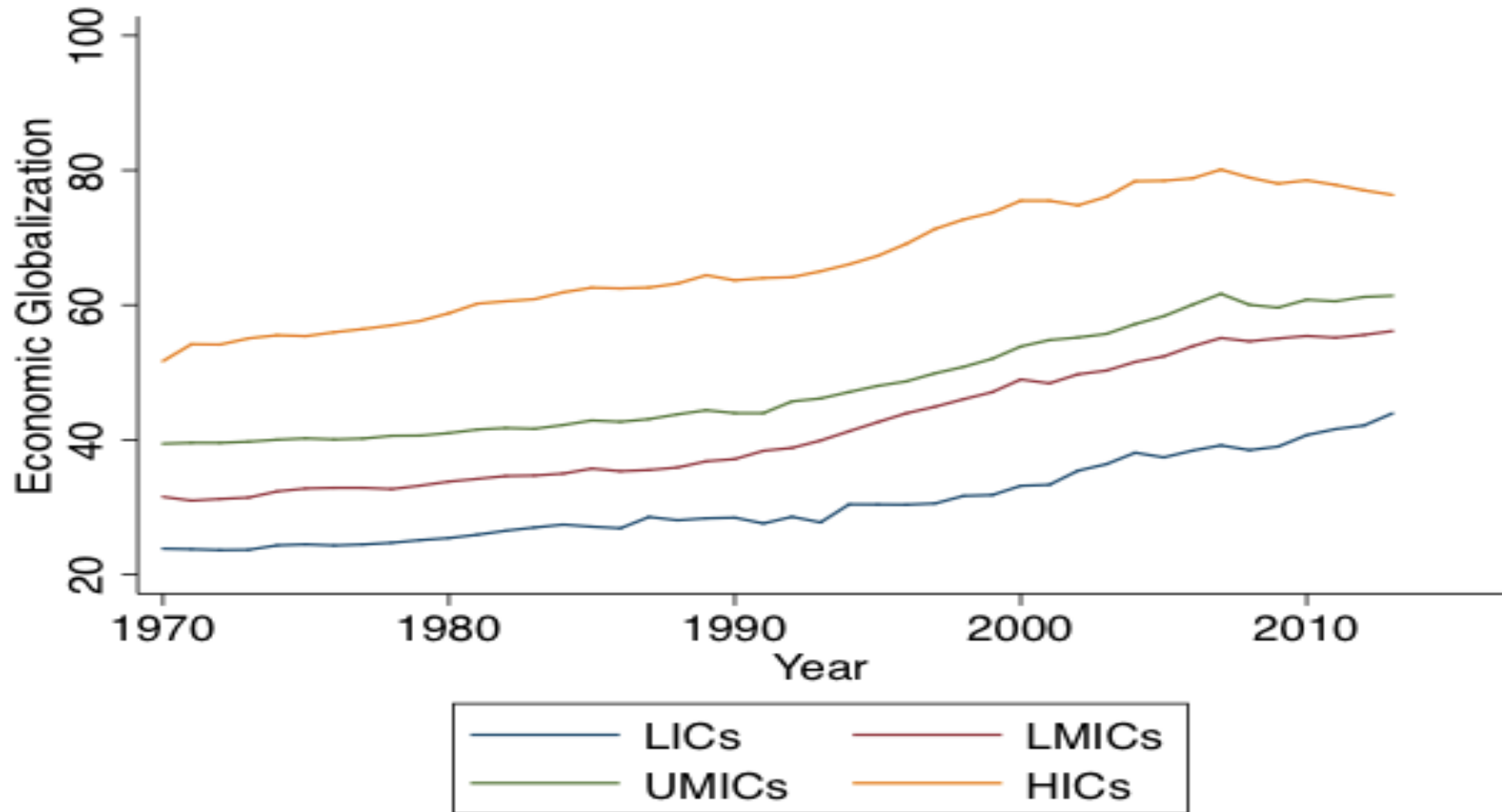
- **Job mobility:**
 - ✓ highly skilled people are shipped from less developed to developed countries;
 - ✓ low-skilled people are strained in developed countries;
 - ✓ Lost taxes due to labour mobility; and
 - ✓ Strain on social welfare systems in developed nations
- **Western dominance** - despite the integration, the developed nations of the west still:
 - ✓ Hold the reign on international order & how capital flows from country to country
 - ✓ Western values are not universal – could have disastrous results e.g. the structural adjustment programme in mid 1990s in Kenya
- **Loss of cultural identity** – means loss of diversity and our distinctive identify; **threat to certain industries like tourism**

Economic Implications of Globalisation: Some empirical evidence



- Increased globalisation since mid 1990s has eroded some tax bases for many economies (Egger, Nigai & Strecker 2016)
- Due to high capital and high skilled workers (able to escape high taxes easily) middle classes have carried much of the additional tax burden (Egger, Nigai & Strecker 2016)
- Globalisation is associated with income convergence across countries and income divergence within countries (Lang & Tavares, 2018)
- Globalisation is affecting income distribution in developed societies (especially in manufacturing) in favour of high skilled workforce (skill premium) (Vox EU, 2015)

Economic Globalisation (source: Dreher 2006, KOF 2016)



Globalisation: Corporate Revenue Implications



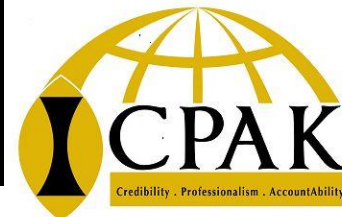
- Globalisation thought as the route to gain competitive advantage over old-style multinationals
- Opens new markets for maturing products in home countries in developing markets (extends life cycle of products)
- Provides a window for better utilization of assets (installed capacity) – economies of scale
- Cost advantages through global purchasing power

Globalisation: Corporate Revenue Implications



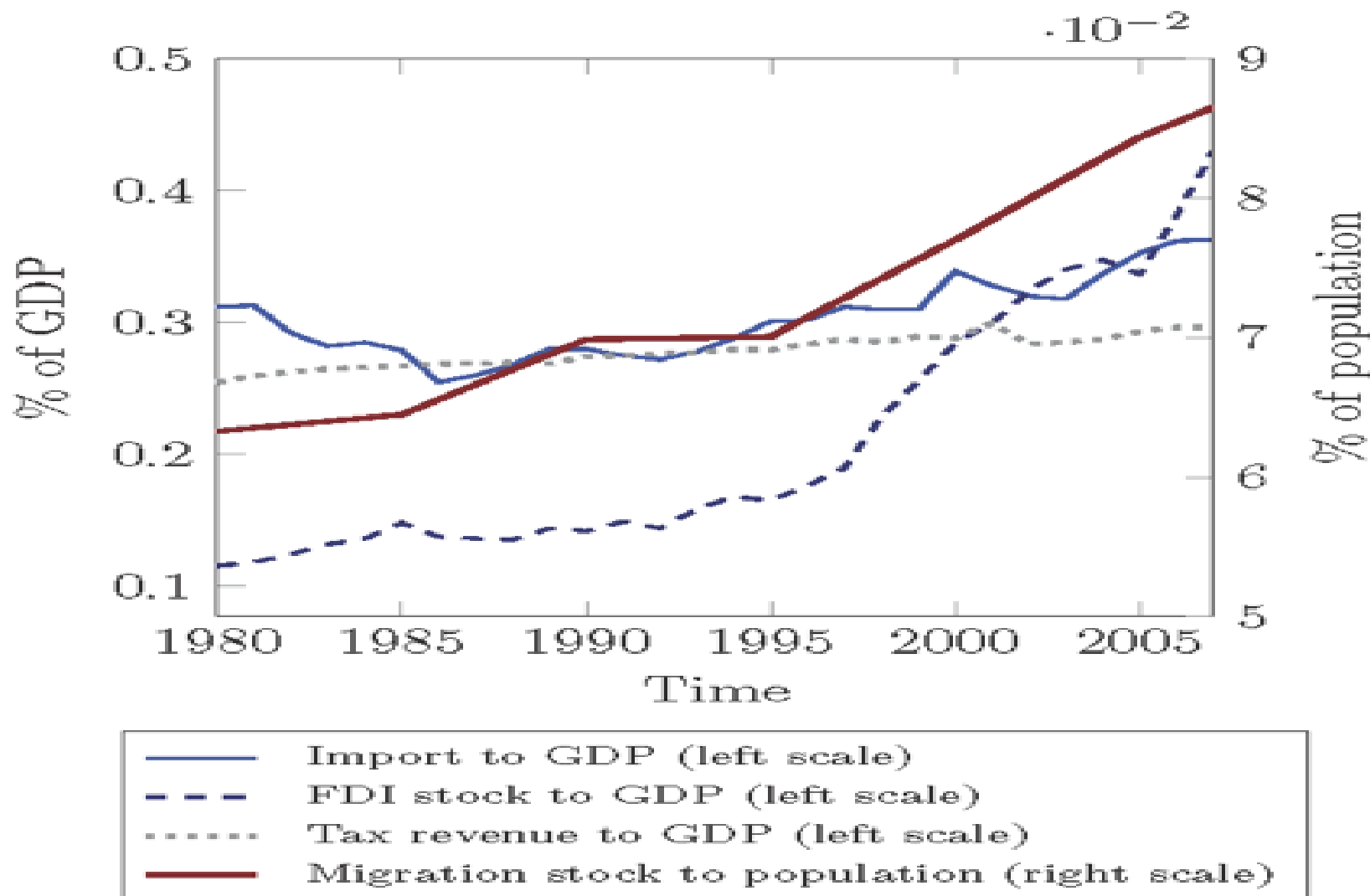
- ❑ But there are emerging complications –costs of globalisation
 - Blurred customer focus – products that appeal to the common denominator alienating key customer segments
 - Globalization gone wrong slows down innovation
 - Sharpens price competition – threatening small enterprises
 - Emergence of corporate “dictatorship” for the new market & world economic order
 - Cost of standardization of products and/or services –**it’s very difficult to get a brand that sounds exciting to many languages and is offensive to none**
 - Conflicts in culture & language can be too costly – E.g. **GM successfully sold Chevy Nova in North America and the Vauxhall Nova in Britain — but, no va means "does not go" in Spanish!!!**

Globalisation: Public Revenue Implications

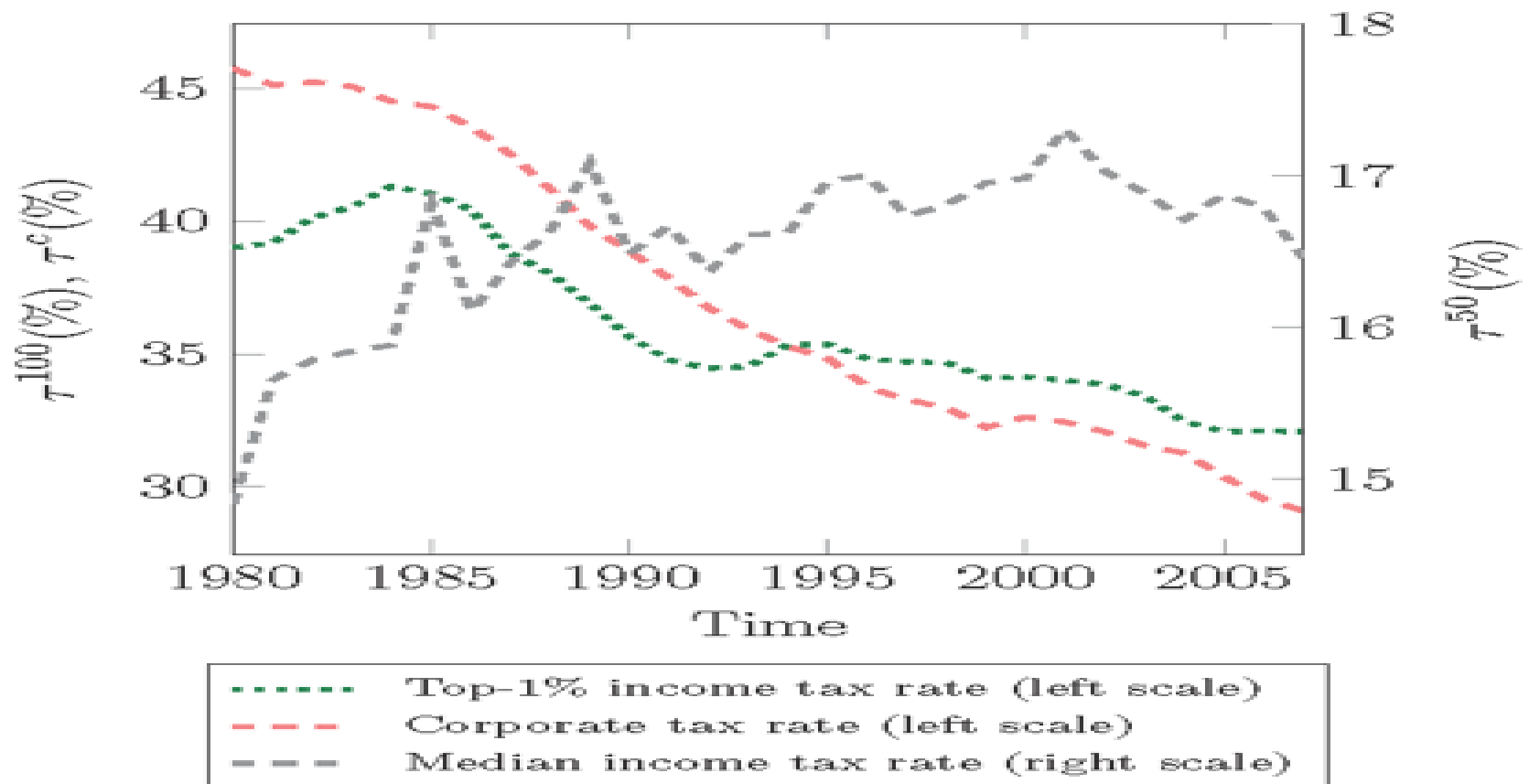


- Erosion of key tax bases, especially corporate taxes (firms shifting profits to branches in tax havens)
- Dilemma of trade-off for Tax incentives to attract international capital vs Tax revenues – **there is overwhelming evidence such incentives don't pay-off!**
- New revenue opportunities – global partnerships to demobilize new sources of capital like pension funds and funds held by fund managers (MDBs/IMF leveraging for countries & private sector to access this new finance)
- New products e.g. Green bonds
- Global partnership to combat illegal flows across borders –could close loopholes for billions siphoned from poor countries
- Technical support from MDBs to restructure tax and other revenue systems – expanding revenue growth for many countries

Openness, FDI, migration and government tax revenues in 65 economies over 1980-2007 (Egger, Nigai & Strecker 2016)



Corporate tax rates and personal labour income tax rates for top 1% and median workers in 65 economies over 1980-2007 (Egger, Nigai & Strecker 2016)



Technological Trends –Revenue Implications



- Emergency of online stores –dismantling traditional business model revenues
- Sales teams that employ the help of technology see an increase in revenue by up to (58%), sales opportunities by (54%), deal sizes (44%) and conversion rates up by (38%) (**IDG Enterprise**)
- The emergence of digital platforms and social media – new frontiers for competition and marketing
- Emergence of new business risk, especially reputational risk
- The threat of virtual currencies – lack “Sovereign Jurisdictional guarantee”
- **NB: Are you surprised that Amazon & Alibaba are some of the world Largest Companies in the world today?**

Some Practical Thoughts –Way forward



- ❑ Globalization should be informed by clear strategic goals/objectives and not a euphoria for the sake of it
- ❑ “Globalization is beneficial to a country only and only if it were clever and sensible in the way to do it” (**Peter Dunne, Former MP, New Zealand**)
- ❑ The question of “whether globalization will stimulate innovation or drive up bureaucracy” must be answered candidly
- ❑ Probably, we may need to re-think our economic, social-cultural and political structures to reap the benefits
- ❑ **As the world rolls over into the 22nd century, the winning bets now lie on the digital & Knowledge edge!!!**

Now---could this be challenges of parents of today and tomorrow???



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"Now think long and hard Samantha. What else exactly did you purchase online with Daddy's credit card details."

And Finally.....

