

UWTSD MBA HKBM7009
(UWMBA-30013-2024-1-SS)

Global Business Challenges (1-1) Introduction to Global Business Challenges

Che Cheong POON
04 January 2025; Saturday 16:00 to 19:00

Before starting the lecture, would each of you please put forward a current global business/economic issue that you concern the most.

The aim of this module is to enhance students' ability to apply theoretical knowledge to solve global business problems and contribute to the organization's global business strategy.

Lecture Agenda :

- The concept of globalization
- The linkage of production, exchange, distribution and consumption: An example
- Current global economic environment
- General characteristics of transnational corporations
- Major challenges in global business environment

The Concept of Globalization

Economic uncertainty is likely to be one of the biggest challenges for companies in 2024. Geopolitical tensions, inflation, fluctuating currencies, and supply chain disruptions can all impact a company's financial performance.

Globalization, in general, refers to the **flow** of goods, services, capital, labour, organizations, and **diffusion** of culture, religions, technologies, languages, and **spread** of pollution, diseases, and illegal activities amongst countries over the world.

Top 10 Countries by Nominal GDP as of Q1 2024 (US\$)

Country	Nominal GDP (in trillions USD)	PPP Adjusted GDP (in trillions USD)	Annual Growth (%)	GDP Per Capita (USD)
United States	28.78	28.78	2.7	85,370
China	18.53	35.29	4.6	13,140
Germany	4.59	5.69	0.2	54,290
Japan	4.11	6.72	0.9	33,140
India	3.94	14.59	6.8	2,730
United Kingdom	3.5	4.03	0.5	51,070
France	3.13	3.99	0.7	47,360
Brazil	2.33	4.27	2.2	11,350
Italy	2.33	3.35	0.7	39,580
Canada	2.24	2.47	1.2	54,870

Sources: <https://www.investopedia.com/insights/worlds-top-economies/>

What does globalization imply?



- Increasing global connectedness through rapid communication and transport.
- Rapid intensification of worldwide social relations.
- Swift and free flow of capital, people, and ideas across national borders.

But what does
globalization
have to do
with me?

Cap from
Bangladesh

Shirt from
Mexico

Backpack
from China

Soccer ball from
Pakistan

Jeans from
Malaysia

Video game
from Japan

Sneakers from
Indonesia



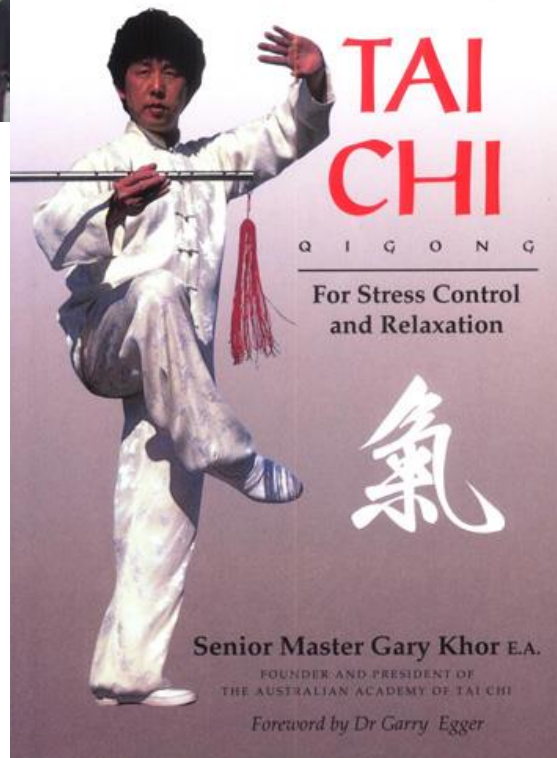
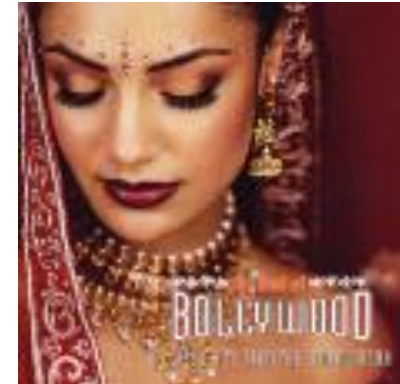
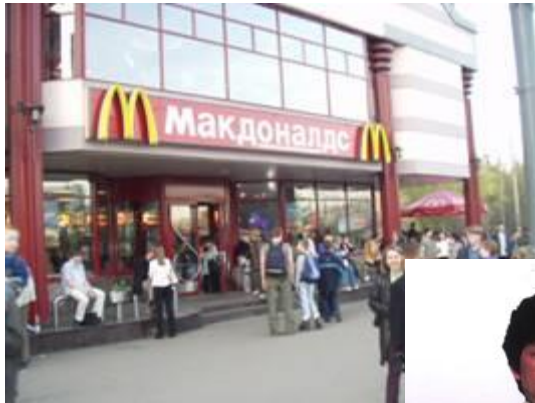
More goods are being produced, bought, and sold worldwide than ever before.



What shall
I buy next?



Globalization also spreads ideas and values.



The Linkage of Production, Exchange, Distribution and Consumption: An example

Four areas of study in Economics

Means

- Production: The creation of value (or utility)
- Exchange: The transfer of property right
- Distribution: The allocation of production output (or income) to the owners of production factors.

End

- Consumption: The destruction of value or utility so as to satisfy human wants ◦

Globalization is simply free international trade.

12 month's total output produced by two countries

	Country A		Country B		Total (MMT)
	Month	MMT	Month	MMT	
Pork	4	320	9	90	410
Rice	8	320	3	90	410
Total (Months)	12	--	12	--	820 24

Their productivities per month

	Country A	Country B
Port (MMT)	$320 \div 4 = 80^*$	$90 \div 9 = 10$
Rice (MMT)	$320 \div 8 = 40^*$	$90 \div 3 = 30$

* More output demonstrating an absolute advantage

Productivity is a measure of the efficiency of a person, machine, factory, system, etc., in converting inputs into useful outputs. It is computed by dividing average output per period by the total costs incurred or resources (capital, energy, material, personnel) consumed in that period. Productivity is a critical determinant of cost efficiency.

The opportunity cost of producing 1 MMT of pork/ Rice

	Country A	Country B
Pork	$\frac{1}{2}$ MMT of rice*	3 MMT of rice
Rice	2 MMT of pork	$\frac{1}{3}$ MMT of pork*

* It shows that the country has a lower opportunity cost in producing the product, and thus Country A has a comparative advantage in producing pork, Country B has a comparative advantage in producing rice.

Opportunity cost is defined as the value of the next-best alternative that must be given up when scarce resources are used for one purpose instead of another.

- Country A's opportunity cost of producing 1 MMT of pork is $\frac{1}{2}$ MMT of rice, Country B's opportunity cost of producing 1 MMT of pork is 3 MMT of rice. Thus, Country A enjoys a comparative advantage in the production of pork; so, it should be specialized in pig raising.
- Country B's opportunity cost of producing 1 MMT of rice is $\frac{1}{3}$ MMT of pork, Country A's opportunity cost of producing 1 MMT of rice is 2 MMT of pork. Thus, Country B enjoys a comparative advantage in the production of rice; so, it should be specialized in planting rice.

Results of 11 months of collaboration in producing pork and rice

	Country A		Country B		Total (MMT)
	Months	MMT	Months	MMT	
Pork	9	720	0	0	720
Rice	2	80	11	330	410
Total (Months)	11	--	11	--	1130 22

Through specialization in production, Country A and Country B each has one month rest in the year, but they can increase production output; assuming the rate of exchange between pork and rice is 1 to 1, rice consumption can maintain their original level, but everyone can eat more pork.

Consumption of pork and rice after exchange

	Country A		Country B		Total (MMT)
	Month	MMT	Month	MMT	
Pork	9	$720 - 240 = 480$	0	$0 + 240 = 240$	720
Rice	2	$80 + 240 = 320$	11	$330 - 240 = 90$	410
Total (Months)	11	--	11	--	1130 22

Current Global Economic Environment

Current Economic Environment

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graph LR; A[Current Economic Environment] --- B[Microeconomic Environment]; A --- C[Macroeconomic Environment]
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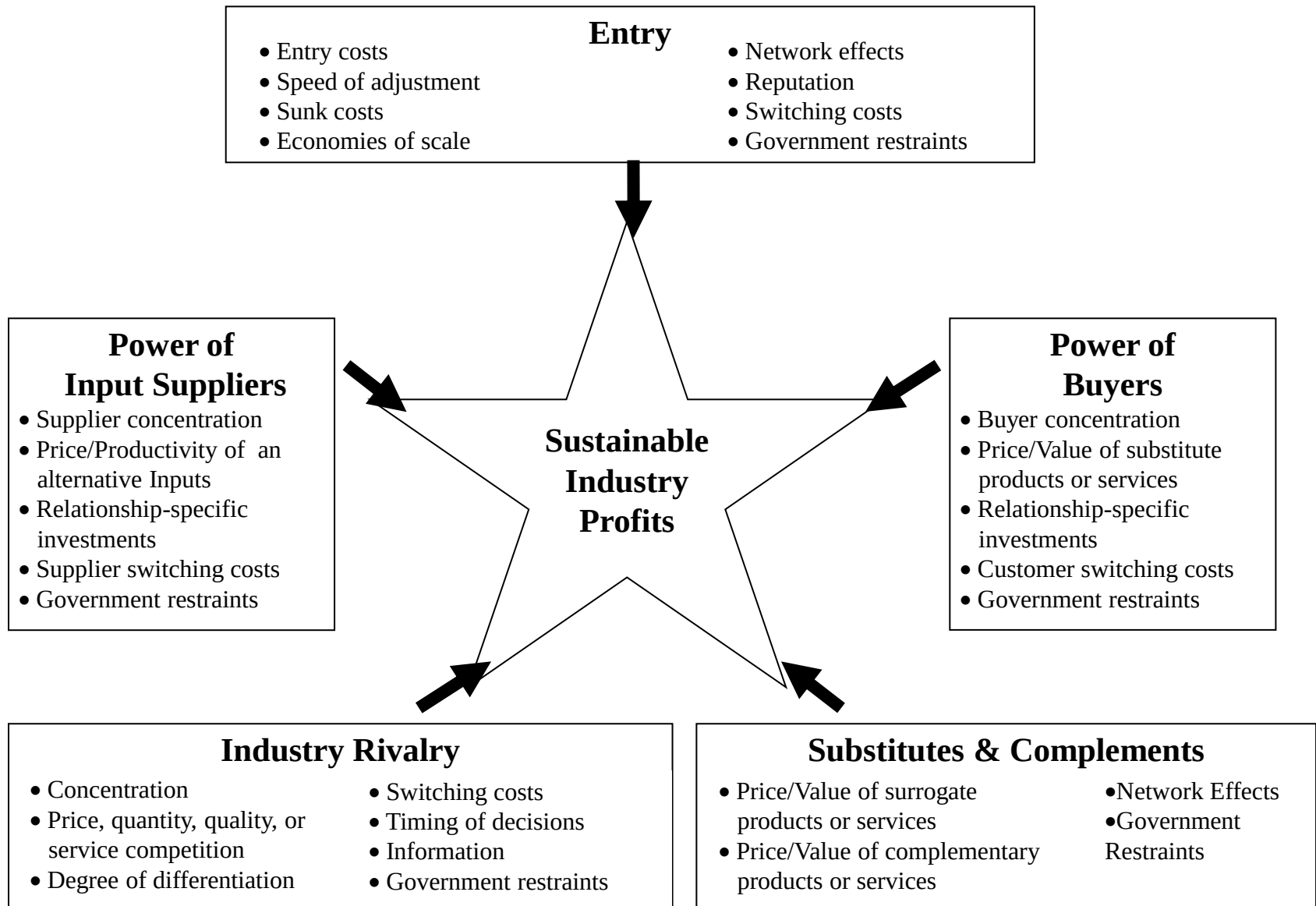
Microeconomic Environment

The study is focus on the determination of product price and quantity in an industry or a firm.

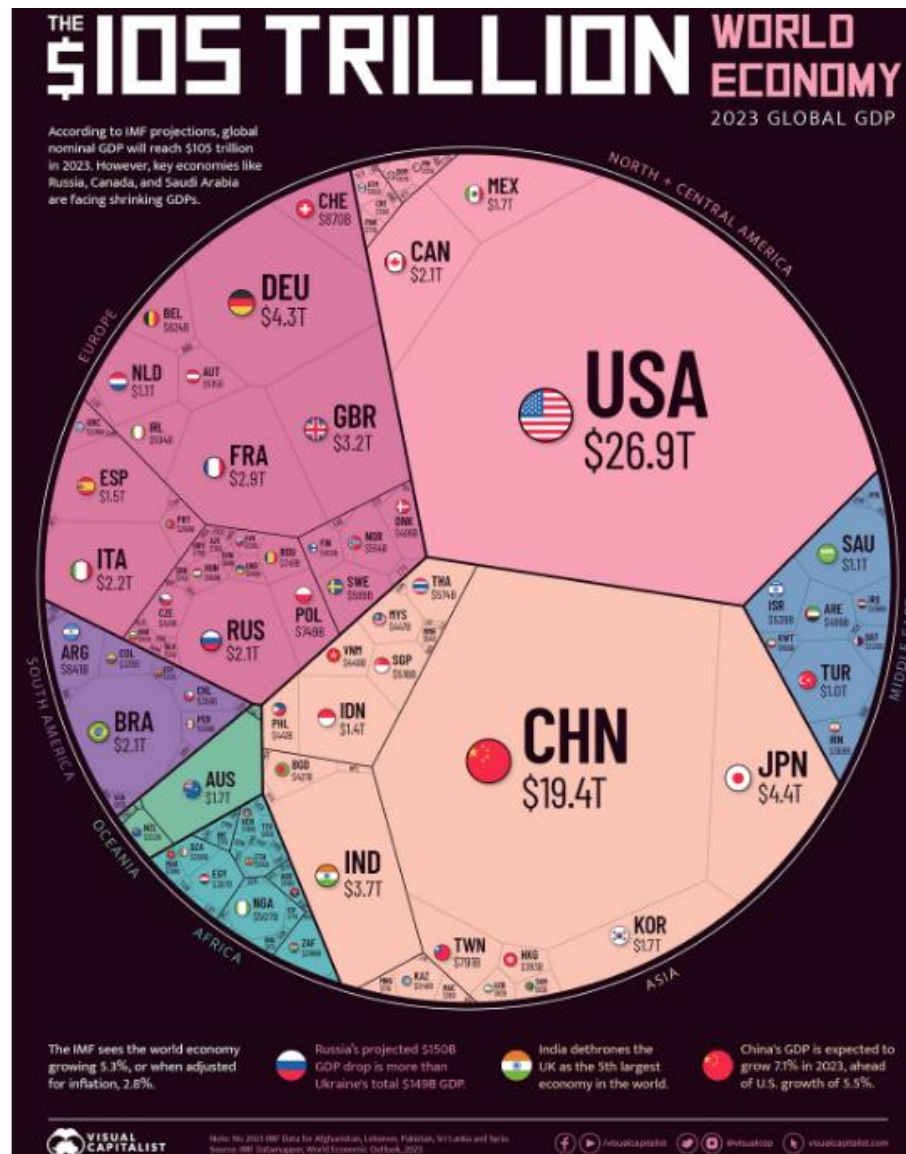
Macroeconomic Environment

The study is focus on the determination of Gross Domestic Product (GDP), employment, and general price level.

Microeconomic Environment: Michael Porter's Five Forces Model



% Share of the Global Economy in 2023



Macroeconomic
Economic Environment

Hong Kong

China

Macau

Taiwan

Global

Hong Kong Macroeconomic Data

- Census and Statistics Dept.

<https://www.censtatd.gov.hk/en/>

- Previous Budgets

<https://www.budget.gov.hk/2023/eng/previous.html>

- Office of the Government Economist

<https://www.oge.gov.hk/>

- Hong Kong Economy Today

<https://www.hkeconomy.gov.hk/>

- The HK Centre for Economic Research

<http://www.hkcer.hku.hk/>

- IMF Country Report

<https://www.imf.org/en/Publications/CR/Issues/2023/05/30/Peoples-Republic-of-China-Hong-Kong-Special-Administrative-Region-2023-Article-IV-533975>

China Macroeconomic Data

- National Bureau of Statistics of China
<http://www.stats.gov.cn/>
- The State Council
<http://www.gov.cn/>
- The National people's Congress
<http://www.npc.gov.cn/npc/index.shtml>
- PBC
<http://www.pbc.gov.cn/>
- IMF Country Report
<https://www.imf.org/en/Countries>
<https://www.imf.org/en/Publications/CR/Issues/2024/08/01/Peoples-Republic-of-China-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-552803>

Macao Macroeconomic Data

- Macao SAR

<https://www.gov.mo/en/>

- Macao Statistics and Census Services

<https://www.gov.mo/en/content/statistics/>

- Macao Monetary Authority (AMCA)

<https://www.amcm.gov.mo/en>

- IMF Country Report

<https://www.imf.org/en/Countries/MAC>

<https://www.imf.org/en/Publications/CR/Issues/2024/05/29/Peoples-Republic-of-China-Macao-Special-Administrative-Region-2024-Article-IV-Consultation-549654>

Taiwan Macroeconomic Data

- P.O.C Government

<https://www.taiwan.gov.tw/>

- National Statistics, Republic of China (Taiwan)

<https://eng.stat.gov.tw/mp.asp?mp=5>

- Central Bank of the Republic of China (Taiwan)

<https://www.cbc.gov.tw/mp2.html>

Global Macroeconomic Data

- The World Bank: Statistical Performance Indicators

<https://www.worldbank.org/en/programs/statistical-performance-indicators>

- International Monetary Fund: IMF DataMapper

[https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/AD
VEC/WEOWORLD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD)

[https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/AD
VEC/WEOWORLD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD)

- Bank For International Settlements

<https://www.bis.org/>

- United Nations Economic and Social Council

<https://www.un.org/ecosoc/en/>

Who controls the new globalized world?
States or Transnational Corporations (TNCs)?

General Characteristics of Transnational Corporations (TNCs)

Economics Theories
Statistical Techniques

Pen holder

Economic, business,
regulatory, cultural,
political, and
ecological
environment

Ink

Information
(related articles,
reports, news,...etc)
and historical data

Nib



Analyze global business challenges

Who use the pen?

The nature of TNCs

- **Transnational corporations** (TNCs) have become important players in world economy because of globalization. These corporations, which have significant influence over international trade and investment, are characterized by the United Nations Conference on Trade and Development (UNCTAD) as parent firms and their overseas affiliates. Originating with economists like Coase and Hymer, transnational corporations (TNCs) operate across national borders and ownership systems, wielding significant economic influence.
- Major **foreign direct investments** (FDIs) are how transnational corporations (TNCs), make their profits and establish their dominance in the global market. They function as separate entities, vertically integrated organizations, and horizontally integrated organizations. Though TNCs unquestionably aid in technological transfer, job creation, and economic growth, they are also criticized for their role in political influence, tax evasion, and labor abuse, especially in developing nations.
- **TNCs have an impact on social environments, trade dynamics, and global politics in addition to economic domains.** Although transnational corporations (TNCs) have the potential to fuel economic growth and technological innovation, their activities frequently raise moral and legal questions, underscoring the complexity of their roles as globalization's catalysts. Understanding the diverse consequences of transnational corporations (TNCs) is crucial for maneuvering through the complex relationship between economic advancement and social welfare, particularly when the world economy keeps changing.



Examples:

McDonald's is an American transnational/multinational fast-food chain serving over 69 million customers daily in over 100 countries in more than 40,000 outlets and generated nearly \$120 billion in global systemwide sales, setting the world record for being the World's Largest Fast Food Restaurant Chain (by number of locations).

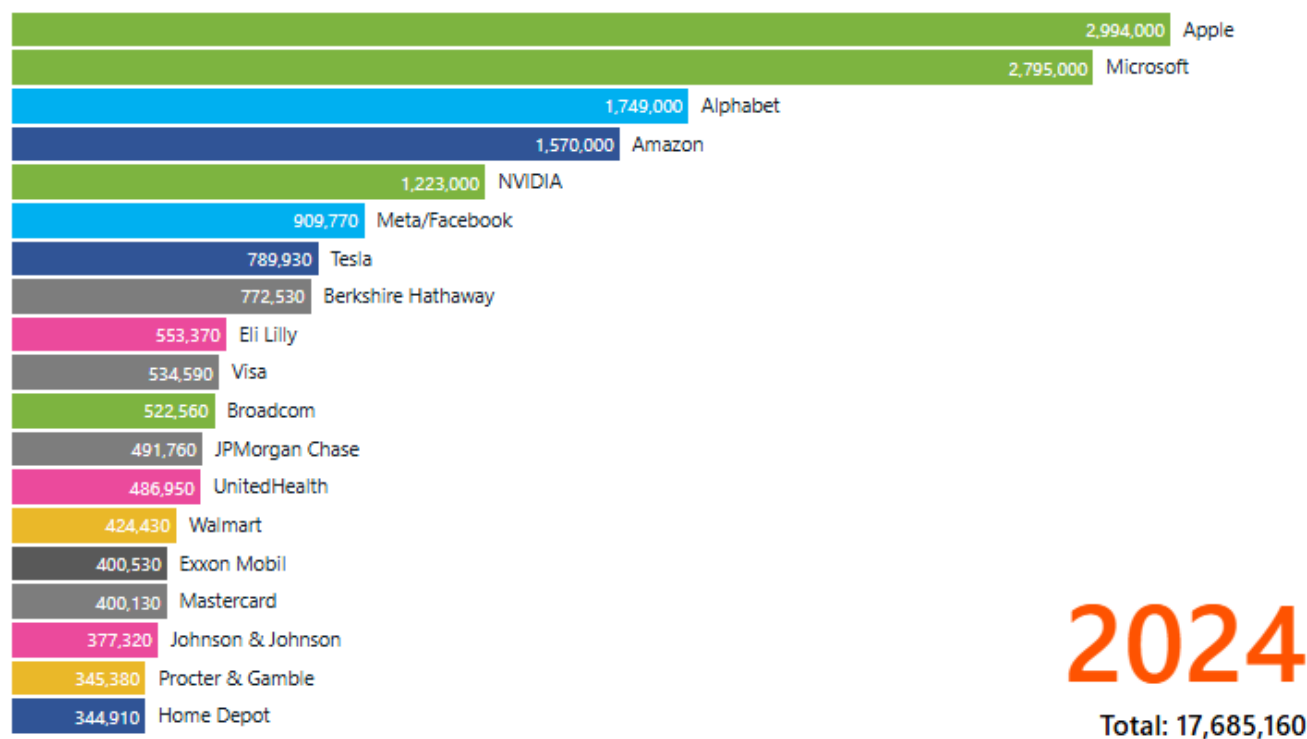
Apple is an American transnational /multinational corporation that designs and sells consumer electronics such as iPads and smartphones, with unique computer software. It is the largest technology company by revenue, with US\$391.04 billion in FY 2024.

Top 20 S&P 500 Companies by Market Cap (1990 – 2024)

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2020	2021	2022	2023	2024					

Top 20 S&P 500 companies by market cap in 2024

(as of 1/1/2024, in millions USD)



Source: own data compilation from Ycharts.com, Wikipedia.org, Fortune.com and CNN.com.

TNCs by Market Cap in Billion USD

2014		2015		2016	
Apple	500,74	Apple	643,12	Apple	583,61
Exxon Mobil	438,7	Exxon Mobil	388,38	Alphabet	534,76
Alphabet	376,01	Microsoft	381,73	Microsoft	439,68
Microsoft	310,5	Berkshire Hathaway	370,02	Berkshire Hathaway	325,49
Berkshire Hathaway	292,36	Alphabet	361,44	Exxon Mobil	323,96
Johnson & Johnson	258,34	Johnson & Johnson	291,04	Amazon	318,34
Walmart	254,62	Wells Fargo	283,44	Meta/Facebook	296,61
Chevron	239,03	Walmart	276,81	Johnson & Johnson	284,22
Wells Fargo	238,68	Procter & Gamble	245,99	Wells Fargo	276,81
Procter and Gamble	220,74	JPMorgan Chase	232,47	JPMorgan Chase	241,9

2022		2023		2024	
Apple	2,902.00	Apple	2,067,000	Apple	2,994,000
Microsoft	2,522.00	Microsoft	1,788,000	Microsoft	2,795,000
Alphabet	1,918.00	Alphabet	1,142,000	Alphabet	1,749,000
Amazon	1,697.00	Amazon	856,94	Amazon	1,570,000
Tesla	1,092.00	Berkshire Hathaway	678,72	NVIDIA	1,223,000
Meta/Facebook	921.94	UnitedHealth	495,37	Meta/Facebook	909,77
NVIDIA	735.28	Johnson & Johnson	461,85	Tesla	789,93
Berkshire Hathaway	662.63	Exxon Mobil	454,25	Berkshire Hathaway	772,53
UnitedHealth	472.51	Visa	439,96	Eli Lilly	553,37
JPMorgan Chase	466.21	JPMorgan Chase	393,34	Visa	534,59

Market Capitalization vs. Market Value

Market value and market capitalization are two frequently used – and usually confused – terms when discussing the profitability and viability of companies.

Market Capitalization

Market capitalization, or market cap, is a simple indicator based on stock price. A company's market capitalization is calculated by multiplying the number of shares outstanding by the current price per share. For example, a company with 50 million outstanding shares and a share price of \$100 per share would have a market capitalization of \$5 billion. Market capitalization is essentially a synonym for the market value of equity.

Market Value

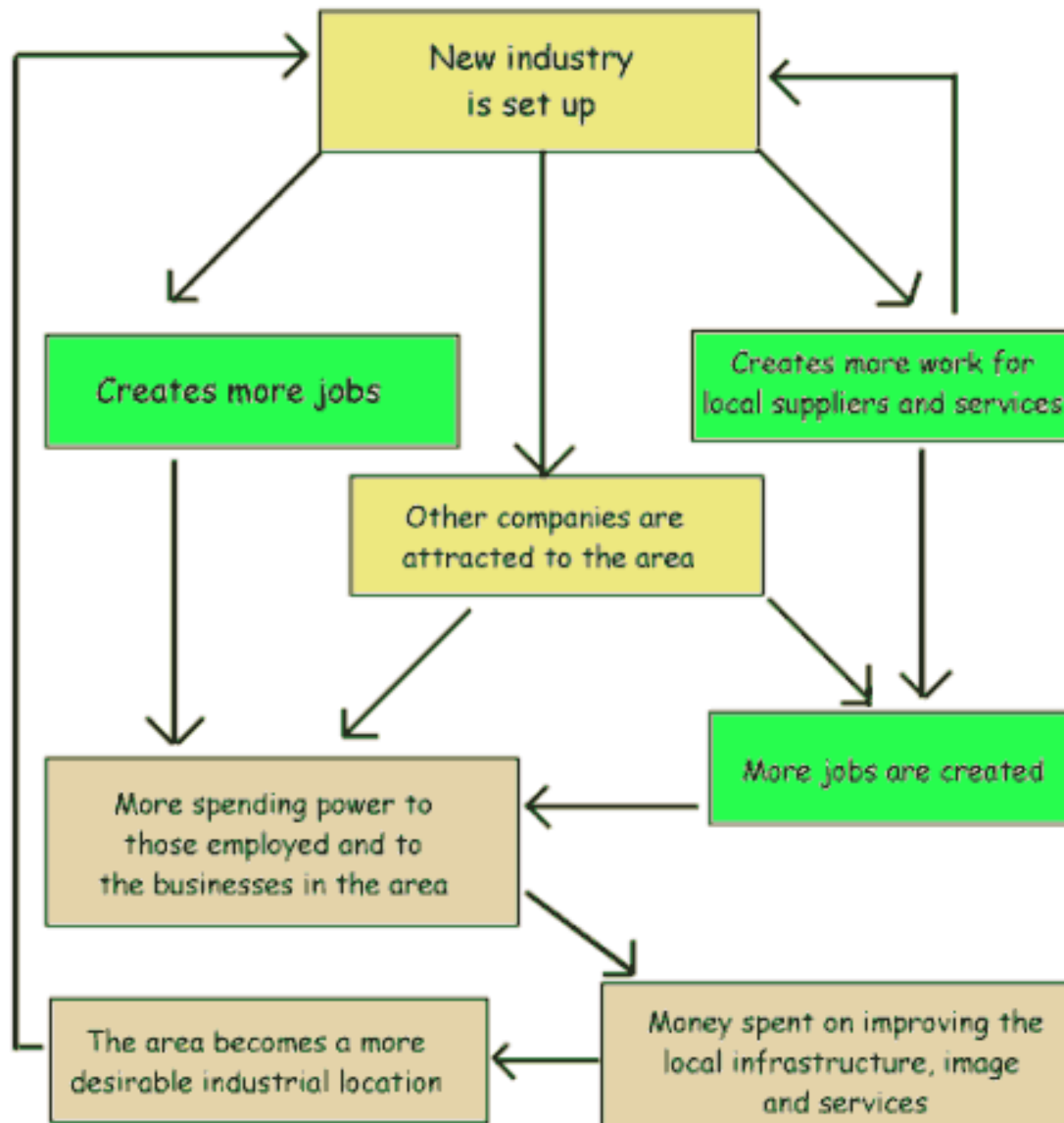
While market cap is often referred to as the value of a company, or what a company is worth, determining the true market value of a company is much more complicated. It is determined by the valuations or multiples that investors attribute to companies, such as price to sales, price to earnings, enterprise value to EBITDA, etc. These various metrics take into account several factors in addition to shareholder equity, such as outstanding bonds, long-term growth potential, company debt, taxes, and interest payments. The higher the valuation, the higher the market value.



TNCs and LEDCs

- TNCs have a very powerful influence on LEDCs and their economies.
- In many cases they control most of, if not all, activities involved with a product from producing the raw material to processing, packaging, transportation, advertising, and sales.
- They provide LEDCs with the necessary investment and the provision of skills and technology.
- However, they may decide to switch production from one country to another. (the decision are made outside the related LEDCs at the TNC HQ).

Advantages of TNCs



Disadvantages

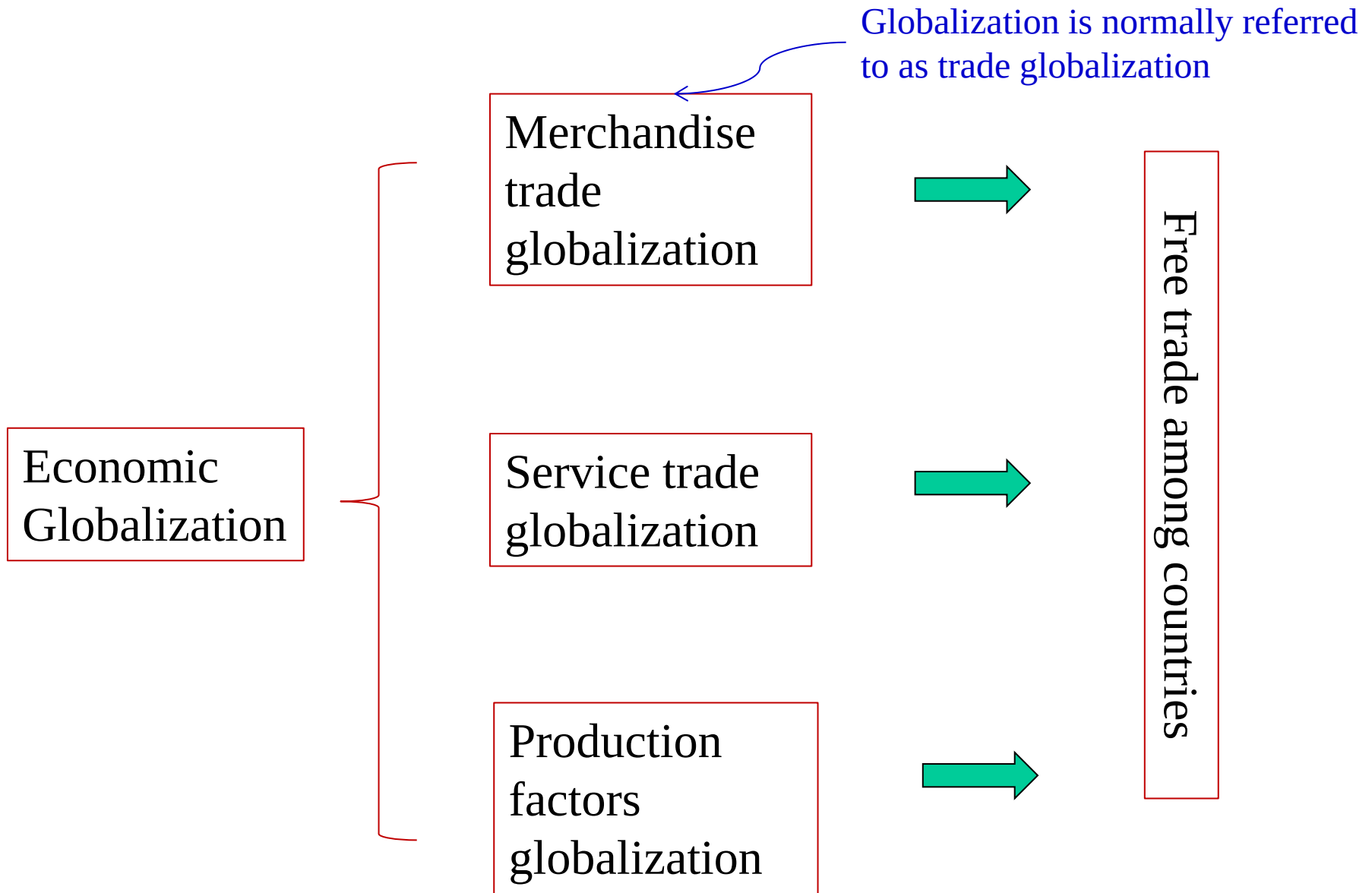
- Damage to the environment by ignoring the local laws of the host country.
- Profits going to companies overseas rather than locals.
- Little reinvestment in the local area.
- Markets appear to be homogenizing.
- Sweatshops

Like my new shirt?

Yeah! Those abused
Indonesian kids working
for slave wages in sweatshops
did a DAMN fine job!



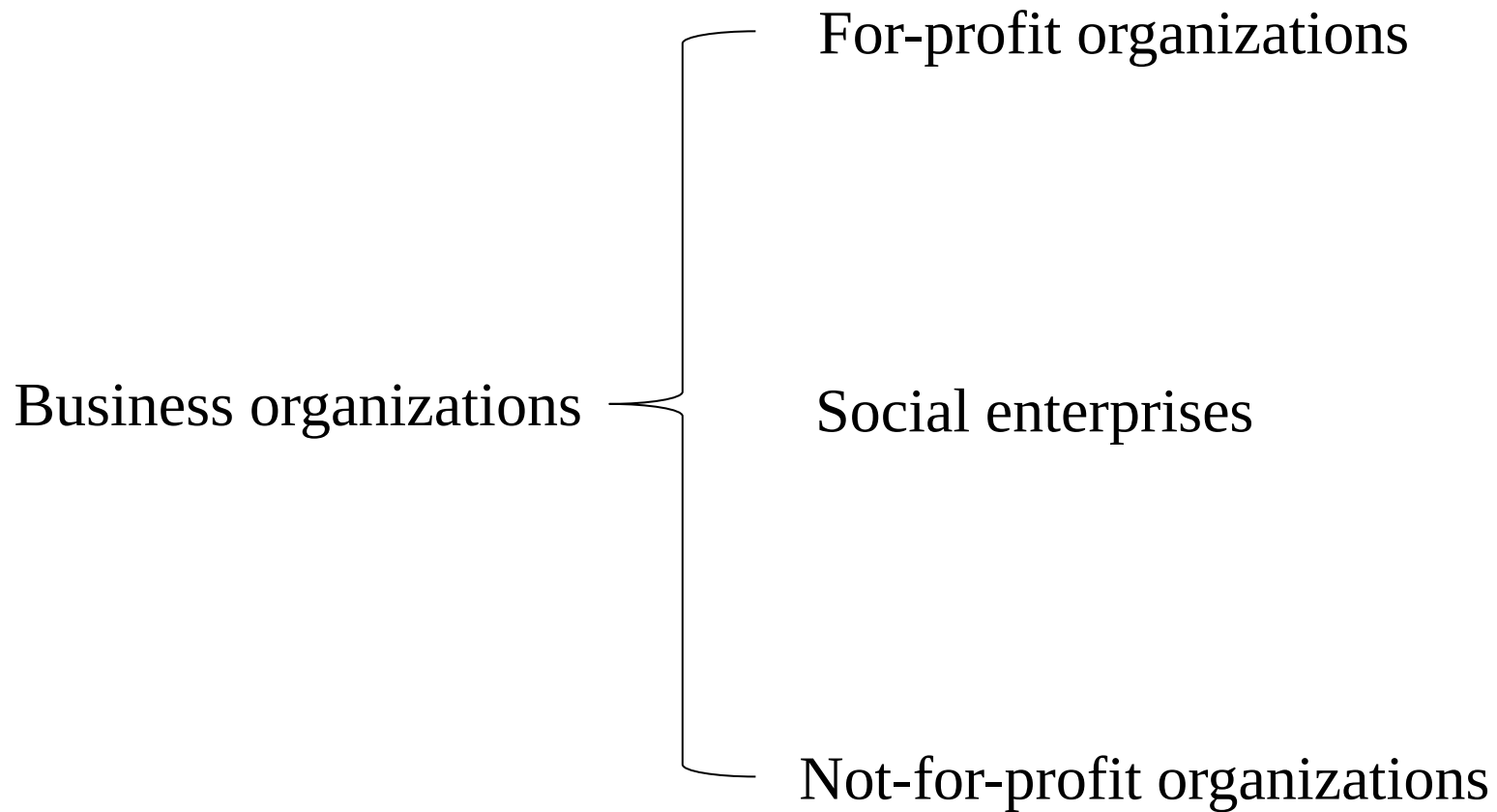
Major Challenges in Global Business Environment



The process of globalization can be captured by the world balance-of-payments.

The contents of globalization

	Multilayered environment	Multidimensional environment	Role of the state	Emerging economies	Changing societies	Globalization of Industries	International risks	CSR and sustainability
1 Introduction	✓	✓		✓			✓	✓
2 Globalization	✓			✓	✓	✓		
3 Economies and markets	✓	✓	✓	✓				
4 Trade and global competition	✓		✓	✓				
5 Strategies in a globalized world			✓	✓		✓	✓	
6 Cultural and social environment	✓	✓		✓	✓			
7 Political environment	✓	✓	✓				✓	
8 Legal environment	✓		✓				✓	✓
9 Financial markets	✓		✓			✓	✓	✓
10 Technology and innovation	✓	✓	✓	✓		✓		
11 Ecology and climate change	✓		✓	✓	✓			✓
12 Ethics and CSR	✓				✓	✓		✓
13 Critical themes in perspective	✓	✓	✓	✓	✓	✓	✓	✓





1. Company's structure

The structure of the company may pose a challenge to your business if its working structure is not pre-decided. There should be a qualified team if the company wishes to be globally competitive, for which it would consider the organization structure and location from where the team operates.

2. Foreign Laws

Not having clear understanding of the foreign laws poses a challenge for international businesses. Therefore, gain a comprehensive understanding of laws and regulations. There have been instances where businesses had to face the heat due to the lack of understanding of foreign laws. It's a major challenge that needs to be attended.

Accounting

It is a critical concept when it comes to multinational business liable to pay corporate tax in the countries they operate. Various tax implications, tax rates and compliance requirements make accounting a challenge in international operation.

Liability to pay taxes

A company is liable to pay taxes in the country of its operations. Paying multiple taxes proves to be a challenge for companies with double taxation even reducing their overall revenue. Tax liabilities pose a challenge to companies because of lack of understanding of tax concepts like tax treaties between countries etc. Companies should get advice and knowledge in tax concepts which can help the company.

Payment methods

Payment methods become one of the most terrain challenges in international business environment. This is because payment methods applicable in the home country may not be acceptable abroad. Therefore, it becomes a challenge for any business as payment is the key of running business. However, to tackle this, businesses may decide to keep different methods of accepting payment.

Fluctuation in currency rates

Fluctuation in currency rates is one of the challenges in international business environment that should be considered by the business operating overseas. Major volatility can affect the expense and profits.

Cultural Differences

Communication is an efficient skill for businesses, whether operating in the home country or overseas. However, differences in cultures and languages across countries constitute a significant challenge. Considering that effective communication is critical for international business success, companies look to adopt means to bridge cultural differences.

Political risk and Terrorism

International businesses have to deal with cases of political instability, and uncertainties as political risk is a major challenge and threat. Regulations and policies that are not pro-business can adversely affect the working of a business.

Terrorism has also been another massive issue that needs to be tended as global trade is not easy with terrorism.

Thank you
for your attention !