

UWTSD MBA (2020 intake)  
Global Business Challenges  
(HKBM7009\_HKMA)  
(6-1)

# Challenges and Resolutions

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7 February 2021; 10:00 am to 1:00 pm

# Lecture Agenda :

- Revisit globalization
- Corporate social responsibility in a global economy
- Business environment of selected emerging economies in Asian host FDI
- Regional integration and international strategies of TNCs
- Overcoming five top challenges of international expansion

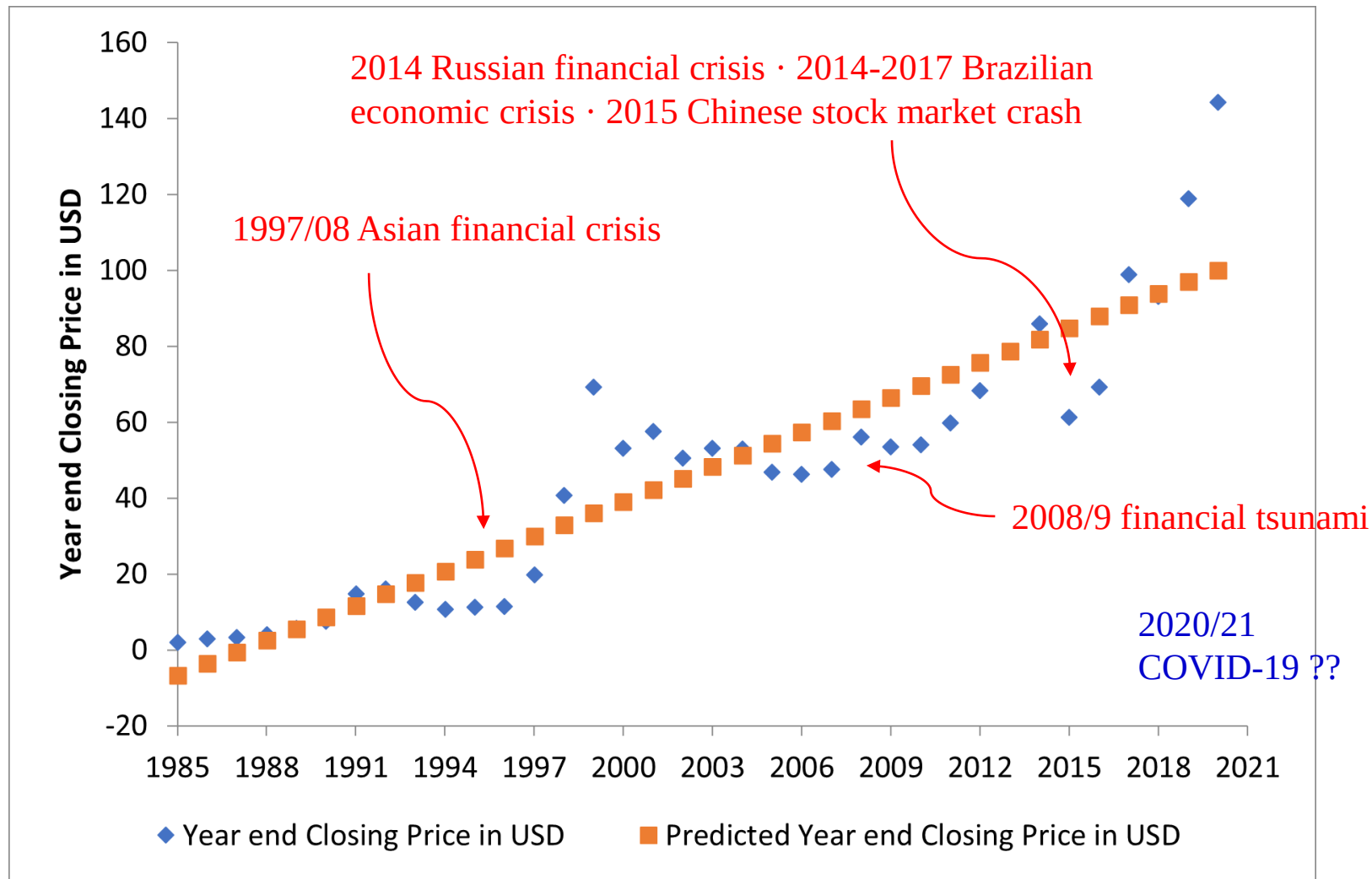
A case study on  
one of the largest non-financial  
transnational corporations:  
Walmart Inc. (WMT)

# Company profile (2020)

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Walmart Inc.<br/> Founded in 1945<br/> Headquarters:<br/> 702 SW 8th Street<br/> Bentonville, AR 72716<br/> United States<br/> 479-273-4000</p> <p>Business segments:<br/> Walmart U.S.<br/> Walmart International*<br/> Sam's Club<br/> Global eCommerce</p> <p><a href="http://www.stock.walmart.com">http://www.stock.walmart.com</a><br/> <a href="https://www.walmart.com/">https://www.walmart.com/</a><br/> <a href="https://www.samsclub.com/?pid=WalmartStores">https://www.samsclub.com/?pid=WalmartStores</a><br/> <a href="https://corporate.walmart.com/">https://corporate.walmart.com/</a></p> | <p>Sector(s): Consumer Staples<br/> Industry: Discount Stores<br/> Listing at: NYSE: WMT<br/> DJIA component<br/> S&amp;P 100 component<br/> S&amp;P 500 component</p> <p>Total assets: US\$236.49 billion<br/> Net income: Increase US\$14.88 billion<br/> Total equity: US\$74.66 billion<br/> Full Time Employees: 2,200,000<br/> Market niche: Low prices and a wide variety of items</p> <p>Global Responsibility: opportunity, sustainability, community and diversity, equity and inclusion.</p> <p>Fiscal Year: 01/31</p> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

\* It operates approximately 11,510 stores and various e-commerce Websites under the 56 banners in 27 countries, including Argentina, Central America, Chile, Mexico, Canada, United Kingdom, Africa, China, Japan, and India

# Time plots of WMT stock prices movement\_1985 to 2020



# Dividends

## **Dividends Payable Per Share**

For fiscal 2021, dividends will be paid based on the following schedule:

|                   |        |
|-------------------|--------|
| April 6, 2020     | \$0.54 |
| June 1, 2020      | 0.54   |
| September 8, 2020 | 0.54   |
| January 4, 2021   | 0.54   |

## **Dividends Paid Per Share**

For fiscal 2020, dividends were paid based on the following schedule:

|                   |        |
|-------------------|--------|
| April 1, 2019     | \$0.53 |
| June 3, 2019      | 0.53   |
| September 3, 2019 | 0.53   |
| January 2, 2020   | 0.53   |

## **Dividends Paid Per Share**

For fiscal 2019, dividends were paid based on the following schedule:

|                   |        |
|-------------------|--------|
| April 2, 2018     | \$0.52 |
| June 4, 2018      | 0.52   |
| September 4, 2018 | 0.52   |
| January 2, 2019   | 0.52   |

# Business scope

- It operates [supercenters](#), supermarkets, hypermarkets, warehouse clubs, cash and carry stores, discount stores, drugstores, and convenience stores; membership-only warehouse clubs; [ecommerce websites](#) (such as walmart.com, walmart.com.mx, asda.com, walmart.ca, flipkart.com, and samsclub.com; and mobile commerce applications).
- The company offers [grocery products](#), including meat, produce, natural and organics, deli and bakery, dairy, frozen foods, alcoholic and nonalcoholic beverages, and floral and dry grocery, as well as consumables (such as health and beauty aids, baby products, household chemicals, paper goods, and pet supplies, and health and wellness products).
- It also provides [electronics](#), cameras and supplies, photo processing services, wireless, movies, music, video games, and books; stationery, automotive, hardware and paint, sporting goods, and outdoor living and horticulture; apparel for women, girls, men, boys, and infants, as well as shoes, [jewelry](#), and accessories; and home furnishings, housewares and small appliances, bedding, home decor, toys, fabrics, crafts, and seasonal merchandise, as well as brand name merchandise.
- In addition, the company offers [fuel and financial services](#) and related products, including money orders, prepaid cards, money transfers, check cashing, and bill payment.

# Fiscal year 2021 13-week comparable store sales

| Walmart U.S. |                      |                          | Sam's Club |                      |                          | Total United States <sup>(2)</sup> |                      |                          |
|--------------|----------------------|--------------------------|------------|----------------------|--------------------------|------------------------------------|----------------------|--------------------------|
| Total        | Impact of Fuel Sales | Total without Fuel Sales | Total      | Impact of Fuel Sales | Total without Fuel Sales | Total                              | Impact of Fuel Sales | Total without Fuel Sales |
| 9.9%         | -0.1%                | 10.0%                    | 8.5%       | -3.5%                | 12.0%                    | 9.7%                               | -0.6%                | 10.3%                    |
| 9.1%         | -0.2%                | 9.3%                     | 8.7%       | -4.6%                | 13.3%                    | 9.0%                               | -0.9%                | 9.9%                     |
| 6.3%         | -0.1%                | 6.4%                     | 7.9%       | -3.2%                | 11.1%                    | 6.6%                               | -0.5%                | 7.1%                     |
| 8.4%         | -0.2%                | 8.6%                     | 8.4%       | -3.8%                | 12.2%                    | 8.4%                               | -0.7%                | 9.1%                     |

(1) Includes the sales from Walmart U.S. and Sam's Club stores and clubs open for the previous twelve months, including remodels, relocations and expansions, as well as sales from walmart.com, samsclub.com and other websites in our family of brands that we have owned for more than one year. Stores and clubs that change format are excluded from comparable sales when the conversion is accompanied by a relocation or expansion that results in a change in square footage of more than five percent.

(2) United States and Puerto Rico

## Net sales (millions USD)

| Walmart U.S. net sales by merchandise category | 2020             | 2019            |
|------------------------------------------------|------------------|-----------------|
| Grocery                                        | 190,550 ( 55.88) | 184,202 (55.54) |
| General merchandise                            | 109,600 (32.14)  | 108,739 (32.79) |
| Health and wellness                            | 37,507 (11)      | 35,788 (10.79)  |
| Other categories                               | 3,347 (0.98)     | 2,937 (0.89)    |
| Total                                          | 341,004 (100)    | 331,666 (100)   |

Note: Figures the parentheses indicate percentages to total.

Source: Walmart 2020 Annual Report

Of Walmart U.S.'s total net sales, approximately \$21.5 billion and \$15.7 billion related to eCommerce for fiscal 2020 and fiscal 2019, respectively.

| Walmart International net sales<br>by market | 2020           | 2019           |
|----------------------------------------------|----------------|----------------|
| Mexico and Central America                   | 33,350 (27.76) | 31,790 (26.31) |
| United Kingdom 30,547                        | 29,243 (34.34) | 30,547 (25.28) |
| Canada                                       | 18,420 (15.33) | 18,613 (15.41) |
| China                                        | 10,671 (8.88)  | 10,702 (8.86)  |
| Other                                        | 28,446 (23.68) | 29,172 (24.14) |
| Total                                        | 120,130 (100)  | 120,824 (100)  |

Note: Figures the parentheses indicate percentages to total.

Of International's total net sales, approximately \$11.8 billion and \$6.7 billion related to eCommerce for fiscal 2020 and fiscal 2019, respectively.

| Sam's Club net sales<br>by merchandise category | 2020           | 2019           |
|-------------------------------------------------|----------------|----------------|
| Grocery and consumables                         | 35,328 (60)    | 33,708 (58.28) |
| Fuel, tobacco and other categories              | 11,296 (19.21) | 12,110 (20.94) |
| Home and apparel                                | 5,478 (9.32)   | 5,452 (9.43)   |
| Health and wellness                             | 3,371 (5.73)   | 3,181 (5.5)    |
| Technology, office and entertainment            | 3,319 (5.66)   | 3,388 (5.8)    |
| Total                                           | 58,792 ( 100)  | 57,839 (100)   |

Note: Figures the parentheses indicate percentages to total.

Of Sam's Club's total net sales, approximately \$3.6 billion and \$2.7 billion related to eCommerce for fiscal 2020 and fiscal 2019, respectively.

# Business challenges

## (1) Strategic Risks

- Macro-economic factors, both domestically and internationally, may materially adversely affect our financial performance.
- The company faces strong competition from other retailers and wholesale club operators which could materially adversely affect our financial performance.
- If the company does not timely identify or effectively respond to consumer trends or preferences, it could negatively its relationship with our customers, demand for the products and services, market share, and the growth of the business.
- Failure to successfully execute the company's omni-channel strategy and the cost of our investments in eCommerce and technology may materially adversely affect our market position, net sales and financial performance.
- The performance of strategic alliances and other business relationships to support the expansion of our business could materially adversely affect our financial performance.

## (2) Operational Risks

- Natural disasters, changes in climate, and geo-political events and catastrophic events could materially adversely affect our financial performance.
- Risks associated with our suppliers could materially adversely affect our financial performance.
- If the products the company sells are not safe or otherwise fail to meet our customers' expectations, we could lose customers, incur liability for any injuries suffered by customers using or consuming a product we sell or otherwise experience a material impact to our brand, reputation and financial performance. We are also subject to reputational and other risks related to third-party sales on our digital platforms.
- The company relies extensively on information systems to process transactions, summarize results and manage our business. Disruptions in our systems could harm our ability to conduct our operations.

- If the technology-based systems that give the customers the ability to shop with the company online do not function effectively, our operating results, as well as our ability to grow our omni-channel business globally, could be materially adversely affected.
- Any failure to maintain the security of the information relating to our company, customers, members, associates and vendors, whether as a result of cybersecurity attacks on our information systems or otherwise, could damage the company's reputation, result in litigation or other legal actions against us, cause us to incur substantial additional costs, and materially adversely affect our business and operating results.
- Changes in the results of our retail pharmacy business could adversely affect our overall results of operations, cash flows and liquidity.
- The company's failure to attract and retain qualified associates, increases in wage and benefit costs, changes in laws and other labor issues could materially adversely affect our financial performance.

### (3) Financial Risks

- Fluctuations in foreign exchange rates may materially adversely affect the company's financial performance and its reported results of operations.
- Failure to meet market expectations for its financial performance could adversely affect the market price and volatility of its stock.

#### (4) Legal, Tax, Regulatory, Compliance, Reputational and Other Risks

- The company's international operations subject us to legislative, judicial, accounting, legal, regulatory, tax, political and economic risks and conditions specific to the countries or regions in which it operates, which could materially adversely affect its business or financial performance.
- Changes in tax and trade laws and regulations could materially adversely affect its financial performance.
- Changes in and/or failure to comply with other laws and regulations specific to the environments in which the company operates could materially adversely affect its reputation, market position, or its business and financial performance.
- The company is subject to certain legal proceedings that may materially adversely affect its results of operations, financial condition and liquidity.
- The company amended and restated bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our shareholders, which could limit its shareholders' ability to obtain a favorable judicial forum for disputes with the company or its directors, officers, employees or shareholders in such capacity.

# Corporate social responsibility in a global economy

Should it be limited to serving only its shareholders?

The corporation's role

Should it has a greater responsibility to the community, both for the present and the future?

# Perceptions of Corporate Social Responsibility (CSR)

- **Corporate citizenship** and the company's responsibilities in society and the environment have become central considerations amongst companies around the globe.
- From its origins at the periphery of **business ethics** and **social engagement**, CSR has become central to business practice and organizational functioning.
- Its centrality in the perceived function of organizations of all kinds means that it has become embedded in corporate strategy and now offers a logical framework for much of its planning and execution.

- In strategy it is evident in a number of areas: in stakeholder identification and relations, goal alignment and the generation of value. Communication and reputation strategy often extend from a company's CSR strategy, with the bottom line extended to the broader conceptualization that includes finance, society and environment.
- CSR is now a common consideration in the planning and implementation of overall strategy and many of the functions of the enterprise.
- The establishment of CSR as a guiding principle in business practice is largely the result of the proposition that companies ensure their success by doing good in all they do.

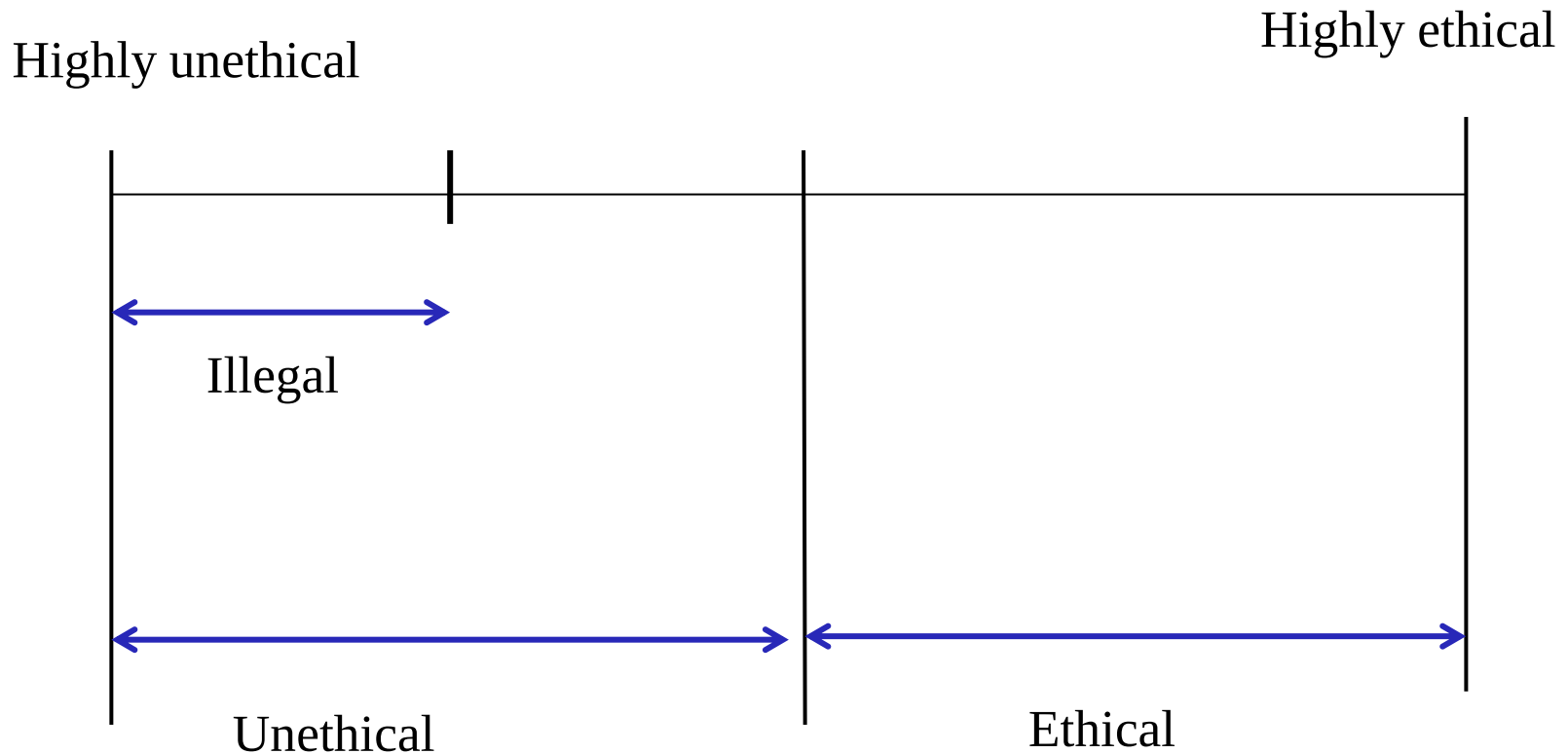
# Corporate Social Index (CSI)



Source:

Kanji, G. K., & Chopra, P. K. (2010). Corporate social responsibility in a global economy. *Total Quality Management*, 21(2), 119-143.

# Spectrum of business ethics



Source:

Dolecheck, M. M., & Dolecheck, C. C. (1989). Ethics: take it from the top. *Business* (Jan-March 1989), 13.

# Walmart Example under the COVID-19 pandemic

Changes to Our Shopping Process to Encourage Social Distancing (April 3, 2020)

<https://corporate.walmart.com/newsroom/2020/04/03/changes-to-our-shopping-process-to-encourage-social-distancing>

By Dacona Smith, Executive Vice President and Chief Operating Officer, Walmart U.S.

In this taxing and uncertain time, our associates have gone above and beyond to help Americans get the food, medicine and supplies they need. To promote health, safety and consistency for our associates and customers in this environment, we're taking some further steps for our U.S. stores:

- Stores will now allow no more than five customers for each 1,000 square feet at a given time, roughly 20 percent of a store's capacity.
- One-way movement through our aisles in our stores, using floor markers and direction from associates.
- To put signage inside our stores to remind customers of the need to maintain social distancing – especially in lines.
- The company is prepared to administer the COVID-19 vaccine at Walmart and Sam's Club pharmacies nationwide when we are asked to do so.

# Ethics in a Transnational Corporation (TNC)

- A company that is unable to grow further in its domestic market, either due to **market saturation** or **anti-trust regulation**, may reap further economies of scale and scope through not only exporting its product but also producing it abroad.
- The primary incentives for TNCs to expand into developing countries is **the availability of lower-cost labour** and **the need to exploit natural resources that have been depleted at home**: for example, timber and iron-ore.
- In the light of their **market power**, which is particularly prevalent in developing countries, TNCs are attracting increasing attention from environmentalists and ethicists. Within the last two or three years questions concerning the ethicality of various business practices, particularly those affecting **the natural environment**, have garnered increasing public attention.

- Vitell and Davis (1990) define business ethics as the "[inquiry into the nature and grounds of moral judgements, standards and rules of conduct in situations involving business decisions](#)" (p. 64). Thus ethics is concerned with the motivation for action rather than the action itself. Consequently, the main problem with any empirical evaluation of business ethics is that the observable action will not necessarily betray the underlying motivation for that action.
- Example 1 [Pharmaceutical TNCs in Ireland](#): Approximately one quarter of the waste produced by pharmaceutical companies is classified in the U.S. as "hazardous." Such plants operating in the U.S., therefore, are forced by law to go to considerable expense to treat and dispose of their waste substances. Several American pharmaceutical companies are operating production plants in Ireland.
- Example 2 [Oil TNCs in Amazonia](#): Significant oil reserves have been discovered in the Amazon basin. Several American-based TNCs are currently exploiting these reserves. Occidental Petroleum Corporation, for example, recently reached an agreement with the Government of Peru to increase its production from rainforest areas by 20,000 barrels a day.

## Example: Walmart's Statement of Ethics

### The 3 Basic Beliefs

1. Respect for the Individual
2. Service to the Customer
3. Striving for Excellence

## Guiding Principles

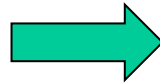
- These principles are meant to help our associates make the right decisions, and to act with integrity.
- Always act with integrity.
- Lead with integrity and expect others to work with integrity.
- Follow the law at all times.
- Be honest and fair.
- Reveal and report all information truthfully, without manipulation or misrepresentation.
- Work, actions, and relationships outside of your position with the company should be free of any conflicts of interest (discussed later in this guide).
- Respect and encourage diversity, and never discriminate against anyone.
- Ask your manager or the Global Ethics Office for help if you have questions about this Statement of Ethics, or if you face an ethical problem.
- Promptly report suspected violations of the Statement of Ethics.
- Cooperate with and maintain the private nature of any investigation of a possible ethics violation.
- When involved in an ethics investigation, you should reveal and report all information truthfully. You should present all the facts you are aware of without personal opinion, bias, or judgment.

# Guiding principles

- Managers are agents and have a fiduciary responsibility to shareholders. Given that the ethical beliefs of the principal and agent may not concur, managers should not let their personal ethical beliefs influence economically based decisions.
- Ethical decisions should be made by individual principals. The ethical decisions of these stakeholders will enable managers to make ethical choices that are also economically optimal.
- All of us, as consumers and shareholders, must bear the responsibility for guiding TNCs to make what we regard as ethical decisions. We should not expect the managers of these massive, diversely held, corporations to make our ethical decisions for us.

# Business environment of selected emerging economies in Asian host FDI

There are substantial differences between a developed country and a developing country



The influx of direct investment from the developed country to the developing country

### Project assignment task description:

Students are required to submit an analytical report (AR) with the title “Challenges of a Large Consumer Goods Manufacturing Company to Expand Operations in an Emerging Market in Asia (please choose one of the following countries: China, India, Indonesia, Malaysia, Pakistan, Philippines, Thailand, and Vietnam)”

The chosen Asian countries are: China

1. China
2. India
3. Indonesia
4. Malaysia
5. Pakistan
6. Vietnam

# Demographics (figures are CIA July 2020 est.)

| <b>Country</b> | <b>Population<br/>(million)</b> | <b>Dependency<br/>ratios #1</b> | <b>Median age<br/>(year)</b> | <b>Literacy #2<br/>(%)</b> |
|----------------|---------------------------------|---------------------------------|------------------------------|----------------------------|
| China          | 1,394                           | 42.2                            | 38.4                         | 96.8                       |
| India          | 1,326                           | 48.7                            | 28.7                         | 74.4                       |
| Indonesia      | 267                             | 47.5                            | 31.1                         | 95.7                       |
| Malaysia       | 32.7                            | 44.2                            | 29.2                         | 93.7                       |
| Pakistan       | 233.5                           | 64.4                            | 22                           | 59.1                       |
| Vietnam        | 98.7                            | 45.1                            | 31.9                         | 95                         |
| Hong Kong      | 7.2                             | 44.7                            | 45.6                         | 98                         |

#1: Dependency ratios contrast the ratio of youths (ages 0-14) and the elderly (ages 65+) to the number of those in the working-age group (ages 15-64).

#2: age 15 and over can read and write

# Languages

| Country   | Languages                                                                                                                                                                                                                                                         |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| China     | Putonghua                                                                                                                                                                                                                                                         |
| India     | There are 22 officially recognized languages (Hindi 43.6%)<br>English is the subsidiary official language                                                                                                                                                         |
| Indonesia | Bahasa Indonesia (official, modified form of Malay), English, Dutch, local dialects (of which the most widely spoken is Javanese)                                                                                                                                 |
| Malaysia  | Bahasa Malaysia (official), English, Chinese (Cantonese, Mandarin, Hokkien, Hakka, Hainan, Foochow), Tamil, Telugu, Malayalam, Panjabi, Thai                                                                                                                      |
| Pakistan  | Punjabi 48%, Sindhi 12%, Saraiki (a Punjabi variant) 10%, Pashto (alternate name, Pashtu) 8%, Urdu (official) 8%, Balochi 3%, Hindko 2%, Brahui 1%, English (official; lingua franca of Pakistani elite and most government ministries), Burushaski, and other 8% |
| Vietnam   | Vietnamese (official), English (increasingly favored as a second language), some French, Chinese, and Khmer, mountain area languages (Mon-Khmer and Malayo-Polynesian)                                                                                            |
| Hong Kong | Cantonese (official) 88.9%, English (official) 4.3%, Mandarin (official) 1.9%, other Chinese dialects 3.1%, other 1.9%                                                                                                                                            |

# Land area

| <b>Country</b> | <b>Land area (sq km)</b> | <b>Population density<br/>(People per sq km)</b> |
|----------------|--------------------------|--------------------------------------------------|
| China          | 9,326,410                | 149                                              |
| India          | 2,973,193                | 446                                              |
| Indonesia      | 1,811,569                | 147                                              |
| Malaysia       | 328,657                  | 99                                               |
| Pakistan       | 770,875                  | 303                                              |
| Vietnam        | 310,070                  | 318                                              |
| Hong Kong      | 1,108                    | 6498                                             |

Source: <https://www.cia.gov/library/publications/resources/the-world-factbook/fields/279.html>

# Unemployment rate (2017 est.)

| <b>Country</b> | <b>Unemployment rate<br/>(%)</b> |
|----------------|----------------------------------|
| China          | 3.9                              |
| India          | 8.5                              |
| Indonesia      | 5.4                              |
| Malaysia       | 3.4                              |
| Pakistan       | 6                                |
| Vietnam        | 2.2                              |
| Hong Kong      | 3.1                              |

Source: <https://www.cia.gov/library/publications/resources/the-world-factbook/fields/220.html>

# labour force (2017 est.)

| <b>Country</b> | <b>Labour force<br/>(million)</b> | <b>Labour force by occupation (%)</b> |                 |                 |
|----------------|-----------------------------------|---------------------------------------|-----------------|-----------------|
|                |                                   | <b>Agriculture</b>                    | <b>Industry</b> | <b>Services</b> |
| China          | 806.7                             | 27.7                                  | 28.8            | 43.5            |
| India          | 521.9                             | 47                                    | 22              | 31              |
| Indonesia *    | 125                               | 32                                    | 21              | 47              |
| Malaysia       | 14.95                             | 11                                    | 36              | 53              |
| Pakistan #     | 63.89                             | 42.3                                  | 22.6            | 35.1            |
| Vietnam        | 54.8                              | 40.3                                  | 25.7            | 34              |
| Hong Kong      | 4.0                               | 3.8                                   | 17.1            | 79.1            |

\* 2016 est.

# 2015 est.

Source: <https://www.cia.gov/library/publications/resources/the-world-factbook/fields/220.html>

# GDP (PPP) and cross national saving, 2017 est

| <b>Country</b> | <b>Total GDP<br/>(US\$ trillion)</b> | <b>GDP growth<br/>rate (%)</b> | <b>GDP per<br/>capita (US\$)</b> | <b>Cross national<br/>saving (%) *</b> |
|----------------|--------------------------------------|--------------------------------|----------------------------------|----------------------------------------|
| China          | 23.21                                | 6.9                            | 16,700                           | 45.8                                   |
| India          | 9.47                                 | 6.7                            | 7200                             | 28.8                                   |
| Indonesia      | 3.25                                 | 5.1                            | 12,400                           | 31.7                                   |
| Malaysia       | 0.93                                 | 5.9                            | 29,100                           | 28.5                                   |
| Pakistan       | 1.06                                 | 5.4                            | 5,400                            | 12                                     |
| Vietnam        | 0.65                                 | 6.8                            | 6,900                            | 29                                     |
| Hong Kong      | 0.465                                | 3.8                            | 61,500                           | 26.6                                   |

\* The figures represent % to GDP. Gross national saving is derived by deducting final consumption expenditure (household plus government) from Gross national disposable income, and consists of personal saving, plus business saving (the sum of the capital consumption allowance and retained business profits), plus government saving (the excess of tax revenues over expenditures), but excludes foreign saving (the excess of imports of goods and services over exports).

# GDP composition by end use, 2017 est. (%)

| Country   | C    | I    | G    | X    | M     |
|-----------|------|------|------|------|-------|
| China     | 39.1 | 44.4 | 14.5 | 20.4 | 18.4  |
| India     | 59.1 | 32.4 | 11.5 | 19.1 | 22    |
| Indonesia | 57.3 | 32.4 | 9.1  | 20.4 | 19.2  |
| Malaysia  | 55.3 | 25.6 | 12.2 | 71.4 | 64.4  |
| Pakistan  | 82   | 16.1 | 11.3 | 8.2  | 17.6  |
| Vietnam   | 66.9 | 27   | 6.5  | 100  | 101   |
| Hong Kong | 67   | 22.2 | 9.9  | 188  | 187.1 |

C = household consumption ; I = Investment ; G = Government consumption ;  
X = Exports of goods and services; M = Imports of goods and services  
 $GDP = C + I + G + X - M$

# GDP composition by sector of origin, 2017 est. (%)

| <b>Country</b> | <b>Agriculture</b> | <b>Industry</b> | <b>Services</b> |
|----------------|--------------------|-----------------|-----------------|
| China          | 7.9                | 40.5            | 51.6            |
| India *        | 15.4               | 23              | 61.5            |
| Indonesia      | 13.7               | 41              | 45.4            |
| Malaysia       | 8.8                | 37.6            | 53.6            |
| Pakistan       | 24.4               | 19.1            | 56.5            |
| Vietnam        | 15.3               | 33.3            | 51.3            |
| Hong Kong      | 0.1                | 7.6             | 92.3            |

\* 2016 est.

# Inflation rate

| <b>Country</b> | <b>Inflation rate (consumer prices)</b> |
|----------------|-----------------------------------------|
| China          | 1.6                                     |
| India          | 3.6                                     |
| Indonesia      | 3.8                                     |
| Malaysia       | 3.8                                     |
| Pakistan       | 4.1                                     |
| Vietnam        | 3.5                                     |
| Hong Kong      | 1.5                                     |

# Gini index

| <b>Country</b> | <b>Gini index</b> |
|----------------|-------------------|
| China          | 46.5 (2016)       |
| India          | 25.2 (2011)       |
| Indonesia      | 36.8 (2009)       |
| Malaysia       | 46.2 (2009)       |
| Pakistan       | 30.7 (2013)       |
| Vietnam        | 34.8 (2014)       |
| Hong Kong      | 53.9 (2016)       |

Source: <https://www.cia.gov/library/publications/resources/the-world-factbook/fields/223rank.html>

# Corporate income tax

| Country   | Corporate income tax rate (%) |
|-----------|-------------------------------|
| China     | 25                            |
| India     | 30                            |
| Indonesia | 25                            |
| Malaysia  | 24                            |
| Pakistan  | 30                            |
| Vietnam   | 20                            |
| Hong Kong | 16.5                          |

Sources:

Corporate Tax Rates around the World, 2019

<https://taxfoundation.org/corporate-tax-rates-around-the-world-2019/>

Corporate tax rates table

<https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>

# Tariff

| <b>Country</b> | <b>Tariff rate, weighted mean of all products(%)</b> |
|----------------|------------------------------------------------------|
| China          | 3.83 (2017)                                          |
| India          | 6.35 (2016)                                          |
| Indonesia      | 2.64 (2016)                                          |
| Malaysia       | 4.02 (2016)                                          |
| Pakistan       | 10.09 (2016)                                         |
| Vietnam        | 2.86 (2016)                                          |
| Hong Kong      | 0 (2016)                                             |

## Sources:

List of countries by tariff rate: [https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_tariff\\_rate](https://en.wikipedia.org/wiki/List_of_countries_by_tariff_rate)

For updated data, please see

World Tariff Profiles 2019

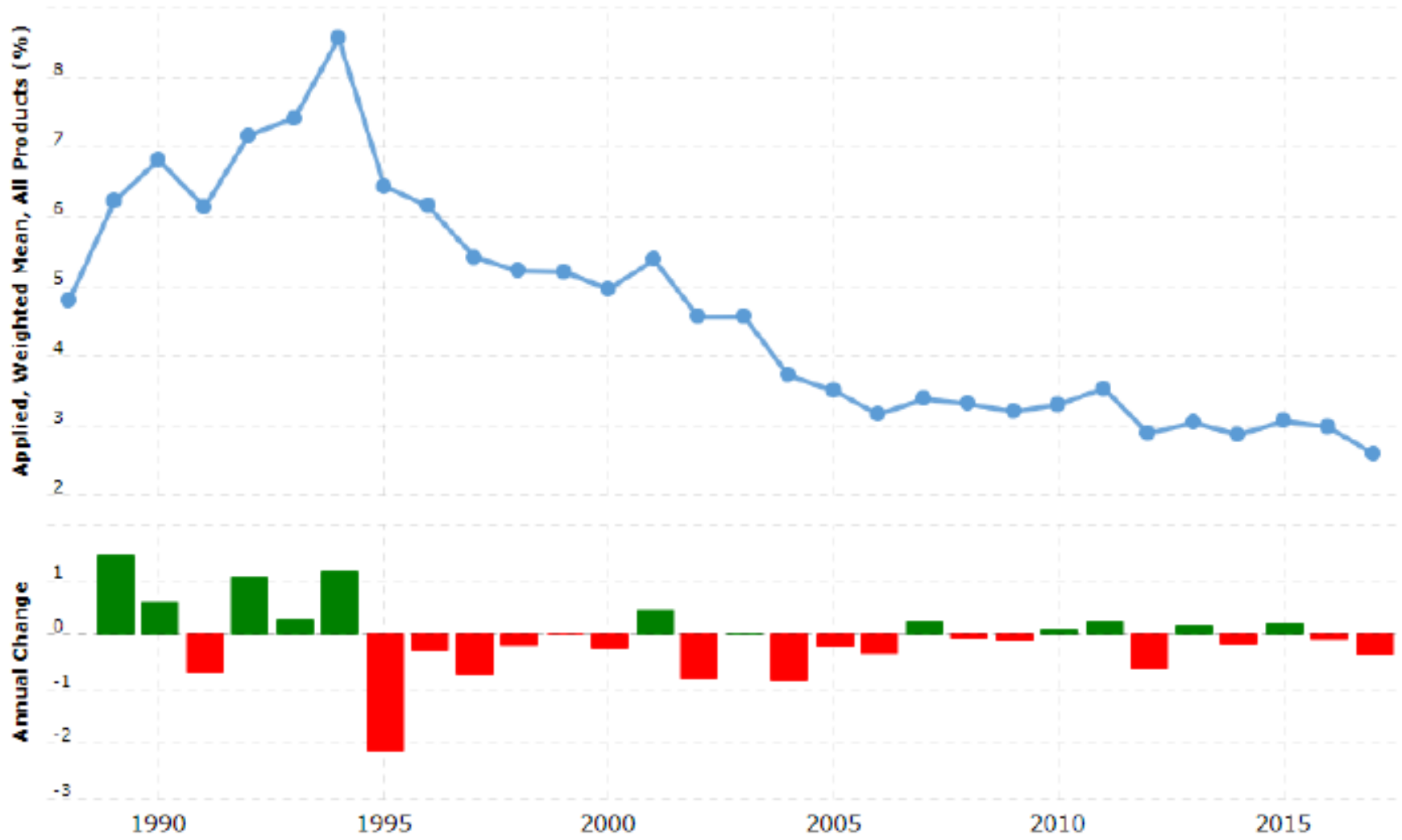
[https://www.wto.org/english/res\\_e/publications\\_e/world\\_tariff\\_profiles19\\_e.htm](https://www.wto.org/english/res_e/publications_e/world_tariff_profiles19_e.htm)

[https://www.wto.org/english/res\\_e/statis\\_e/statis\\_e.htm](https://www.wto.org/english/res_e/statis_e/statis_e.htm)

Tariff data:

<http://tariffdata.wto.org/ReportersAndProducts.aspx>

# World Tariff Rates 1988-2020



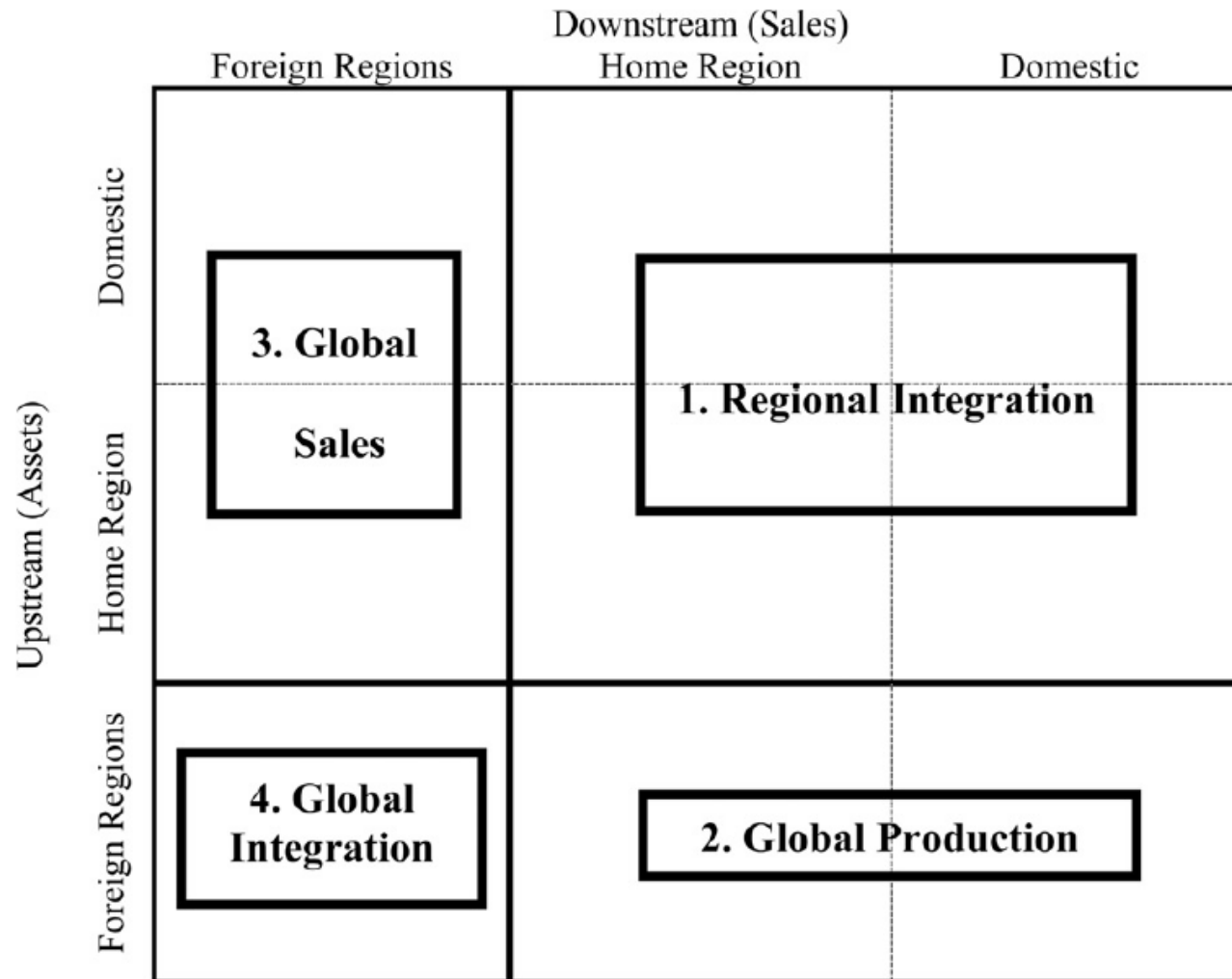
Source: <https://www.macrotrends.net/countries/WLD/world/tariff-rates>

# Regional integration and international strategies of TNCs

Oh, C. H., & Rugman, A. M. (2012). Regional integration and the international strategies of large European firms. *International business review*, 21(3), 493-507.

From the perspective of regional economic integration we decompose international strategy into regional integration strategy and **three types of global strategy** (global sales, global production, and pure global integration).

# Regional integration and international strategies: The international and regional presence in regard to sales and assets



# Four types of international strategies

When discussing the TNC activities outside of its home region, we can modify Bartlett and Ghoshal's **three types of firms** from the perspective of regional integration.

1. A TNC manufactures the majority of its products in a foreign region due to high country specific advantages (CSAs), such as labor costs, human capital, natural resources and technology. Although some of the products sell in the foreign region in which they are produced, the majority of the products sell in the TNC's home region through intra-firm trade channels (from the foreign region to the home region). We call this type of strategy **a global production strategy which corresponds to Quadrant 2** in the Figure. Thus, the upstream activity of the TNC is global, but its downstream activity is regional.

2. Next, an TNC manufactures its products through its regional supply chains, but the products are exported (using both intra- and inter-firm methods) to foreign regions. Three reasons exist for using this type of strategy.
- First, a TNC manufactures its products in a regional cluster but sells them worldwide in order to achieve economies of scale and scope.
  - Second, industry and product lifecycles lead the TNC to export its products to a foreign region as the home region market is already mature, but the TNC still has an excess production capacity or inventory.
  - Third, a TNC's knowledge and production knowhow are too complex to transfer to its foreign region subsidiaries where the human capital is limited.

We call this type of strategy **a global sales strategy, which corresponds to Quadrant 3** in the Figure. Thus, the downstream activity of the TNC is global, but its upstream activity is regional.

3. A TNC develops its own capabilities in each foreign region. If it is a European TNC, then it will develop its subsidiary-specific capabilities in North America and Asia-Pacific separately. The TNC improves its regional responsiveness, so that most of its activities can stay within a foreign region (i.e., produce and sell in the same region). The TNC can integrate and coordinate these capabilities through its regional headquarters, and some, but not many, of the activities may interact inter-regionally. We call this type of strategy **a pure global integration, which coincides with Quadrant 4** in the Figure.
4. Our four types of international strategies also refine Porter's industry-level international strategy at the firm-level. Porter (1986) divides international strategy into multi-domestic industry and global industry. He explains multi-domestic industry as “industries in which competition in each country (or small group of countries) is essentially independent of competition in other countries” (p. 11). However, except for a few industries in countries that are perfectly protected by the national government, no such independent industry exists due to economic integration. Thus, we replace the impractical multi-domestic strategy **with a regional integration strategy, which coincides with Quadrant i** in the Figure.

# Overcoming five top challenges of international expansion

As you make your first steps into international trading there are a lot of variables to consider. You'll need to know what sort of company are you, who are your customers, how quickly are you planning to expand, how much time and money are you willing to invest, and – perhaps most importantly – which country or countries do you hope to expand into?

# Why do Borders matter for firms doing business in the global economy?

- Tariffs and quotas.
- Customs.
- Regulations.
- Permits.
- Currencies
- Legal systems.
- Language.
- Culture.
- Habit

# Challenge 1: Language and cultural barriers

- If you don't speak the same language as your customers, communication is going to be a challenge.
- The challenge you might face expanding into a country with a radically different culture.

## Solution:

### Adapt to the environment and establish a go-to market strategy

- It's certainly possible to use Google Translate, but you cannot simply rely on it.
- You need at least one person on your team who speaks the local language.
- You should understand that different countries work at different paces.
- Your company needs to be aware of the infrastructure you have to work with, and to compete with, in your target country.
- Your company will need to evolve to face the realities of your new market.

## Example:

In the mid-1990s, Walmart tried with a large financial investment to get a foothold in the German retail market. In 1997, Walmart took over the supermarket chain Wertkauf with its 21 stores for DM 750 million and the following year Walmart acquired 74 Interspar stores for DM 1.3 billion. The German market at this point was an **oligopoly** with high competition among companies which used a similar low-price strategy as Walmart. As a result, **Walmart's low-price strategy yielded no competitive advantage**. Walmart's **corporate culture** was not viewed positively among employees and customers, particularly Walmart's "statement of ethics", which attempted to restrict relationships between employees, a possible **violation of German labor law**, and led to a public discussion in the media, resulting in a bad reputation among customers. In July 2006, **Walmart announced its withdrawal from Germany due to sustained losses**. The stores were sold to the German company Metro during Walmart's fiscal third quarter. Walmart did not disclose its losses from its German investment, but they were estimated to be around €3 billion

## Challenge 2: Local competition

- Local competition might put you at a disadvantage right from the start.
- You'll have to deal with import fees and tariffs, potentially slower turnaround times.
- You need to deal with two currencies while your competitors can just work in their local currency.

### Solution:

#### Find the right partner and build relationships with local businesses

- You can build working relationships with overseas companies (shipping, storage, and logistics firms for example) and use these to help your business grow.
- By working closely with them, you can deliver your products to their customers, or have them help you find your own customers, making the transition into trading in your target country that much easier.

## Challenge 3: Tax codes and compliance issues

- Dealing with tax can be a headache even when you're only operating in a single nation. Dealing with taxes, fees, and tariffs for international trade can be a major obstacle for a lot of companies.
- Failing to meet compliance regulations in a country you're attempting to expand into can not only put a halt to your expansion plans, but also create additional costs in your home country.

### Solution:

#### Do due diligence and sort out legal procedures, tax, and finance

- Making sure you or someone working for you knows exactly what they're doing, it doesn't need to be a problem.
- Most tax and legal requirements ultimately amount to ticking the right box, so all you need to do is make sure you know which box you need to tick before you start expanding.

## Challenge 4: Supply chain risks

- Imports, exports, shipping, and logistics are all things that large enterprises have departments dedicated to. That's because managing a supply chain that crosses national boundaries can be a real challenge.
- What if a container ship full of your goods is delayed a week, or doesn't show up at all? What if your goods are impounded by customs?

### Solution:

Develop a strategy, a business plan, and a budget

- Conducting due diligence and having a solid plan in place makes it that much easier to avoid unexpected surprises.
- You should not try to trade in a new nation without a firm, well-thought-out plan of campaign.

## Challenge 5: Operational risks with hiring staff

- You will need more staff to handle the increased pressure on your business of working in another country. You may even need to hire staff on the ground in the new country.
- However, hiring more staff is always a risk. You'll not only have increased overheads, but you'll have to put your trust in new people – potentially even new people you never meet face to face.

### Solution:

Making sure your product and organization are ready, and establish a great team

- If you take care with who you hire, and how you manage them, you can leverage their expertise, skills and strengths to achieve your company's goals and objectives.
- If you do these well, the increased revenues and profits can easily pay for some extra time and/or staff to help manage your newly-invigorated micro-multinational.

## Tutorial classes schedule

|                              |               |
|------------------------------|---------------|
| Group 1 (2:00 pm to 2:50 pm) |               |
| Ed Tsui                      | Chow Tai Fook |
| Lizbeth Ho                   | Bossini       |
| Gloria Chan                  | Uniqlo        |
| Teresa Keung                 | Mannings      |
| Group 2 (3:00 pm to 3:50 pm) |               |
| Wendy Luk                    | 759 Store     |
| Debbie Tong                  | SaSa          |
| Angel Choi                   | Watsons       |
| Group 3 (4:00 pm to 4:50 pm) |               |
| Karey Mak                    | Samsonite     |
| Adda Lai                     | AEON          |
| Veronica Ng                  | Vitasoy       |
| Group 4 (5:00 pm to 5:50 pm) |               |
| Tony Lui                     | HKTVMall      |
| Arthur Ang                   | JHC           |
| Henry Ho                     | DON DON DONKI |
| Charlotte Lam                | SINOMAX       |

Thank you  
for your attention !