

INTERNATIONAL BUSINESS and GLOBALIZATION

Dr. Bett Mickels

WorldWideTeams Consulting

Hsiuping University
of Science and Technology
October, 2013

International Business and Globalization Agenda

- Globalization characteristics
- Globalization advantages and disadvantages
- Globalization stages
- International trade theories
- International country risk
- Taiwan globalization
- MNC "good and the bad"



Definitions

International Business

Business (firm) that engages in international (cross-border) economic activities or the action of doing business abroad (Peng, 2013)

Global Business

Business around the globe including both international (cross-border) activities and domestic business activities (Peng, 2013)

What is Globalization?

Hill defines globalization as "The shift towards a more integrated and interdependent world economy" (Hill, 2007).

Globalization has two main components:

- Globalization of markets
- Globalization of production

What is Globalization?

“Economic "globalization" is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political, and environmental dimensions of globalization.”
(International Monetary Fund, n.d.)

Globalization

Globalization integrates economies and societies. The globalization process includes:

- Globalization of markets
- Globalization of production
- Globalization of technology
- Globalization of investment

China – Going Global Video

<http://www.youtube.com/watch?v=nnGeSPmPAK4>

Characteristics of Globalization

- Domestic & foreign market differences disappear
- Expand business activities worldwide
- Buying and selling goods to any country in the world
- Companies consider entire world as a market
- Resources can be obtained from entire world
- Strategies are based on global approach
- Rapid increase in interdependence between different countries

Characteristics of Globalization

- Customers tend to get highest value for money
- Promotes formation of trade blocks
- Focus is shifting from the bureaucrat to business savvy
- Rapid increase in mobility of resources
- Removes international trade barriers.
- Drives out inefficient companies
- Provides tremendous scope for sound companies

Advantages of Globalization (Lambin, 2001)

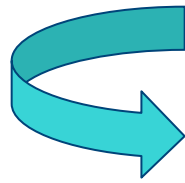
- Customers hold more power
- Less developed countries access international markets
- Brands grow worldwide
- Emergence of transnational market segments
- Growing power of large international distributors
- Adoption of socio-ecological view of consumption
- Emergence of a global economy
- Development of good corporate citizenship behavior

Disadvantages of Globalization

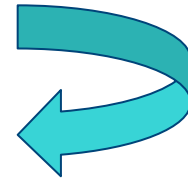
- Domestic business may be ignored
- Could exploit human resources
- May lead to unemployment and under-employment
- Decline in demand for domestic products
- May result into decrease in domestic income
- May result into exploitation of natural resources in under-developed countries
- Unethical business tactics – bribery
- May result into commercial and political colonization

Doing Business in Taiwan Video

<http://www.youtube.com/watch?v=rSApRs5Nqmw>



Group Discussion



- What globalization advantages are seen in Taiwan?
- What globalization disadvantages are seen in Taiwan?

Globalization Stages

Stage 1 – Domestic Company

Stage 2 – International Company

Stage 3 – Multinational Company
(MNC)

Stage 4 – Global Company (global
strategy and approach)

Stage 5 – Transnational Company (global
resources serve global markets)



International Business Theories

- Adam Smith's Theory of International Trade
- Ricardian Theory of International Trade
- Hecksher Ohlin Theory of International Trade

Adam Smith Theory

Adam Smith favored free trade which has the advantages of division of labor and specialization both at the national and international levels

Ricardian Theory

The economist **David Ricardo** in his book "**Principles of Political Economy and Taxation**" systematically represented the Comparative Cost Theory.

Countries can gain from trade if they had an absolute advantage as put forward by Adam Smith but also if they had a comparative advantage in production. (Ricardo, 2006)

Hecksher Ohlin Theory

Hecksher Ohlin's International Trade Theory essentially says that countries will export products that use their abundant and cheap factor(s) of production and import products that use the countries' scarce factor(s).

Country Risk Analysis (Bhalla, 2008)

- Political Factors
- Social – Cultural Factors
- Economical Factors
- Ethical practices
- Hofstede Model

Political Risk Factors

- Political party in power
- Opposition parties
- The government system
- Conflict arising from outside the country due to country's own problems or due to treaty or other complications
- Relations with major trading partners
- Relations of the company's home country

Socio-Cultural Risk Factors

- Social groups, history of class structure
- Ethnic, religious, linguistic
- Extent of cohesiveness or divisiveness
- General psychology of population.
- Unemployment, recession, strikes, lockouts
- Extent of social unrest
- Cross border ties, cross border threats
- Rapid increase in costs of production

Economic Risk Factors

- Growth of economy, foreign trade in GDP.
- Trends of investments and savings
- Frequency of business cycles
- Extent of economic diversification, diversity of exports
- Inflation, monetary policy, fiscal policy
- Strength of local financial market
- Balance of payments, international trade
- Stability of trade earnings
- Elasticity of export and import demand

Economic Risk Factors continued

Currency: (a) strength, (b) stability, (c) quality of exchange markets, (d) depth of exchange markets, (e) extent of controls over exchange markets.

Debt: (a) total, (b) short-term as percentage of total debt, (c) debt service ratio, (d) debt-service schedule.

International Financial Resources: (a) revenues, (b) borrowing capacity, (c) history of depth repayment, (d) credit rating.

Hofstede Model

Five Cultural Dimensions:

- Power distance
- Individualism versus collectivism
- Masculinity versus femininity
- Uncertainty avoidance.
- Long-term versus Short-term orientation



Discussion Group



Which country risk factors are
predominant in Taiwan?

Doing Business in Taiwan, China

Doing Business 2013 data for Taiwan (China). Table lists the overall "Ease of Doing Business" rank (out of 185 economies) and rankings by topics. Lists the economy's distance to frontier (DTF)** measure. Tables summarize key indicators for each topic and benchmark against regional and high-income economy (OECD) averages.

Retrieved September 17, 2013 from:<http://www.doingbusiness.org/data/exploreeconomies/taiwan,-china/>

Doing Business in Taiwan, China

INCOME CATEGORY: High income

POPULATION: 23,180,000

GNI PER CAPITA (US\$): 20,200

Retrieved September 17, 2013 from:<http://www.doingbusiness.org/data/exploreeconomies/taiwan,-china/>



Group Discussion



How do you think Taiwan ranks in “Ease of Doing Business” in these business factors?

(1 is good, 185 is bad)

Protecting Investors

Paying Taxes

Trading Across Borders

Enforcing Contracts

Resolving Insolvency

Starting a Business

Construction Permits

Getting Electricity

Registering Property

Getting Credit

Doing Business in Taiwan

OUT OF 185 ECONOMIES:

DOING BUSINESS 2013 RANK: 16

DOING BUSINESS 2012 RANK: 25

CHANGE IN RANK: +9

Doing Business In Taiwan

TOPIC RANKINGS

	2013	2012	Change in Rank
Starting a Business	16	15	-1
Construction Permits	9	76	67
Getting Electricity	6	5	-1
Registering Property	32	31	-1
Getting Credit	70	67	-3

Doing Business In Taiwan

TOPIC RANKINGS

	2013	2012	Change in Rank
Protecting Investors	32	79	47
Paying Taxes	54	64	10
Trading Across Borders	23	27	4
Enforcing Contracts	90	89	-1
Resolving Insolvency	15	14	-1

DTF (Distance to Frontier)

DTF measure shows the distance of each economy to the “frontier,” which represents the highest performance observed on each of the indicators across all economies included in *Doing Business* since each indicator was included in *Doing Business*. An economy’s distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier. (Doing Business, 2013)

Retrieved September 17, 2013 from:<http://www.doingbusiness.org/data/exploreeconomies/taiwan,-china/>

Taiwan - Distance to Frontier

DOING BUSINESS 2013 DTF (76.8% POINTS)

DOING BUSINESS 2012 DTF (72.8% POINTS)

IMPROVEMENT IN DTF (4% POINTS)

Retrieved September 17, 2013 from:<http://www.doingbusiness.org/data/exploreeconomies/taiwan,-china/>

Need for Country Risk Analysis

- Anticipate the behavior of a country
- Estimating future of country prospect
- Utilize the opportunity available in the country
- Policy makers need risk information
- Attract foreign investment
- Needed to secure lending
- Consultant firms provide rating to the country

Proper Assessment of Country Risk Analysis

- Conceptual awareness of factors that have a bearing on country risk
- Analytical ability to assess how these factors work
- Detailed knowledge of the country
- Specialized expertise to predict political variables
- Expertise in using economic forecasting techniques to make short-term and long-term projections
- Skill and experience to draw conclusions about debt servicing

Importance of Multinational Corporations

- Transfer of capital
- Transfer of technology
- Effect on balance of payment
- Linkage effects
- Development of human resources capital
- Employment opportunities
- Development of the economy



Problems with Multinational Corporations

- Transfer of technology is costly (and pirated)
- Profit oriented
- Production of non-essential goods
- Promote regional disparities
- Corrupt practices
- Exploitation of labor
- Exploitation of natural resources



International Business and Globalization Review

- Globalization characteristics
- Globalization advantages and disadvantages
- Globalization stages
- International trade theories
- International country risk
- Taiwan Globalization
- MNC “good and the bad”



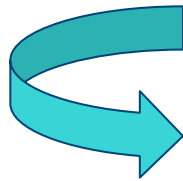
Article Review

Taiwan Revives its Manufacturing Sector

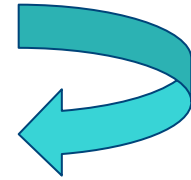
China's rising production costs create an
opportunity for neighboring Taiwan

Article retrieved September 17, 2013 from:

<https://globalconnections.hsbc.com/us/en/articles/taiwan-revives-its-manufacturing-sector>



Group Discussion



Article Review:

What were the major points
from the article about international
business in Taiwan?



WorldWideTeams Consulting

...specializes in business expansion
and global team performance to
increase sales and profits, solve
problems, and capture opportunities

Dr. Bett Mickels, MBA, DBA
www.worldwideteams.com
bettmickels@worldwideteams.com

Bibliography

Bhalla, V.K. (2008): *International Business Environment and Management*, 12th Ed. Anmol Publications Pvt. Ltd.

Hill, Charles W.L (2007): *International Business. Competing in the Global Marketplace International*, 6th Ed., New York: McGraw-Hill.

Lambin, Jean-Jacques, (Summer, 2001); Advantages of Globalisation; *European Business Forum*, No. 6.

International Monetary Fund (n.d.); What is Globalization? Retrieved September 27, 2013 from <http://www.imf.org/external/np/exr/ib/2008/053008.htm>

Peng, Mike (2013): *Global Business*, 3rd Ed. Madison, Ohio Cengage Learning South-Western.

Ricardo, David (2006): *Principles of Political Economy and Taxation*. New York, NY; Prometheus Books.

Sundaram, Anant Kumar & Black, J. Stewart (1995): *International Business Environment Text and Cases*. Prentice Publishing, Upper Saddle River, New Jersey.

The World Bank, *Doing Business: Measuring Business Regulations* (n.d.): Retrieved September 17, 2013 from: <http://www.doingbusiness.org/data/exploreeconomies/taiwan,-china>