Tutorial Letter 501/3/2018

Principles of Global Business Management

MNB3701

Semesters 1 & 2

DEPARTMENT OF BUSINESS MANAGEMENT

IMPORTANT INFORMATION:

This tutorial letter contains important information about your module.

BAR CODE

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Dear Student

A warm word of welcome to you. We trust that this module, Principles of Global Business Management, will be an enjoyable and informative learning experience for you. In the absence of a study guide, which will be available as from 2019, we will guide you through the study material for this module in this tutorial letter. Complementary to this will be the release of additional tutorial letters during the course of the semester, which will seek to provide you with additional information, notably, with reference to the assignments set for this module and the proposed solutions. This will enable you to prepare for the forthcoming examination, the structure and composition of which will also be discussed in these additional tutorial letters.

Tutorial Letter 501, therefore, serves as an abbreviated version of the study guide which will only be made available as from 2019, and you must study it carefully, in conjunction with the textbook. Once you have worked through each learning unit, go back to the outcomes specified at the beginning of the learning unit and mark those off which you feel you have attained. If there are any outcomes you are unsure of, go back to the relevant sections and revise the work. Remember, however, that the examination will be based on the textbook.

This tutorial letter comprises learning units 1-11.

Best wishes for the academic year!

Your lecturers for this module.

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LEARNING UNIT 10: FOREIGN DIRECT INVESTMENT AND INSTITUTIONAL FRAMEWORK

LEARNING UNIT 11: REGIONAL ECONOMIC INTEGRATION, TRADE BLOCS AND FREE TRADE AREAS

LEARNING UNIT 1: GLOBAL BUSINESS OPERATIONS

1.1 AIM

The purpose of this learning unit is to:

- define the concept and practice of globalisation
- expose you to the historical development of globalisation, from the 17th century until modern times
- identify the types and forms of globalisation, both in terms of production and marketing, and the supply side of globalisation, with its locational needs
- distinguish between capitalist globalisation, with its numerous benefits flowing from international trade and the diffusion of modern technology, and the antagonism of anti-globalists, who point out its negative effects on impoverished communities (in particular agricultural communities, who are affected by the imposition of tariffs, which exacerbate their poverty)
- elucidate the emergence of new thinking on the future of globalisation (with the emphasis on economic globalisation)

1.2 LEARNING OUTCOMES

After you have studied this learning unit you should be able to:

- explain the phenomenon of globalisation
- identify the types and drivers of globalisation
- clarify the implications of globalisation for international business
- identify emergent themes in discourses on globalisation

1.3 DEFINING GLOBALISATION

Sections 1 and 2 of chapter 1 of the textbook outline the semantics and rationales which clarify the development of globalisation as a progressive phenomenon. The practical progress of globalisation is couched in its historical origins and passage through communities, nation-states and the marketplace. This progress has, for instance, often been characterised by unprecedented developments in technology and their application in advanced economies. This is explained in section 2 of this chapter.

The conceptual progress of globalisation confirms the underpinning principles of global business operations and their corresponding operating environments. This is highlighted in section 2 of this chapter. The delineation of these environments has often led to the creation of arbitrary national borders, with their corresponding national identities. But, it is the benefits of doing business within and across these borders that offers numerous advantages, as elucidated in sections 2 and 3 of the chapter.

1.4 HISTORICAL DEVELOPMENT OF GLOBALISATION

The evolution of globalisation is rooted in historical events. Even in Biblical times there was evidence of cross-border trading ventures. This is borne out in sections 1 and 2 of this chapter.

Indeed, this was a forerunner of inter-regional, symbiotic trading arrangements between people, countries and nation-states. It served as a catalyst to the development of undeveloped countries, foreshadowing a greater degree of regulated trade in these countries.

But, the real focus of the historicity of globalisation concentrates on the advent and duration of slavery and colonisation, as more countries fell under the political jurisdiction of more powerful nations such as the United Kingdom and France. This is discussed in section 2 of the chapter. This state of affairs persisted for centuries; only the emancipation of slaves and the liberalisation of these countries served as a stimulus to further globalisation.

The evolution of modern trading and investment arrangements, with their corresponding financial and capital operations, together with various economic integrations, stemmed, it is argued, from this emancipation process. Ultimately it also gave rise to unprecedented political and economic alliances. The sweep of these developments is discussed in section 2 of this chapter.

1.5 TYPES AND FORMS OF GLOBALISATION

The manifestations of globalisation are determined by the scope of production and market processes, as indicated in section 3 of this chapter. Complementing these manifestations are the unique structures of the supply side of globalisation, as epitomised by multinational corporations (MNCs) and the location of their production facilities, so as to minimise barriers, while maximising global economic relations. These tensions are discussed in sections 3 and 4 of this chapter. They foreshadow the tensions between trade creation and trade diversion. Such tensions also highlight the importance of location economies when multinational corporations establish manufacturing facilities abroad.

1.6 CAPITALIST GLOBALISATION AND ANTI-CAPITALISTS

These aspects of globalisation are covered in section 4 of the chapter. This section highlights the benefits of globalisation in the face of anti-globalisation protests. The positive aspects of globalisation are the benefits of economic integration, trade liberalisation, knowledge transmission and diffusion, cultural stability, power coalitions, globalisation and free markets and the phenomenon of socio-political control, coupled with improvements in world health care. These are spelled out in section 4 of this chapter.

These affirmations are constantly being countered by the antagonism emanating from the anti-globalists who argue against the alleged benefits of globalisation. They do so, citing the “impervious weaknesses” of globalisation as evidenced by negatives such as the risks involved, the inequitable apportionment of resources to the disadvantage of poor countries, and the capricious policies of institutions such as the IMF, the World Bank, the WTO, and the International Labour Organisation (ILO). In addition, the extent of job losses accompanying the globalisation process is discussed in section 4 of this chapter. It is enlarged upon with reference to the poor employed in agricultural communities, who are feeling the effects of the imposition of agricultural tariffs. This debate appears towards the end of section 4 of this chapter.

The aggressive manifestation of globalisation in the form of the establishment of international trade agreements (such as the North American Free Trade Agreement (NAFTA), with its preference for tariff eradication, at the expense of the poor) is also discussed in this chapter. The extent to which these initiatives have elicited anti-globalisation protests, is investigated in this section. The Seattle protests feature prominently in this discussion, highlighting the “war against capitalist globalisation”. The geographical scope of these protests has vindicated the extent of their grievances.

1.7 THE FUTURE OF GLOBALISATION

Notwithstanding such antithetical reasoning, the protagonists of globalisation remain optimistic about the future of globalisation. This optimism is being driven by the predilection of many global players for the promotion of economic globalisation and, more particularly, increasing economic integration. Furthermore, these initiatives are being galvanised in the face of growing poverty and inequality, deprivation, increasing joblessness, hunger and anger, on the part of the disadvantaged populace. Such is the gravity of these injustices that section 5 of the chapter, entitled, “The journey ahead – new thinking”, is devoted to discussing these disparities, which are exacerbated by the lopsided power distribution within the institutions of globalisation. The role of anti-globalists is pivotal in countering these injustices.

In short, all of these developments are compatible with the capitalist agenda, which is intent on making globalisation work, with the aid of MNCs and other agents of globalisation, such as the BRICS coalition, with its unique ethnic composition, which is advancing the economic interests of emerging markets.

1.8 CONCLUSION

This chapter has alluded to the many discourses that are being conducted in the interest of globalisation. It culminates in discussions on the economic justification for globalisation, undergirded as it is with emerging global ideology. The chapter also focuses on the benefits and rewards that accrue to the active participants in the globalisation process, while acknowledging the legitimacy of the anti-globalist lobby.

Clearly, the long-term goal of globalisation must be the economic emancipation of hitherto poor communities. This is a multifaceted task, the various dimensions of which are highlighted in this chapter, in an attempt to build on the conceptual framework of economic globalisation, which is pivotal to the globalisation process.

ACTIVITY 1.1

“It was the 19th Century that unleashed capitalism, in its full force, it was the 20th Century that tamed it and boosted its productivity, through the operation of market-based economies. However, the dilemma of the 21st Century is that markets are striving to become global, while the institutions needed to support them, remain parochial and partial. This often weakens the desire of producers and investors to go global, given the precarious base of many global institutions.”
Source: The Economist: “The case for globalisation”. September 29th–October, 2001.

In this sweeping observation there are many allusions to the progress of globalisation, which should encourage you to tackle the following tasks.

- Briefly explain the history of globalisation, highlighting the milestones in its evolution.
- Explain how globalisation is changing, in consequence of the efforts of anti-globalists.

We will discuss this on the discussion forum.

LEARNING UNIT 2: INSTITUTIONAL FRAMEWORKS AND THE ROLE OF GOVERNMENTS

2.1 AIM

The purpose of this learning unit is to provide you with an overview of the various institutional frameworks and explain the role of governments in the context of global business management.

2.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Provide an overview of global institutional frameworks
- Outline the importance of the Corruption Perceptions Index
- Identify the types of worldwide governance indicators
- Elaborate on the role of government in a country's investment environment

2.3 GLOBAL INSTITUTIONAL FRAMEWORKS

Sections 1 and 2 of chapter 2 of the textbook outline the development of global institutional frameworks. Global institutional frameworks arose out of a need for greater economic ties between countries due the aftermath of devastation left by World War II.

Business interactions between Multinational Corporations (MNCs) and national institutional frameworks are bound by the codes of practice of global supervisory institutions. The major global supervisory institutions are the World Bank, the International Monetary Fund and the World Trade Organisation. The composition and modus operandi of each of these global institutions are outlined in detail in section 2 of this chapter.

2.3.1 The World Bank

The World Bank was created with the mission of financing the reconstruction of European countries out of the desolation of World War II. Later, poverty alleviation and various initiatives were also added to the World Bank activities.

2.3.2 The International Monetary Fund

The International Monetary Fund (IMF) was established after World War II at the United Nations conference held in Bretton Woods in 1944. The primary focus of the IMF was to try and avoid a repeat of the competitive currency devaluation as was the case in the 1930s which resulted in the Great Depression.

2.3.3 The World Trade Organisation

The World Trade Organisation (WTO) was also established at Bretton Woods in 1944 and originally known as the General Agreement on Tariffs and Trade (GATT), until it was transformed. The WTO is discussed further under section 3 of chapter 2 of the textbook.

2.4 CORRUPTION PERCEPTIONS INDEX

Section 3 of chapter 2 of the textbook discusses the Corruption Perceptions Index. Corruption is perceived as a major hinderance to the economic development of developing countries. A country's level of corruption can be measured through a series of barometers as adopted by Transparency International.

2.5 WORLDWIDE GOVERNANCE INDICATORS

Worldwide governance indicators are global measures of the efficiency and effectiveness of political leadership which has been established and is gauged by the World Bank. Section 4 of chapter 2 of the textbook provides further details on the specific criteria used to gauge countries around the world.

There are six criteria that are used:

1. Voice and Accountability – the extent of freedom of speech and accountability of political leadership.
2. Political Stability and Absence of Violence – the peaceful transfer of power from one government to the other.
3. Government Effectiveness – how effective political leadership is with regards to ensuring objective policy formulation; efficient policy implementation and evaluation of policy effectiveness.
4. Regulatory Quality - the quality of the regulatory framework and the history on which the enabling rules and regulations are based are essential in determining regulatory efficiency.
5. Rule of Law – relates to the perceptions and amount of respect that political leaders have for the regulatory and adjudicating instruments of state.
6. Control of Corruption – corruption is a major impediment to growth especially in developing countries.

2.5.1 The World Bank Investment Climate Survey Database

The next topic that Section 4 of chapter 2 of the textbook addresses is the World Bank Investment Climate Survey Database – A platform that was established to measure the level of transparency in the process of establishing a business in a country. The level of corporate competitiveness with a specific focus on the private sector is measured. This is illustrated in Figure 2.1 in section 4 of chapter 2 of the textbook, which depicts the Investment Climate in Africa in 2015.

The World Bank incorporates seven measurable indicators in the survey:

- Firm's perceptions
- Infrastructure and Services
- Finance
- Government Policies
- Conflict Resolution and Crime
- Capacity and Innovation
- Labour Relations

2.5.2. DOING BUSINESS: REGULATIONS AND THEIR ENFORCEMENT

With reference to section 4 of chapter 2 of the textbook, the next aspect that is taking into consideration is: doing business – regulations and their enforcement. International business operations are often challenged by different policies, especially in offshore markets. The effectiveness of the entire regulatory system is gauged by the extent to which rules and regulations formulated by the various levels of government are effectively enforced.

2.5.3 PUBLIC INTEGRITY INDEX

The existence, efficiency, effectiveness and accessibility of citizens to institutions that hold government accountable is measured by the Public Integrity Index. The extent to which the level of efficiency of quality services provided by the public service, to all the residents of a country, is governed. Section 4 of chapter 2 of the textbook provides further details on the public integrity index.

2.6 THE ROLE OF GOVERNMENT

Section 5 of chapter 2 of the textbook highlights the important role of government in promoting peace. Government is responsible for ensuring that fundamental human rights are realised and that each citizen has unrestricted access to basic services.

With reference to national competitive advantage and attracting foreign investment, government has to fulfil a more diverse but specific role – government has to create an environment that is investment-friendly and in which all market participants are treated equally. Government needs to ensure that access to business operational facilities are the same for all market participants.

Section 5 of chapter 2 continues to discuss the following aspects: respect for the rule of law; adjudication and enforcement; civil liberty and fundamental human rights; peaceful electioneering and the transfer of power and the transparency in governance and polity. Each of these sections are briefly discussed in the following sections:

2.6.1 Respect for the rule of law

General government attitude, appreciation and protection of the entire national institutional framework are all contained in the rule of law.

According to the World Justice Project, the rule of law should contain the following universal principles: accountability, equitability, accessibility and integrity. Respect for the rule of law is manifested in:

- Government, its officials and agents, individuals and private entities are all accountable under the law.
- Laws are clear, publicised, just, applied equally and protect fundamental human rights.
- The process by which the laws are enacted, administered, and enforced is accessible, fair and efficient.
- Justice is delivered by an independent and neutral jury consisting of members of the community they serve. The just is also competent, ethical and acts timeously.

2.6.2 Adjudication and enforcement

The credibility of the judicial system depends on the trustworthiness of the entire system, the integrity and depth knowledge of the presiding judges and the efficiency of the law enforcement agencies.

2.6.3 Civil liberty and fundamental human rights

Civil liberty and fundamental human rights can be used interchangeably depending on the scope and magnitude of the specific legal provision. Section 5 of chapter 2 provides further details on how these terms can be applied.

2.6.4 Peaceful electioneering and transfer of power

The democratic process includes the formation of political parties and engaging in politics. In a fragile social system this could lead to social unrest and violence as has happened in many developing countries across the world. Countries that are known for more peaceful elections and a stable political economy are more likely to attract foreign investment. Refer to section 5 of this chapter for further details.

2.6.5 Transparency in governance and polity

Governance comprises all the administrative activities that are associated with appointments, promotions and deployment of political officials regarding the business of the state. Collection of taxes and rates, appropriation of revenue generated in a transparent and equitable manner are some of the business of the state.

The political philosophy and economic system of a country determines the role of government. Section 5 of chapter 2 elaborates on the various political philosophies and economic systems.

2.7 CONCLUSION

This chapter has elaborated on the various global institutional frameworks which are looked in their own right. It culminates in a discussion that highlights their history and respective roles. Furthermore, worldwide governance indicators that are established by the World Bank are discussed. Lastly, the role of government regarding providing an enabling environment for economic growth and one that attracts foreign investment is investigated.

ACTIVITY 2.1

- Explain the roles of the various Global Institutional Frameworks.
- Elaborate on the term “Worldwide Governance Indicators”.

We will discuss this on the discussion forum.

LEARNING UNIT 3: CULTURE AND INTERNATIONAL BUSINESS

3.1 AIM

The purpose of this learning unit is to:

- Expose you to the concept of culture. To this end, we need to take cognisance of its elements and characteristics, which are pivotal to grasping the complexities of cross cultural literacy and the “culture shock” that this phenomenon can elicit.
- Operationalise culture in the workplace. This contextualises aspects of culture and its application to the global workplace. Therefore, different approaches to understanding the application of culture in the workplace are discussed. These include: Hall’s high and low context approach, Ronen and Schenkar’s cluster approach and Hofstede’s cultural dimensions.

3.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Explain the concept of the concept of culture.
- Identify the elements of culture.
- Exemplify the characteristics of culture.
- Explain cross-cultural literacy.
- Justify the importance of culture in the workplace.
- Defend the realities of “culture shock”, in the workplace.

3.3 CULTURE AND INTERNATIONAL BUSINESS

The role of culture in international business is discussed in section 3.2 of chapter 3. It is defined and discussed as one of the dynamics of the globalisation process. It, further, impacts a country’s political economy, in terms of the benefits, risks and costs, that it infuses into the global business process. Its uniqueness relates to the distinctiveness of societies and nations, whose cross-cultural differences, are exposed. This reflects differences between countries, in terms of values, norms and standards, that are shared between a group of people, which, when combined, constitute a blueprint

for living. In so doing, the elements of culture and its characteristics are highlighted, particularly the politico-economic characteristics of a society’s culture, and its prevailing social structures, and social stratification. These characteristics reveal certain fundamental building blocks, which are pivotal to understanding the cultural environments of different nations. These insights are discussed in sections 3.2 and 3.3 of the chapter.

3.4 CULTURE AND SOCIETY

Country-specific political economies, with their corresponding social structures and strata, reveal a great deal about a country’s cultural environment and its underpinnings, which include the following building blocks, as discussed and summarised in sections 3.3 and 3.4. of chapter 3:
The fact that culture is learned.
That culture is shared.

That culture is relative.
That culture is adaptive.
That culture is interrelated.
That culture is symbolic.
That culture is pervasive.

One of the manifestations of these building blocks is seen in a society's religious systems. The phenomenon of comparative religious systems, is specifically discussed in section 3.4.4 of chapter 3. It features prominently in the international business environment, playing a major role in shaping cultural values, and ethical systems.

The world's dominant religious systems are discussed in section 3.4.4 of the chapter. They include: Christianity, Islam, Hinduism and Buddhism. These different religious systems are carefully articulated in section 3.4.4 of the textbook. They constitute a dominant aspect of a country's cultural environment.

3.5 LEVELS OF CULTURE

Many countries comprise different nations and societies. These each have their own cultural environments. Because of these nation-state differences, cognisance needs to be taken of the different levels within these nation-states at which culture manifests itself. These include: national cultures, sectoral cultures, industry cultures, business cultures and individual cultures. This distinction is illustrated in Figure 3.1 in section 3.5 of the chapter.
The implications of these cultural nuances, is discussed in section 3.5. Attention is given to its influence on: international business, political and economic ideologies, legal systems and the respective education systems, as characterised by the subcultures in a society. These in turn impact the organisational and occupational cultures of companies and MNCs operating in particular countries.

3.6 CROSS-CULTURAL LITERACY

Understanding cross-cultural differences, requires different literacy skills. It implies that cultural differences prevail within a national culture and that specific skills are required to deal with these differences. A prerequisite for dealing with these cross-cultural differences, is that employees possess very specific, cross-cultural literacy skills. It includes: understanding the finer nuances of foreign languages, business practices, communication and negotiation, all of which are articulated in section 3.6 of chapter 3. MNCs' fail to grasp these differences at their own risk. Consequently, the urgency of these cross-cultural differences, receives attention in this section. This is an extensive discussion and calls for your careful attention.

3.7 CULTURE IN THE WORKPLACE

This constitutes a dominant aspect of chapter 3. Section 3.7 includes a variety of paradigms, which serve as guidelines to understanding cultural nuances in the workplace. They help in the management of diverse, cultural practices in a globalised workplace. These paradigms are set out and discussed in section 3.7. The discussion is illustrated by very practical applications, which are sometimes based on a country's unique, national culture, which often accords with Hall's low-context/high context culture, which is mentioned in this section. Indeed, Hall's high-context/low-context paradigm is specifically discussed in section 3.7.1 of this chapter.

Other paradigms comprise: Ronan and Shenkar's cultural clusters, and Hofstede's cultural dimensions in the workplace. These paradigms are discussed in sections 3.7.2 and 3.7.3 of this chapter. It is, however, Hofstede's "cultural dimensions", which features prominently, because of its amenability to many country's unique cultures. Because of this, it receives expansive attention, as spelled out in section 3.7.3 of this chapter. Its pervasive applicability elicits our attention to aspects such as: high power distance, uncertainty avoidance, individualisms versus collectivism, masculinity versus femininity and short-term orientation. These "cultural dimensions" are elucidated on in section 3.7.3. It is important to note that they have since been complemented by additional dimensions, developed by researchers.

3.8 CULTURE SHOCK

This phenomenon is addressed in terms of "change" and "conflict", which is so often prevalent in the workplace. This section highlights the importance of the level of acceptance of such change, the importance of organisational orientation in accommodating such changes, and the impact of both short-term and long-term orientation on the process of cultural change. Emphasis is placed on the extent to which cross-cultural change often precipitates conflict in the workplace. This discussion culminates in the reality of "culture shock" which this type of conflict can result in.

Some of the symptoms experienced by employees include:
A feeling of powerlessness.
Fits of anger and frustration.
Frustration and fear over the forfeiture of familiar social cues.
Confusion over having to deal with strange "contextual signs", manifested in the workplace.
Feelings of rejection, as employees have to give up on "how we always used to do things".

These symptoms are elaborated on during the course of section 3.8 of the chapter, entitled, "Culture: change and conflict". Their application is discussed in this section, and the impact this can have on employees, who find themselves strangers, in a foreign culture, is highlighted.

3.9 CONCLUSION

This chapter, highlights how pivotal culture is to the process of engaging in international business. Therefore, the driving forces of cross-cultural engagement are discussed in this chapter. You are, consequently, urged to familiarise yourselves, with the various facets of culture in international business. Moreover, you should also be able to illustrate the realities of the various building blocks of cross-cultural engagement, as discussed in this chapter.

Clearly, the long-term goal of globalisation must be the economic emancipation of hitherto poor communities. This is a multifaceted task, the various dimensions of which are highlighted in this chapter, in an attempt to build on the conceptual framework of economic globalisation, which is pivotal to the globalisation process.

ACTIVITY 3.1

“This activity, focuses on the disruption caused by the expulsion of Asians, from the country of Uganda, in the early 1970s. Many deportees relocated to the United Kingdom. In 1993, some of them returned to Africa, to start-up their family businesses all over again. Many moved to Uganda’s neighboring countries. Apart from the “culture shock” many experienced, they nevertheless succeeded, in their start-up ventures. Some of these Asian businesses proved very successful, so much so, that some were able to move to Dubai, from where they operated in numerous African countries.
However, these bold moves, often involved contending with substantial cross-cultural differences in Africa. Indeed, some were even exposed to the realities of “culture shock”, associated with such a business venture.

Source: Adapted from the Economist, April 16th – 22nd, 2016. Special Report. Making Africa Work.

In the light of these unusual cultural challenges, facing some of these Asian families, you are required to respond to the following questions.

- Explain whether you think the concept of culture applies to all African countries, and not just to those adjacent to Uganda. What are some of the common characteristics of this culture?
- Identify the differences in religion, which could threaten the ultimate relocation of families to Uganda.
- Explain how “culture shock”, could affect Asian families, eventually relocating to Uganda?

We will discuss this on the discussion forum.

LEARNING UNIT 4: ETHICS AND CORPORATE GOVERNANCE IN INTERNATIONAL BUSINESS

4.1 AIM

The purpose of this learning unit is to:

- Encourage you to explore the link between international business, governments and societies. In so doing, you should be able to address the controversies surrounding the split between agents and owners, in the context of operational MNCs.
- Enable you to explore the ethical implications of the link between business, government and societies, and the potential impact this could have on "corporate governance". Corporate governance is discussed in particular, both from a broad and a narrow perspective. This dichotomy needs to be clearly understood.
- Enable you to familiarise yourself with the different theories of business ethics, ranging from Friedman's doctrine relating to profit maximisation, relative to the pursuance of corporate social expenditure, to Kantian ethics and the "rights" and "justice" theories.
- Draw your attention to the importance of sustainable corporate social responsibility and the role of MNCs' in the pursuance of global governance.

4.2 LEARNING OUTCOMES

After you have studied this chapter, you should be able to:

- Explain the link between international business, government and society.
- Elucidate on the theories of business ethics presented in this chapter.
- Rationalise the link between business ethics and corporate governance.
- Substantiate the importance of corporate social responsibility, in a global context.
- Explain the concept of global governance.

4.3 MNCs' AND THEIR STAKEHOLDERS: ETHICAL IMPLICATIONS

Section 4.1 of chapter 4, of the textbook, provides the backdrop to the discussion on ethics and corporate governance in international business. This reflects the split between the owners and management control of MNCs', in particular.
The split between ownership and management control has created what is known as "agency risk", on account of the potential tensions, involving both owners and managers and the opportunism that this relationship can cause. This nexus has given rise to the need for corporate governance, which is discussed in section 4.1 of this chapter. It highlights the role of the board of directors in the governance process. This is discussed in the context of "stewardship" and the directors of MNCs being responsible for the performance of the MNC's business plan.

However, section 4.2 of this chapter expands the concept of "stewardship" to include the relationship between international business, as a whole, and Governments and their societal constituents. This relationship holds ethical implications. It highlights the wider, ethical implications of corporate governance, flowing from the interaction between MNCs, foreign governments and their respective societies. This is elaborated on in section 4.2. It highlights the ethical implications for stakeholders who have an interest in the operation of MNCs', in particular host countries. Indeed, this relationship broadens the landscape of corporate governance.

But, the focus also shifts to a narrower perspective on corporate governance, which raises potential tensions between "internal" and "external" governance. "Internal" governance points to the responsibilities of directors, including the various aspects of strategic direction and the supervision of various management functions in the MNC, whereas the broader perspective focuses on the relationship between international business, Governments and societies. This embraces "external" governance, which highlights the relationship between corporate governance and business ethics.
In an attempt to clarify the relationship between corporate governance and business ethics, section 4.2 of this chapter delves into the meaning of "ethical". It does so by focusing on four core values peculiar to business ethics. These include: fairness, accountability, responsibility and transparency.

4.4 THEORIES OF BUSINESS ETHICS

Section 4.3 of this chapter, provides an exposition of a number of business ethics theories. These include: Friedman's doctrine, which focuses on the tensions between corporate social responsibility and profit maximisation, those theories pertaining to cultural relativism, the "righteous moralist" and the "naïve moralist". These theories are complemented by Utilitarian and Kantian ethics, "rights" theories and "justice" theories. Section 4.3.1 elaborates on Friedman's doctrine juxtaposing corporate social responsibility and profit maximisation. It reflects a strong measure of pragmatism, in its pursuance of corporate profit maximisation. He has an aversion for corporate social responsibility.

Section 4.3.2 highlights the infusion of cultural relativism into the practice of business ethics. This approach is characterised by the dictum: "when in Rome do as the Romans do". By contrast, the theory of the "righteous moralist", presupposes that the "home country's standards of ethics must be applied in the host country. The rationale motivating this theory is discussed in section 4.3.3. It illustrates the practical consequences of expatriates, working in host countries, trying to impose their ethical standards on a host country MNC.
By analogy, the theory of the "naïve moralist", outlined in section 4.3.4, highlights the moral implications of expatriate managers, blindly following the business practices of the host country, regardless of the ethical consequences.

Section 4.3.5 exposes you to Utilitarian and Kantian ethics. The two need to be distinguished. Utilitarian ethics compels business decision making to weigh up the costs and benefits of every decision. The implications of this are clarified and exemplified in section 4.3.5. By contrast, Kantian ethics highlights the moral rights and duties that humans possess, regardless of any utilitarian benefits, that may accrue to others. Kant's arguments are summed up in the dictum: "everyone should be treated as a free person and equal to everyone else. Everyone has a duty to treat others in the same way". The outworking of this dictum is discussed in the context of his "categorical imperative", which is enlarged upon in this section.

The corollary to these dual theories of business ethics, is to be found in the discussion on the "rights" theories outlined in section 4.3.6. Here the emphasis is on human beings having fundamental rights and privileges, that apply internationally. This theory is decomposed in the context of the universality of moral rights and the implications of them transcending national and cultural barriers. The practical summation of these rights is clarified in the United Nation's Declaration of Human Rights, which is presented and discussed in this section.

Allied to the rights theories are the justice theories, as discussed in section 4.3.7 of the chapter. Pivotal to these theories is the discussion on "distributive" justice, which has to do with justice and fairness. The practical outworking of distributive justice is expounded upon in this section. It highlights two dominant principles of justice, namely, each person should be permitted the maximum amount of basic liberty and, when this requirement is fulfilled, inequality in basic social goals such as income and wealth distribution, should be rectified. To this end, Rawls's theory of distributive justice is noteworthy. The practical implications this holds for MNCs' policies, upon operating in a host country, are carefully spelled out in this section.

4.5 SUSTAINABLE CORPORATE SOCIAL RESPONSIBILITY

Section 4.4 of chapter 4, of the textbook, deals with corporate social responsibility (CSR) and the importance of its sustainability. CSR focuses on the impact that MNCs' have on business and community environments. It seeks to unravel the social and ethical implications of MNCs' operating in particular environments.

Significantly, the definition of CSR advanced in this section, emphasizes the inclusive stakeholder approach to the implementation of CSR programmes. It demands commitment by MNCs to sustainable development. This commitment is highlighted in the context of the King Report, which is unpacked in this section. Its application must be construed within the South African, socio-economic and political context.

Evidence of such commitment is usually evinced through CSR reporting and the measure of transparency this provides. Section 4.5 of chapter 4, elaborates on the problem of disclosure. It highlights how stakeholders expect MNCs' to meet their demands. But, the question of "standards" of disclosure calls for particular attention, whether it involves social, economic or financial disclosure. However, the real contrast is between social, economic and environmental disclosure on the one hand, and financial disclosure on the other hand. The role of the annual report in disclosure, is discussed as well.

4.6 MULTINATIONAL CORPORATIONS (MNCs) AND GLOBAL GOVERNANCE

The dictates of global governance resonate with the operation of global institutions, relative to the need for governance in those countries where this is deficient. The imposition of global governance impacts the operations of MNCs which are affected by such interventions. The implications of this is discussed in section 4.6 of chapter 4, of the textbook.

Global institutions such as the IMF (International Monetary Fund), the WTO (World Trade Organisation) and the United Nations, are dominant players in this regard, while the BRICS coalition, is cited as an example of a regional player. Section 4.6 also cites the role of informal organisations, and non-governmental organisations (NGOs') which serve as conduits for the implementation of global governance. The corollary to these interventions, is the manner in which MNCs' corporate social responsibility programmes, can play a catalytic role in facilitating the process of global governance.

The question of "national sovereignty" and the extent to which this influences the operation of a country's borders, as a potential threat to the free passage of global governance, receives particular attention in section 4.6.

4.7 CONCLUSION

This chapter, focuses on the importance of ethics in International Business. Multinational Corporations (MNCs') have a responsibility to their stakeholders to be ethical. The various theories that support business ethics are highlighted.
Next, Sustainable Corporate Social Responsibility (CSR) and its importance to MNC's is discussed. The final section of this chapter investigates how global governance impacts on MNCs.

ACTIVITY 4.1

- Identify and elaborate on the Corporate Social Responsibility initiatives and programmes of a company of your choice. This could be a multinational corporation. Such an MNC could be located anywhere in the world.

We will discuss this on the discussion forum.

LEARNING UNIT 5: THE GLOBAL TECHNOLOGICAL, INNOVATION AND INFORMATION ENVIRONMENT

5.1 AIM

The purpose of this learning unit is to highlight the importance of the socio-cultural -; legal -; economic -; political -; and technological environments (SLEPT) in global business.

5.2 LEARNING OUTCOMES

After you have studied this chapter you should be able to:

- Explain what is meant by the ‘T” in “SLEPT”.
- Discuss technology in a global business context.
- Define and discuss innovation in a global business context
- Distinguish between blue ocean, blue sky and green field strategies
- Discuss information in a global business context
- Discuss the need for a global marketing information system

5.3 THE ‘T’ IN SLEPT

There are many different environments within which firms operate globally. An example of these differences is provided in Section 2 of Chapter 5 of the textbook. There are many different environments within which firms operate globally. An example of these differences is provided in Section 2 of Chapter 5 of the textbook.

Different countries also make use of different technical standards which is also illustrated in Section 2 of Chapter 5 of the textbook. Another difference can be found in the levels of technological advancement as well as the degree to which technology can completely replace workers which is discussed further in section 2 of Chapter 5 of the textbook.

5.4 TECHNOLOGY IN A GLOBAL BUSINESS

The concept of technology is defined in Section 3 of Chapter 5 of the textbook. The challenge of technology that firms are confronted with in the global market is multi-faceted. There are several different aspects of technology as is elaborated in Section 3 of Chapter 5 of the textbook. These aspects are highlighted in the following sections.

The concepts of “Border-in/border-out” technologies as adopted by the International Trade Centre in Geneva (ITC – a World Trade Organisation sub-division) are defined and discussed further in Section 3 of Chapter 5 of the textbook.

Product technology is technology involved in the product itself in how it looks and how it works. At the same time there is technology involved in the production of the product. These are both ‘border-in’ activities. These aspects offer a company the possibility differentiating from the competition in either product technology or production technology. Therefore, these two aspects are of strategic importance in the global business environment.
Quality focuses on the reliability, long-lasting products that meet or exceed customer expectations. A further definition of quality and examples are provided in Section 3 of chapter 5 of the textbook.

The next aspect of technology that is discussed is productivity. Technology and productivity are closely related. A definition of productivity is provided in Section 3 of chapter 5 of the textbook.

Technology can also replace people through automation, which in certain instances can be more cost-effective and lead to increased productivity. However, there is a social and economic impact that needs to be taken into consideration before technology completely replaces human. This is discussed in Section 3 of Chapter 5 of the textbook.

Technology that is used to facilitate the processes involved in doing business such as research, communication, banking, payment, quality control, product movement, etc. is known as business technology. Section 3 in Chapter 5 of the textbook illustrates this further with an example. Section 3 of chapter 5 of the textbook explains why appropriate technology does not always have to be the best possible technology.

Another important aspect of technology is affordability. High-tech is often more expensive as it involves expensive R&D, new factories, new materials and skills. It is essential that the benefits need to outweigh the costs if high-tech is to be employed by the global firm. An example is provided in Section 3 of chapter 5 of the textbook. Technology can also become a business opportunity when the global firm focuses on developing technologies to meet market demands. as discussed in Section 3 of chapter 5 of the textbook.

Furthermore, it is of vital importance that firms track technologies that are likely to influence their current and future business. New technologies can disrupt the marketplace and have a negative or positive impact on a firm’s competitive advantage depending on whether or not it is a competing technology.

Cognisance should also be taken of the various technologies that are changing the global business space. A few examples in this regard are provided in Section 3 of this chapter. These include (but are not limited to): 3D-printing’ virtual reality, augmented reality, intelligent drones, DNA engineering, Big data, Block chains, wearables, artificial intelligence, longevity, robotics, nano solar cells, mechatronics and indoor farming.

5.5 INNOVATION IN A GLOBAL BUSINESS

Although it is often in the development and use of technology that innovation is most visible, innovation can also be found in non-technological ways. These include: design, research, management and strategies. Section 4 of chapter 5 offers definitions of innovation.

The important consequences of Research and Development (R&D) and competitiveness on innovation are elaborated on in Section 4 of chapter 5 of the textbook. The textbook highlights that R & D is not always a good indicator of innovation. While innovation can be greatly influenced by competitiveness.

The terms “blue ocean”, “blue sky” and “green field” are defined in Section 4 of this chapter. These terms are often used when dealing with innovation and technology. As is explained in the textbook, blue sky thinking can lead to a blue ocean strategy. “Greenfield” is a form of foreign investment

Another aspect that is discussed under innovation in Section 4.2 of chapter 5 is disruptive innovation. Very new and very innovative products and new ways of doing business and business strategies are all forms of disruptive innovation or disruptive technologies.

5.6 INFORMATION IN A GLOBAL BUSINESS

Information is essential in successful business strategy and management. Definitions and details of the various types of information are offered in Section 5 of chapter 5 of the textbook. Table 1 in Section 5 of chapter 5 of the textbook summarises the various types of information required by global businesses in order to compete in the global environment. As indicated in Section 5 of chapter 5, an information system is a tool for managing information within the global business context.
Furthermore, Section 5 of chapter 5 highlights the need for a global information system to support global information needs.

5.7 CONCLUSION

This chapter has highlighted the importance of the technological, innovation, and information environment in global business. It also takes into consideration several aspects of technology which are all investigated individually. These include: “border-in”, “border-out”, productivity, product technology, quality, automation, affordability, appropriateness, tracking technology, technologies that are changing the global business space amongst others.

Different countries also make use of different technical standards. However, the distinctiveness of international business, relative to the modus operandi of domestic businesses, is pivotal to understanding the term “political economy”. A country’s political economy reflects the differences between countries, in many ways. This is because country’s have different political, economic and legal systems. Moreover, national cultural practices can vary dramatically as well, as can its skill levels and level of education, all of which reflects different stages of a country’s economic development.

Consequently, a country’s political economy highlights how the political, economic and legal systems of a country are interdependent and how they interact and influence each other, thereby affecting the level of economic well-being. Collectively, we refer to these systems as constituting the political economy of a country. Moreover, this chapter also focuses on the profound impact a country’s political economy can have on the benefits, costs and risks associated with doing business in different businesses in different countries and the way in which operations in different countries should be managed and how the strategies MNCs’ have adopted, should be pursued in different countries. Indeed, this is the essence of understanding the impact and composition of a country’s political economy. Sections 5.1 and 5.1 of this chapter, provide a synopsis of the term “political economy” and spell out the implications of both the supply side and the demand side of a country’s political economy, and the practical implications thereof.

ACTIVITY 5.1

- Explain what is meant by the acronym ‘SLEPT’.
- Distinguish between border-in/border-out technology. Illustrate this with examples.

We will discuss this on the discussion forum.

LEARNING UNIT 6: THE GLOBAL MONETARY SYSTEM AND FOREIGN EXCHANGE MARKET

6.1 AIM

The purpose of this learning unit is to highlight the difference between the money market and the capital market and to explain the importance of the foreign exchange market.

6.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Explain the advent and evolution of global monetary system
- Identify and discuss the various monetary systems
- Explain the implications of floating and fixed exchange rates
- Discuss the challenges posed by foreign exchange volatility for a multinational corporation
- Explain the importance of foreign exchange markets

6.3 INTRODUCTION

In this introductory section, Section 1 of chapter 6 of the textbook, the difference between the capital market and the money are highlighted. The money market is analysed in further detail with regard to various components and characteristics. A brief history on banking is also provided.

6.4 THE EVOLUTION OF THE GLOBAL MONETARY SYSTEM

A brief history of the global monetary system is provided in Section 6.2 of the textbook. This includes a summary of the following: the gold standard (1876 to 1944); the Bretton Woods Agreement and the fixed exchange rates (1944 to 1973); The floating exchange rates system (1973 till date). Section 2 of chapter 6 then expands on the structure of the global monetary system (Section 6.2.4.). This followed by a detailed explanation of currency conversion (Section 6.2.5).

Currency exchange rate determination is the topic of Section 6.2.6. The worth of a currency is determined by a complex but measurable micro-and macroeconomic indicators over a period of time. A distinction is drawn between the worth and value of a currency. The worth of a currency is the overall value that accrues to the holder of the currency relative to other currencies to which the domestic currency can be converted. These concepts are expanded on in Section 6.2.6.

6.5 FOREIGN EXCHANGE MARKETS

Section 6.3 highlights the importance and functions of the foreign exchange market to the entire global community. The functions of the foreign exchange market include transfer, credit and hedging. The interaction between exchange rates and domestic price levels is looked at in Section 6.3.2. Section 6.3.3. expands on the law of one price and purchasing power parity (PPP). The law of one price suggest that price equity is established when economic activities and assets are priced fairly in an efficient market system. PPP suggests that the prices of products should be comparatively the same when adjusted for national differentials in inflation and exchange rate variances. Exchange rates forecasting is analysed with reference to speculation and various econometric models that are used in exchange rate forecasting in Section 6.3.4. Foreign exchange exposures/risks stem from the likelihood that a foreign currency may move in a direction which is financially detrimental to the multinational corporation. Section 6.3.5. provides details on the 3 types of foreign exchange exposure: transactional; translation and economic exposure. Managing foreign exchange exposures/risks entails the use of forward exchange contracts, foreign currency options, the prefect hedge method and foreign currency bank accounts/loan facilities. These are explained with examples in Section 6.3.6.

6.6 CONCLUSION

This learning unit highlights the distinction between the global monetary and financial market. A historical perspective of the money market was presented. The implications of fixed, floating exchange rates the global monetary system were discussed. Exchange rate determination was also expanded on in this learning unit. In conclusion, various financial challenges that confront multinational corporations and possible interventions were proposed

ACTIVITY 6.1

- Identify and discuss the various monetary systems.
- Explain what is meant by the concepts the law of one price and purchasing power parity (PPP).

We will discuss this on the discussion forum.

LEARNING UNIT 7: EVOLUTION OF THE GLOBAL MARKETS AND AFRICAN IMPERATIVES

7.1 AIM

The purpose of this learning unit is to provide information on the evolution and role of the global capital market.

7.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- provide an overview of the evolution of the global capital market
- distinguish between capital markets and financial markets
- explain the role of the capital market in an economy
- elaborate on the the dynamics of the African capital market
- highlight the challenges of capital market development in Africa
- discuss the concept "Africapitalisation"

7.3 EVOLUTION OF THE GLOBAL CAPITAL MARKET

Section 7.2 of chapter 7 of the textbook provides a brief history of the global banking system followed by a brief history of global equity markets.

7.4 THE ROLE OF THE CAPITAL MARKET IN AN ECONOMY

As explained in Section 7.3 of chapter 7 of the textbook the capital market provides the foundation of the structure of most business transactions. In this Section of chapter 7 definitions are also provided for the financial market and the capital market.

The contributions of the capital market are highlighted in section 7.3 of chapter 7 of the textbook. These contributions are as follows:

- The capital market provides an important alternative source of finance for projects with a long-term repayment period.
- It bridges capital gaps in long-term financing.
- It provides investment opportunities for international and domestic portfolio investors.

7.5 THE DYNAMICS OF THE AFRICAN CAPITAL MARKET

Section 7.4 of chapter 7 of the textbook provides a discourse on the dynamics of the African capital market. Capital markets in African countries are weaker, less capitalised, and more prone to system failures when compared with the capital markets in Western countries. Socioeconomic problems and political instability further complicate the growth of capital markets in African countries (see section 7.4).

7.6 CHALLENGES THAT HINDER CAPITAL MARKET DEVELOPMENT IN AFRICA

As indicated in section 7.5 of chapter 7 of the textbook, the challenges that African capital markets are confronted with are many and varied. These challenges include, amongst others, the effects of colonisation, capital flight effected by Western-originated MNCs, civil unrest, political instability, corruption, and unhealthy rivalry amongst the biggest economies on the African continent.

7.7 THE NEW THINKING ON CAPITAL MARKET DEVELOPMENT –AFRICAPITALISATION

Section 7.6 of chapter 7 elaborates on various initiatives to improve capital market growth. These initiatives include corporate and political efforts and consortium arrangements, as discussed in this section of the textbook.

7.8 CONCLUSION

In this chapter of your textbook, the evolution of the global capital market is discussed. The capital market is distinguished from the financial market, and this is followed by a discussion on the role of the capital market. The dynamics of African capital markets are considered, and the many challenges of African capital markets are discussed in the subsequent sections. In conclusion, the concept of "Africapitalisation" is explained.

ACTIVITY 7.1

- Distinguish between financial and capital markets.
- Critically evaluate the role of the capital market in an economy.

We will discuss this on the discussion forum.

LEARNING UNIT 8: FINANCIAL MANAGEMENT AND STRATEGIES IN A GLOBAL CONTEXT

8.1 AIM

The purpose of this learning unit is to define financial management, discuss the dynamics of international financial management and possible implications of such decisions on the functionality and competitiveness of firms in the global marketplace.

8.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Identify the Components of Financial Market
- Explain the Functionality of the Financial Market
- Identify the Roles of Global Institutions in the Functionality of Markets
- Understand the Meaning of Financial Management
- Identify the Major Determinants of Market Efficiency
- Explain the Major Challenges Facing Financial Managers
- Provide Basic Strategic Solutions to the Identified Challenges

8.3 WHAT IS FINANCIAL MANAGEMENT?

As explained in Section 2 of chapter 8 of the textbook, the role of financial managers is to decide what portion of our financial resources to consume immediately and what portion to invest for future consumption.

8.4 APPROACHES TO FINANCIAL MANAGEMENT

Section 3 of chapter 8 of the textbook, highlights the traditional approach to financial management. The traditional approach consists of:

- Arrangement of funds from lending body
- Arrangement of funds through various financial instruments
- Scanning for various sources of funds.

This traditional approach laid the foundation for the modern financial management system as discussed in Section 3 of chapter 8 of the textbook.

8.5 WORKING CAPITAL MANAGEMENT

In Section 8.4 of the textbook, working capital is referred to as the lifeline of every organisation. Working capital is defined as the operating capital or the organisation, or the pool of an organisation's current assets.

An indication of the ability of the firm to meet its immediate obligations and commitments as and when due is determined by a firm's liquidity. Section 8.4 discusses the methods that can be used to determine the liquidity of a firm are: the acid test ratio (or the quick ratio); the current ratio (or liquidity ratio) is also referred to as the working capital ratio, which is calculated as:

$$WCR = {}^{Current\ Assets}/_{Current\ Liabilities}$$

8.6 OPTIMISATION OF OPERATING COSTS

Section 5 of chapter 8 of the textbook explains why an effective strategic approach that focusses on cost optimisation while still being sustainable is required by the organisation in the contemporary business environment.

The principle of competitive cost optimisation is centred on five major considerations:

- marginal capital productivity (comparative marginal gains) (Section 8.5.1),
- identification and management of cost drivers (Section 8.5.2),
- promotion and reward for production efficiency (Section 8.5.3),
- strong strategic alliance and relationship with suppliers (Section 8.5.4),
- effective and efficient strategic planning and management (Section 8.5.5).

These considerations are expanded on in the individual sections of chapter 8 of the textbook as indicated in the brackets above.

8.7 TRANSFER PRICING

The interpretation of transfer pricing is dependent on the perception of the relevant stakeholder. Various examples are provided in Section 6 of chapter 8 of the textbook. Next, the advantages and challenges of transfer pricing are highlighted in Section 6 of chapter 8 of the textbook.

The main advantages of transfer pricing to the parent companies include:

- Reducing the firm’s tax liability
- Moving funds away from a country where currency devaluation is expected as a strategic intervention for macroeconomic stability.
- Moving funds from subsidiaries to a parent company or to a tax haven to increase corporate profits.

Some of the challenges of transfer pricing include:

- tax evasion
- movement of fund
- cost paddling
- monopolistic tendencies

Section 6 of chapter 8 of the textbook, provides a further discussion on the advantages and challenges associated with transfer pricing.

8.8 MULTILATERAL NETTING

Section 7 of chapter 8 of the textbook explains that multilateral netting refers to an arrangement between the subsidiaries of an MNC to settle accounts payable and receivable from each other as a consolidation rather than on on-going basis.
Furthermore, the advantages of multilateral netting as discussed in Section 7 of chapter 8 of the textbook, are a reduction in: the frequency of settlements and liquidity challenges.

8.9 CENTRALISED DEPOSITORY

A centralised depository refers to pooling together the resources of the entire corporation in a single account rather than keeping the resources in individual and separate accounts as discussed in Section 8 of chapter 8 of the textbook.

8.10 CAPITAL BUDGETING

As discussed in Section 9 of chapter 8 of the textbook, capital budgeting is a strategic process used to evaluate the possibility of a firm's ability to achieve its capital-intensive investments in near future.

Section 9 of this chapter of the textbook, proceeds to present three approaches to capital budgeting, namely the payback period, the net present value (NPV) method, as well as internal rate of return (IRR) method. Of these, the payback period is the simplest and easiest approach to adopt. All three methods are explained further by means of examples in Section 9 of chapter 8 of the textbook.

8.11 POLITICAL AND ECONOMIC RISK FACTORS IN CAPITAL BUDGETING

The extent to which political and economic risks affect capital budgeting are considered in detail in Section 10 of chapter 8 of the textbook. Political risks depend on the political philosophy and political system of the state where the MNC is considering investment. Economic risks include volatility in fiscal and monetary policies, which may trigger spontaneous financial instability, hyperinflation, distortion of microeconomic fundamentals, and various other socioeconomic problems. Section 10 of this chapter of the textbook, explores these risks in greater detail.

8.12 FINANCIAL RISKS IN CAPITAL BUDGETING

Section 11 of chapter 8 of the textbook, expands on the three financial risks that a MNC can encounter when employing capital budgeting.

These financial risks are:

- transaction exposure (Section 8.11.1)
- translation exposure (Section 8.11.2)
- economic exposure (Section 8.11.3)

These financial risks are expanded on in the individual sections of chapter 8 of the textbook as indicated in the brackets above.

8.13 RISK MANAGEMENT IN CAPITAL BUDGETING

Section 8.12 in chapter 8 of the textbook, present various ways of managing the risks associated with capital budgeting. These are all expanded on in Section 8.12 of the textbook and include:

- paying foreign denominated accounts as soon as practically possible.
- collecting all accounts receivables from potentially weak economies as quickly as possible.
- delaying payments of accounts that are denominated in local currency, given that the face value of local currency may depreciate further compared to the value of accounts receivable from stronger foreign transaction

- paying up all foreign denominated accounts as urgently as practicable.
- heavy but realistic investment in fixed assets.
- local debt financing

It is also important to note that there are scientific and quantitative approaches that can be employed in managing capital budget risks.

Three popular approaches in managing translation and transaction financial exposures are:

- spot transactions (Section 8.12.1)
- forward transactions (Section 8.12.3)
- currency swaps (Section 8.12.4)

While the effects of exchange rate fluctuations can be minimised through hedging strategies (Section 8.12.2) and currency options (Section 8.12.5).

These approaches are expanded on in the individual sections of chapter 8 of the textbook as indicated in the brackets above.

8.14 CONCLUSION

This learning unit presented various definitions of financial management. This followed by a discourse on the different approaches used in financial management. Next, the process, principles and practical dynamics of working capital management, were looked at.

The capital structure of the firm and why effective management of a good combination between assets and liability is important was elaborated on. The chapter also looked at the workings of capital budgeting as well as various approaches used in capital budgeting. In addition, risk factors in capital budgeting and possible approaches to manage the identified risks were discussed.

In conclusion, various hedging instruments that are used to offset possible effects of exchange rates volatility on the profitability of multinational corporations were discussed.

ACTIVITY 8.1

- Explain what working capital management entails.
- Critically discuss the financial risks associated with capital budgeting.

We will discuss this on the discussion forum.

LEARNING UNIT 9: INTERNATIONAL TRADE AND INVESTMENT

9.1 AIM

The purpose of this learning unit is to:

- Introduce you to the realities of international trade and investment flows.
- Allow you to contour the predominant patterns and types of international investments, relative to inward and outward foreign direct investment (FDI) flows.
- Sensitise you to the barriers to international investments, while highlighting the realities of capital controls.
- Expose you to recent developments in international trade, in the context of the modus operandi of the World Trade Organisation(WTO).
- Familiarise you with international trade theories, which provide the theoretical underpinning for international trade practices and the barriers to international trade, giving rise to the phenomenon of trade control.

9.2 LEARNING OUTCOMES

After reading this chapter, you will be able to:

- Critically evaluate the importance of international trade and investment flows.
- Identify the patterns of international investments, highlighting the risks involved.
- Confirm and debate the dynamics of capital controls.
- Justify the applicability of international trade theories.
- Debate the arguments advanced against the free trade movement.
- Explain the purpose of non-tariff barriers, given the importance of tariff barriers.

9.3 INTERNATIONAL TRADE AND INVESTMENT

Section 9.1 of chapter 9 of the textbook, seeks to contextualise international trade and investment flows within the framework of the global economy. The catalyst to increased trade and investment flows is the proliferation of benefits flowing from globalisation, which has also intensified the volatility of capital flows, which is the emphasis of this section.
Allusions to international capital flows raises the spectre of potential capital controls, notwithstanding the operation of multilateral trade agreements and free trade agreements. These constraints are a constant threat to the free flow of trade and investments, despite the influence of globalisation on patterns of international trade and investment flows.

9.4 TYPES OF INTERNATIONAL INVESTMENTS

Section 9.1.2 of chapter 9 of the textbook, makes distinct references to the patterns and types of international investments. It makes specific mention of the dynamics of the patterns and types of international investment flows, with particular reference to FDI (Foreign Direct Investment) flows, both inward and outward flows. Nevertheless, it also recognises the scope, purpose and destination of other types of investments, which could be equally beneficial.

Allied to FDI flows would, be the reality of cross-border, bank flows, and the transition of financial assets across borders. These are, further enhanced, by the operation of an integrated, global economy, whose financial systems are able to funnel capital, from those countries with surplus capital to more needy countries. The integrative mechanisms needed for this purpose are explained in this section.

9.5 CAPITAL CONTROLS

One of the barriers to international investments is the operation of capital controls. Although most countries are usually reluctant to introduce capital controls, there are various forces at work, which often compel them to do so. The reasons for this are enunciated in the opening paragraphs of section 9.1.4 of this chapter. They warrant consideration, in the light of the historical reasons, for imposing certain types of capital controls. These rationales are discussed in section 9.1.4.
Juxtaposed with the various types of historical controls, is the more recent approach to capital controls, which is dominated by market-based controls. Indeed, the reasons for market-based controls is explained in section 9.1.4 of this chapter.

However, the overwhelming consensus among globalists is that capital controls represent extreme measures, given the difficulties created by the implementation of capital controls. In fact, both the macro and micro-economic consequences of introducing capital controls, warrant consideration, as spelled out in section 9.1.4 of this chapter.

9.6 RECENT DEVELOPMENTS IN INTERNATIONAL TRADE

The advent of the World Trade Organisation(WTO) marked the modernisation of international trade developments. This precipitated trade liberalisation and its many catalysts such as the: role of tariffs and non-tariff barriers, the national treatment of foreigners and the protection of intellectual property, all of which are spelled out in section 9.2 of chapter 9, of the textbook.

However, the most notable trade development was the establishment of free trade agreements across EU (European Union) countries. The various types of trade agreements, including regional trade agreements(RTAs), warrant particular attention, inasmuch as they are treated in section 9.2 of this chapter. Inclusive in these discussions is the role of the WTO, which is discussed in the context of anti-globalisation initiatives. In fact, these discussions form an appropriate backdrop to the international trade theories discussed in section 9.3 of chapter 9.

9.7 INTERNATIONAL TRADE THEORIES

Several theories are discussed in this chapter. Historical theories relating to absolute and comparative advantage, as postulated by Adam Smith and David Ricardo, are explored, together with the theory of mercantilism and the advent of “neo-mercantilism”.

However, more recent theoretical developments, ranging from the Heckscher-Ohlin theory of factor proportions, to Porter’s paradigm of national competitive advantage and the New Trade theory, warrant attention as well. They have been included in the discourse, as set out in section 9.3 of chapter 9, of the textbook.

Consequently, the propositions theorised by Smith and Ricardo, have been presented as the theories of absolute and comparative advantage. The theory of absolute advantage distinguishes between natural and acquired advantage. These advantages enable countries to specialise in producing those goods, that give it a competitive advantage. In practice, this means that countries should shift to efficient industries, rather than competing in inefficient ones. This is the argument advanced in section 9.3.1 of this chapter.

The corollary to this proposition is Ricardo's theory of comparative advantage, which advocates that a country should specialise in the production of those goods that it produces most efficiently and to buy goods, it produces less efficiently, from other countries. This is elaborated on in section 9.3.2, where the emphasis is on unrestricted free trade.

Allied to these theories is the theory of mercantilism and the advent of "neo-mercantilism", as presented in section 9.3.4. Mercantilism advocates State intervention in a country's economy, neo-mercantilism advocates that countries run up favourable trade balances in pursuit of social and political objectives. This is discussed in section 9.3.4.

By contrast, theories such as the Heckscher-Ohlin theory of factor proportions, the Product Life Cycle theory, Porter's model of national competitive advantage and the New Trade theory, have been, it is argued, been infused into more recent trade developments.

While the theory of factor proportions argues that a country's comparative advantage, arises from differences in national, factor endowments, as spelled out in section 9.3.3; the product life cycle theory maintains that many new products originate from low cost production locations overseas, from whence they can be exported to highly developed, consumer markets, such as those located in the affluence of the USA, rather than the USA trying to produce these products. This contestable, proposition, is debated in section 9.3.5 of this chapter. It is, however, juxtaposed with Porter's model of national competitive advantage and the New Trade theory, which are discussed in sections 9.3.6 and 9.3.7 of chapter 9.

Porter's model proposes four attributes, which are important in achieving competitive superiority. These are expounded as: demand conditions, factor conditions, related and supporting industries and firm strategy, structure and rivalry. He contends that these attributes of a nation shape the environment in which local firms compete. By contrast, the New Trade theory, argues that, in certain circumstances, countries only specialise in the production of exportable products, emanating from certain industries, for which the world market, can only support a limited number of firms. This rather unique nuance to international trade is more fully discussed in section 9.3.7 of this chapter.

9.8 TRADE CREATION AND TRADE DIVERSION

The evolution of regional integration and regional free trade agreements has not been without criticism. This criticism has focused on the benefits and costs attributed to these economic developments. The benefits of regional integration arise from trade creation relative to trade diversion. These observations appear in sections 9.4 and 9.5 of this chapter.

Trade creation occurs, when high-cost domestic producers are replaced by low-cost producers, within a free trade area. Pivotal to the distinction between trade creation and trade diversion, is the role of free trade areas, as noted in section 9.4. Trade diversion occurs when lower cost, external suppliers, are replaced by high cost suppliers, within a free trade area. Moreover, a free trade agreement such as a regional trade agreement (RTA), could benefit the world, if the amount of trade created exceeds the amount of trade diverted. This discussion unfolds, in the context of section 9.5, of chapter 9. It involves free trade agreements and free trade areas, and the regulation of trade creation and trade diversion.

9.9 TRADE BARRIERS AND THE CASE FOR FREE TRADE

These imposts are debated, in the context of the reasons for trade barriers, the instruments of trade policy and trade control, through tariffs, quotas, subsidies and non-tariff barriers. Their restrictive potential is enunciated in section 9.6 of chapter 9, in the textbook.

The imposition and operation of trade barriers focuses our attention on the rationale for introducing trade barriers. These include: the protection of jobs, the infant industry argument, import substitution, the use of restriction standards, the restricted use of subsidies, in favour of preferred industries, controlling the balance of trade payments and deficits, export promotion, anti-dumping policies, political retaliation, to achieve specific objectives and the need to protect a country's national sovereignty. However, the imposition of trade barriers is not without its consequences.

All of this material is set out in section 9.6 of this chapter, with the rationale for trade barriers expounded in section 9.6.1 of this chapter, while section 9.6.2 focuses on the purpose and choice of trade control instruments, both of which may elicit different responses, from domestic and foreign groups. Trade control could: directly influence the price of exports and imports, or they can directly limit the quantity of a good to be traded. Trade controls ultimately assume the form of tariff barriers and non-tariff barriers (NTBs).

Tariff barriers comprise: import tariffs, export tariffs and subsidies. They are discussed in section 9.6.3 of this chapter. By contrast, NTBs, also known as quantity controls, comprise: import quotas, voluntary export restraints(VERs), local content requirements and technical barriers. These are discussed, within the rubric of section 9.6.4. Each one of these measures, is outlined and separately discussed. These brief expositions appear under section 9.6.4 of chapter 9.

Notwithstanding, the culmination of these discussions focuses on the phenomenon of "free trade" and the modus operandi of the free trade movement, which is currently under attack.
The historical origins of free trade are outlined in section 9.7 of this chapter. They reflect the principles of "absolute advantage", as set out in section 9.7.
Moreover, what is particularly noteworthy, is that the reason for free trade, is often a country's desire to minimise imports, which could lead to wastage of a country's natural resources.
The corollary to this is the persistence of the free trade movement today, despite the onslaught of protectionism and regionalism. These tensions are juxtaposed in section 9.7 of this chapter, they reflect the global predilection for access to world trade. The discussion highlights the desire of many countries to acquire trade interests for their citizens. This is the culmination of the discussion on trade barriers and the case for free trade.

9.10 CONCLUSION

This chapter has highlighted the dynamics of international trade and investment flows. It notes the reality of restrictions inhibiting such flows, whether capital controls or trade barriers, due to increased protectionism and rising regionalism, despite the advent of free trade.

ACTIVITY 9.1

South Africa's investment downgrade is now a reality which South Africans have to live with. International investment flows into industries, such as the automotive industry, previously enjoyed unfettered international investment inflows into the industry. Doubts are, however being expressed as to how sustainable such investment inputs are likely to be.

These doubts are expressed in investors' assessment of local demand, and the market's competitiveness as a sourcing locality. For, although a weak Rand might make exports more globally competitive, this is overshadowed by the high percentage of imported components that make up the cost of local assembly. These constraints are being compounded by Government's belief that the local content average must increase, favouring new Black companies. This is clearly an unprecedented scenario for the industry.

Given this scenario you must:

- Explain the circumstances under which the South African Government would resort to non-tariff barriers to contain the threats to the motor industry. Identify the most effective NTBs, for this purpose.
- Identify and evaluate the impediments to free trade, as highlighted above.

We will discuss this on the discussion forum.

LEARNING UNIT 10: FOREIGN DIRECT INVESTMENT AND INSTITUTIONAL FRAMEWORK

10.1 AIM

The purpose of this learning unit is to explain the concept of foreign direct investment (FDI) as holistically as possible.

10.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to

- explain the phenomenon of foreign direct investment (FDI)
- understand the underlying theories and principles of FDI
- trace the trend of FDI flows globally, with specific reference to the major African economies
- describe the types of FDI
- discuss the importance of FDI to the home and host economies
- explain the drivers or determinants of FDI direction
- explain the challenges faced by developing countries in attracting FDI

10.3 WHAT IS FDI?

In section 10.1 of chapter 10 of the textbook, foreign direct investment (FDI) is introduced. Several attempts have been made to define FDI. However, there is no general consensus on what really constitutes FDI and what does not.

Section 10.2 of this chapter indicates that the definition of FDI depends on the perspectives held by the relevant stakeholders. These perspectives can be economic, environmental or socio-political in nature. The textbook looks at the perspectives of major institutional role players. Section 10.2 of chapter 10 provides a few definitions of FDI, such as the one provided by the International Monetary Fund (IMF).

10.4 PHILOSOPHICAL APPROACH TO FDI

The philosophical approach to FDI is explained through three political and ideological approaches:

- the radical view proposition
- the pragmatic nationalism orientation
- the free-market economic philosophy

In section 10.3 these three approaches are discussed in greater detail.

10.5 THEORIES OF FDI

The main motivation behind FDI lies in a combination of a series of internationalisation theories, barriers to exporting and imperfect market imperfect behaviour.

Section 10.4.1 of chapter 10, highlights the following barriers to exporting:

- high transportation costs

- a lack of tight control over sales in the foreign market
- application of instruments of trade restriction by government
- the producer of the product does not have the ability to fully represent the product and build the corporate image around the product

Section 10.4.2 of this chapter of the textbook looks at imperfect market behaviour in greater detail. This is based on research into oligopolistic enterprises.

10.6 TRENDS IN FDI FLOWS

A historical perspective on FDI is provided in section 10.5 of chapter 10 of the textbook. From this discussion, two important concepts emanate: the flow and stock of FDI. The *flow* of FDI refers to the movement of financial resources by MNCs across global geography. The *stock* of FDI relates to the monetary value of the total capital that is moved by MNCs across global geography. These concepts are discussed further in section 10.5 of this chapter.

10.7 TYPES OF FDI

According to the explanation in section 10.6 of chapter 10 of the textbook, there are various types of FDI. However, the textbook focuses on four major types: mergers, acquisitions, brownfield investment and wholly-owned subsidiaries. As explained in section 10.6.1 of chapter 10, a merger occurs when a MNC decides to partner with a foreign organisation on an equal basis. Acquisitions (when a stronger MNC absorbs a weaker organisation in the host country) are discussed in section 10.6.2.

Section 10.6.3 of this chapter looks at brownfield investments (where a non-operational Section 10.6.3 of this chapter looks at brownfield investments (where a non-operational facility is acquired or leased with the purpose of utilising the facility to deliver or render specific services or produce certain products).

Section 10.6.4 of this chapter expands on wholly-owned subsidiaries/greenfield investments (when a MNC invests in and builds production/operational facilities in an offshore market from scratch).

10.8 THE ADVANTAGES OF FDI TO THE HOME AND HOST ECONOMIES

In section 10.7 of the textbook, the advantages foreign direct investment has for home and host countries are discussed.

Section 10.7.1 of this chapter indicates the benefits of FDI for the home country. They are the balance-of-payments/trade advantage, the creation of job opportunities, and the acquisition of skills and knowledge.

The challenges FDI poses for home countries are discussed in section 10.7.2 of this chapter of the textbook. They are balance-of-payment problems, loss of export earnings due to import substitution, and import substitution possibly leading to unemployment.

The advantages FDI holds for the host economy are discussed in section 10.7.3 of this chapter of the textbook. These advantages include the following:

- It leads to the creation of employment opportunities.
- Technology spill-over may occur.
- It stimulates the transfer of superordinate human competence and operational systems.

- It stimulates infrastructural development.
- It promotes capital formation.
- It provides access to bigger international markets.
- It creates production and system linkages and synergy within the organisation.

The negative effects of FDI on the host nation are highlighted in section 10.7.4 of chapter 10 of the textbook. These negative effects are job losses, environmental pollution, and undue influence on the regulatory system.

10.9 INSTITUTIONAL DETERMINANTS OF FDI

In section 10.8 of chapter 10 of the textbook, the importance of a favourable offshore environment for business operations is discussed. As explained in section 10.8, the political economy of a country is an important determinant when it comes to FDI.

10.10 THE AFRICAN IMPERATIVE

As indicated in 10.9 of chapter 10 of the textbook, Africa has not been particularly and comparatively attractive for the inflow of FDI over the past decades.

The reasons for this lack of FDI attractiveness are the following:

- While infrastructural and capital gaps have been blamed for the low attractiveness of the continent for the inflow of FDI, there is documented evidence in support of social disturbances and armed struggles contributing hugely to the shortfall.
- Foreign investors lack knowledge about the continent.
- The global perception is that people in Africa are generally poor.
- Countries in Africa are regarded as having the lowest per capita GDP globally.

In Section 10.9 of chapter 10 of the textbook, these reasons are discussed in greater detail.

10.11 CONCLUSION

This learning unit expands on the concept of foreign direct investment (FDI). Several definitions of FDI are presented, followed by three philosophical approaches to FDI. Next, theories and trends that relate to FDI are investigated. This is followed by a description of the various types of FDI.

The challenges foreign investors face in both the host and the home economies, and justifications for attracting FDI for its noticeable contribution to national economies (both the host and the home economies) are also discussed.

In conclusion, the effect of institutional adequacy on the attractiveness of countries for the inflow of FDI, and the African dynamics of these determinants are considered.

ACTIVITY 10.1

- Critically evaluate the possible challenges FDI poses to home countries, as opposed to the advantages FDI may hold for the host economy.

We will discuss this on the discussion forum.

LEARN LEARNING UNIT 11: REGIONAL ECONOMIC INTEGRATION, TRADE BLOCS AND FREE-TRADE AREAS

11.1 AIM

The purpose of this learning unit is to provide information on the intricacies of regional economic integration, trade blocs and the functionality of free-trade areas. The learning unit also contains some information on the practical implications of regional trading arrangements, especially on trade creation and diversion, and the trade-offs they entail. The levels of economic integration and the functionality of regional trade blocs are also covered.

11.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to

- provide a variety of definitions of regional trade blocs and economic integration
- distinguish between economic integration and regional trade blocs
- explain the factors that contribute to viable economic integration and trade blocs
- compare the functionality of a few regional trade blocs and elaborate on their effectiveness in promoting trade flows between member nations
- indicate the challenges regional trade blocs and economic integrations have to overcome
- discuss the intricacies of regional economic integrations in Africa and evaluate their prospects and possible challenges that confront them

11.3 EVOLUTION OF REGIONAL TRADE BLOCS AND ECONOMIC INTEGRATION

Section 11.1 of chapter 11 of the prescribed book provides the contextual background for this topic. In this section, the evolution of trade blocs is discussed and a synopsis of its strategic relevance is presented. Section 11.2 explores the conceptual expanse of the chapter by considering a series of definitions that relates to the content of the chapter.

11.4 THE CONCEPTUAL BASIS OF REGIONAL ECONOMIC INTEGRATION AND TRADE BLOCS

The conceptual basis of regional economic integration and trade blocs is discussed in sections 11.2 and 11.3 of chapter 11 of the prescribed book. In addition, the section looks into the functional apparatus of regional trade blocs and economic integration. It further explains the levels of economic integration and considerations for nation-states to become members. The section furthers argument on how regional economic integration and trade blocs have contributed towards enhancing trade and investment across the region, especially among member nations.

The strategic importance of economic trade blocs and regional trade arrangements with regard to trade creation and diversion is investigated The section discusses how regional economic integrations and trade blocs have contributed to alleviating tensions, especially where tension previously existed between member nations, and particularly between advanced economies and emerging markets. In this regard, mention is made of the North America Free Trade Agreement (NAFTA) arrangements between the United States, Canada and Mexico. The role of political leadership on the functionality of regional trade blocs is also considered, especially antecedent to the Brexit and Trump metamorphoses.

11.5 CHALLENGES CONFRONTING REGIONAL ECONOMIC INTEGRATION AND TRADE BLOCS

Section 11.5 and the concluding section 11.6 of chapter 11 in the prescribed book provide discourse on the reasons why regional trade blocs fail, and on specific factors that inhibit the functionality and sustainability of economic integration and regional trade blocs. Section 11.6 provides a synopsis of the intricacies of regional economic integration in African countries. A few regional trade blocs in Africa are discussed – essentially those that have been resilient to various challenges. Their functionality and the inherent challenges that hinder their viability are discussed.

11.6 CONCLUSION

This chapter in the textbook discusses the evolution of regional trade blocs and the functionality of regional economic integration. It presents various definitions of the concepts and clearly distinguishes between the major concepts with regard to trade blocs. The chapter concludes by discussing specific dynamics of the African context.

ACTIVITY 11.1

- Distinguish between trade blocs and regional economic integration.
- Distinguish between various challenges in the way of regional economic integration in the EU, and in African countries. Relate this with the challenges experienced by NAFTA (the North America Free Trade Agreement) and ASEAN (the Association of Southeast Asian Countries).
- Do you think the EU may not survive the next decade? Give reasons for your argument.

We will discuss this on the discussion forum.

IN CLOSING

We wish you success in your studies.

Your lecturers for MNB3701
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