MNB 3701

GLOBAL BUSINESS MANAGEMENT

EXAM PACK (SECOND PAPER) MAY/JUNE 2018

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SECTION B

1.1 Explain the concept of globalisation

Globalisation according to Al Rodhan and Stoudmann, involves economic integration, transfer of policies across borders, transmission of knowledge, culture stability, the reproduction relation and discourse of power, it's a global process, a concept, a revolution and an establishment of global market free from socio-political control. According to Arjun Appadurai and John Tomlinson, is combination of various worldly component that are characterised by varying velocities, point of reference and destination. From Robertson, it is the social consciousness and knowledge dissemination through cross-border engagement. From above definitions, it implies that globalisation encompasses every endeavour of human creation and creativity. It includes good, bad as well as ugly. From the good point of view, it has made the world to look a small village. Based on the fundamental principle of globalisation under the auspices of trade liberalisation, the world production output has triple, the growth of international trade have surpassed the growth of world output. The main reason for this growth is because of the cross-border trade. The increase in world export has been unprecedented. On personal and individual level, goods that has accrued through the waves of globalisation has helped improved living standard of many people across the globe. According to Easterlin, the growth of human prosperity over the decade has been unprecedented. He suggested that most people today are better fed, clothed, educated, and healthier. The concept of location specific advantage of globalisation has helped create meaningful and sustainable jobs in some offshore. In spites of all the praises trumpeted about globalisation, there are certain weaknesses, fiduciary risks, crookedness and malignity about it. The antagonism directed towards globalisation by millions of people, both individuals and as part of various pressure groups comes from the perceived negatives effect of globalisation on the communities and its members. Most of the protest have been directed at the key institutions or agent of globalisation especially the G8, World Bank, International Monetary Fund, World Trade Organisation and International Labour Organisation. The prominent among the argument levied against globalisation by antagonist is the unintended consequences of job loss. Although, not all job loss can be attributed to globalisation, the pressure created by international competition has necessitated the relocation by multinational firm's production facilities to low cost production centres. Some Asian countries such as china, Hong Kong, South Korea, Taiwan and Singapore benefit extensively as a favourable destination for low cost production activities. African continent, in general have not benefited very much from the economic globalisation. The continent has witnessed great swing of economic growth over decade. The trend is mostly on over dependence on raw materials resources. Many manufacturing firm has been forced to close their operations. The few producing firm existing are producing far below capacity as a result of intense competition from MNC from advance economies. More so, the dumping of goods on the developing market by multinational companies from advance economies has worsened market development in less-privilege market. The most notably is the dumping of agriculture product from the United States and United Kingdom. The agriculture tariffs designed by the global agencies by the Uruguay round table negotiation hurt less – privilege countries. Example in Europe, import of raw cocoa from Africa attracts 0. 5%, if the cocoa is semi – processed the tariff increases to 10% while a by –product of cocoa from advance economies attract 30% import duty. The agriculture instrument of injustice adopted by the western countries and strictly enshrine in trade dispute settlement

1.2 Explain the role of the World Trade Organisation (WTO) in the promotion of the international trade of goods and services. How does this role differ from the role that GATT use to play?

The role of World Trade Organisation (WTO) was to facilitate trade liberalisation, economic openness, negotiation of treaties and agreements, regulating trade relationship between and among nations, settling trade deputies and resolutions, promoting growth through free trade mechanism. The WTO was generally created to foster strong economic ties on global scales and also to rebuild economies after post second world war. The rationale behind this institution is that a strong ties and reasonable degree of interdependence among countries will discourage wars. Its mechanism is to help create a platform for consultation and dialogue. In that way, its believe will foster greater respect for rule of law and respect for responsible trade and investment behaviour among nation and multinational corporations that operates across borders of countries.

The institution serves as a watchdogs for trade relations among various market agent and participants operating within the global market place.

The difference between WTO and GATT was that, GATT was established as multilateral organisation responsible for trade relations among nations. It was called General Agreement on Tariffs and Trade (GATT). The weakness GATT structure in negotiating trade treaties and agreements, and settling of trade disputes and resolutions necessitated the formation of WTO. The WTO on the other hands has more voice in the international trade arrangement and negotiation than GATT. The WTO is more of police in the application of instrument of trade restrictions by countries and fostering economic growth through the apparatus of free, fair and unprotected trade.

1.3 Discuss any 3 international trade theories that support the integrity of the market

International trade theories are theories that assumed that countries should neither artificially limit import nor export. The theory determine which produce survives the market, what consumers buy and the best produce that server's consumers need. The theories support specialisation to some extent and are geared towards domestic and international consumption. The theories among others include absolute advantage, comparative advantage, Heckscher – Ohlin theory of factor proportion, mercantilism, product life cycle theory and national competitive.

First and foremost, absolute advantage, this theory hold the view that different countries produce some goods more efficiently than other. This therefore suggest that customers shouldn't buy those goods domestically, if they can get them cheaply somewhere or abroad. The theory argue that there shouldn't be trade restrictions. Each country should specialised in those product that they have competitive advantage. This implies that countries should shift to efficient industries rather than trying to compete in an inefficient industries. The theory therefore emphasised that there could either natural or acquired advantage. Natural advantages are derive from climatic conditions, access to certain natural resources, availability of certain skills etc. acquired advantage on the other hand , confirm that most of the goods produce now a days are manufacturing base rather than product of agricultural production. This therefore implies that countries that have an acquired advantage have process technology which will enable production of unique product that can be distinguished from those of their competitors. Process technology stems from a country ability to efficiently produce homogenous products. Through acquired technology country can create new product while substituting old ones and also substituting traditional trading partners with new alternatives.

Secondly, comparative advantage, according to Richardo's theory, it is important for countries to specialise in the production of those goods that they can mostly produce efficiently and buy those they are less efficient in from other countries. In other words, countries comparative advantage lies in specialising in products that required relatively low input of resources than products that requires relatively high inputs resources. In this scenario, being able to engage in trade with another country, these two trading countries can increased combined production of both product and enjoy reciprocal trade benefit due to comparative advantage of specialisation.

Thirdly, Heckscher- Ohlin theory of factor proportion, judging from Richardo explanations, Heckscher and Ohlin put forward different explanation of comparative advantage. They argue out that comparative advantage arises from differences in national factor production endowments. By endowment they mean countries resources or factors of production such as land, labour and capital. The disparities in this factor explain the difference in factor cost. The greater the factor endowment the less the production cost. The theory therefore predict that countries will export those goods that required intensive use of factors that are abundantly available locally ,whiles importing those good that make use of intensive scares resources. This theory henceforth, explain the pattern of international trade that is observable in the global economy.

Furthermore, mercantilism, this theory focuses on government interventions as a main drive of international trade. The mercantilist, hold the view that a country wealth is measured by its holding of treasure, which means gold reserve. The conviction of the theory is that countries should export than import. The theory therefore had impact on government policies. It requires that government should ensure that the country export than import. This therefore place restrictions on import and thereby subsidising local production which could not compete domestically. From onset the practice was sustainable, however with time the philosophy become weak due to neo- mercantile degree of protection from foreign competition and acquisition of technology leadership, the state intervention has been affected as a result of neo-mercantilism equating with political powers, economic powers and balance of trade.

In addition, the product life cycle, when the international trade spawns into theories, the product life cycle was developed by Raymond Vernon. The theory highlighted the United States dominance in developing new products such as home appliances, computers, electronics etc. the theory stem from the fact that the country want to develop numerous consumer products as a result of affluence consumers and market size. The product development requires great innovation. The argument that all new product comes from the US was still debatable. The origination of product from lost- cost producing location then exported to the USA market became the rationale for the development of the product life cycle theory. Vernon argued that many of the new product that are being exported to overseas market continued to be produced in the USA. His argument was that pioneering factory prefers to keep production facilities close to the market and the centre of decision making activities in order to safeguard uncertainty and risk associated with new product development and distribution. The controversial aspect of his reasoning was that demand for new product is backed on non-pricing factor. He therefore maintained that pioneering firms can charge relatively high price for new products which will avoid the need to look for low-cost production location. His decisions was generally focus on the life cycle of a typical new product which demand was rapidly growing in the USA as compare to other advance countries. The purpose was to force those advance countries to import new products rather than produce it themselves. He believes the trend would change over time as demand for such products in advance high-income countries started to grow. The trend actually trigger the decision for those countries to start producing new products in their home market. The consequences for USA companies to set up production facility abroad where demand was growing. This results in limited export from the USA. The completion of the cycles have seen maturing market for product in the advance nation overseas. The extended product standard and prices became main competitive weapon. This trend impact USA market overseas. Producers operating in low-cost location ended up exporting to the US market. The cycle of production in the USA actually loses its advantage other overseas markets.

More so, national competitive advantage, this theory was propounded by Professor Michael Porter. His question was why have some countries developed and sustained differential competitive advantage while others are not able to do so. To answer this question he developed the diamond of national advantage base on four attributes. He contended that this four attributes shape the environment in which local firm compete. His theory unfolded the work of Heckscher- Ohlin competitive advantage. Porter four attributes are based on demand conditions, factor conditions, related and supporting industries and firm strategy, structure and rivalry.

Demand conditions, requires that companies set up production operations in close proximity to potential market which can sustainable drives sufficient demand. Factor condition on the other hand, indicate the ability of the firm to meet specific consumer demand within the scope of the firm production facilities. The factor theory highlighted a country competitiveness from the point of availability of natural resources and other production factors. While related and supporting industries factor highlighted the importance of supporting industries being in close proximity to the firm production facility or competitive advantage flowing from supporting facility in similar industries.

The firm strategy, structure and rivalry factor influence the firms decisions regarding viability of its production facility especially sustainability of the firm strategy, structure and rivalry potential. For instance, if the barrier to the market entry is low the firm can expect increase intensive rivalry between competing firm. Having illustrated about attributes, Porter later incorporated another two variables which influence demand importance. This two variables includes chance and government policies. Chance involves major innovation that reshapes structure of the industries and market and allow countries to supersede another in the global competitiveness and market domination. While government police on the other hand involves preferred policies and regulations that can distract or improved nation's competitiveness. Porter argued that firms are most likely to survive international competitiveness when demand is more favourable in the target industrial segment and supported by those attributes. He emphasized that the effect of one attribute is contingent upon the state of the other. He believed that this attributes has potential to infuse greater degree of rigour and competitive resilience into a country business environment.

Finally, new trade theory, this theory was theoretical innovation of Paul Krugman. He argued to some extent countries should specialised in production and export of a particular product. His argument was not on account of difference in factor of production but on certain industries that the market can support. According to him, with such industries, firms that enters the market first can be able to build competitive advantage and subsequent ones may find it difficult to challenge. To him, pattern of trade between nations could be due to the ability of a firm within a given nation to capture first move advantage and such competitive advantages can provide for an unassailable lead in particular industry that will subsequently make it difficult for other firms from other countries with equal favourable factor of endowment to challenge the position. In recent time market dominance has been successfully challenged through product innovation and technology.

In complementary to the theory of national competitive advantage, the importance was that country factors such as strength of domestic demand and size of domestic market has explained nation dominance in production and export of particular product.

1.4 Discuss the role of the capital market in the economy

The capital market of an economy is made of financial market and capital market. Financial market is market where short-term financial instrument are traded that's sold and bought whereas capital market on the other hand is a virtual monetary space where long term financial instruments are traded that's sold and bought. The capital market provides a cheap platform for corporations to raise fund for capital intensive projects. The main component of a country capital market are equity market and credit market. The equity market comprises of stock market, investment bank and other related equity market whiles credit market includes development and assets - backed commercial banks, bond market, insurance houses and other financial instrument of intermediation. The capital market play a very significant role in enhancing economic growth of a country. It provides an alternative source of finance for project which required long term repayment period. It helps bridge the capital gap in long term financing through the stock market and development banks. It provides businesses with the opportunity to raised cheaper funding through initial public offering or secondary offering. The market provide an access for international and domestic portfolio investors. This enhances the supplementations of low domestic savings, which make it possible for governments and other deficit units to seek funding that's critical for growth- inducing activities.

2.1 In 1996, the World Bank established the worldwide governance indicators (WGI) which measures the efficiency and effectiveness of individual's country political leadership. Identify and discuss any four criteria for which the World Bank uses to judge countries on the radar of efficient governance

The four criteria which the World Bank uses to judge countries on the radar of efficient governance includes the voice and accountability, political stability and absence of violence, regulatory quality, rule of law, government effectiveness, and control of corruption.

In the first place, voice and accountability, this particular radar look at freedom of speech and accountability of political leadership to the citizenry. The criteria measures the extent to which the general populace are able to express their views and opinions on issues of public interest without fear of intimidation or prosecution. The radar emphasise the importance of transparency in government and ability of leaders to give full account of behaviour and conduct.

Secondly, political stability and absence of violence, this element measures the peaceful transfer of power from one government to another. It observers the smooth running of political mandate and absence of social unrest, violent protest, destructions of lives and properties, electioneering violence and diabolical partisan politics.

Thirdly, regulatory quality, this view the regulatory framework of the country by taking into account the historical experience and amendment process to existing regulations. The general view is that legal origin and colonial experience have great influence on most countries regulatory framework.

In addition, rule of law, this look into the strength of respect that political leaders have for regulatory framework and adjudication instrument of the state. Especially, the efficiency of law enforcement, intellectual property right, contract enforcement, fairness of state enforcement agents etc.

Furthermore, control of corruption, corruption severs as a major hindrance to growth and development in many developing countries. According to Worldwide Governance Indicators, corruption level influences the behaviour of foreign investor. A good institutional framework, check and balances and control severs as overall attractiveness of country to foreign investor.

2.2 Fully discuss the characteristics of an emerging industry

An emerging industry is an entirely new industry or restructured industry that is growing at a faster rate than an overall economy. It can also be described as a group of companies in line of business formed around new product or idea that is at early stage of development. The main characteristic of emerging industry is that the industry is new and unproven which leaves much speculation and many opinions about how it will function, how fast it will grow and how big it will become. There is often uncertainty as to how the industry will attract customers for the product and the willingness of customers to pay value for the product. In most cases the technological know-how underlying production in the industry are proprietary base and are close guarded. There are no much competition in the industries. Product attributes play major factor in winning buyers favour. Entry barriers to the industry is relatively low, it only become competitive when the market shows promising signs of growth. In emerging industries, all buyers are first time users who might be more concern with product performance, reliability and conflict claim of rivalry firms. Organisations in an emerging industry more times have problem of securing ample suppliers of raw materials and components to support production. Sometimes they even find themselves short of fund to support the needed research and development for the product to catch attention. The most critical issues confronting most organisation in an emerging industry is how to pre-finance their initial operation before sales and revenue take off and which market segment to target and what specific competitive advantage is important to secure a leading position. It's believe that organisation with solid resource capabilities and good strategy has greater advantage.

2.3 "The government of every country have a crucial role to play in ensuring peaceful coexistence among their people and the world at large" Discuss the "rule of law" as one of the barometers used by government to ensure this role.

Rule of law is one of the barometer use by government or state to regulate the possible or potential use of excessive power by state agent, institutions or individual state organ of the state. Rule of law is the checks and balances that are entrenched in the state administrative hierarchy and constitutional provisions in every democratic society. According to World Justices Project, the component of respect for rule of law involves four major universal principles. Namely, accountability, equitability, accessibility and integrity. According to the organisation the respect for rule of law must manifest as follows

1. The government, its officials and agents as well as individual and private entities must be accountable under the law. This implies that all state apparatus must obey the law. The actions and disposition of government official must be guided by professionalism and dedications.

2. The law must be clear and devoid of ambiguity. It must be publicized, stable and just. It should be applied evenly and should protect fundamental right, including security of a person, property and core human right.

3. The process by which the law is enacted, administered and enforced should be accessible, fair and efficient. The regulatory system should be efficient, equitable, and respectable of every person without a favour

4. Justice delivery should be timeously by competent, ethical and independent representative and a neutral jury of sufficient number. System should be well resourced and makeup of the community that it serves. The institution must uphold the principle of ethical judicial prudency.

3.1 Explain the concept of Foreign Direct Investment (FDI) entails

The concept of FDI can be explain through many different perspective, thus economic, environmental and socio political. From economic perspective, what constitute FDI is toward the effect rather than investment. The financial value is more important that the effect of investment on the economy. From environmental point of view FDI is more on ecological impact, while from political leaders stand FDI is view from socio political and economic point. However, from institutional perspective, the most robust definition according to IMF is, FDI is the category of international investment that reflects the objective of resident entity in one economy obtaining a lasting interest in an enterprise resident in another country. From the fund definition, that resident entity is a direct investor while the enterprise is the direct investment enterprise that is locate in the host country. The resident entities are largely Multinational Corporation that invest huge sum of capital and commit valuable resources into their offshore presence for the sole purpose of non-easily reversible business interest.

According to Organisation for Economic Cooperation and Development (OECD), FDI is a reflection of the objective of obtaining a lasting interest by resident entity in one economic (the MNC) in an entity economy other than that of the investor (the offshore investment). This definition clear implies that FDI is only possible when the intent to commit lasting interest is in the form of a long term business relationship. However, United Nations Conference on Trade and Development (UNCTAD) also share the same definition presented by OECD but try to expanded scope by including lasting and controlling interest in the offshore subsidiary. The controlling and ownership structure introduce by UNCTAD consider a very important view point that includes not only the lasting nature of the FDI in the host nation but also appropriate shareholding in the foreign subsidiary. The relevance of the ownership structure is the possibility for the domestic investor to ultimately participate and hold equity stake in the subsidiary through participation in the stock market or any other similar platform. From above explanation FDI focus on lasting nature of foreign investment in the host country and the ownership of the investment.

3.2 Discuss the four major types of FDI, mergers, acquisition, brownfield investment and wholly-owned subsidiaries

The four major types of FDIs are mergers, acquisitions, brownfield and wholly –owned subsidiaries.

MERGERS

Mergers as FDI occurs when an MNC decides to partner with a foreign organisation on equal footing basis. Through this arrangement the partner organisation share equal stake in the business as well as in management and control.

ACQUISITIONS

Acquisition as FDI occurs when a strong MNC absorbs a weak organisation in the host country. This forms of arrangement often occurs among organisation in the same industry or related industries. Acquisition is best if the government in the host country favours outright ownership of assets by the foreign investor. In this case, the foreign investor takes over the existing business fully including assets and management.

BROWNFIELD INVESTMENT

This form of FDI occurs through acquisition or lease of an existing operational facilities with the purpose of utilizing the facilities to deliver or render specific services or produce certain product. Brownfield generally occur when a company or government establishment take over the controlling share in an offshore organisation for the purpose of rending certain services or production of certain product. It is mainly done through lease arrangement with the aim of acquiring the operation

WHOLLY –OWENED SUBSIDAIRY

This form of FDI occurs, when MNC invest and build production or operation facilities in an offshore market from the scratch. Wholly owned subsidiaries usually occurred as result of foreign expansion corporate strategy of a firm, which might identify fully project with the foreign community. Thereby winning the people loyalty. It could also be adopted as a strategy of circumventing restriction on ownership of asset by foreign organisation.

3.3 Elaborate on the advantages of FDI to the host country

The advantage of FDI to the host country include among others the following.

1. It creates production and system linkage and synergy within the industry. In most country of foreign subsidiaries, the MNC try to annex the sources that supply the input materials through backward integration or the distribution network using forward integration. This strategy is very important to MNC

2. It facilitates access to bigger international market. The MNC that invest in offshore market, choose a market that provides opportunities for low cost production with the capability to produce in a very large quantity. The MNC uses these to create international network to penetrate both nearby and distance market.

3. Technology spill over, the MNC penetrating foreign market with superior technology capabilities and state of the act production that enables efficiency and efficacy, this occur because the MNC originate from technological advance economies , importing the technology to the host economy is not only to improve the level of technology advancement of the industry but the country as well.

4. Employment opportunities, the FDI inflows into the host country create the possibility of absorbing more labour. Given the fact that production capacity is enlarged and the production system is optimise, more human resources may be required to create the necessary interaction between input materials and machines.

5. Capital formation, the inflow of foreign capital into the host economy, create platform for the injection of foreign currency into the system to support value of the local currency, foreign earnings and national current account.

6. Infrastructure development. The fixed capital development which goes into infrastructure development and upgrade benefit the host country infrastructure development.