[redacted]

Principles of Global Business Management

MNB3701

Assignment 2

Due Date: 21 September 2018

Unique Number: 883916

[redacted]

TABLE OF CONTENTS

1. INTRODUCTION

The term globalisation has been used to reflect the human transition, through innovative selection into modernity. This has caused an advanced form of human assembly. Globalisation depends on your perspective – for victims of colonisation and slavery, globalisation began with the first invasion of communities by the imperialists. The wealth to be found in unexplored worlds was enough to compensate their expedition. The ongoing economic activities in the old world as well as the establishment of the original Silk Road all caused the process of interdependence of people and societies.

On the business front, the British East India Company, the Dutch East India Company and the Portuguese East India Company created a platform upon which modern globalisation could thrive. These developments stimulated trades in cash crops, precious metals, knowledge distribution as well as human capital transportation and technological innovations.

Question 1

1.1 Explain the concept of “globalisation” and fully justify the motivation for anti-globalisation campaign by various pressure groups.

Globalisation is regarded as the process of interaction and integration between people, companies, and governments worldwide. It is also described as how countries around the world are becoming more interconnected economically and culturally and it is international.

Globalisation is primarily an economic process of interactions and integration that is associated with social and cultural aspects. There is an increase in the global interactions that comes with the growth of international trade, ideas and culture. Within the process of globalisation conflicts and diplomacy are an old life’s occurrences and the modern culture of globalisation. Economically globalisation involves goods and services, and the economic resources of capital, technology and data.

The first anti-globalisation happened in 1994 and it was an anti-campaign against the implementation of North American Free Trade Agreement by the Mexican government, they wanted a free trade and removal of tariffs from the United States and Canada.**(ref)**

A large group of anti-globalisation activists do not necessarily oppose globalisation in general; their call is that all forms of global integration must provide a better democratic representation, advancement of human rights, fair trade and sustainable development.

The anti-globalisation campaign includes but is not limited to move across borders, extract desired natural resources and use a variety of human resources.

10

1.2 Explain the role of the World Trade Organisation (WTO) in the management of global trade relationship amongst member countries. How does this differ from the role that GATT used to play?

“According to R.A. Aregbeshola, 23-24” The World Trade Organisation plays the following roles:

- Trade Liberalisation – removal of all the barriers to trade openness. It enforces conformity with global rules for the removal of tariffs and barriers that stops free movement of goods and services across international borders.
- Negotiation of treaties and agreements – plays part as a referee for parties in potential trade negotiations. It is important to ensure equal partnerships in trade agreements, ensures equity of purpose and equitable allotment of trade proceeds. This helps strengthen the negotiating power of less developed countries.
- Regulate trade relationships between nations – World Trade Organisation monitors trade relations among member nations and ensures free, fair and unrestricted trade arrangements.
- Negotiate trade dispute resolution or settlement – Responsible for mediating, resolving and settling trade disputes.
- Facilitate economic growth through free trade mechanism – fosters economic growth through free, fair and unprotected trade.

What is GATT?
It is a multilateral International trade treaty that was created in 1947 and it was frequently amended.

General Agreement on Tariffs and Trade (GATT) was a legal agreement between many countries, whose main purpose was to promote international trade by reducing trade barriers.

Each member has to work in good faith and not raise its tariffs and other qualitative measures with a view to increasing its bargaining power in tariffs negotiations. GATT adopted the bilateral-multilateral technique of negotiating reduction in tariffs.

The WTO is not a continuation of the GATT; it has a completely different character. The GATT was a series of rules, a multilateral agreement without an institutional foundation and with just an ad hoc secretariat, originating from the attempt to establish an International Trade Organisation in the 1940s.

GATT had five principles that were important in understanding both the pre – 1994 GATT and WTO:

- Non-discrimination.
- Reciprocity
- Binding and enforceable commitments
- Transparency
- Safety values.

15

The WTO replaced GATT as an international organisation, but the General agreement still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations.

Question 2

2.1 Fully explain the attributes of Porter's theory of competitive advantage and situate the practical application of this theory within the expansion of mining corporations across emerging economies.

2.1.1 Demand conditions: The importance of demand condition as a factor influencing competitive advantage builds up from the fact that in the market economy the direction of production, that is the kind of goods which are produced, is determined by the needs of buyers. This actually means regardless of the state of the other determinants in the diamond industry competitiveness in an industry is impossible to be achieved unless demand conditions allow for the successful realisation of firms products.

2.1.2 Factor conditions: Are inputs which affect competition in any industry have a number of broad categories such as human resources; physical resources; knowledge resources; capital resources and infrastructure resources. What determine their influence on competitiveness is the degree of efficiency and effectiveness of the way they are deployed within an industry.

2.1.3 Related and supporting industries: Given the increasingly significant globalisation process, which makes inputs available on global markets, emphasis should be put not on the availability of the inputs but on their effective utilisation.

2.1.4 Firm strategy, structure and rivalry: This is the most important attribute. For example if there are any barriers entering the market that is low one can expect an increase in the intensity of rivalry between the competing firms.

There are two main components in the mining industry which are large mining houses and oligopolies. The pure size, buying power and economies of scale make it difficult to compete. The competition amongst the larger mining houses was noted s being strong and collaborative.

2.1.4 Government policies: Refers to preferred policies and regulations which can detract from, or improve a nation's competitive advantage.

Various government strategies, policies and regulations have resulted in the fostering of predominantly negative views of the mining industry. Taking for example government mining industry, the regulations that are imposed are actually driving beneficiaries away rather than keeping them.

2.1.6 Chance: could include big innovations that will turn around the structure of industries and markets, allowing one country to supersede another in the global competeveness and market domination.

Chance is an event one cannot predict, and hence it is something difficult to plan towards. A chance event could be the market collapse, which is an event that the mining industry is currently in; or could even be a natural disaster. The participants saw three main ways, based on their own business scenarios, by which to combat potential chance events. These are: diversification to avoid shocks to any specific commodities, innovations and research and development; and the financial strength to enable concerns to sit out competitors who fail before you.

15

2.2 Fully discuss the characteristics of an emerging industry and the relevant strategies that an MNC should consider.

Characteristics of an emerging industry: (Aregbeshola, 2017, p48, 49)

1. The technological uncertainty regarding the product of standardisation that will eventually unfold. MNC's with proprietary ownership of certain technologies could capitalise on this uncertainty and reap the benefits of the competitive advantage.
2. The prevalence of inadequate information about competitors could also lead to competitor uncertainty and uncertainty about the strength of demand same as buyers in the market place. Such uncertainty could present opportunities which could create one or more competitive advantages. For example competitive advantages could be created in terms of first time customers who are confused as to availability of non-standardised products in an uncertain market space.
3. There is uncertainty as to how predictably the experience curve applies to those wishing to enter emerging industries. This is due to doubt regarding the initial costs which could be incurred by MNC's seeking to enter such industries, together with uncertainty as to when corresponding, costs will start declining.
4. The dearth of entry barriers can be a catalyst to the formation of new firms.
5. Raw materials and components are in accessible, owing to suppliers not yet being ready to respond to the industry's needs.
6. There is a need for high-risk capital, due to industry uncertainty.

Strategies that MNC's should consider:

- Improve the industry structure, so as to alleviate uncertainty in the market place.
- Improve the quality of products to be sold in such markets.
- Build congenial relationships with suppliers and their distribution channels.
- Capitalise on technological uncertainty by entrenching their own technological dominance.
- Galvanise a core of reliable customers in the face of future competitors encroaching on this market space.

10

<u>Questions 3</u>

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

Foreign Direct Investment is when an individual or business owns 10% or more of a foreign company. According to the Organisation for Economic Co-operation and Development (OECD) FDI is seen as a reflection of the objective of obtaining a lasting interest by a resident entity in one economy (the MNC) in an entity resident in an economy other than that of the investor (offshore investment)

DFI is critical for developing emerging market countries. These companies need many different Nation's funding and knowledge to broaden their international sales. Their countries need private investment in infrastructure, energy and water to increase jobs and wages.

5

3.2 Fully discuss the determinants of FDI destination and motivate why MNC's are particularly wrong on their perception of an African markets as possible investment destinations.

Institutional-backed liberalisation: evidence given gives an indication that institutional-backed economic openness encourages foreign capital inflow. The domestic economy suggest that in attracting the investment interests of MNC's that are considered strategic to achieving the socio-political and economic goals of government is key.

There is a need for investment diversification: Capital Asset Price Model proposed a strong causal relationship. Investors were also only investing if the opportunity cost of the return is low on investment. High risk is when the opportunity cost of the return on investment yields above-average returns.

Understanding International capital flow: Institutions play an important role in determining the destination of FDI. Asa Capital formation is a function of capital productivity; returns on capital are reliant on the yielded returns.

Africa has not been particularly attractive in the inflows of FDI. The attractiveness of Africa inflows of foreign investment is the fact that very little is known by foreign investors about the continent. The assumption is an unhealthy competition for inflow of FDI. A weak market hypothesis is also another determinant of the FDI inflows to Africa.

7

3.3 Elaborate on the advantages that FDI offers its host country.

Balance of payment/trade advantages: FDI helps the home country to improve its trade balance, and that also improves the health status of the current account. It also helps with the current account balance as well. The MNC's sources of production inputs like raw material, capital, machines and equipment help with the improvement of current account.

FDI helps to create job opportunities in the home country: the sourcing of input materials from the home country leads to an increase in production capacity to meet new, increased demand, thereby bringing about an increase job creation the home economy.

Skills and knowledge acquisition: MNC's learn new skills and technology from abroad, which are transferred back home to improve production processes.

7

CONCLUSION

The objective of this study was to analyse the determinants of foreign direct investment in developing countries. Inflation appears as an indicator of economic stability. It presents a negative sign and is significant in the regression.

The Bureau of Economic Analysis reports on the FDI activities of foreign affiliates of U.S. companies. It provides the financial and operating data of these affiliates.

As a result of globalisation, the size of South African and its resultant home demand, and the quality and volume of minerals produced, was addressed in this study.

SOURCES CONSULTED

Aregbeshola, R.A.2017. *Global Business Management.* Cape Town: South Africa.48-49

Aregbeshola, R.A.2017. Principles of *Global Business Management.* Cape Town: South Africa.12

Aregbeshola, R.A.2017.Principles of *Global Business Management.* Cape Town: South Africa.79

Aregbeshola, R.A.2017.Principles of *Global Business Management.* Cape Town: South Africa.224

Aregbeshola, R.A.2017. Principles of *Global Business Management.* Cape Town: South Africa.226

University of South of South Africa. Department of Business Management. 2018. Principles of *Global Business Management: only learning guide for MNB3701.* Pretoria

ADDENDUM F: DECLARATION

DECLARATION

I, the undersigned, hereby declare that the work contained in this case study project is my own original work and that I have acknowledged all additional sources I have used and/or quoted directly.

[redacted] 21/09/2018

SIGNATURE DATE

RESULTS

1.1 = 10

1.2 = 15

2.1 = 15

2.2 = 10

3.1 = 5

3.2 = 7

3.3 = 7

Total = 69 / 70 (99%)

COMMENTS

1	VERY Well done! Please consult TL202 for further guidance on answering this assignment. Good luck with your studies!