

# Global Business Environments and Strategies MNI301J

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Additional  
Resource



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# Introduction

- Exam preparation material
- Your study material
  - Tutorial letters 101, 501 and 502
  - The 4<sup>th</sup> edition of the prescribed textbook
  - Overview of the module content
- Format of the examination
  - The structure of the paper

# Purpose of additional resource

- Globalisation
  - What is globalisation
  - Types of globalisation
  - Drivers of globalisation
  - Evolution of globalisation
    - Process by which local business might develop into a multinational business
  - Modes of market entry

# The global political, legal and technological environment

- PESTEL Model
  - The impact of the legal environment on investment strategies
  - Technological environment
- **A political spectrum**
  - democracy versus totalitarianism
- **The legal dimensions that multinational enterprise need to consider**
  - The laws of the domestic country
  - The laws of the foreign country
  - The international

# The global economic environment

- Economic integration
  - Grouping countries by agreement or treaty on regional basis to form a trade block
- The benefits of economic integration
  - Static/short-term effects
  - Dynamic/long-term effects
- The objectives of SADC

# The economic and investment environment

- Economic factors: influence the behaviour of consumers and firms in any given country
  - employment, income, inflation, interest rates, productivity and wealth
- Economic systems
  - Market economy
  - Command economy
  - Mixed economy

# World bank Countries classification

- Economic classification of countries
  - Low income
  - Lower income
  - Upper middle income
  - High income
- Phases of economic development
  - Developed countries
  - Less developed countries
  - Developing countries

# Developed countries

- Countries with high income and some upper-middle-income
- Characterised by
  - Political stability
  - A high educated and literate population
  - High levels of innovative and entrepreneurial activity
  - High levels of both industrial and information technology
  - High living standards for citizens



# Less developed countries

- Countries in low-income category in terms of World Bank classification
- Characterised by
  - Political instability and anarchy
  - Government inefficiency
  - Very low standards of living
  - Underdeveloped financial services sector
  - Low levels of industrial and information technology
  - Poor or underdeveloped infrastructure
  - Shortage of investment capital

# Developing countries

- Countries that lie somewhere between developed and less developed. Characterised by:
  - Relative political stability
  - Improving educational systems, literacy rates and work-skills levels
  - Relatively efficient technological systems
  - Less dependence on agricultural and mining with an expanding industrial sector
  - Rapidly increasing financial services sectors
  - Improved social conditions and a higher quality of life than before
  - Increasingly involved in international business

# Economic Growth

- Economic growth trends of any given country is one of the most important tools that international businesses are always interested in when planning their investments.
- Economic growth is a percentage change in the real GDP of a country measured on year-on year basis.
- The nominal GDP is converted into a real GDP by adjusting for general price increase - **Inflation**
- Inflation, therefore becomes a core of economic growth – **why?**

# Inflation

- Inflation affects some important issues that are of utmost importance for international business. These are:
  - Interest rates
  - Exchange rates
  - Cost of living
  - Political and economical confidence of the foreign country
- **High Inflation** pushes **interest rates** higher to enable investors to achieve adequate, real return on investments.
- **High interest rates**, in turn, **reduce domestic demand** and adversely affect economic growth.
- Due to high interest rates, borrowing becomes more expensive and companies become reluctant to borrow for business expansion purposes.
- Similarly, consumer spending decreases as well and ultimately **the cost of living increases** particularly if income levels remain unchanged or don't increase accordingly.

# Inflation

- Higher inflation rates in one country is relative to the inflation rates in other countries and hence the **country's currency depreciates** relative to those of other countries
- Banks offer higher interest rates to attract more money (**economic confidence**) while governments raise interest rates to slow down economic growth in attempt to dampen demand (**political move**).
- Different economic policies affect international business financial decisions
  - Foreign currency- dominated loans versus local currency-dominated loans depending on which is more favourable.
- Higher interest rates adversely affect international company involved in mainly importing and favourably affect international company involved mainly in exporting.

# Global monetary systems and foreign exchange

- Foreign exchange is a money of a foreign country in the form of bank deposits drafts or financial claims on an economic agent of another country.
  - Foreign exchange transaction
  - Direct and indirect quotes
  - Bid, ask and spread
  - Spot and forward transactions
  - Currency swaps
  - Cross –rates
  - Arbitrage

# The political economy of global trade

- Political economy imply that governments can employ protectionist measures to regulate the quality and quantity of goods and services that are traded between the country and the outside markets.
- **This is done mainly to:**
  1. Protect local jobs
  2. Import substitution
  3. Protection of infant industries
  4. Reduction of reliance on foreign suppliers
  5. Attraction of local and foreign investment
  6. Reduction in balance of trade payments or deficits
  7. Promotion of exports
  8. Political objectives or retaliation
  9. Protection of national sovereignty
  10. Antidumping remedies

# Instruments of trade policy

- Trade barriers are adopted to discourage the free flow of goods, input materials and services across international borders. Instruments used include:

## 1. Tariffs

- Ad valorem tariffs
- Export tariffs
- Transit tariffs

## 2. Subsidies

- Discourage foreign imports
- Gaining export markets

## 3. Quotas

- Import quotas – restricts quantity of imports – imposing of licence
- local content requirements – input materials must be sourced domestically
- Buy national restrictions – to limit consumption of imported good
- Voluntary export restraint - imposed on quantity of exports
- Technical barriers – technical barriers to discourage importation



# Trade barriers

- Effects of trade barriers
  - Are arbitrary and discriminatory and subjectively applied :- may breed counter tariffs
  - Require special training, supervision and administration
  - Add to the microeconomic problems
  - Encourage special-interest privileges:- breed concessions to trade allies and outcasts the rest
  - Increase government intervention

# Global Financial management

- **Scope of multinational financial management**
  - Capital budgeting
  - Capital structure
  - Working capital management
- **Cash and liquidity levels are determine through 3 motives**
  - The transaction motive
  - The precautionary motive
  - The speculative motive
- **Positioning funds optimally**
  - Transfer pricing
  - Multilateral netting
  - Tax havens
  - Fronting loans

# Types of foreign exchange risk

- Translation exposure / accounting exposure
  - Effects on financial statements of foreign subsidiaries translated into parent company statements
- Transaction exposure
  - Effects of foreign exchange on current cash flow/ working capital
- Economic exposure
  - Effects of foreign exchange on future cash flow

# Financing international trade

- 3 types of international relationships
  - Unaffiliated unknown
  - Unaffiliated known
  - Affiliated
- Main dilemma for international trade between exporter and importer is trust. Importer prefers to pay after receiving the goods and exporter prefers to deliver after receiving the payment.
- This dilemma is overcome through these steps
  1. **Letter of credit** (L/C) – bank issuing the L/C on request of the importer makes payment to the beneficiary (exporter)
  2. **Draft or bill of exchange** – an unconditional order by the exporter or importer's agent to pay the face amount of the draft on sight or at specified future date (time draft)
  3. **Bill of lading** – issued to the exporter by carrier transporting the product and serves as a **receipt, contract** and a **document** of title
  4. **Commercial invoice** - the exporter's description of the product being shipped to the importer – contains: name and address of seller and buyer, date, terms of payment, price, quantity, weight, packaging and shipping information.

# Financial disclosure

- MNEs usually release any information (company's annual report) pertaining to their companies for the users to make important decisions .
- all information relating to financial information is referred to as **financial disclosure**
- Companies release this information in two ways
  - Mandatory disclosure
  - Voluntary disclosure
- Financial disclosure include
  - Income statement and statement of comprehensive income
  - Balance sheet
  - Statement of cash flows
  - Statement of changes of equity

# Structure of the Exam

- Exam paper has two sections
  1. Section A (20 marks)
    - 20 multiple choice questions
  2. Section B (50 marks)
    - 3 Essay type questions (25 marks each)
    - Choose any 2 of the 3 questions

**Thank you**

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