

## PDS – MNI301 - SUMMARIES 2011

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### **Study Unit 1 – (Chapter 1)**

#### **Globalisation and the changing business environment:**

##### **1. Introduction:**

The global business environment is changing fast for many reasons like:

- the emergence of new economic blocs and super powers
- changing consumer preferences and demographics
- increased global instability
- the changing nature of competition
- global terrorism
- increased risk of doing international business
- new legal and trade frameworks
- and the development of new and wireless technologies

*thereby forcing SA businesses to*

- develop and distribute products widely and rapidly
- adapt to environmental change
- create new global alliances
- be ethical in their dealings and
- reduce costs

In the emerging global market, successful businesses will be those that compete internationally to meet supply and demand requirements.

Internationalisation is measured in terms:

- trade
- exports
- imports
- cross border investment flows
- international alliances and partnerships with foreign firms
- protectionism
- export and import diversification

##### **2. Global business and globalisation defined:**

Global business (an entrepreneurial activity that cuts across international boundaries) involves all commercial activities between two countries either by private companies for profit making or government orgs but profit may not be the motive. Global commercial activities are defined as the movement of resources (raw materials, capital, people and technology), goods (half finished and finished products), services (accounting, advertising, communications, computer and advisory services, education training) and skills (management and technical) over international borders. **Changing consumer preferences is a major driver of change in global business.**

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**Globalisation refers to the shift toward a more integrated and inter-dependent world economy including the globalisation of markets and production.**

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### **3. Types of international business**

- merchandise exports and imports
- services exports and imports
- tourism and transportation
- use of assets
- investments, incl direct and portfolio investments, licensing concessions and turnkey investments co-operative agreements
- multinational enterprises

### **4. Trends in the internationalisation of business**

International business is influenced by:

- the objectives of international enterprises and it effects the business environment
- rediscovery of capitalism due to communism
- development of regional trade blocs
- changing demographic patterns
- technology including wireless, mobile ad internet
- development in the services industry
- development of regional trading blocs
- outsourcing
- privatisation
- unstable political climate

Regional trade blocs including European Union (EU) and NAFTA has influenced trade for individual countries

- South Africa does not belong to any trade bloc to its disadvantage
- International Multi national companies exert influence over social, economic and political developments and dominate events in less developed countries
- Multi national companies ofte develop strategies according to political criteria.

### **5. Macro-economic determinants of international business**

#### **5.1 Theory of comparative advantage cost benefits in international trade**

Countries export products which they have a comparative cost benefit in the manufacturing or production over another country and import products they don't have a cost advantage over.

Multi national companies take advantage of their respective countries cost advantages eg SAB MILLER, ANGLO AMERICAN, ETC

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### 5.2 Technological renewal and production expertise

Technology makes it easy to export people skills and training as well as establish FOREIGN SUBSIDIARIES, facilities and markets which is easier than the export and transport raw materials and finished goods from one country to another.

Hence the possession of raw materials in a country is no longer an exclusive advantage.

Capitec has used innovative technology, simplified and focused products and low cost delivery channels which has enabled it to achieve rapid growth.

Faster processing times, paperless systems and high interest rate products as well as payroll cost savings are some of their top selling points

### 5.3 Theories of foreign Direct Investment

- Capital will flow from a country with abundant capital to one which has less abundant capital or from a low interest rate country to a higher yielding currency.
- Huge flows of capital occur between EU, Japan, China and the U.S
- Since the Euro has become a major trading currency, speculators no longer test the breaking points of currencies such as the pound or lira

### 5.4 Multi National agreements and organisations

Agreements exist to create a flow of goods and services

Examples:

- Agreements between trading blocs such as EU, NAFTA and Pacific Rim
- International Patent and Trade Marks Convention for international businesses
- The IMF
- World Bank, development bank of Asia and IATA

### 5.5 The trade cycle

Refers to shifts in world trade based on the life cycle of a product which starts with:

Phase 1: Product development due to export demand

Phase 2: Increase in exports

Phase 3: Product reaches maturity as overseas production starts

Phase 4: Decline and the exporting becomes an importer of the product.

### 5.6 The oligopoly model

Very large scale business which has few competitors and needs to expand overseas to grow.

### 5.7 International transfer of resources

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Differentials of resources between different countries create business opportunities for international countries.

### **5.8 Balance of Payments**

Trade balance determines a developing countries ability to grow-a large deficit makes it difficult to import.

A deficit is balanced by the inflow of foreign loans

In S.A difficulty in obtaining foreign loans can result in lower growth and concentration on exporting.

Balancing balance of payments is vital in determining a countries ability to send capital across international borders.

### **6 Growth in foreign business and foreign investment**

#### **6.1 Growth in global business opportunities**

Two fold objective:-growth opportunities and diminished competitiveness cause organisations to consider international strategies.

REACTIVE reasons include globalisation of competition and saturation on domestic markets

PROACTIVE reasons include growth objectives of organisations in mature markets looking for opportunities globally

Modern communication has enabled transfer of scientific, technological and commercial information possible thereby facilitating creation of new markets and increased competition.

- Travel efficiencies without price hikes have made it possible to control subsidiaries and visit suppliers in other parts of the world. In S.A lifting of sanctions has reopened markets internationally
- Management techniques have channelled new resources, technology and production technology to other parts of the world like sub Saharan Africa.
- Private companies have shown the ability to exploit overseas markets including complex politics of those countries.
- Economic expediency has enabled organisations to expand to other parts of the world before their competitors and the worlds capital markets are sufficiently developed to cater for multinational company capital requirements
- International trade has moved from bilateralism to multilateralism to help expand world trade.
- Collapse of communism has opened the path for SA to establish ties with Hungary, Russia, Poland and Romania
- S.A COMPANIES should look at new markets to establish trade and new opportunities.

#### **6.2 Factors influencing foreign Investment**

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### **6.2.1 Political Stability**

Violent coup d'etat, aggressive neighbouring states and terrorism have caused enterprises to lose millions of rands

### **6.2.2 Economic Performance**

Investors won't invest in a country with poor fundamentals-unemployment,inflation and growth prospects.

### **6.2.3 Attitude to Investors**

Government officials must be aware of the opportunities foreign investors represent so that investors can be received courteously.

### **6.2.4 Government Policies**

Policies on import/export,financing of staff salaries,foreign exchange are factors that affect international business

### **6.2.5 Infrastructure**

Countries that have costly infrastructure costs may be a poor option relative to their neighbours.

### **6.2.5 Labour**

Costs,skills,unionisation,ethics and influence of politics are all influencing factors

### **6.2.6 Banking and Finance**

Considerations include government ownership,stability of banks and access to finance as well as suitability of financial instruments for doing business international.

### **6.2.7 Government Bureaucracy**

States attitude towards approval of projects,completion of projects and creating employment is vital.

### **6.2.8 Business Environment**

Business confidence,availability of accountants,lawyers,building contractors and other services are important

### **6.2.9 Quality of life**

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Quality of life, security, medical facilities, etc are important considerations for foreign staff.

### **7. Internationalisation and evolution of multinational enterprises**

#### **7.1 Strategies for international commitments in the international process**

Different companies have different levels of internationalisation and their strategies reflect this

Some strategies include:

- Passive to active opportunities
- Internal to external handling of business
- Limited to extensive modes of operations
- Few to many locations
- Similar to dissimilar environments

#### **7.2 Evolution of multinational enterprises**

##### **7.2.1 Phase 1 International (overseas) inquiries**

A company may respond positively to responds from overseas buyers if it can sell its products at a profit in those markets

The company will sell its products through an overseas intermediate eg. an export merchant, an export commission house or a resident buyer living in the exporting companies home country, a broker or a combination export manager.

##### **7.2.2 Phase 2 Export Manager**

The company becomes proactive and appoints an export manager with a small staff to seek out foreign opportunities.

##### **7.2.3 Phase 3 Export Department and direct overseas sales**

A larger export department is established which deals directly with overseas buyers and the overseas intermediary is dispensed with

##### **7.2.4 Phase 4 Overseas branches and subsidiaries**

A sales branch is established in the foreign country which deals directly with foreign markets.

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The sales department may develop into a fully autonomous sales subsidiary .

### 7.2.5 Phase 5 Overseas Assembly

Occurs for three reasons:cheaper shipping costs for disassembled products,lower tariffs and cheaper labour

A company may begin assembly operations In foreign markets if its cheaper to transport the disassembled product as tariff costs and transportation costs

Eg.an unassembled television is transported in a much smaller box than a fully assembled set.

### 7.2.6 Phase 6 Overseas manufacturing

The ext step is the establishment of a production facility abroad.

The company may need to expand into new markets and increase supply which may be difficult due to foreign government import restrictions.

Thus the company may produce the product in the foreign country itself-options include:

- **Contract manufacturing:**foreign producer produces and sells the product in the foreign market but the company continues to promote ad distribute it.
- **Licensing:**Foreign company acquires the patents,trademarks and trade secrets.Problems arise whe the local company(licensor) believes the overseas company (licensee) is not doing enough to promote the product. Hence the licensor may turn to establishing a manufacturing facility via foreign direct investment.
- **Investment in manufacturing:**After setting up a manufacturing facility a company has a total business to manage with many functions- manufacturing,purchasing,finance,human resources,etc  
The company has to commit technical,management and financial resources to the new foreign entity.

### 7.2.7 Integration of Overseas subsidiaries

When foreign subsidiaries integrate into the parent company,a lot of foreign managers lose their autonomy as the parent company management starts making decisions such as foreign markets and manufacturing,local and foreign sources of finance,capital,markets,etc.

Some companies prefer a decentralised structure and companies have differing levels of multinationality in foreign markets and may keep certain functions in the home country and others in the foreign country.

**Chapter 2. Globalisation and international trade**

**1. Introduction**

Globalisation is the geographic dispersion of industrial and service activities and is driven by political, economic, social and technological forces.

2 main factors are globalisation of markets and globalisation of production.

Globalisation of markets refers to the demand side and is the expansion of a company's products into foreign markets.



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Globalisation of production (the supply side) refers to expansion into foreign countries in order to gain production, labour and cost efficiencies.

### **2. The modern globalisation institutions**

The 3 main institutions governing globalisation are:  
Bretton Woods, IMF, World Bank and the WTO

The WTO provides a forum for negotiations and agreements

The General Agreement on Tariffs and Trade (GATT) is a set of agreements to foster and encourage free flow of goods between signatory countries.

### **3. International trade theories**

#### **3.1 Mercantilism**

Refers to use of state power to build up industry-goals include:

- Unification of state via protective tariffs and internal trade
- Provision of sufficient revenue for the state through developing the economy
- High employment through encouraging trade and increase in money supply
- Accumulation of treasure and wealth through trade policy

#### **3.2 Absolute Advantage**

Adam Smith (1700's) theory of absolute advantage focussed on division of labour.

An example would be restructuring processes such that each worker is performing only one part of a process would result in greater production output.

This division of labour extended across countries whereby each country should specialise in one product for which it is uniquely suited.

Thus more could be produced by fewer eg English textiles and French wines.

#### **3.3 Comparative Advantage**

David Ricardo's principles of Political Economy and Taxation (1817-23) advocates that a country produce goods that it produces efficiently and buy those it produces inefficiently.

His theory is based on greater production throughout the world as well as encouraging free trade.

#### **3.4 Heckscher-Ohlin theory**

His theory expands on the Comparative Advantage theory but is based on the availability of the factors of production and their availability.

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Countries should export products that use its relatively abundant factors and import products that use its relatively scarce factors intensively.  
This theory presupposes no differences in productivity between different countries.

### **3.5 The Leontief paradox**

Since the USA is relatively abundant in capital it would be an exporter of capital intensive goods.

However he found the USA exports less capital intensive than the countries imports- hence the paradox.

### **3.6 Product Life-Cycle theory**

Raymond Vernon proposed the life cycle theory in the 1960's-the core of the theory was:

- For most of the 20<sup>th</sup> century most of the world products have been developed and sold in USA
- The size and wealth of the USA has created the incentive to develop new products.
- While demand for new products grows in the USA ,demand in other countries is restricted to high income groups.
- As demand grows in other countries it becomes feasible for the USA to establish production facilities in those countries.
- As the markets mature and become price competitive,countries might start exporting to the USA.
- The USA switches from being an exporter to an importer.

### **3.7 New trade theory**

Proposes that economies of scale to specialisation require government support and subsidies especially economies of scale only achievable overseas.

### **3.8 National Competitive Advantage**

Porter theorises that innovation is the source of competitive advantage in internationally competitive companies.

The 4 main factors in the competitive environment a firm competes in are:

- **Factor conditions:**refers to basic (natural resources,climatic conditions,basic workforce skills) and advanced/high level skills,infrastructure and advanced technologies)
- **Demand conditions:**refers to domestic competition and demand which enhance competition and innovation amongst local companies and provides an excellent springboard for expansion overseas.

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- **Related and supporting industries:** Refers to presence or absence of suppliers and service support industries. These factors enhance competitiveness and innovation, product offerings and cost savings amongst local companies.
- Firm strategies, structures and rivalry relate to the conditions in the home industry that either hinder or enhance the firm's ability to create, organise and manage domestic and international rivalry.  
Nations that do well in these industries have strong strategic management.

Porter concludes that the above four factors need to be positive together with a supportive management.

### 3.9 Concluding International theories

— The essence of globalisation is free trade with very definitive advantages  
Cost savings, production efficiencies, technological advances, utilisation of resources and development of countries economically as well as job creation are some spin offs

Disadvantages include job losses for unskilled workers in developing countries.  
In a developed country education can offset job losses.

## 4. Forces driving globalisation

### 4.1 Political forces

Includes factors such as reduced trade barriers, recognition of intellectual rights, the move towards privatisation, closer regional co-operation, trading blocs and common technical standards.

### 4.2 Economic forces

Increasing world trade, rising income levels, efficient financial markets, growing free market forces, competition and reducing government involvement.

### 4.3 Social forces

Growing consumerism, converging consumer tastes, improving lifestyles, education and tastes

### 4.4 Technological forces

Includes industrialisation of nations, transport and information technology.

## 5. Economic Integration

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A number of countries are trying to align with their neighbours economically by creating trade blocs to pursue further integration.

### 5.1 Free trade zone

Relates to designated areas established within a country or single customs authority. Encompasses the Export Processing Zones (EPZ) as well as bonded warehouses used for custom duty free importation of goods for processing.

### 5.2 Customs Union

No customs duty will be paid by member countries of the union that imports from a non-union member at the point of entry into the union.

### 5.3 Common Market

Allows for free movement of people and capital (capital, technology, labour, management) and allows for measures to be taken if a member country has foreign exchange shortages

### 5.4 Economic Union

Member countries have to give up some of their sovereignty in order to achieve economic unity and includes common economic policies.

### 5.5 Political Union

This is the ultimate form of political integration as the sovereignty of individual countries is resident to that of the political union eg. The USSR prior to its disintegration. The European Union is the first step towards a European political union

## 6. Market Entry Barriers

Governments can restrict imports in 2 ways – tariff barriers and non tariff barriers (NTB's).

### 6.1 Tariff Barriers

Government imposed financial levies on imports in the form of specific taxes, tariffs or *ad valorem* tariffs and are:

- Arbitrary and discriminatory
- Require constant administration and supervision
- Add to inflationary pressures
- Encourage special interest privileges
- Increase government control in specific matters
- Dilute balance of payments

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- Weaken supply and demand patterns
- Undermine the international standing of a country by encouraging reprisals and trade wars
- Curb manufacturers supply sources
- Limit the choices available to consumers
- Restrict competition

### **6.1.1 Custom Duties**

Tax on imported goods used for consumption in the importing country-  
Three types-levies on value of the goods,unit of goods or a combination of both.

#### **6.1.1.1 Ad Valorem duties**

Ad valorem means no value-the rate of custom duty is then applied to the value of the goods eg. 10% on R1000

#### **6.1.1.2 Specific Duties**

Payable per unit (litres or kilograms) eg.R1.50 per 10 kg

#### **6.1.1.3 Formula or related duties**

Is a combination of the above 2 and is intended to avoid disruptive competition by increasing the price of the imported goods to that of the ex factory selling price.

### **6.1.2 Levels of duties**

There are 4 categories of levels of duties:

#### **6.1.2.1 Applied Rates**

Referred to as the current or presiding rate of duty as reflected in SOUTH AFRICAS HARMONISED CUSTOMS AND EXCISE TARIFF BOOK.

#### **6.1.2.2 Bound Rates**

Custom duty rates at which a country commits itself to the WTO not to exceed or a ceiling rate on imported goods

#### **6.1.2.3 Nominal Rates**

Rate of duty reflected in the Harmonised customs tariff book

#### **6.1.2.4 Effective Rates**

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Effective protection afforded to a domestic manufacturer of a final product when the import tariffs of the imported inputs are accounted for.

### **6.1.3 Other forms of customs duties**

#### **6.1.3.1 Ad Valorem customs duties**

Ad valorem customs duties are duties payable in addition to normal duties especially on luxury goods are also referred to in the industry as a luxury tax.

#### **6.1.3.2 Specific customs duties (sin taxes)**

These duties are levied in addition to normal customs duties on volume on liquor, tobacco and cigarettes.

#### **6.1.3.3 Surcharge**

Additional government levies to derive revenues on imported goods which have been abolished in South Africa on 1 October 1995

#### **6.1.3.4 Environmental levies**

Other forms of government levies ie Environmental, ordinary and fuel levy-all introduced during 2004

#### **6.1.4.5 Fuel Levies and Ordinary levies**

Imposed on petrol, aviation, kerosene, illuminating kerosene and distillate fuel.

### **6.2 Non-Tariff barriers (NTB'S)**

Measures besides tariffs that may affect international trade through quantitative government restrictions on imports through the use of price levies, cost levels of subsidies as well as restrictions through imposition of standards and regulatory or administrative requirements.

NTB'S are less obvious and more restrictive than trade tariffs and difficult for a foreign company to deal with.

Examples include: import quotas, export restrictions, special tax concessions on exports, exchange controls and production subsidies

#### **6.2.1 Import and Export control**

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In South Africa control over imports and exports is exercised via patents as prescribed in the Harmonised Customs tariff (HR code).

In S.A controls are exercised over second hand goods and imported machinery through the use of permits and applications have to be made to the government to have these permits registered

### **6.2.2 Import Licences**

Similar to import control,certain products are only allowed to be imported into the country with a relevant import license.

### **6.2.3 Quotas**

A quota is a limit on the amount or quantity of goods that may enter the country.

The ultimate form of quota is an EMBARGO which is a total ban o a particular class of imported product.

EMBARGO sanctions ca be prescribed by international organisations such as the UN

### **6.2.4 Prohibitive Goods**

Government may decide to prohibit import of certain products such as military products that can have life threatening implications

### **6.2.5 Restricted Goods**

Eg restriction of imports of second hand goods

### **6.2.6 Standards (quality and health)**

Government speciafication of goods such as edible goods,electrical and mechanical goods

### **6.2.7 Embargoes and sanctions**

Sanctions or embargoes are a ban on imports into the importing country.

South Africa had both import and export sanctions imposed on it.

### **6.2.8 Other**

NTBS may include excessive documentation requirements,delays with customs procedures,restrictions with advertising,customs valuation procedures and taxes on employment if foreign workers'

### **6.2.9 Environmental trade barriers**

Include:

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- Different cultures,language,education levels,beliefs and behaviours
- Different political,economic and legal systems
- Different levels of technological development and infrastructure
- Different geographies,physical landscapes,climates and means of accessibility.

### **6.2.10 Infrastructure trade barriers**

Limitations local companies may have relating to skills,financial resources and capacity as well as knowledge which foreign companies may not have

### **6.3 Concluding Remarks**

Although NTB's are less obvious than tariffs,it can very costly for foreign companies to ignore their effects and research into this area is vital for a foreign company

## **7 The case for government intervention**

### **7.1 Protecting jobs and industries**

Used to protect selected local industries from foreign competition.

In S.A,the Southern African Customs Union (SACU) and the International Trade Administration of South Africa (ITAC) advise the minister of trade and industry.

The government has numerous policy instruments to balance supply and demand factors.

### **7.2 The infant industry argument**

Protection of new industries rather than existing industries.

### **7.3 Protecting consumers**

From unsafe products eg,edible,medical,etc

### **7.4 Protecting Foreign Exchange reserves**

In order not to drain the countries foreign exchange reserves,governments impose import restrictions,tariffs,NTBS,etc

### **7.5 Trade Remedies**

Can be used in cases of unfair practices such as dumping and subsidies as well as increased imports which cause disruption of competition



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### 7.6 Retaliation

Happens for two reasons:

- Retaliation against an unfair practise by another country (quid pro quo action)
- To force a developing country to act in a desired manner eg. sanctions on South Africa.

### 7.7 National Security

Protection of industries associated with a countries national security eg. defence, military and associated industries

### 7.8 Food Security

Protection of the agricultural industry to prevent too much dependence on agriculture importation

## 8 Infant industry

Protection of a new industry via bi/multi lateral agreements. The problem is how to define an industry as being an infant industry

## 9 Trade Remedies

Consist of unfair and fair trade remedies

### 9.1 Unfair Trade Remedies

Anti dumping and countervailing

#### 9.1.1 Anti-dumping

Dumping refers to selling a product at a lower cost overseas than in the local market. If this practise causes material injury to the domestic manufacturer it can apply to the local trade remedies authority for the initiation of an anti dumping policy

#### 9.1.2 Countervailing

Refers to a customs duty imposed to offset the benefit conferred by a subsidy

### 9.2 Fair Trade remedies

#### 9.2.1 Safeguards (industrial safeguards)

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Remedy to procure for use in the face of substantially increased imports of industrial products causing disruptive competition.

### **9.2.2 Agricultural Safeguards**

Remedy to procure for use in the face of substantially increased imports of agricultural products causing disruptive competition.

### **9.2.3 Special Safeguards (Chinese accession)**

Remedy to procure for use in the face of substantially increased imports of agricultural products and industrial products from China causing disruptive competition.

## **10. South Africa's road to globalisation**

South Africa depends extensively on foreign trade

Prior to world war 1 S.A relied massively on export of gold, diamonds and agriculture.

Policy after 1925 was to use import substitution of products whereby local manufacturing was developed instead of importing similar products.

Import substitution is the process of using domestic manufacturers as a result of demand for goods instead of importing goods/

Extensive use is made of trade barriers and tariffs

The main argument in favour of import substitution is creating of employment and restoring the balance of payments by importing less.

Following world war 2 S.A BEGIN TO RUN AN ON-GOING DEFICIT IN ITS FOREIGN ACCOUNT and relied on foreign investment to meet the deficit

Towards the end of the 1960's it became necessary to devalue the Rand and maintain import controls.

The main source of foreign income (gold and agriculture ) could no longer be relied on to the same extent as before.

Irregular weather patterns and depletion of S.A's ore reserves also became prominent.

It was therefore felt that S.A should look towards improving its export potential and encourage free trade instead of import substitution thereby making S.A more competitive internationally and creating high value employment.

The global environment makes it possible to produce anywhere in the world.

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Pressure was put on the South African government to commit to free enterprise as a result of its participation in the GENERAL AGREEMENT on TARIFFS AND TRADE (GATT) of which S.A was a founder member.

**Criticisms of S.A's membership of WTO:** 1.As a member of GATT S.A is prevented (as a member of WTO) from providing adequate protection to the local industry.

2:It has been argued that it would be only beneficial to S.A if it were classified as "an economy in transition" instead of a developed country.

### **Benefits of S.A's Membership of WTO**

- Tariff concession given to S.A being classified as a MOST FAVOURED NATION ("MFN").
- These advantages can lead to new and larger markets as well as increase in foreign exchange earnings.
- Lead to marketing of S.A products abroad.
- The S.A government offers local exporters many incentives and is also expanding its exporting footprint abroad

### **10.2 Factors affecting South Africa's foreign trade patterns**

#### **10.2.1 South Africa's abundance of natural resources**

South Africa relies heavily on export of unprocessed raw materials especially gold. Export revenues from gold have declined and there has been an increase in manufactured exports

#### **10.2.2 Degree of sophistication**

South Africa is classified as a developing economy (emerging market) and exports its beneficiated raw materials and commodities to UK,GERMANY,JAPAN and the USA.

Beneficiated materials are materials which have been transformed by some process eg.turning cotton into thread.

Manufactured goods such as chemicals,processed steel,machinery and spares,pharmaceuticals and food products are a small part of S.A's exports and are normally exported to other Africa countries.

Most of South Africa's imports consist of finished products and services and relatively low raw materials (such as fuel and petroleum products).

It is essential that S.A develops its export manufacturing capability to reduce its reliance on commodities and commodity pricing volatility.

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### **10.2.3 Emergence of Service oriented economies**

Many developed countries have moved away from an industrial manufacturing base towards a service oriented one focusing on banking, insurance, information technology and communication technologies.

These countries are moving away from import of raw materials to import of finished goods and this has implications for South Africa.

Singapore, South Korea, Taiwan, Hong Kong, Malaysia and Indonesia have become the centre of light industry and heavy engineering, the products of which are being supplied to developing countries.

South African suppliers should become aware of these new sources of supply and demand and should take the opportunities presented by shifting international relations

### **10.2.4 Economic conditions in foreign markets**

The Far East has long been an export source for S.A benefited and primary goods. Hong Kong, Taiwan, Japan and South Korea are poor in natural resources and even S.A manufactured goods and processed foods have been well received in the Far East

### **10.2.5 Size of Foreign markets**

The size of the foreign markets has an effect on the volume and variety of goods sold by South Africa.

The USA is the largest importer of raw materials whereas smaller and less sophisticated markets of Africa have less demand of raw materials and more demand for manufactured goods

### **10.2.6 Traditional Markets and new market opportunities**

S.A's foreign trade patterns originated with Western Europe and the European union is still its main trading partner although USA and Japan are also significant.

The opening of Central European, USSR and Chinese markets represents significant opportunities for South Africa

The Gulf states and Latin America represent relatively untouched markets for S.A as well as the emergence of stronger trading relations amongst the countries of the Indian Ocean Rim

### **10.2.7 Political Factors**

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South Africa faced restrictions during sanctions in the past and some of its trading partners have sanctions imposed on them which restricts trade with these countries eg.Libya

### 10.3 Opportunities and problems facing South African exporters

#### **Strengths that make S.A an attractive trading partner:**

- Infrastructure-Ports,road,rail and air transport are under increasing pressure-port and rail are controlled by Portnet and Spoornet .Road transport is by private transport
- More than 50 international air services link S.A with foreign destinations.
- S.A has a sophisticated business community with a high degree of internationalisation and experience
- S.A trade expertise is extensive with strong links to Europe due to excellent communications,close commercial,trade,financial,cultural and technical exchanges
- S.A's trade with the Far East are expanding rapidly including Japan,Hong Kong,South Korea and China as well as other countries such as Argentina,Brazil,Chile,Turkey,etc
- S.A has a strong and sophisticated banking system
- S.A is a world supplier of raw materials and will be a major player since the collapse of the former Soviet Union
- South Africa occupies a strategic geographical position as the halfway point in the sea route from Europe to the East.
- S.A's competitive advantage as a manufacturing centre,exporting base and regional head office for Sub-Saharan Africa is important for companies considering trading with countries in the region.
- Africa's poor record of payments have improved with S.A increasing trade with African countries.

#### **Problems S.A faces as an Exporter:**

- High cost of raw materials both imported and exported coupled with price differentials reflected on the London Metals exchange have an adverse effect on South African products
- High cost of capital goods especially with the rand weakening
- High transport costs since most of S.A's production facilities are in Gauteng with the main port situated in Durban.Inbound transport can account for 75% of product costs.This places S.A at a disadvantage to European countries which have low transportation costs.
- Low productivity in S.A compared to international standards due to poor management,labour and capital problems
- Lack of production capacity to meet demand for goods.
- Tax structures are less favourable In S.A compared to other countries,enabling competitors to be more price competitive or price advantageous products.
- Financial constraints in foreign markets-S.A's proximity to other countries offers a number of advantages in respect of trade but these are offset by foreign exchange shortages in these countries.

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- Cost and availability of export financing for first-time exporters in S.A does not compare favourably with foreign countries.
- Sanctions imposed in the past make it difficult and lengthy to re-establish trade relationships
- Economic uncertainty and violence
- Corruption
- World demand conditions such as a recession can have an impact on the South African export scene

### **11.Summary**

**Globalisation has increased the desire of people to travel abroad to visit new countries,cultures and new business opportunitites and this has been facilitated by internet and telecommunications.**

**Various international bodies such as WTO,IMF,World bank and others have encouraged free trade and removal of barriers.**

**In this study unit we looked at the extent of globalisation on the world economy as well as looking at trade theories,forces driving globalistion (political,economic,etc)**

**Different trade barriers and regulations were also discussed eg tariffs,Ntbs,etc**

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### MNI 301J

#### Study unit 3.1

##### DEFINITION OF ECONOMIC INTEGRATION

the grouping of countries by agreement or treaty, usually on a regional basis, to form a trade bloc that secures trade benefits for the participating member states through the tariff-free or tariff-reduced cross-border movement of goods, services, capital and labour in that particular trade bloc.

- ensuring free movement of persons, goods, capital and services; by following a coordinated policy in the economic financial, and social fields; and by pursuing a common policy with regard to non-member countries.

##### ANALYTICAL BASIS FOR MEASURING THE EFFECTS OF ECONOMIC INTEGRATION

Was developed by the American scholar, Jacob Viner (1892-1970), who completed a study, *The Customs Union Issue*. In this study he argued that, while a free trade area would increase the trade flow between 2 or more countries it did not mean that this would yield an economic efficiency gain. He stated that whether an increase in trade was desirable or not, depended on the source of the increased trade.

There were 2 possible causes :-

- **Trade creation**, which involves a shift in domestic consumption from a high cost domestic source to a lower cost partner source as a result of the abolition of tariffs on intra-union trade.
- **Trade diversion**, involves a shift in domestic consumption from a low cost world source to a higher cost partner source as a result of the elimination of tariffs on imports from the partner country.

**The Principle of economic integration** states that greater world production and trade would be possible if fewer trade restrictions existed, as manifested in trade blocs, notably free trade areas and the other forms of trade blocs.

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### FORMS OF TRADE BLOCS

The degree of economic integration increases as one moves from a free trade area through to a customs union, then to a common market and, ultimately, to an economic and conceivably a political union.

Free Trade Area (FTA) – the most common form of trade bloc, all tariff and trade barriers are removed and goods and services are freely traded between the member countries.

#### **Advantages of FTA's**

- wherever globalization has taken hold, there has been a measurable improvement in incomes and working conditions. First, the competition that accompanies globalization provides an incentive for local employers in developing countries the source of labour abuses to improve their practices. As foreign-owned businesses move into a country, they pay their workers more and provide a superior working environ in order to attract the best people. In order to survive, local employers are forced to improve pay and working conditions.
- American consumers demand that Us companies respect worker rights and US companies producing abroad pressure their local suppliers to do the same. Without globalised trade, that beneficial consumer pressure evaporates.
- FTA's are engines of growth and progress. They exploit country comparative advantages, accommodate specialization and division of labour, expand the size of export markets and promote efficiency and competition within the free trade area.

#### **Disadvantages of FTA's**

- There is a fear that jobs will be lost in the home country to more efficient producers in the other member countries.

Customs Union – it is an FTA in nature, but includes formulating a common trade policy against non-member nations. Tariff revenues are jointly collected and shared by ember nations.

Common Market –an extension of customs union that facilitates factor mobility among nations (goods, services and people). Has factor mobility between member countries, means that there are no restrictions on immigration, emigration and cross border investment.

Economic union – is the most integrated e.g. of a trade bloc. A combinations of all 3 above, in addition to having a harmonized monetary and fiscal policies for member nations.



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### ACTIVITY 3.1.1

Tabulate the characteristics of the various forms of trade blocs, viz free trade areas, customs unions, , economic unions and political unions

<b>FTA's</b>	<b>Customs Unions</b>	<b>Common Markets</b>	<b>Economic unions</b>	<b>Political Unions</b>
the most common form of trade bloc	is a more advanced form of economic integration	is a more integrated form of a trade bloc	is the most integrated eg of a trade bloc.	
all tariff and trade barriers are removed and goods and services are freely traded between the member countries.	tariff and trade barriers are removed as in the case of a FTA, but in addition there is a common trade policy that is formulated by the member countries as far	which like a customs union, has no barriers to trade among member countries and implements a common trade policy towards non-member countries.	All criteria of FTA, customs union and a common market are met, but additionally, member countries harmonize monetary policies,	

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	as non-member countries are concerned.		taxation and government spending.	
	Tariff revenues are also shared b/w the member countries on a predetermined basis	Has factor mobility between member countries, means that there are no restrictions on immigration, emigration and cross border investment.	They also set up fixed exchange rates or create a common currency.	

**MNI 301J**  
**Study unit 3.2**

ECONOMIC INTEGRATION AND REGIONAL TRADE BLOCS

**THE EU**

The European Union (EU) is the largest trade bloc in the world and South Africa's most important trading partner.

The EU single market is the result of the decisions and actions of independent European governments, which are geographically close neighbours, to eliminate all internal trade barriers and control measures between them. In fact when compared to the US, the develop of the EU as a regional trade bloc has been particularly successful.

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Background – For the past 50 yrs, the EU and its institutions have developed into what is now a unique institutional framework for forging unity and cooperation amongst the nations and people of Europe. That has emerged is a strong economic and political union between 27 member countries – a union that is demonstrating signs of federalism, much like that of the US.

Trade characteristics –

- The 27 member states of the EU are all situated in the same geographical area.
- All the EU countries are geographically close and have easy access to one another.
- There is excellent geographical mobility b/w the 37 member countries with a transport network that includes air, road and sea links.
- The 27 countries have considerable natural resources.
- The EU member countries have developed very substantial labour capacity and manufacturing skills.
- All 27 EU member countries have an entrepreneurial culture.
- Trading relations are governed by formal treaties.
- The EU is a free-trade area in which currently 12 member states have a common currency, the Euro. 3 member countries of the previous 15 member countries have opted to remain outside the Euro zone, while the 10 “new wave” member countries are expected to join the Euro Zone in due course, once they have complied with the rigorous macro-economic requirements for participation.

### **The EURO**

The Euro will within the EU institutional framework, help to streamline trade and become an important binding factor to create greater economic and, indeed, potential future political integration.

<b>THE EURO</b>	<b>THE EURO ZONE</b>
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- The official currency of the European Union	- The European countries that adopted the euro as their official national currencies are known as the Euro Zone
- On January 2, 2002, the new European currency, the euro became official in 12 countries	- Denmark, Sweden, and UK are not part of the eurozone, but remains part of the EU
- The original currencies were not longer accepted in transactions after Feb, 28, 2002	- More EU members are joining the eurozone
- Currently has 16 members	- Currently has 27 members

### **IMPACTS OF THE EURO**

ADVANTAGES	DISADVANTAGES
- Greater business opportunity (enlargement of the market)	- Possible loss of market share in national markets due to international competition
- Decrease in monetary transaction costs (forex)	- Instability in the eurozone will affect their foreign trade partners (TDCA) – risk aversion
- Price stability and equity amongst member nations	- Lower interest rates in the eurozone may lead to trade creation in the EU
- Favourable variable revenue for companies listed on the EU stock markets	- Lower interest rates in the eurozone may lead to trade creation in the EU

Operational factors – The Euro in reality only became part of the everyday lives of most people in the EU from 1 Jan 2002 when Euro notes and coins became freely available. However, it had been legal currency in the EU from 1 Jan 1999 and had been available for use in financial markets and for company activities since that time.

Euro and dollar zones – One of the main implications of the intro of the Euro is that it represents an ongoing challenge to the US dollar.

The intro of the euro is already playing and will continue to play, an important role in furthering the political and defense integration of the EU.

### **NAFTA**

The North American Free Trade Agreement (NAFTA) is the second

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largest regional trade bloc in the world and constitutes South Africa's second largest trade partner.

The US signed a free trade agreement with Canada in 1989. Mexico joined in the agreement, and created what became known as NAFTA. Implementation of the NAFTA commenced on 1 Jan 1994. Objective of NAFTA is to remove most barriers to trade and investment b/w the US, Canada and Mexico. Agreement is important because 1) there were considerable trade barriers b/w the 3 countries even though Canada is the largest trading partner of the US, and 2), economists predicted that the elimination of such trade barriers would increase trade, encourage economic growth, create job opportunities and increase personal incomes in the 3 countries.

### Trade characteristics of NAFTA

- The US occupies a central geographical position flanked on either side by Canada and Mexico.
- The 3 trading partners are geographically close and have direct access to one another
- Excellent mobility exists b/w the partner countries, transport network includes air, road, and sea links.
- The 3 countries have vast natural resources.
- The US and Canada have developed substantial labour capacity and manufacturing skills and similar capacities and skills are being developed in Mexican market
- All 3 countries have an entrepreneurial culture.
- The trading relations are governed by a formal treaty.
- Although there is no free trade area, joint efforts are being made to substantially reduce tariff and non-tariff barriers.

### **MERCOSUR**

The Southern Common Market (MERCOSUR) is growing in importance as a regional trade bloc in the Americas and links are being increasingly formed between MERCOSUR and the EU and between MERCOSUR and NAFTA.

### **ANDEAN COMMON MARKET, CENTRAL AMERICAN COMMON MARKET, LATIN AMERICAN INTEGRATION ASSOCIATION, CARICOM AND THE ACP GROUP**

The Caribbean Community and Common Market (CARICOM) is the regional trade grouping of the Caribbean and an important role player in the decision-making process of the Africa, Caribbean and Pacific (ACP) group. In the past, although relatively unimportant in global terms, CARICOM dictated policy for the ACP group against the wishes of the numerically more important African countries, including South Africa, that make up the bulk of the ACP group.

### **ASEAN (Association of South East Asian Nations)**

Trade characteristics

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- They are geographically widespread
- The trading partners nevertheless have direct access to one another
- A transport network of air and sea links allows for reasonable geographic mobility
- The participating countries have natural resources.
- They already have diverse labour and manufacturing skills and these are being further developed
- All the participating countries have an entrepreneurial culture
- Trade relations are governed by a formal agreement
- Although there are operational difficulties the principle of a free trade area has been accepted by the member countries.

### **ASIA-PACIFIC ECONOMIC CO-OPERATION(APEC)**

Was established in 1989 to promote economic integration around the Pacific Rim and to sustain economic growth, currently has 21 members, has played an important role in promoting trade and investment liberalization in the region.

### **CAIRNS GROUP**

Is a coalition of 18 agricultural exporting countries that account for one-third of the world's agricultural exports. Formed in 1986. SA is one of its members. Has as its main objective global agricultural trade reforms that include deep cuts to all tariffs (incl tariff peaks) and removal of tariff escalation, the elimination of all trade-distorting domestic subsidies and export subsidies, and clear rules to prevent circumvention of export subsidy commitments.

Uruguay Round of the GATT – Cairns group proposed that there should be worldwide liberalization of trade in agricultural products, requested special rights for developing countries to protect their farmers against foreign competitors. Also asked for an effort to be made to support farmers in keeping food production high so that the population of these countries could survive for a period of at least 10 yrs.

The CAIRNS group also proposed that

- Export subsidies on agricultural products be frozen and then gradually eliminated.
- National support policies hampering trade in agricultural products should gradually disappear.
- Import tariffs on agricultural products be reduced to a very low level or eliminated entirely
- Tariffs be used to replace import quotas
- Health regulations be eliminated where they are used as a cover-up for protectionist policies.

### **WTO – World Trade org**

A framework for reform in agric trade that was established in the Uruguay Round and that agric worldwide was made subject to trade liberalizing rules. These reforms are now set out in the WTO agreement on Agric and it can be said that the Cairns grp has succeeded in putting agriculture in the multilateral trade agenda and keeping it there.

Trade characteristics of the CAIRN group

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- Member countries are scattered over wide flung regions
- Big distances b/w some of the CAIRN grp countries and they have less than ideal access to one another.
- Geographical mobility is restricted by both distance and by poorly organized network of air, road and sea links especially in South America.
- CAIRNS grp countries collectively dispose over considerable natural resources in the individ countries of the grp, but the scope of the trading bloc is limited to agricultural products.
- Differing labour and manuf capacities exist between the CAIRNS group countries, but these have to be viewed from an agricultural perspective.
- Some of the CAIRNS grp countries have an entrepreneurial culture
- The free trade principle is not enforced since the objective is to co-ordinate their agric policies.

### **INDIAN OCEAN RIM ASSOCIATION FOR REGIONAL CO-OPERATION**

The IOR –ARC is one of the largest and most attractive of the regional identities that has emerged since the end of the Cold War. Consists of the 14-ntion Indian Ocean Rim and was est in March 1997 in Mauritius.

#### **Benefits for SA.**

For SA, there are key benefits to being part of IOR-ARC, These include

- Important trading ties within the IOR region have been re-established
- As one of the strategic 'triangles' around which the IOR was built, SA has been established as a global player in the community of nations.
- The formation of the IOR co-ordinates and increases economic co-operation in the fields of trade and investment for the IOR countries.
- The IOR region has enormous potential and offers vast business and investment opportunities in the oil-rich countries o the north-west
- There are already examples pf joint projects such as investment facilitation, trade promotion programmes, upgrading of ports and marine transport.
- Since the Indian ocean carries a third of the world's oil and a significant percentage of its container cargo, there is much scope for co-operation in maritime matters, including safety of shipping, search and rescue and environ impact studies.

### **AFRICA**

#### **THE SOUTH AFRICAN DEVELOPMENT COMMUNITY (SADC)**

Was created to foster closer co-operation among the governments and peoples of SA. The objective of SADC is to create a southern African common market of 130 million people. This economic community is dedicated to the ideals of free trade, free movement of people, a single currency, democracy and respect for human rights. Member states are Angola,

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Botswana, the DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, SA, Swaziland, Tanzania, Zambia and Zimbabwe.

The objectives of the SADC as stated in the treaty

- To achieve development and economic growth
- To alleviate poverty
- To enhance the std and quality of life of the peoples of Southern Africa
- To support the socially disadvantaged through regional integration
- To evolve common political values, systems and institutions
- To promote and defend peace and security

### **THE EU AND SOUTH AFRICA**

#### The EU – SA trade relationship

This is without question SA's most important international trade relationship. The US is SA's most important trade partner, but SA's trade with the EU is much larger than that with the US. The EU is SA's most important trade partner with imports and exports that are 3 times more than that b/w NAFTA and SA.

#### Trade balance

The acceleration in the European economic growth will lead to an increase in the European demand cycle and should lead to increased importation from SA. The other factor of change is likely to be an increased internal flow of trade in the EU single market, which could work to the detriment of foreign importations. However, this should not have a major impact on the totality of South African exports to the EU given the fact that these exports are mainly non-substitutable (gold, diamonds, coal and iron).

#### Stock market

The consolidation of the euro financial market is expected to lead to increased European investment in emerging markets. Thus, provided that the government of SA and the SARB are able to hold political and economic determinants, stable and increased foreign investment – particularly via the JSE may be anticipated.

#### Currency impact

The combination of increased exports to the euro-zone, coupled with increased foreign investment in the JSE, should have a positive impact on the South African BOP and consequently on the stability of the RAND.

#### South African Pricing Policy

SA companies that export to the EU euro member countries will see their pricing strategies considerably simplified since they will only have to deal with one exchange rate calculation, the



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euro as opposed to 12 previous national currencies. This means that trade will be simplified.

Read section 6.3.8.1-6.3.10 pg 65 and pg 66 text.

### STUDY UNIT 4

- **THE INTERNATIONAL CULTURAL ENVIRONMENT**
- **DEFINE THE CONCEPTS OF CULTURE, SOCIETY AND NATIONAL STATE pg 34**  
**tb**
- **T**he culture of a group or society basically comprises the values, norms, beliefs and attitudes that characterise the behaviour of individuals in the group or society. Culture is defined as the complex whole which includes knowledge, belief, art, law, morals, customs and any capabilities and habits acquired by a person as a member of society.
- Culture is the collective programming of the mind, which distinguishes the members of one human group from another. Culture in this sense includes systems of values and values are among the building blocks of culture.
- Society: The concept of society may have more than one meaning. In some instances a society may be equivalent of a particular country, however a society may comprise of several sub-cultures within the national borders of a particular country or may even span across more than one country.
- Society constitutes a group of people that share a common set of values, norms and beliefs and therefore share a common culture.
- Nation state –the concept of a nation and nation state is regarded as a workable surrogate or substitute for a society.
- Nation state are political creations and may contain a single culture or several cultures, subcultures, Ethnic groups, classes and races within the natural borders
- What is the importance of culture in international business: pg48 sg

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- International business differs from domestic business in that it has to contend with differences between countries. To be successful in the international business arena, international managers and leaders should broaden their knowledge on foreign cultures to adapt to their business practices to the unique culture of those countries that they do business with. Understanding these cultures of groups of people is important because business employs, sells to, buys from, is regulated by and is owned by people...An international company must consider these differences in order to predict, plan, organise, control and manage its global relationships and operations.
- Identify and describe the characteristics of culture:pg 34 tb
- There are 7 characteristics of culture:
- 1>Culture is learned-culture is acquired through experience and learning. It is transmitted from one member of society to another.
- 2>Culture is shared-people as members of a nation, society, group or organisation share culture. It is not specific to single individuals.
- 3>Culture is relative-no standard culture exists. Cultures are different to one another without anyone being superior to the other
- 4>Culture is inter-related-the various cultural components are inter-related. A change in one element will invariably bring about change in the other
- 5>Culture is adaptive-because culture is a learned behaviour, culture is adaptive because it is based on the human capacity to change
- 6>Culture is symbolic-culture is based on the human capacity to symbolise or use one thing to represent another in behavioural patterns that are understood by everyone in the group.
- 7>Culture is pervasive-culture in societies affects almost everything people do, see, feel and achieve
- Identify ,describe and evaluate the elements of culture pg 77 tb
- Political philosophy-influences the values, norms, beliefs and attitudes of society in very specific and definite ways.Political systems can be described and evaluated according to two inter-related dimensions from which a country's political philosophy emerge:
- The degree to which they emphasise collectivism as opposed to individualism
- The degree to which they are democratic or totalitarian.
- Collectivism emphasises collective goals as opposed to individual goals.The ties between individuals are tight, people are born into collectives such as extended families
- Individualism emphasise the importance of guaranteeing individual freedom and self expression. The ties between individuals are loose and individual achievement is highly valued.
- Economic philosophy:

Comment [c1]:

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- A strong relationship exists between political ideology and economic systems. While the political ideology largely influences the type of economic system that exists in a foreign country, the prevailing economic and also legal system in turn will determine the potential benefits, costs and risks of business with or investments in the country.
- There are 3 broad types of economic systems:
- a>A market economy-is based on free market principles and private ownership at the one extreme.
- b>A command economy-is characterised by state owned assets and central planning by the governments at the other extreme.
- c>Mixed economy- between these two extremes above a mixed economic system has elements of both a free market economy and a command economy.
- Social Culture:
- Societies are characterised by the extent to which they are stratified and have class systems which influence the mobility of individuals within them.
- As far as family –based groups are concerned family constitutes the most important group membership in many societies...Understanding how differing social attitudes reflect the importance with regard to business involvement is of utmost importance for international management
- Religion and ethical systems:
- Religion may be defined as a system of shared beliefs and rituals that are concerned with the realm of the sacred.Ethical systems refer to a set of moral principles, or values that serve to guide and shape behaviour. Religion influences business and the social environment in the following ways:
- a>Religion influences the attitude towards work and initiative.
  
- b>Religion often places constraints on the roles of individuals, groups and business in society.
- Education
- Education influences many aspects of culture and in every culture formal education plays a role in society .Education is an important determinant of national competitive advantage. For international business knowledge about the extent of education in other countries are important for 2 reasons:
- The general level of education will largely reflect the knowledge, intellectual capacity and sophistication of a society which could influence the type of product to be marketed successfully.

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- General educational levels in a society reflect the availability ,skills and capabilities of human resources which could be a major importance to the MNE that follows a geocentric to staffing of foreign subsidiaries
  - Define and discuss the implications of culture for international business pg 59 s g
  - There are 4 important implications for international business and international management.
  - Culture and competitive advantage: the connections suggest in which countries we are likely the most viable competitors. Secondly this connection has important implications when deciding on countries in which to locate production facilities.
  - Culture and business ethics: although many ethical principles are universal not all of them are culturally bound. Where this is the case international business may be faced with serious ethical dilemmas. Questions that arise here include:“Whose ethical systems do you use in international business”?
  - Cross –cultural literacy: it is important that international managers develop a cultural awareness by acquiring cross –cultural literacy to avoid being ill informed about the practices of other cultures. Ways of enhancing cross-cultural literacy include employing host country nationals in certain key areas, developing a cadre of cosmopolitan executives, appointing foreigners on the company’s board of directors and using mult-cultural task teams whenever possible.
  - Culture and entrepreneurial orientation-in a research by Lee and Peterson they found that there is a stronger relationship between culture and entrepreneurial orientation in some societies than in others. Most specifically their research suggests that a culture that is low on power distance, weak in uncertainty avoidance, masculine in nature, individualistic and achievement oriented will encourage a strong entrepreneurship and global competitiveness.
  - Describe and evaluate the levels of culture
  - There are 3 levels of culture namely: national culture, business culture and organisational and professional or occupational cultures:

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- National culture: is defined as the dominant culture within the borders of a country and is represented by the majority of the populations, or the population group with the greatest political or economic power in the nation. For an international business manager, awareness
- And knowledge of national culture in the context of the characteristics of culture is the starting point of cross cultural literacy
- According to Cullen some notable implications of national culture for international business are: the dominant culture of the nation state generally has the greatest influence on international business as a result of its political and economic ideologies and the legal systems of the country. Religious beliefs influence the work ethic, way of life, moral standards and consumer behaviour in the country concerned.

### TOPIC 5 EXPLANATIONS AND SUMMARIES

#### DEFINE POLITICAL SYSTEM AND THEIR FUNCTIONS

**POLITICAL SYSTEM** DESIGNED TO INTEGRATE PARTS OF SOCIETY INTO VIABLE FUNCTIONING UNIT. A COUNTRYS POLITICAL SYSTEM HAS AN ENORMOUS IMPACT ON HOW BUSINESS IS CONDUCTED. DOMESTICALLY AND INTERNATIONALLY.

INFLUENCES AND IS INFLUENCED BY VARIOUS FACTORS IE: IN TRADEOFF DURING THE LATER 1890'S CHINA CEDED HONG KONG TO BRITAIN ON A 99 YEAR LEASEHOLD. UK GOVERNED HONG KONG WITH STRONG TIES TO BRITAIN AND ITS INSTITUTIONS WHETHER ECONOMIC FINANCIAL, LEGAL, POLITICAL OR GOVERNMENTAL WITH THE SAME VALUES BRITAIN HELD. IT WAS FULLY DEMOCRATIC AND HAD A FREE ECONOMY. **POLITICAL SYSTEM** ALSO INFLUENCED BY A VARIETY OF INTERNAL FACTORS. IE NATURE OF POPULATION, SIZE AND INFLUENCE OF CORPORATIONS AND GOVERNMENT BURACRCIES AND THE STRENGTH OF POLTICIANS: EG IMPORTANT FACTORS INFLUENCING POLITICAL PROCESS IN HONG KONG ARE GENERAL POPULATION, THE LARGE CORPORATIONS THAT ARE INVESTING AND DOINGBUSINESS THERE AND EMERGIN POLITICIANS FIGURE 5.1 PAGE 103.

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### **EXPLAIN RELATIONSHIP BETWEEN COLLECTIVISM AND TOTALITARIANISM**

COLLECTIVISM EMPHASIZES COLLECTIVE GOALS AS OPPOSED TO INDIVIDUAL GOALS. TIES BETWEEN INDIVIDUALS ARE TIGHT, PEOPLE ARE BORN INTO COLLECTIVES SUCH AS EXTENDED FAMILIES AND EVERYONE IS SUPPOSED TO LOOK AFTER THE INTEREST OF HIS OR HER WELLBEING. TOTALITARIANISM- UNTIL RECENTLY THE MOST WIDESPREAD FORM OF TOTALITARIANISM WAS COMMUNIST. TOTALITARIANISM COMMUNISM IS IN DECLINE WORLDWIDE MANY HAVE COLLAPSED SINCE 1989.

SECOND FORM OF TOTALITARIANISM MIGHT BE LABELLED THROCRATIC TOTALITARIANISM > FOUND IN STATES WHERE POLITICAL POWER MONOPOLISED BY A PARTY, GROUP OR INDIVIDUAL THAT GOVERNS ACCORDING TO RELIGIOUS PRINCIPLES MOST COMMON FORM OF THEOCRATIC TOTALITARIANISM BASED ON ISLAM. EXEMPLIFIED BY STATES SUCH AS IRAN AND SAUDI ARABIA.

3RD FORM OF TOTALITARIANISM MIGHT BE REFERRED TO AS TRIBAL TOTALITARIANISM > FOUND PRINCIPALLY IN AFRICAN COUNTRIES SUCH AS ZIMBABWE, TANZANIA, UGANDA AND KENYA. TRIBAL TOTALITARIANISM OCCURS WHEN POLITICAL PARTY REPRESENTS INTERESTS OF PARTICULAR TRIBE (AND NOT ALWAYS MAJORITY TRIBE) MONOPOLISES POWER.

### **EXPLAIN RELATIONSHIP BETWEEN INDIVIDUALISM AND DEMOCRACY**

INDIVIDUALISM EMPHASIZES IMPORTANCE OF GUARANTEEING INDIVIDUAL FREEDOM, SELF EXPRESSION. TIES BETWEEN INDIVIDUALS ARE LOOSE AND INDIVIDUAL ACHIEVEMENT IS HIGHLY VALUED. DEMOCRACY ORIGINALLY PRACTISED BY SEVERAL CITY STATES IN ANCIENT GREECE, BASED ON BELIEF THAT CITIZENS SHOULD BE DIRECTLY INVOLVED WITH DECISION MAKING. IN COMPLEX ADVANCED SOCIETIES WITH POPULATIONS IN THE TENS OF HUNDREDS OF MILLIONS THIS IS IMPRACTICAL. MOST MODERN DEMOCRATIC STATES PRACTISE WHAT IS KNOWN AS REPRESENTATIVE DEMOCRACIES. IN R.D CITIZENS PERIODICALLY ELECT INDIVIDUALS TO REPRESENT THEM.

IF JOB NOT PERFORMED BY ELECTED INDIVIDUALS THEY WOULD BE VOTED DOWN AT NEXT ELECTION. SAFEGUARDS ENshrined IN CONSTITUTIONAL LAW INCLUDE:

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- AN INDIVIDUALS RIGHT TO FREEDOM OF EXPRESSION, OPINION AND ORGANIZATION.
- A FREE MEDIA
- REGULAR ELECTION IN WHICH ALL ELIGIBLE CITIZEN ARE ALLOWED TO VOTE.
- UNIVERSAL ADULT SUFFRAGE
- LIMITED TERMS FOR ELECTED REPRESENTATIVES
- FAIR COURT SYSTEM INDEPENDENT OF POLITICAL SYSTEM
- NON POLITICAL STATE BUREAUCRACY
- NON POLITICAL POLICE FORCE AND ARMED FORCES.
- FREE ACCESS TO INFORMATION.

### **DISCUSS POLITICAL INVOLVEMENT AND ITS IMPACT**

POLITICAL INVOLVEMENT IN WHICH A FIRM OPERATES WILL HAVE SIGNIFICANT IMPACT ON COMPANYS INTERNATIONAL MARKETING ACTIVITIES. THE GREATER THE LEVEL OF FOREIGN INVOLVEMENT IN FOREIGN MARKETS, THE GREATER THE NEED TO MONITOR POLITICAL CLIMATE OF OTHER COUNTRIES IN WHICH BUSINESS IS CONDUCTED. CHANGE IN GOVERNMENT RESULTS IN CHANGE IN POLICY AND ATTITUDES TOWARDS FOREIGN BUSINESS BEARING IN MIND THAT A FOREIGN COMPANY OPERATES IN A HOST COUNTRY AT DISCRETION OF GOVERNMENT CONCERNED. GOVERNMENT CAN EITHER ENCOURAGE OR DISCOURAGE FOREIGN INVESTMENT. BY EITHER OFFERING ATTRACTIVE OPPORTUNITIES FOR INVESTMENT TRADE OR IMPOSE RESTRICTION SUCH AS IMPORT QUOTAS. A POLITICAL FACTOR OF CONCERN IS FREQUENT CHANGES IN GOVERNMENT. ALTHOUGH SUCH CHANGES NON VIOLENT, EACH CHANGE IN POLICY WITH REGARD TO INTERNATIONAL BUSINESS INVOLVEMENT WHICH IS A POTENTIAL SOURCE OF POLITICAL RISK AND UNCERTAINTY.

### **DISCUSS POLITICAL RISK**

DEFINED AS IMPACT OF POLITICAL CHANGE ON EXPORT FIRMS OPERATIONS AND DECISION MAKING PROCESS. POLITICAL RISK DETERMINES DIFFERENTLY FOR VARIOUS COMPANIES. EG: INDUSTRY REQUIRING HEAVY CAPITAL INVESTMENT ARE GENERALLY CONSIDERED TO BE MORE VULNERABLE TO POLITICAL RISK THAN THOSE REQUIRING LESS CAPITAL INVESTMENT. POLITICAL RISK IS MACRO IN NATURE WHEN POLITICALLY INSPIRED ENVIRONMENTAL CHANGES AFFECT ALL FOREIGN INVESTMENT. POLITICAL RISK IS MICRO IN NATURE WHEN ENVIRONMENTAL CHANGES ARE INTENDED TO AFFECT ONLY SELECTED FIELDS

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OF BUSINESS ACTIVITY ONLY OR FOREIGN FORM WITH SPECIFIC CHARACTERISTICS. WHEN BUSINESS CONDUCTED INDUSTRIALISED COUNTRIES LABOUR DISRUPTIONS- PRICE CONTROLS ARE GREATEST THREATS TO COMPANY. PROFITABILITY OF COMPANIES SUCCESS OR FAILURE COULD DEPEND ON HOW WELL THEY COPY WITH POLITICAL DECISIONS.

CHECKLIST FOR A COUNTRY WILL INCLUDE THE FOLLOWING.

- FORM OF GOVERNMENT LENGTH OF LEADERSHIP IN POWER.
- EXTENT OF LEADERSHIP CHANGES - HISTORY OF GOVT STABILITY.
- VOLATILITY OF ELECTORATE -POPULAR SUPPORT FOR LEADERSHIP.
- ROLE OF MILITARY IN POLITICS AND RELIGIOUS, ETHNIC OR IDEOLOGICAL SPLITS.
- AMOUNT OF POLITICAL PARTICIPATION ALLOWED, TOLERATED THROUGH DEMONSTRATIONS LOBBIES, PROFESSIONAL ASSOCIATION, OTHER INFORMAL INTEREST GROUPS.
- PROSPECTS FOR DOMESTIC POLITICAL VIOLENCE, INTERNAL SECURITY FORCES PER 1000 OF POPULATION.
- HISTORY OF COERSION, REGIONAL POLITICAL ALLIANCES
- TRADE LABOUR DISPUTES
- EXTERNAL THREATS AND SUPPLIES ON MARKETS.

### **POLITICAL SPECTRUM**

POLITICAL IDEOLOGIES ARE MANY AND VARIED, DIFFICULT TO FIT THEM NEATLY INTO A CONTINUUM THAT REPRESENTS DEGREES OF CITIZEN PARTICIPATION IN DECISION MAKING. FIGURE 5.2 PAGE 106 REPRESENTS GENERAL SCHEMATIC OF VARIOUS FORMS OF GOVERNMENT. TWO EXTREMES ARE TOTALITARIANISM AND DEMOCRACY. FROM THESE 2 VARIOUS DEGREES OF PARTICIPATION HAVE EVOLVED. CHANGE CONTINUES TO OCCUR RAPIDLY AROUND THE WORLD. MANY AUTHORITARIAN REGIMES ARE BEING REPLACED BY DIFFERENT TYPES OF DEMOCRACIES. KEY ELEMENTS OF DEMOCRACY IS FREEDOM IN THE AREA OF POLITICAL & CIVIL LIBERTIES.



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### **IMPORTANCE OF INTERNATIONAL LEGAL ENVIRONMENT**

INTERNATIONAL MANAGERS SHOULD HAVE A KNOWLEDGE OF THE LEGAL SYSTEMS IN THE COUNTRIES WHICH THEY DO BUSINESS. INTERNATIONAL LEGAL ENVIRONMENT HAS THE FOLLOWING 3 DIMENSIONS.

--DOMESTIC LEGAL SYSTEM OF PARENT COMPANY.

--LEGAL SYSTEMS OF EACH OF THE HOST COUNTRIES WITH WHICH THE PARENT COMPANY CONDUCTS BUSINESS.

--INTERNATIONAL LAW.

LEGAL SYSTEMS VARY FROM COUNTRY TO COUNTRY. EXPORTS LIKELY TO FIND THAT LEGAL SYSTEMS OPERATIONAL IN BUYERS COUNTRIES ARE IN SOME RESPECTS DIFFERENT TO THAT OF SOUTH AFRICA. DOMESTIC LAWS GOVERN MARKETING WITHIN A COUNTRY. EG. BRITAIN IS NOT ALLOWED TO ADVERTISE TOBACCO AND ALCOHOL ON TELEVISIONS.

### **DIFFERENT LEGAL SYSTEMS**

LEGAL SYSTEMS ARE CATEGORIZED IN 1 OF THE 3.

--COMMON LAW

--CIVIL LAW (ALSO REFERRED TO AS CODIFIED LEGAL SYSTEM)

--THEOCRATIC LAW

COMMON LAW GENERALLY BASED ON PRECEDENTS OR PAST PRACTICES WHILE A CODE, WHICH IS A COMPREHENSIVE SET OF VOLUMES HAVING STATUTORY FORCE AND COVERING VIRTUALLY WHOLE SPECTRUM OF COUNTRY'S LAW IS ESTABLISHED BY ARBITRARY METHODS SUCH AS SPEED LIMITS OF 80KM OR 3 DAY PERIOD FOR CANCELLING CONTRACTS.????

### **LEGAL CONTRACTS**

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LEGAL CONTRACTS IS CENTRAL TO ALL COMMERCIAL ACTIVITIES. PURPOSE OF LEGAL CONTRACTS IS TO SPECIFY RESPECTIVE RIGHTS, OBLIGATIONS OF PARTY TO AGREEMENT AND OUTLINE SPECIFIC PROCEDURES OR ACTIONS THAT MUST TAKE PLACE SO THAT THE POSSIBILITY OF DISPUTES IS REDUCED. IN CONTEXT OF INTERNATIONAL BUSINESS, INHERENT RISKS AND COMPLEXITIES, CONTRACTS ASSUME A VITAL ROLE. PRINCIPLE LEGAL ARRANGEMENT UNDERLYING EXPORT TRANSACTION IS EXPORT SALE CONTRACT. CONTRACT IS ENTERED INTO ONCE AGREEMENT HAS BEEN REACHED AT BEGINNING OF NEGOTIATIONS, REDUCED TO WRITING BEFORE CONTRACT IS FINALISED. WHEN INTERNATIONAL COMMERCIAL DISPUTE OCCURS PROBLEM MUST BE SETTLE IN 1 OF THE COUNTRIES INVOLVED ACCORDING TO LAW/REGULATIONS OF THAT COUNTRY UNLESS CONTRACT STATES OTHERWISE. IF DISPUTE CANNOT BE SETTLED RESOLUTION POSSIBILITY CAN BE OBTAINED THROUGH ARBITRATION (FACILITATED BY INDEPENDENT 3RD PARTY) OTHER OPTION IS GOING TO COURT WHICH USUALLY INVOLVES LARGE TRANSACTIONS OR OWNERSHIP PATENTS, COPYRIGHT OR PHYSICAL PROPERTY. CAN TAKE A FEW MONTHS OR SEVERAL YEARS TO FINALISE.

### **INTERNATIONAL LAW**

BUYERS & SELLERS ARE SUBJECT TO INTERNATIONAL LAW. BODY OF RULES THAT REGULATE RELATIONSHIPS BETWEEN COUNTRIES OR OTHER INTERNATIONAL LEGAL PERSONS. NEITHER AN INTERNATIONAL PARLIAMENT EMPOWERED TO CREATE INTERNATIONAL LAW, NOR AN INTERNATIONAL POLICE FORCE TO ENFORCE IT. PRINCIPLE SOURCES OF INTERNATIONAL LAW IS TREATIES/CONVENTIONS CREATED WHEN SEVERAL COUNTRIES REACH AN AGREEMENT ON A CERTAIN MATTER AND BIND THEMSELVES TO IT BY AUTHORIZING REPRESENTATIVES TO SIGN DOCUMENTS OF AGREEMENT.

THEY HAVE ENTERED INTO CONTRACT WHICH OBLIGES THEM TO DO SOMETHING OR REFRAIN FROM DOING SOMETHING. FAILURE TO COMPLY IS EQUIVALENT TO BREACH OF CONTRACT. OTHER SOURCES OF INTERNATIONAL LAW ARE 'CUSTOM' (INTERNATIONAL PRACTICE ACCEPTED AS LAW) GENERAL PRINCIPLES OF LAW RECOGNISED BY CIVILISED NATIONS OR NATURAL LAW (BASIS OF HUMAN CO-EXISTENCE) NO ORGANISED BODY TO ENFORCE INTERNATIONAL LAW. THERE IS AN INTERNATIONAL COURT OF JUSTICE IN HAGUE IN THE NETHERLANDS THAT DECIDES AN MATTER WHICH PARTIES REGARD AS SUITABLE FOR SUBMISSION. TO BE CONSIDERED FOR ADJUDICATION COUNTRY APPROACHES COURT VOLUNTARILY CANNOT BE BROUGHT INVOLUNTARILY.

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### **LEGAL ENVIRONMENT - IMPACT ON INVESTMENT STRATEGIES**

COMPANIES DEAL WITH POLITICAL LEGAL ISSUES AT DIFFERENT LEVELS AS THEY BECOME MORE INTERNATIONAL. IF AN ORGANIZATION SELECTS EXPORTING AS THE MODE OF ENTRY MANAGEMENT IS NOT AS CONCERNED WITH THE POLITICAL PROCESS OR WITH THE VARIETY OF LEGAL ISSUES AS WOULD BE THE CASE WITH FOREIGN DIRECT INVESTMENT. IN DIFFICULT CONTRACTING ENVIRONMENTS AND COUNTRIES WHERE INCENTIVE PROBLEMS ARE EXTREME AND LEGAL FRAMEWORK FOR PROTECTING INVESTORS IS WEAK, ENTREPRENEURS AND MANAGERS CANNOT CREDIBLY CONVINCING INVESTORS THAT THEIR MONEY WILL BE EFFICIENTLY USED AND RETURNED TO THEM AS HIGH FUTURE RETURNS. EXPECTATIONS OF FUTURE CONFLICTS OF INTEREST RESULTING FROM SELF INTERESTED BEHAVIOUR BY MANAGERS - INSIDE OWNERS IS REFLECTED IN LOW PRICES FOR THE SHARES AT THE TIME OF THE OFFER DISCOURAGES ENTREPRENEURS AND MANAGERS FROM FULLY DIVERSIFYING. PERFECT RISK SHARING BECOMES UNFEASIBLE AND IN THE EXTREME COMPANIES MAY CHOOSE NOT TO GO PUBLIC. THIS DESCRIBES ENVIRONMENT IN MANY IF NOT MOST DEVELOPING COUNTRIES, MAY EVEN DESCRIBE HIGHLY DEVELOPED COUNTRIES SUCH AS GERMANY, FRANCE. IN THE SOVIET UNION STATE OWNED COMPANIES WERE PRIVATISED, MARKETS INTRODUCED INTO A LEGAL ENVIRONMENT LACKING THE LAWS, COURTS OR ENFORCEMENT POWERS TO ADJUDICATE AND ENFORCE CONTRACTS. IN HINDSIGHT IT SEEMS OBVIOUS THAT NEWLY PRIVATISED COMPANIES WOULD BE SUBJECT TO MASSIVE INCENTIVE FAILURES, INCLUDING MANY CASES OF OUTRIGHT THEFT/LOOTING. EVIDENCE SHOWS STRONG POSITIVE RELATIONSHIP BETWEEN QUALITY AND EFFICIENCY OF A COUNTRY.

LEGAL SYSTEM - LEVEL OF ECONOMIC DEVELOPMENT SUGGESTED THAT COMPANIES WITH HIGH MANAGERIAL OWNERSHIP STAKES ARE MORE RELUCTANT TO FUND NEW PROJECTS. MOST STUDIES OF BENEFITS TO AN ECONOMY OF OPENING FINANCIAL MARKETS EMPHASIZES GAINS FROM A LOWER RISK FREE RATE OF INTEREST OR PRICE OF RISK.

### **CONCEPT OF TECHNOLOGY AND IT TECHNOLOGICAL ENVIRONMENT**

TECHNOLOGY CAN BE DEFINED AS A 'METHOD OR TECHNIQUE' FOR CONVERTING INPUTS TO OUTPUTS IN ACCOMPLISHING A SPECIFIC TASK. THEREFORE TERMS, METHODS AND TECHNIQUES REFER NOT ONLY TO KNOWLEDGE BUT ALSO THE SKILLS AND MEANS FOR ACCOMPLISHING THE TASK. TECHNOLOGICAL INNOVATIONS REFERS TO THE INCREASE IN KNOWLEDGE, IMPROVEMENT IN SKILLS OR DISCOVERY OF NEW/IMPROVED MEANS THAT EXTENDS PEOPLE'S ABILITY TO ACHIEVE GIVEN TASK. TECHNOLOGY CAN BE CLASSIFIED IN SEVERAL WAYS EG. BLUEPRINTS, MACHINERY, EQUIPMENT AND OTHER CAPITAL GOODS ARE SOMETIMES REFERRED TO AS 'HARD TECHNOLOGY' WHILE 'SOFTWARE TECHNOLOGY' INCLUDES MANAGEMENT KNOW HOW, FINANCE, MARKETING AND ADMINISTRATIVE TECHNIQUES. WHEN A RELATIVELY PRIMITIVE TECHNOLOGY IS USED IN PRODUCTION

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PROCESS, TECHNOLOGY IS REFERRED TO AS 'LABOUR INTENSIVE', HIGHLY ADVANCED TECHNOLOGY IS GENERALLY TERMED 'CAPITAL INTENSIVE'. CHANGES IN TECHNOLOGY ENVIRONMENT HAVE HAD SOME OF THE MOST DRAMATIC EFFECTS ON BUSINESS. A COMPANY MAY INVEST IN TECHNOLOGY ONLY TO SEE A NEW INNOVATIVE MORE COST EFFECTIVE TECHNOLOGY EMERGES. COMPUTER TECHNOLOGY HAS ENORMOUS IMPACT ON HEALTHCARE AND EDUCATION. NEGATIVE SIDE TO TECHNOLOGY IS INTRODUCTION OF NUCLEAR WEAPONS THAT IS MADE FOR THE DESTRUCTION OF HUMAN RACE IE A FRIGHTENING POSSIBILITY. IN ADDITION FACTORIES USING MODERN TECHNOLOGIES POLLUTED BOTH WATER/AIR WHICH CONTRIBUTED TO VARIOUS ENVIRONMENT AND HEALTH PROBLEMS. TECHNOLOGY IS A CRITICAL FACTOR IN ECONOMIC DEVELOPMENT BECAUSE OF ADVANCES IN INTERNATIONAL COMMUNICATIONS, INCREASING ECONOMIC INTERDEPENDENCE OF NATIONS AND SERIOUS SCARCITY OF VITAL NATURAL RESOURCES. TRANSFER OF TECHNOLOGY BECOMES IMPORTANT PART OF INDUSTRIALIZED AND DEVELOPING COUNTRIES.

### **TRANSFER OF TECHNOLOGY**

IS ESSENTIAL FOR ATTAINING HIGH LEVEL OF INDUSTRIAL CAPABILITIES, COMPETITIVENESS. TECHNOLOGY TRANSFER IS COMPLEX, TIME CONSUMING, COSTLY, SUCCESSFUL IMPLEMENTATION OF SUCH A PROCESS DEMANDS CONTINUOUS COMMUNICATION AND CO-OPERATION BETWEEN PARTIES INVOLVED. TECHNOLOGY CAN BE TRANSFERRED FROM PERSON TO PERSON, INDUSTRY TO INDUSTRY, GOVERNMENT TO GOVERNMENT OF ANY COUNTRY. GENERALLY PLAYS THE MOST IMPORTANT ROLE IN FACILITATING OR IMPEDING TRANSFER PROCESS.

### **SUMMARY OF CHAPTER TOPIC 5**

TO BE SUCCESSFUL MANAGERS NEED TO DEAL WITH PUBLIC INSTITUTIONS SUCH AS GOVERNMENT (BUSINESS AGENCIES) POLITICAL PROCESS INVOLVES INPUT FROM VARIOUS INTEREST GROUPS, ARTICULATION OF ISSUE THAT AFFECT POLICY FORMULATION, AGGREGATION OF THOSE ISSUES INTO KEY ALTERNATIVES, DEVELOPMENT OF POLICIES, IMPLEMENTATION AND ADJUDICATION OF THOSE POLICIES. IN DEMOCRACY THERE IS A WIDE PARTICIPATION IN DECISION MAKING PROCESS; IN TOTALITARIANISM REGIMES IN RELATIVE FEW MAY PARTICIPATE. ALTHOUGH SOME ARE

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BEGINNING TO PARTICIPATE IN THE DECISION MAKING PROCESS. TOTALITARIANISM REGIME MAY BE SECULAR OR THEOCRATIC. FACTORS CONSIDERED IN MEASURING FREEDOM INCLUDE DEGREE TO WHICH FAIR, COMPETITIVE ELECTIONS OCCUR, EXTENT TO WHICH INDIVIDUAL GROUP FREEDOM GUARANTEED, EXISTENCE OF FREEDOM OF PRESS MANAGERS. MNES MUST COPE WITH VARYING DEGREES OF GOVERNMENT INTERVENTION, ECONOMIC DECISION DEPENDING ON COUNTRIES DOING BUSINESS. POLITICAL IMPACT ON INTERNATIONAL BUSINESS IS COMPLEX. DIFFERENT POLITICAL SITUATION IN DIFFERENT COUNTRIES MUST BE DEALT WITH. NATIONAL LAW GOVERNS BUSINESS ACTIVITY. INTERNATIONAL LAW GOVERNS CROSS BORDER ACTIVITIES. LEGAL ENVIRONMENT CAN INFLUENCE INTERNATIONAL COMPANIES IN VARIOUS WAYS EG. BY REGULATING TRADE AND INVESTMENT. PROTECTING INTERLECTUAL PROPERTY. TECHNOLOGICAL ENVIRONMENT ALSO DISCUSSED, IMPACT ON GLOBAL BUSINESS ACTIVITIES OF COMPANY. TRANSFER OF TECHNOLOGY HAS BECOME IMPORTANT, PREOCCUPATION OF BOTH INDUSTRIALISED DEVELOPING COUNTRIES, PACE OF THIS PROCESS WILL INCREASE IN THE 21ST CENTURY

### ▪ STUDY UNIT 7

- **Define the relevant concepts related to international management and leadership**
- Affiliates and subsidiaries: notwithstanding the possibility of subtle or legal differences which may exist the terms “affiliates and subsidiaries will be used interchangeably

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- International, multi-domestic, global and transnational: the terms international, multi-domestic global and transnational could refer or apply to firms, industries (and by implication, products and services) and strategies. In ref to firms, multi domestic firms follow a multi-domestic strategy that focuses on local responsiveness in foreign markets. Firms with an international strategy strive towards creating value by transferring core competencies from home to foreign business units and towards a balance between globalisation and local responsiveness. Global firms (also referred to globally integrated firms) follow global strategies and emphasise the realisation of location and experience economies in the production and marketing of largely low-cost standardised products. Transnational firms focus relentlessly on the simultaneous attainment of locations and experience curve economies as well as local responsiveness, through global networks and the multidirectional transfer of core competencies.
- International, global and worldwide: this term will refer to any activity or object connected with doing business outside the home country. The term worldwide will be used as a neutral designation and global will mean encompassing extensive networking linkages internationally. Alternatively global will also refer to types of worldwide strategy.
- **Compare and evaluate the concepts of management and leadership:**
- Leading is mentioned as one of the four basic functions of management. Accordingly managers get the job done by working through people making leadership the key ingredient among many in the management task. Leaders help to shape the organisation's vision, the meaning within which others work and live. Managers by contrast act completely within a vision. Leadership and vision remain fundamental to the understanding of a people and institutions...In whatever way we distinguish between management and leadership; it is evident that effective leadership is indispensable for continued success in international business.
- **Discuss international management in the context of its various environments:**
- The relevant international for an MNE would be the sum total of the environments of each of the nation-states or countries with which the enterprise traded or in which it has invested. The following political, legal, economic, social, cultural and technological issues and forces that an MNE faces with reference to the following:
  - The changing nature of the international business environment, including major demographic shifts, ever growing urbanisation, and growth in what we have come to know as "minority groups"

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- Changing consumer behaviour reflecting increasing demands for and insistence on value
- Trade liberalisation, deregulation and privatisation
- Exploding info, communication and biological technologies, that are totally changing the global competitive environment and resulting in new competitive forces
- The emerging new economy(including the old economy with new technology),as reflected in e-business which is changing the way we look at traditional business models
- The emergence of the EU as an economic force, and the euro as a currency of note
- Changing political systems, including the dramatic changes in Eastern and Central Europe as well as in Russia after the demise of communism
- Increasing economic integration and the formation of viable trade blocs ,critical health,finance,education and government issues in Pacific Rim,the Far East and in Africa,and the way in which these issues are being dealt with
- An increasing consolidation of business through mergers and acquisitions
- Management becoming increasingly globalised, including extensive restructuring, downsizing and rightsizing of organisations and outsourcing of activities
- Unacceptable levels of corruption and social disorder worldwide
- The need to scan the competitive environment continuously and systematically search for business opportunities
  - **Define, discuss and evaluate risk in international business**
  - Risk can adversely affect carefully planned outcomes and expectations in international business. There are 2 types of risk, internal and environmental risk.
  - Internal risk is defined as the threat that internal events will adversely affect the company's ability to implement its strategy and achieve the goals
  - Environmental risk is defined as the threat that events in the environment will adversely affect the company's ability to implement its strategy and achieve its goals.
  - Environmental risks mentioned by Mead include:
    - Unexpected government –imposed discriminatory taxation
    - Import and export controls
    - Bad payments
    - Interference with operations
    - Legal disputes(eg trade issues)
    - Industrial disputes(eg labour relations)
    - Unfair competition from the local public sector

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- In addition to the above there are also other environmental risks eg:
- Political events such as government takeovers, the nationalisation of industries, public sector corruption, disputes over trade issues, military intervention and wars.
- As a 1<sup>st</sup> step int managers need to have effective and appropriate competitive intelligence and environmental scanning systems in place to provide timely info for proactive thinking.
- Fatehi recommends that besides insuring against certain risks there are other ways to protect the firm against risk eg:
- Investing in countries through direct foreign investment and joint ventures, investing in industries which have been earmarked for encouragement and incentives by host governments, using local financing sources.
- **Discuss and evaluate the concepts of leadership and culture**
- Culture is the system of shared beliefs, values, customs, behaviours and artifacts that the members of society use to cope with their world and with one another, and that are transmitted from generation to generation through learning.
  - Concepts of culture are **attitudes**- they are established ways of responding to people and situations that we have learned, based on beliefs, values and assumptions we hold. Attitudes become manifest through our behaviour
  - **Beliefs**: are the assumptions we make about ourselves, about others in the world and about how we expect things to be, how we think things really ar,what we think is really true and expected consequences of our behaviour
  - Norms: the rules of behaviour that are part of the ideology of the group.Norms tend to reflect the values of the group and specify those actions that are proper and those that are inappropriate as well as rewards for adherence and the punishment for dissidence.
  - Values: beliefs of a person or social group in which they have an emotional inverstment.Values exert major influence on the behaviour of an individual and serve as broad guidelines in all situations
  - There are different leadership and management styles across different countries based on their culture. International leadership requires an open mind as well as an understanding an appreciation of the various international cultures and their differences as prerequisites for the attainment of a global mindset. As far as leadership is concerned research has shown that:
    - the meaning of leadership may vary across cultures,
    - the values that leaders have may vary across cultures
    - the behaviour, power sources and influence tactics of leaders may have to be modified to be effective in specific international environments



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- more effective leaders can be developed, given the future challenges of international business
  - **Define a global mindset**
- A global mindset of an organisation can be described as the ability of a company to be open to new experiences and to change over time
- Be willing to learn new skills and competencies in order to exploit a global presence
- Operate on the premise that cultures can be different without being better or worse than one another
- Dedicate itself to becoming well informed about different value systems, norms of behaviour and assumptions regarding reality
- Accept diversity and heterogeneity as natural and as a source of opportunities and strengths rather than a necessary evil
  - **Identify and discuss the need for a global mindset**
  - The need for international enterprises to attain sustainable competitive advantage in order to survive, grow and prosper in the global arena
  - It is a requirement for international managers to succeed.
  - **Define how a global mindset is developed and cultivated**
  - The speed with which organisations or individuals can achieve a global mindset is driven by:
    - Curiosity about the world and a commitment to becoming smarter
    - An explicit and self-conscious articulation of a current mindset
    - Exposure to diversity and novelty
    - A disciplined attempt to develop an integrated perspective and knowledge about foreign cultures and markets
- **Evaluate the relationship between a global mindset, culture and cross-cultural leadership**
  - There are 3 generic leadership styles:
    - Charismatic
    - Transactional
    - Transformational
  - Transformational leadership style has been proved to be the most effective in international leadership. The following 5 cross cultural leadership models are dependent on cultural differences as per Kets de Vries:
    - The consensus model(Scandinavia,the Netherlands and Japan)
    - The charismatic model(Anglo-Saxon and Latin countries)
    - The technocratic model(German countries)

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- The political process model(France)
- The democratic centralism model (Russia,some middle Eastern and African countries)
  - Kets de Vries identified the following characteristics and abilities which have been shown to be indispensable for effective cross-cultural leadership:
    - Charismatic qualities
    - An openness to change
    - An interest in the socioeconomic and political life of other countries
    - An ability to relate well to people from other cultures
    - Good nonverbal communication skills
    - A sense of humour
    - A willingness to listen to and attempt to understand different views
      - All these skills and competencies are needed by global managers
  - **Explain the requirements for effective global mindset, culture and cross-cultural leadership**
    - **Adler and Bartholomew list these 5 transactional competencies**
- Global leaders must understand worldwide business, political and cultural environments from a global perspective
- Global leaders must learn about many cultures,perspectives,tastes,trends,technologie and approaches to conducting business
- Global leaders must be able to adapt to living in other cultures and need cross-cultural skills on a daily basis throughout their career and not only during expatriate times.
- Global leaders must be skillful at working with lpeople from many cultures simultaneously an should no longer deal with each country’s people on a separate and therefore sequential basis
- Global leaders must interact with international colleagues as equals rather than from within clearly defined hierarchies of structural or cultural dominance and subordination.
  - **Explain the importance of a global mindset for global leaders**
    - The importance of having a global mindset for global leaders is important for industry leadership.The central value of a global mindset lies in enabling the

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company to combine speed with accurate response. The importance of a leader to have a global mindset is so that he can discover new market opportunities. He can also establish a presence in key global markets. He can convert such a presence into a global competitive advantage. He can also align global organisational structures and redistributing resources to support the firm's key emerging strategies.

- **Discuss the need for and importance for training and development**
- The need for and importance for training and development is to have high-calibre staff available where and when needed. Globalisation requires managers who are able to manage decentralised, multi-centred, flat layered organisations through having complex interpersonal and cross-cultural skills. Training programmes such as international management simulation games prove to be helpful as they are taught fundamental aspects such as cross-cultural decision making and understanding, teamwork and co-operation across cultures, as well as dealing with male and female relationships across cultures enabling managers to lead a productive organisation.

### Topic 6: The international Economic Environment

#### Study unit 6.1 Economic system and macro economic issues

##### **1. Define the concept Economic environment?**

Understanding the cultural, political, legal and economic environments of the countries in which international businesses operate can help in predicting how emerging trends and events in these environments might affect future performance in those countries. It is generally accepted that strong relationships exist between the political, economic, and legal systems of a country, as is evidenced by the use of the term 'political economy' in the context of international business.

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The political ideology, legal environment, cultural environment and economic system of a country will largely determine the potential benefits, costs, and risks of doing business in that country. It is also known that the political system influences the type of economic system of a country.

### 2. Explain the importance of the international economic environment?

The economic environment of the countries in which a company operates or may want to operate, is important for a number of reasons such as the level of economic development, extent of economic freedom and current wealth of the population of those countries, their economic policies and strategies, and future economic prospects.

**The primary reason:** why international managers **analyze** the economic environment is to assess the opportunities for the marketing a company's products and services abroad, and to evaluate the potential benefit, cost, and risks of possibly locating some of the company's production and distribution facilities abroad.

**The potential benefits of doing business with or investing in another country is largely determined by the countries:**

- Market size (essentially the size of its population)
- Current wealth ( in terms of the purchasing power of its population)
- Future economic prospects.

Cultural differences and different legal system in foreign countries tend to increase the *costs* of doing business in those countries, and these differences have to be assessed in terms of their potential effect on company's profitability and competitive advantage.

**Important risks of doing business in other countries included:** the extent of political instability, government attitudes towards nationalization and even expropriation of assets and private property, the potential for social unrest, absence of the rule of law, and the inefficiency of law enforcement.

From an international business perspective, a holistic approach to country analysis on both the national and international level therefore requires:

- An understanding of the level of economic development and economic performance of a country, given its prevailing economic system.
- Extent of the country's economic freedom.

**Firstly** this means understanding the nature, level, and direction of economic development in a country because production and consumption patterns are largely determined by the relative affluence of various markets sectors in the economy of that country.

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**Secondly** the extent and influence of the government policies and intervention.

International businesses must, therefore, identify and evaluate the policy issues, economic trends, industry trends, and trends in the market segment within those industries, for each country in which they are involved.

**The purpose of economic analysis** is to evaluate the overall outlook of the economy of a country in the long term, and then to assess how potential economic changes could impact on a firm. **Managers** must consider a variety of factors including the extent and direction of economic growth in the gross national product, the general availability of credit, size, and purchasing power, and the level of disposable income of the population, the propensity of people to save, as well as the exchange rates, interest rates, inflation, foreign debt levels, budgets and trade deficits, employment level, and other socio-economic and demographic trends in the countries concerned.

Note that the level of economic development, size, and purchasing power of the population, and the future economic prospects of a country significantly influence consumption patterns and buying behavior in that country.

Refer to box 6.2. as well.

### 3. Define the concept of economic system?

A country's economic system can be broadly defined as the structure and processes a country uses to allocate its resources and conduct its commercial activities.

Economic systems accordingly encompass all the mechanisms and institutions that have been established to facilitate the making and implantation of decisions within an economic framework concerning production, consumption, expenditure and income in a country.

### 4. Define and evaluate the concept of economic freedom?

Economic freedom is defined as the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. This means that people are free to work, produce, consume, and invest in the ways they feel are most productive. It provides a user-friendly "index of economic freedom"

**The Index of Economic Freedom:** The ten broad categories on which the assessment of economic freedom is based, and how factors within these categories are scored to arrive at the overall score for economic freedom of a country.

The final index of Economic Freedom score is then grouped into one of the four broad categories freedom:

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- **Free**- countries with an average overall score of 1.99 or less.
- **Mostly free**- countries with an average overall score of 2,00 to 2,99
- **Mostly unfree**- countries with an average overall score of 3,00 to 3,99
- **Repressed**-countries with an average overall score of 4, 00 or higher.

It has been confirmed that countries with the most Economic Freedom have

- Higher rates of economic growth.
- Higher standards of living.
- And are relatively more prosperous.

Than those countries with less economic freedom.

### **Institutional factors or determinants of economic freedom include the ffg:**

- Corruption in the judiciary, customs service, and government bureaucracy.
- Non-tariff barriers to trade, such as import bans and quotas as well as strict labeling and licensing requirements.
- The fiscal burden of government, which encompasses income tax rates, corporate tax rates, and trends in government expenditure as a percent of output.
- The rule of law, efficiency within the judiciary, and the ability to enforce contracts.
- Regulatory burden on business, including health, safety, and environmental regulation.
- Restriction on banks regarding financial services, such as selling securities and insurance.
- Labour market regulation, such as established work weeks and mandatory separation pay
- Informal market activities, including corruption, smuggling, piracy of intellectual property rights, and the underground provision of labour and the other services.

### **5. Define, evaluate and compare economic systems?**

1. **A Market Economy:** is an economic system in which the majority of a nation's land, productive facilities, and other economic resources are privately owned, whether by individuals or businesses, as opposed to being owned by the state.

In a market economy, economic-related decisions, such as who produces what and in what quantity, as well as the cost of production factors, are determined by the interaction of supply and demand in the marketplace. As the supply and demand for goods and services change, so does the selling price, which means that supply and demand are dictated by the price-mechanism.

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The concept of 'market economy' is based on the belief that individual interest should come before group interests, since groups are bound to benefit when individual are rewarded for their initiative and achievements. The concept of market economy is consistent with the values of individualism and ideology of democracy. The USA is a good example of a market economy.

To have a smooth running market economy the ffg must exist:

- Freedom of choice or consumer sovereignty means few restrictions on the decision-making ability of consumers regarding alternative purchase options.
- Free enterprise means the freedom of the enterprise to operate in the market and the ability to decide what goods and services to produce.
- Price flexibility, which generally allows prices to rise and fall to reflect forces of supply and demand and which, by implication, does not provide for monopolistic interventions and the manipulation of supply and the price mechanism in an economy.

A market economy implies a large degree of economic freedom which allows its citizens to exercise their right to own property, invest their earnings, trade internationally, and participate equally in all aspects of the market economy within fair legal and institutional frameworks.

**Government preferably has little direct involvement in business activities but could play an important enabling role in the following areas:** enforcing antitrust laws, or enhancing competition policy, preserving property rights, providing a stable fiscal and monetary environment, and preserving political stability.

2. A command economy: or centrally planned economy is economic system in which a nation's land, productive facilities, and other economic resources are owned by the government, which also plans most of the country's economic activity.

In pure command economies, the goods and services produced in a country, the quantities in which they are produced and the prices at which they are sold are all planned by the government, and the concept of command economy is consistent with the values of collectivism and the political ideology of totalitarianism. In a command economy, therefore, government allocates resources 'for the good of society'. With this system the government is assumed to be a better judge of how resources should be allocated than businesses, consumers, or private individuals.

The aim in this system is for the governments to achieve a wide range of political, economic, and social objectives by controlling the allocation, production, and distribution of resources.

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The concept of a centrally planned economy has its origin in the belief that group welfare is more important than individual's well-being.

**Command economies have however stagnated for a number of reasons. These include their failure to:**

- Create economic value
- Provide incentives for innovative and entrepreneurial behavior
- Measure up to the achievements of other economic systems-notably market economies
- Satisfy consumer needs and improve overall quality of life.

3. **A mixed Economy:** is an economic system in which land, productive facilities, and other economic resources are more equitably distributed between private and government ownership, when compared to a command economy.

In mixed economies, the government tends to control certain sectors of the economy that it considers to be of importance in the national interest, notably in the energy, security, healthcare, and transportation sectors, while others are left to the private sector.

While not inclined toward central planning in the strict sense, the governments of countries with mixed economies do influence economic activity by means of incentives and special concessions to certain industries. However many mixed economies are gradually transforming to market-based economies, basically for the same reasons as those for command economies-that these countries find it increasingly more difficult to remain competitive in the global marketplace.

**\*6. Describe levels and phases of economic development? \***

Classifying countries in terms of their level of economic development provides valuable information for firms wanting to expand internationally. Hence we look at levels of economic development of countries and then explore the ways in which countries can be classified on the basis of economic growth and development.

In the firm's search for attractive foreign market opportunities, the level of economic development and the extent of economic activity, as reflected by a country's economic growth and the size of its population are of extreme importance, also taking into account the important aspect and implications of a country's extent of economic freedom.

5.2.2. Measure of economic activity and purchasing power parity:



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Generally gross national product (GNP) or gross national income (GNI) and gross domestic product (GDP) are accepted as broad-based measure of a country's overall economic output and activity during a specific period, usually a year.

Please see page 126/127/128 for definition of GNP, GNI & GDP.

The rationale for using purchasing power parity (PPP) is to identify the relative ability of two countries' currencies to buy the same amount of goods in those two countries.

Definition of purchasing power and purchasing power parity:

- Purchasing power is the value of goods and services that can be purchased with one unit of a country's currency.
- PPP is the relative ability of two countries' currencies to buy the same 'basket of goods in those two countries.'

Classification according to phases of economic development:

Economic development is a dynamic phenomenon, and although the economies of countries may go through successive cycles of economic recession and economic upswing, economic development generally reflect an upward trend in the long term. In 2006 the world bank's report on world development indicators classification of countries in the 5 broad categories of GNI per capita, primarily for analytical and operational purposes, countries can also be broadly catergorised according to phases of development, mainly for purpose of evaluation of socio-economic development, and as a framework for foreign aid programme especially in the case of less developed countries.

From a developmental perspective, countries can be caterorised as developed (industrialised),

Less developed, and developing.

**Please see Q7 for explanation of less developed and developing countries.**

**Q7: Discuss the classification of countries?**

Being able to classify countries in specific categories in terms of level of economic development is an important step in the overall economic analysis of countries. Although numerous factors complicate the decision on the appropriate method to use for classifying countries, the purpose of the classification will to a large extent indicate the type of information that the international manager requires and accordingly, the appropriate method of classification to use.

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It is evident that market size, and more specially the extent and the composition of market demand, constitutes important information for strategic market planning of international operations. Population size and per capita income have been identified as important indicators which are collectively captured in two widely –used measures for classifying countries: per capita GNP or GNI and per capita GDP.

See Q6 for Classification according to phases of economic development:

### **1. Developed Countries:**

Countries with developed economies largely correspond with high-income and possibly some of the upper-middle-income countries according to the classification by the World Bank based on the world development indicators and are characterised by:

- political stability
- a highly educated and literate population
- high levels of innovative and entrepreneurial activity
- high levels both industrial and information technology
- high levels of industrialization
- high standards of living of citizens
- well-developed infrastructure, transportation, communication, and utilities
- active involvement in international business and foreign trade
- well-developed financial institutions and monetary networks
- sophisticated social system (education/healthcare)

### **2. Less-developed countries:**

These countries will largely coincide with countries in low-income category as classified in the World Development Report, and are generally characterized by:

- Political instability and often anarchy
- Government inefficiency
- Very low living standards
- Shortage of investment capital
- Inadequate education, healthcare, and housing
- Low levels of economic wealth
- Underdeveloped financial services sector
- High rates of illiteracy and low levels of employment skill
- A strong emphasis on agricultural and mining activities
- Poor or undeveloped infrastructure.

See page 131 for more points.

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### **3.Developing countries:**

Developing countries lie somewhere between developed and less-developed countries and are generally in the process of evolving from less-developed countries. These countries:

- Enjoy relative political stability and tend towards market based economies where this had not previously been the case.
- Have improving educational system, literacy rates and working skills levels
- Have relatively efficient technology systems
- Are less dependent on agriculture and mining, have an expanding industrial sector.
- Have rapidly developing financial sectors
- Enjoy improved social conditions and higher quality of life than before
- Are increasingly involved in international business and international trade is less dependent on agricultural and resource-related exports.

### **MNI 301J – Study unit 8.1**

Globalisation and the global business environment refers to the context within which international competitive strategies have to be developed. Competitive advantage is generally associated with a specific firm in terms of core competencies and capabilities. However, in international business, competitive advantage may also originate from foreign countries and markets.

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Firms primarily expand their business operations internationally to increase profitability and growth. This generally happens reactively when firms respond to saturated domestic markets, or proactively as part of a firm's deliberate strategic initiatives to expand its market.

The global business environ has become more volatile and international business operations continue to be more competitive, increasingly placing new demands on international leadership and management.

### **Globalisation : the context of International Business Strategies**

Definition – Globalisation in the economic sense is a shift away from distinct national markets and economies to an interdependent and interlinked global economic system.

At the level of a specific company within a specific industry refers to the extent to which that company's competitive position within that industry is interdependent on that of the same industry in another country.

The main driving forces that enhance globalization as opposed to localization of business operations are :

- The ongoing phasing out of barriers to international trade and investment.
- The perceived shrinking of distances due to unprecedented advances in communication and transportation technologies.
- The continued merging of national economies into regional economic systems towards an interdependent global econ system.

Apart from above, other important factors and forces are :

- Regional economic integration through the formation of trade blocs and FTA's e.g. EU and NAFTA, involving the elimination of barriers to trade and investment b/w member countries.
- MNE's which have contributed to globalization through the increasing establishment of subsidiaries in foreign countries e.g. SAB Miller, and Nestle in SA and other countries.
- Global competition- cost reduction pressures and economies of scale where firms in capital intensive industries eg steel and MV's are forced to export part of their production output thereby accelerating globalization of the industry concerned.
- Escalating costs of Research and Development, which in certain industries compel firms in those industries to sell their prod globally to recover these costs e.g. pharmaceutical and comm aircraft.
- Government / industrial and competition – related policies that often accelerate or impede the trend towards globalization e.g. MV industry.

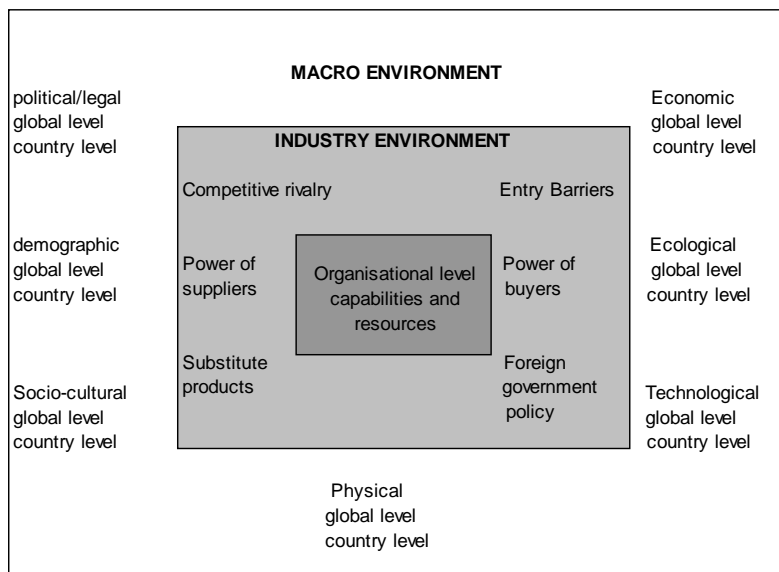
It is imperative that firms should consider global expansion strategies and to acquire and develop global mindset. **Insert slides from ppt (developing a global mindset ---- the need for a global mindset.)**

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### **THE GLOBAL BUSINESS ENVIRONMENT**

For strategic develop purposes, the GBE should be analysed and understood at the global, regional, country, industry and market levels.



Increasing globalization has necessitated the need for global supranational institution, such as the WTO, to help manage, regulate and police the global market place, and to establish multinational treaties to govern global trade, investment, and business activities.

The impact of ongoing rapid, technological change must be considered when developing international strategies, because :

- Dramatic new innovations may render a firms own technologies obsolete, resulting in a serious competitive advantage.
- Innovations can lead to the creation of entirely new industries and management should be aware of the potential impact on their firm of the 4 possibilities of industry change (identified by McGahan, radical change, intermediating change, creative change and progressive change).
- New tech such as the internet have increased the importance of the knowledge economy.
- The Internet has revolutionized many business practices from design, access, prod/distrib while eliminating political and other barriers to trade.

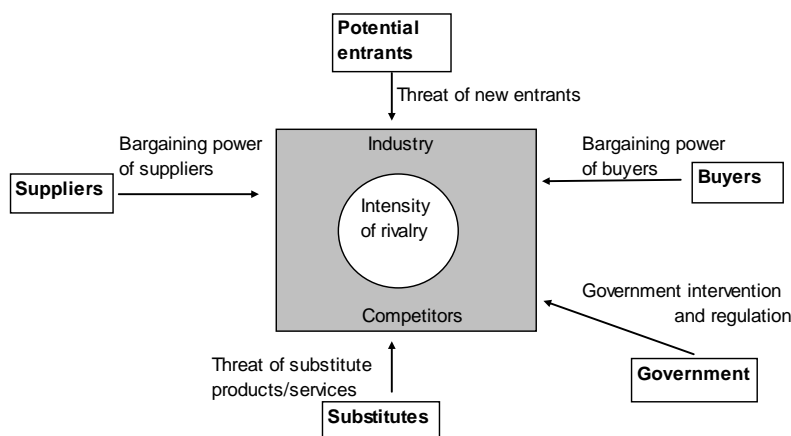
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### **INDUSTRY ENVIRONMENT**

A key aspect of a firm's external environment, is the industry in which it competes, since industry structure strongly influences the competitive rules of the game, as well as the strategies that firms could pursue.

To determine the inherent profit potential of an industry or industry sub-sector, Porter developed the generally accepted "5 forces model" of industry competitiveness.



Adapted industry analysis framework

An attractive industry is one in which all 5 forces are low in power. This approach can help identify attractive industries, and help a firm find a position in and from which it can best defend itself against competitive forces, or influence the forces to the firm's advantage. For the purpose of international business involvement, a 6<sup>th</sup> force, government intervention is added to Porter's model.

According to Lasserre, the 6 forces could be influenced by factors such as :-

Threat of potential new entrants	Bargaining power of Buyers	Bargaining power of Suppliers
<ul style="list-style-type: none"> <li>▪ High capital investment</li> <li>▪ Short product life-cycle</li> <li>▪ Extensive R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>▪ Some backward integration</li> <li>▪ Low switching costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Scarcity of raw materials and suppliers</li> <li>▪ Proprietary suppliers</li> </ul>

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<ul style="list-style-type: none"> <li>costs</li> <li>▪ Proprietary products</li> <li>▪ Industry standards</li> <li>▪ Economies of scale</li> <li>▪ Extensive distrib channels</li> <li>▪ Closed markets</li> <li>▪ Fear of retaliation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Concentration of buyers</li> <li>▪ High ratio of price to total purchases</li> </ul>	<ul style="list-style-type: none"> <li>▪ Concentration of suppliers</li> <li>▪ Potential threat of forward integration</li> </ul>
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<b>Threat of substitute prod &amp; services</b>	<b>Intensity of competitive rivalry</b>	<b>Government intervention</b>
<ul style="list-style-type: none"> <li>▪ Alternative, competitive prod/serv value propositions</li> <li>▪ Alternative use of tech, or originating from diff technologies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Over capacity</li> <li>▪ Cyclical sales</li> <li>▪ Undifferentiated products</li> <li>▪ High exit barriers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Price controls</li> <li>▪ Licensing &amp; other policy restrictions</li> <li>▪ Regulatory constraints</li> <li>▪ Taxation</li> </ul>

Industry analysis, based on relevant and reliable info as well as the quality of industry and competitor analysis, is a key component in developing sustainable international competitive strategies.

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### **Competitive Advantage**

Competitive advantage can be defined as the extent to which a firm manages to successfully match its internal strengths in competencies, capabilities, and resources to the key factors in the external environment, incl the industry environment. This definition typically applies to a firm within one country.

However, to identify and establish competitive advantage for an international firm the framework for an analysis of competitive advantage needs to be extended to include the impact of the firm's international environments. The goals underlying a firm's long-term objective of wealth maximization falls into three categories:

- . the firm's efficiency in its current activities across international markets
- . the effective management of the risks related to all its activities
- . the extent to which the firm develops learning capabilities to be able to innovate and adapt to change

If these are thus achieved by

- exploiting differences in input and output markets across the countries in which the firm is involved,
- striving to attain economies of scale wherever possible, and
- exploiting synergies across diverse activities, then the firm should enjoy 'global competitive advantage'.

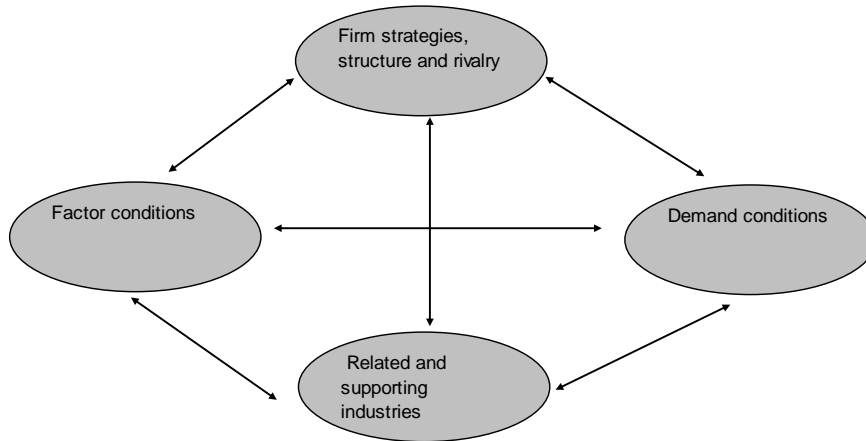
### **National competitive advantage**

Based on extensive research, Porter established that the international business success of nations were closely linked to the success of their individual firms, and that this national competitive advantage comes from internationally successful firms that continually innovate and improve their processes and continually improve their products and services. More specifically, Porter found that national competitive advantage of a country is determined by four interdependent and interacting industry-related attributes



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(Porters diamond) Porters Model of National Competitive advantage

**Factor conditions** – Porter distinguishes b/w basic and advanced factors in a country. Basic factor endowments are natural resources, climatic conditions, and basic skills in the workforce, whereas advanced factor endowments include high-level skills in the labour force, infrastructure, and advanced technologies.

**Demand conditions** – According to Porter, national competitive advantage is strengthened by a strong local demand for industries goods and services and the degree of sophistication of that demand. These conditions provide the primary drivers for innovation, quality improvement and competitiveness in the domestic market and enables them to expand competitively into international markets.

**Related and supporting industries** – The presence of related and supporting industries that are internationally competitive can help firms to attain increased competitive advantage through innovation and quality improvement. These are service industries, suppliers of components, located near producers, able to provide inputs at lower costs compared to more distant suppliers and able to rapidly adapt to the changing needs of producers.

**Firm strategy, structure and rivalry** - Nations tend to do well in those industries characterized by intense rivalry where management practices and strategies are closely aligned to the industry's sources of competitive advantage.

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### **Competitive advantage at firm level**

At the level of the individual firm, the sources of competitive advantage involve:

- . achieving efficiencies through strategies of cost leadership and/or differentiation
- . effectively managing economic, political and competitive risks
- . continuously innovating, learning and adapting to a changing, globalizing business environment

Of critical importance is that firms should exploit all potential sources of competitive advantage better than their competitors.

sustainable competitive advantage

At the firm level in particular, competitive advantages should preferably be

- . difficult to imitate or replicate; and
- . non-tradable

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### Study unit 8.2

#### **INTERNATIONAL COMPETITIVE STRATEGIES**

##### **Strategic orientation of global firms**

Multinational enterprises (MNEs) typically adhere to one of the following four orientations, beliefs, or mindsets :

. **an ethnocentric orientation** - implies a home- or parent-company approach to international business activities, believes that everything that originates from its home country is best and that the values and priorities of the parent firm must guide the strategic decisions regarding all its foreign operations. Control is mostly centralized, products standardized where feasible and subsidiaries generally staffed with key personnel from the parent firm.

. **a polycentric orientation** emphasises a strong host country involvement in international business activities. The culture of the country in which a subsidiary or foreign operation is located receives priority and dominates decision-making. Foreign subsidiaries enjoy relatively greater freedom, the entire MNE is highly decentralized and subsidiaries are predominantly staffed with people from the host country.

. **a regiocentric orientation** reflects a strong regional influence where a firm's operations occur in certain geographic regions. The predisposition of the parent firm is largely blended with those of subsidiaries or operations within other regions, thus accommodating regional influences.

. **a geocentric orientation** a globally integrated systems approach to foreign business activities and strategic decisions is adopted. Adopts a globally integrated systems and networking approach to strategic decision-making, exhibits a world-wide attitude and encourages multiculturalism and global learning. Decisions are made at the parent firm level as well as in subsidiaries as circumstances dictate. The best person for the job is appointed in host country subsidiaries, regardless of nationality, race, religion and gender.

strategic orientation is extremely important in the strategic structuring and staffing of international operations.

##### **Competitive advantage and strategy**

Firms need to have appropriate competitive strategies to capitalize on and benefit from the deployment of their distinctive competitive advantage(s) - generally core competencies and resources.

However, firms can increase their profitability by extending their competitive advantage(s) to foreign markets, which now require appropriate 'international strategies' to capitalise on

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their inherent competitive advantage(s). But, the firm's ability to benefit from such initiatives can be constrained by certain industry characteristics or pressures - in this case pressures for local responsiveness or customisation.

### **Pressures for cost reductions and local responsiveness**

International firms generally face two types of conflicting competitive pressures:

. **pressures for cost reductions** – is inherent in global industries. Pressures for cost reductions are characteristic of global industries producing 'global', standardised products that can be mass-produced, need not be adapted or customised for individual foreign markets, and are sold to price sensitive buyers. Firms in these industries achieve economies of scale and compete entirely on low cost, and not in terms of product differentiation. Examples of 'global' products include audio and video equipment, communications equipment, pharmaceuticals, machine tools, semiconductors and microchips

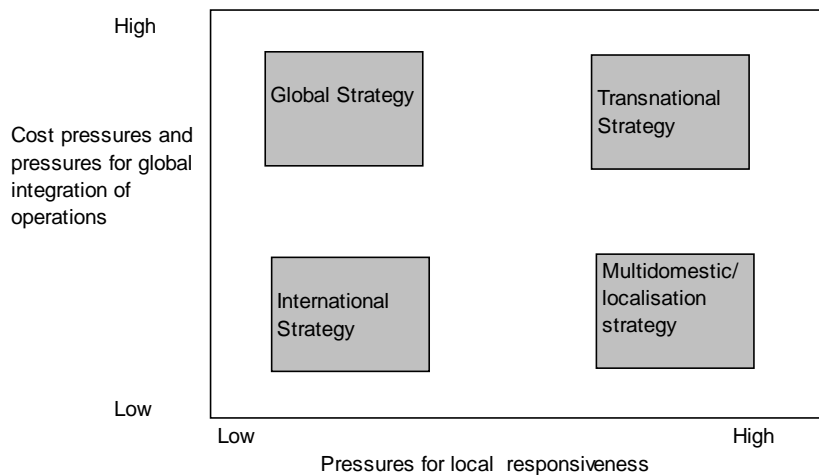
. **pressures for local responsiveness** –, these products cannot be standardised and sold across multiple markets. Such firms obviously cannot benefit from economies of scale derived from producing large volumes of standardised products. Examples of products that need to be adapted for each foreign market include food products and most beverages, personal banking, clothing and textiles, and some cosmetics.

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### Strategies for international business

#### Identifying the appropriate international competitive strategies that can be pursued :-

MNEs can use any one or a combination of the following four strategies:



#### **Four competitive strategies for international operations**

**An international strategy** – becomes viable if a firm has a valuable core competence that indigenous competitors in foreign markets lack, and if the firm faces relatively weak pressures for local responsiveness and cost reductions, and both the potential to obtain economies of scale and benefits of being sensitive to the preferences in specific country markets are of little value. Should pressures for both cost reductions and local responsive increase over time and the org grows internationally, the firm may need to consider changing to a transnational strategy. Firms pursuing an international strategy, generally tend to

- Centralize R&D and prod development functions at home
- Gradually establish manufacturing and marketing functions over time in each major country in which they are involved
- Limit local customizations of prod for different foreign markets.
- Retain tight head office control over product and marketing strategy.

This strategy has been successfully deployed by firms such as Toys R US, IBM, Kelloggs and Microsoft.

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**A multi-domestic or localisation strategy**, is most appropriate when there are high pressures for local responsiveness and low pressures for cost reductions. Firms pursuing this strategy customize their products and marketing strategies from one national market to the next to meet the specific preferences and tastes of consumers as well as the marketing and distrib requirements in their diff foreign markets. Key characteristics of this strategy include

- Customization or frequent adaptation of prod for each separate foreign market.
- Few if any system-wide opportunities to realize econ of scale
- Value creating and value adding activities, incl production, marketing and R&D are performed and duplicated in each national market
- Competition in each country is independent of competition in other countries and compet adv is inherent in each separate national market.
- Org decision making is decentralized.
- Limited org learning and no or minimal leveraging of core competencies occur within the MNE.
- High cost structures with higher priced differentiated and customized products, therefore not competing on the basis of cost and price.

**A global strategy**, makes more sense were there are strong pressures for cost reduction and where demands for local responsiveness are minimal. In a global strategy, the focus is on increasing profitability by benefiting from cost reductions that are obtained from experience curve effects, economies of scale and location economies. The ffg are key characteristics :

- Mutually interdependent subsidiaries
- Marketing standardized products worldwide to price-sensitive consumers
- Global econ of scale in key activities
- Leveraging tech across many markets
- Global co-ord of sales
- Centralized decision making, control and reporting activities
- Prod, marketing and R&D functions concentrated in a few favourable locations.

A strong culture is reqd to aid system wide co-ord and networking across many markets.

**A transnational strategy** makes sense when a firm faces high pressures for cost reductions, high pressures for local responsiveness and where there are significant opportunities for leveraging valuable skills within a MNE's global network of ops. Key characteristics are :

- Manuf facilities are est in a few favorable locations to attend to customization where reqd, while pursuing low costs by using multipurpose, universal components across countries where possible – successfully achieved by a transnational firm, like Caterpillar
- Decision making is both centralized and decentralized, structures are complex, usually requiring a matrix org with a complex dual reporting system. Orgs like Caterpillar, Unilever are examples of this type of strategy.

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### **Selecting the approp strategy or strategies given the specific circumstances of the firm.**

The appropriateness of each strategy will vary with the extent to which pressures for cost reductions or local responsiveness are inherently characteristic of the firm's industry or industries, and therefore, the firm's products.

Once the firm has selected the appropriate strategy (or strategies) that suits its own unique circumstances, some requirements, which may not be the same for each of the four strategies, need to be considered in the implementation of these strategies. Some important considerations in this regard include the following:

- A worldwide product division organisational structure with a predominantly ethnocentric staffing policy could be most appropriate for an international strategy
- A worldwide area organisational structure and a polycentric staffing policy could be most appropriate for firms pursuing a multidomestic or localisation strategy.
- A worldwide product division organisational structure and both geocentric and, to a lesser extent, ethnocentric staffing approaches could be appropriate for a global strategy.
- A matrix organisational structure and geocentric staffing policy could be most appropriate for a transnational strategy.

### **STRATEGIES FOR ENTERING FOREIGN MARKETS**

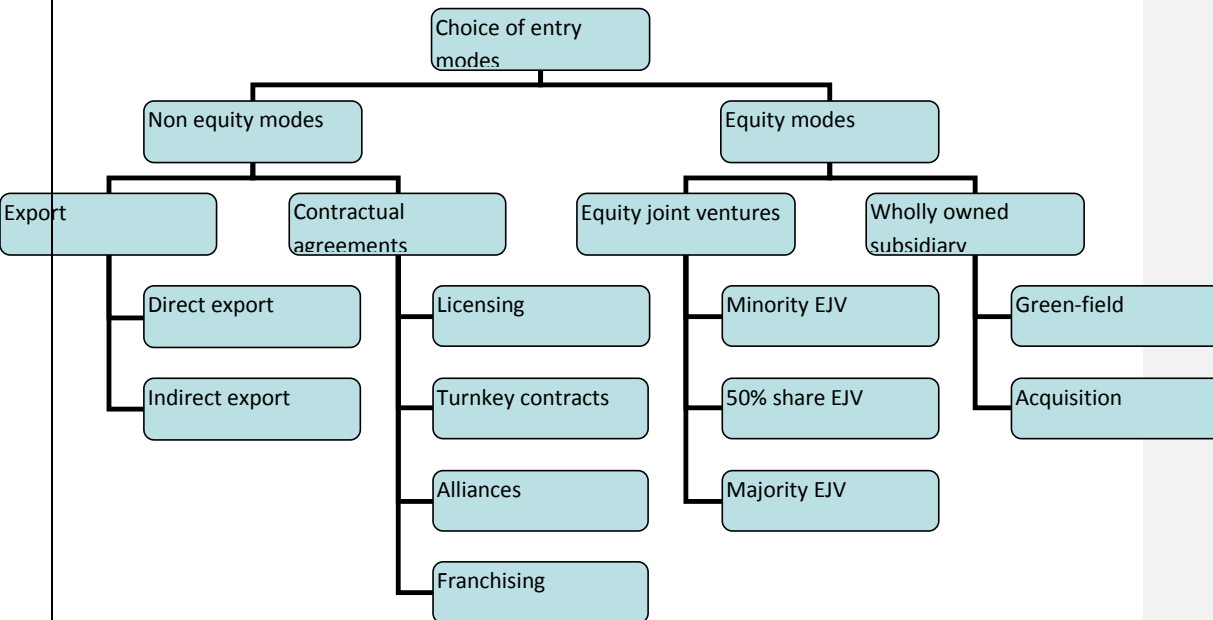
Having decided on the appropriate international competitive strategy or strategies the following three questions now become relevant:

- Which market(s) to enter?
- When to enter the selected market(s)?
- On what scale to enter the selected markets?
- How to enter the selected markets?

The first three questions require in-depth country, industry, market and resource analyses. The fourth question, however, concerns the best way for the firm to enter its foreign market(s).

### **FOREIGN MARKET ENTRY MODES**

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**Exporting** – Manuf firms often begin their international expansion by exporting and only later switch to another more approp entry mode. Can be direct or indirect. In indirect exporting, the firm is in the hands of a domestic export agent and has little control over the process. With direct exporting, the firm is in control of the process and gains experience thro this involvement. However the firm has no or little control as to what happens in the foreign market. Overall exporting is a low-risk market entry mode with little or no capital requirements.

*Advantages* – incl the potential to realize econ of scale as a result of a larger potential market and avoiding the cost of setting up manuf facilities in another country. Incr prod in the home country results in higher domestic employment and export sales generate valuable foreign exchange.

*Disadvantages* – high transportation costs, trade barriers to imports in the foreign country and problems with foreign marketing agents.

**Turnkey** – generally found in engineering and processing industries and allow firms to export their know-how to countries that my restrict foreign direct investment (FDI). Turnkey projects are less risky than conventional FDI especially in politically unstable countries.

*Disadvantages* – are of limited duration with no permanent market presence and the firm may create a future competitor.



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**Licensing** – the licensor grants the rights to intangible property to a licensee (foreign licensed firm)

*Advantage* – the licensee pays a license fee or royalty to the licensor and bears all the costs and risks of opening foreign markets. Also, no capital investment by the licensor in facilities of ops is reqd.

*Disadvantage* – licensor has no control over the licensee to promote and market its products, global co-ord of activities is difficult and there is a risk of losing techno know-how to the licensee, thus creating potential future rivalry.

**Franchising** – similar to licensing

*Advantage* – low development costs and the franchisee bears the costs and risks of opening up a foreign market.

*Disadvantage* – for the franchisor include the maintenance of standards and quality control of distant, foreign franchise ops and global strategic co-ord is difficult.

**Strategic alliances**– Strategic alliances are collaborative agreements b/w 2 firms, often in the same industry but not necess in the same country, working toward common purpose. Allow firms to benefit from a local partners knowledge of country conditions and allow alliance partners to share risks and costs assoc with R&D.

*Disadvantage* – firms may relinquish control over its tech, may not have sufficient control over its subsid which operate under the alliance agreement and incompatible mngment styles, org cultures and control systems which may lead to conflicts.

**Joint ventures** – involves establishing a firm that is jointly owned by 2 or more partners.

*Advantage* – implies a permanent arrangement with equity holdings by all joint venture partners.

*Disadvantage* – it is difficult to co-ordinate diverse global operations.

**Wholly-owned subsidiaries** – means that the firm owns 100% of the shares. Can be established in 2 ways, a firm can set up a new venture, green-field venture, or it can acquire or take over an established firm in the foreign country.

*Advantages* – Retaining effective control over the firms core capabilities, especially in high tech industries

A means of effective control over the firms operations in various countries, which simplifies global strategic co-ord.

Possibility for the MNE to locate its subsidiaries in the most cost effective countries or regions.

*Disadvantages* – It is the most costly way of entering foreign markets, requiring huge amounts of capital.

The risk of loss is significant, especially so for green-field ventures in unproven markets. In acquiring est foreign firms, the merging of different cultures could give rise to further problems.

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### **SELECTING AN OPTIMAL ENTRY MODE**

Firms considering international involvement should weigh the benefits, costs, risks of each entry mode. However the ffg 3 guidelines should be considered :-

- If a firms compet adv is predominantly in technological know-how, licensing and strat alliances may not be approp and a wholly owned subsid could be preferable
- When a firms compet adv resides in managerial know-how(for eg Nandos) franchises, or joint ventures may be preferred to licensing and wholly owned subsid.
- In deciding to enter politically unstable markets, strategic alliances or joint ventures could provide some assurance due to the involvement of local partners in the host country. However most manuf firms start out by exporting.

### **DEVELOPING AN INTERNATIONAL STRATEGIC MANAGEMENT FRAMEWORK**

Generally, the strategic management process comprises three phases:

- strategy formulation
- strategy implementation
- strategy evaluation and control

\*\*\*insert diagram from page 219 text. Indicating steps for international management process. \*\*\*

- the decision to become international would be reflected in the strategic intent, vision, mission and long-term objectives of the firm, where relevant
- the internal and external environmental analyses can be done simultaneously, the outcomes of which will provide the input for the SWOT analysis
- the decisions on mode of foreign market entry, appropriate international strategies and, where relevant, location of foreign operations are of no concern to a domestic business firm.
- aligning the organisational structure, systems and procedures to accommodate international activities are extremely important and the strategy implementation process accordingly much more complex than for a purely domestic firm.

**Topic 9: Global Collaboration and strategic Alliances: Chapter 13**

**Study unit 9.1.:**

1. Describe the concept of Global Collaboration?

MNE's and also small and Medium- sized enterprises are forming international strategic alliance in response to these global development and many-especially those who are research and development-oriented- have already formed successful foreign partner alliances:

- To seek out new markets as a way of sustaining or increasing sales and profit growth.

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- To achieve lower development, research and marketing cost.
- To share resources
- To access natural resource deposits in other countries
- To do business in a politically more stable environments
- To learn new skills from competitors

If SA companies are to be successful competitors in the global marketplace, they need urgently to be part of the globalization process and to develop more Strategic Alliances as a means of internationalization and also to become part of the network-linked global business village. It is important to select the correct mode of entry into new market in order to align the local company's product, services, intellectual capital, value system, people and performance system with the foreign environment.

2. Identify the various modes of entry a firm can use to enter foreign markets?

Refer to Ch9: PG215-216...

- **Exporting:** Manufacturing firms in particular often begin their international expansion by exporting and only later switch to another more appropriate entry mode. Exporting can be indirect or direct. In indirect exporting, the firm is in the hands of a domestic export agent and has little control over the process. With direct exporting, the firm is in control of the exporting process and gains exporting experience through this involvement.  
However, the firm has no or little control as to what happens in the foreign market.  
  
**Advantages:** of exporting in general include the potential to realize economies of scale as a result of a larger potential market and avoiding the cost of setting up manufacturing facilities in another country. Increasing production in home country typically results in higher domestic employment and export scales generate valuable foreign exchange.  
**Disadvantages:** Could be high transportation costs, trade barriers to imports in the foreign country and problem with foreign marketing agents. Overall, exporting is low-risk market entry mode with little or no capital.
- **Turnkey projects:** are generally found in engineering and processing industries and allow firms to export their know-how to countries that may restrict foreign direct investment (FDI).  
Turnkey projects are less risky than conventional FDI especially in politically unstable countries.  
**Advantages:** Ability to earn returns from process technology skill in countries where FDI is restricted.

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**Disadvantages:** are that turnkey projects are limited duration with no permanent market presence and the firm may create a future competitor.

- **Licensing:** In a licensing agreement, a licensor grants the right to intangible property to a licensee (foreign licensed firm).

**The Main advantages:** of licensing are that the licensee are that licensee pays a license fee or royalty to the licensor and bears all the cost and risks of opening foreign markets. Also no capital investments by the licensor in facilities or operations are required.

**Disadvantages:** are that the licensor has no control over the licensee to promote and market its product, that global co-ordination of activities is difficult and that there is a risk of losing technology know-how to the licensee thus creating a potential future rival.

- **Joint Venture:** the domestic company sets up a firm in a foreign country in partnerships with a firm that is already est. in that country.
- **Franchising:** is similar to licensing except that the intangible property is usually a trademark and the foreign firm also has to agree to abide by specific rules including quality control requirement.
- **Wholly-owned subsidiary:** the domestic firm sets up a subsidiary company of which it is 100per cent owner in foreign country, but also bears all the risk of such a venture.
- **See table 13.2.**

See page 217 –read.

- **International joint ventures and consortiums:** joint venture is usually a separate legal entity set up by parent companies from different countries. Read pg 217.

### 3. Define and interpret the reason for Global collaboration?

Refer to Q1, reasons are discussed also make ref to SG 9.1.1

Please note that there is no exact definition of Global collaboration. If any one has a definition pls forward.

### 4. Analyse and interpret the advantages and disadvantages of the various modes of entry into foreign markets?

Study table 13.1. PG 319...and read pgs 216-217 important.

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### **Study Unit 9.2. Strategic alliances:**

#### **Define strategic alliance?**

Strategic alliance is defined as a particular mode of inter-organizational relation in which the partners make substantial investments in developing a long-term collaborative effort and a common orientation towards their individual and mutual goals. These alliances are further described as partnerships in which more intimate connections evolve between separate organizations. In many cases, the linkages bet the two companies are so strong that the boundaries blur and it is difficult to discern where one organization ends and the other begins. The alliance need not be based on singular super-ordinate goals that drive the relationship. However there must be perceptual congruity or consensus on the goals of each member. In other words, domain consensus is more important than a shared unifying focus.

Firms typically engage in joint venture to achieve objectives such as:

- Taking advantages of economies do scale and diversifying risk
- Overcoming entry barriers to new markets
- Pooling complementary knowledge.
- Refer to study guide pg 135/136.

#### **Demonstrate the importance of a strategic alliance?**

READ PG 321-study tables 13.3 and 13.4

#### **Identify the strategic alliance profile of SA companies?**

Ref to table 13.4: Pg321

The choice of strategic alliance is influenced by a variety of factors such as legal requirements, access to technology, fixed cost, experience, competition, risk, control aspects, product complexity, international expansion of the enterprise and the degree of similarity bet countries in respect of language and culture.

The table shows that SA businesses overwhelming choose marketing and/or distribution agreements when doing business with partners. Joint ventures and informal alliances are also popular while they avoid cross-licensing and equity alliances. Research and development partnership are responsible for 24% of the alliances formed. Most alliance is

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based on marketing and/or distribution agreement with local and overseas partners. More than 50% of all alliance business with overseas partners being done through marketing and/or distribution agreement followed by joint ventures, co-operative agreement and informal alliances.

Businesses are also more positive about becoming involved in research and development agreements with overseas partners than with local organizations. The alliance pattern with local partners follows very much the same path with marketing and/or distribution agreements in first place following by informal alliances joint ventures and co-operative agreements.

### Discuss the success of strategic alliances?

Ref to figure 13.3 pg324,

After extensive research and analysis on strategic alliances Brouthers and Wilkinson arrived at the 4Cs of successful international strategic alliances, namely complementary skills, co-operative cultural, compatible goals and commensurate levels of skills.

See table 13.6:

South African Business appears very happy with their strategic alliances. Almost 80% of the respondents regard their alliance a success to a big or very big extent, while only 2.3% feel that their alliances are not all successful.

### Identify and evaluate the factors to be considered when forming Strategic Alliance?

Various factors have to be considered when planning to form relationships or alliances with any business partner.

### List and evaluate the reasons companies have for entering into strategic alliances?

Zajac maintains that the four dominant motivations for engaging in joint venture alliances are:

- Acquiring a means of distribution and pre-empting competitors (35%).
- Gaining access to new technology and diversifying into new business (25%)
- Obtaining economies of scale and achieving vertical integration (20%)
- Overcoming legal/regulatory barriers (20%)

### Factors to consider when forming strategic alliances?

Important Q study:

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Various factors have to be considered when planning to form relationships or alliances with any business partners. The maintenance of these relationships is also decisive in the success of the partnership. Japan's Toshiba Corporation is one of the world's most successful companies when it comes to forming and maintaining strategic relationships. Despite its own technological and manufacturing expertise, Toshiba knows that it cannot rely solely on itself in the global world of digital electronics. Toshiba is currently engaged in more than two dozen major partnership and joint ventures and has yet to experience an ugly falling out. Their success is attributed mainly to the following factors:

- Construction of alliance so that the roles and rights of each partner are clearly defined from the very beginning.
- The active participation of senior management in each relationship.
- Total openness about all Toshiba's different relationships
- Streamlining and accelerating every aspect of relationships
- Carefully chosen partners.

Checking the partners' credibility is seen as the most important factor when forming business or ownership relationships followed by analyzing the benefits and advantages of the prospective partner.

The issue of trust-centered and ownership-centered approaches to ventures has received growing attention from the 1980s to the 21<sup>st</sup> century.

During interview with managers responsible for international business the importance of trust and openness was emphasized almost 14yrs ago.

'No alliance can survive without trust'

Retaining the management responsibility focusing on the overall value added and the possibility of developing new products in the partnerships are also seen as crucial when considering alliances.

Discussing performance standards, checking the tax, financial and legal issues, holding periodic meetings to monitor progress and avoiding complete dependency on the alliance partner are high on the agenda of companies considering alliances with local or overseas partners.

**Aspects which least concern SA management when deciding on forming strategic alliances are:**

- Establishing inter-firm teams to oversee partnerships
- Planning ahead for when and how to withdraw



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- Negotiating the boundaries of organizational sovereignty
- Combining personnel from both partners.

### TOPIC 10 – ECONOMIC – SOCIAL DEVELOPMENT INITIATIVE FOR AFRICA AND

#### SOUTH AFRICA

#### POTENTIAL OF AFRICAN CONTINENT

IT IS A TRUISM THAT AFRICA IS ENDOWED WITH MAGNIFICENT POTENTIAL

IN TERMS OF ITS NATURAL, ANTHROPOLOGICAL AND ECOLOGICAL RESOURCES.THESE RESOURCES COULD, IF EFFECTIVELY DEVELOPED, BRING MATERIAL BENEFIT AS WELL AS EXTENSIVE SOCIAL WELFARE TO THE PEOPLE OF AFRICA. PROVIDE INCREASINGLY IMPORTANT BENEFITS. PROCESS OF GLOBALIZATION WHICH IS INTEGRATING WORKS COMMUNITY INTO A COMMON SOCIO-ECONOMIC SYSTEM. AFRICA IS THE OLDEST MOST STABLE LAND MASS ON EARTH. THE EVOLUTIONARY CRADLE OF COUNTLESS PLANT/ANIMAL SPECIES INCLUDING HUMANS. THERE HAS BEEN AND INHABILITY EXPLOIT THE CONTINENTS EXCEPTIONAL FECUNDITY. DESPITE A NUMBER OF AMBITIOUS

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DEVELOPMENT POLICIES, PROGRAMMES AND PRACTICES, SUSTAINABLE PROGRESS OF SOCIO-ECONOMIC GROWTH, HAVE, EXCEPT FOR A FEW EXCEPTIONS BEEN LARGELY ABSENT IN AFRICA.

ONE CAN CONCLUDE THAT IN ORDER TO HARVEST AFRICA'S POTENTIAL. NEED FOR COMPREHENSIVE DEVELOPMENT INITIATIVES NEEDING SUPPORT OF DEVELOPED COUNTRIES. SUCH A SUPPORT SHOULD NOT BE REGARDED AS AUTOMATIC GIVEN SINCE AFRICA OVER THE PAST 40 YEARS HAS BEEN PERCEIVED AS A CONTINENT OF CRISIS BY WORLD MEDIA, CLEAR SIGNS OF EMERGING OF WORLD INERTIA AND CONCOMITANT 'DONOR FATIGUE' WHEN IT COMES TO AFRICAN CONTINENTS AND ITS PEOPLE. TO COMPLETE THE FRAME OF REFERENCE IT IS USEFUL TO CONSIDER SOME SALIENT SOCIO-ECONOMIC STATS OF THE AFRICAN CONTINENT.

EVALUATE STATUS OF AFRICA ON BASIS OF SOCIO ECONOMIC DATA PG 329 AFRICA HAS A RAPIDLY GROWING POPULATION OF SOME 635 MILLION PEOPLE YET 75% OF THE CONTINENT IS SPARSELY INHABITED. MOST PEOPLE LEAD TRADITIONAL RURAL LIFE. MANY AFRICANS HAVE MOVED TO CITIES WHERE WATER IS AVAILABLE. NILE VALLEY, NORTH WEST AFRICA, EASTERN HIGHLANDS AND SOUTHERN AND SOUTH AFRICA. WITH THE HIGHEST BIRTH RATE THE AFRICAN POPULATION IS EXPECTED TO GROW TO 2 BILLION BY 2050.

### **LIFE EXPECTANCY**

AVERAGE LIFE EXPECTANCY AT BIRTH IS LOW. AVERAGE LIFE EXPECTANCY FOR WOMEN IN SIERRA LEONE IS 34 YEARS, ZAMBIA 37 YEARS, OTHER AFRICAN CONTINENTS 40 TO 49 YEARS FOR WOMEN. FOR MEN 50.3 YEARS RANGING FROM 30 YEARS IN MOZAMBIQUE TO 73.9 YEARS IN LIBYA. THOUGHT OF AS INDICATING THE POTENTIAL RETURN ON INVESTMENT IN HUMAN CAPITAL AND IS NECESSARY FOR THE CALCULATION OF VARIOUS ACTUARIAL MEASURES.

IF AVERAGE LIFE EXPECTANCY IN SUB-SAHARAN AFRICA IS LOW THAN PREVAILING DEVELOPED COUNTRIES QUALITY OF LIFE LOWER THAN DEVELOPED COUNTRIES. EXACERBATED BY HIGH RATE OF UNEMPLOYMENT.

### **UNEMPLOYMENT**

GROWING TREND OF UNEMPLOYMENT WHERE PROPORTION OF WORKING PEOPLE AGE (15-64) SMALLER THAN OTHER CONTINENTS. AFRICA'S POPULATION INCREASING IN NUMBER AT FASTER RATE THAN NATIONAL OUTPUT, SO A GROWING NUMBER OF THOSE ATTAINING WORKING AGE CANNOT FIND EMPLOYMENT IN THE FORMAL SECTOR OF THE

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ECONOMY. TREND OF UNEMPLOYMENT EXACSERBATED IN THE CITIES BECAUSE A NUMBER OF PEOPLE FROM RURAL AREA MOVE THERE IN THE HOPE OF FINDING WORK. IN ADDITION THERE IS A GROWING BACKLOG IN SOCIAL SERVICES IN MOST AFRICAN COUNTIES.

### **BACKLOG IN SOCIAL SERVICES**

DISCUSSANTS CONFIRM THAT INCREASE IN BACKLOG IN SOCIAL SERVICES IN AFRICAN COUNTRIES SINCE INDEPENDENCE BECAUSE THE NUMBER OF CHILDREN REQUIRING SCHOOLS AND TEACHERS AND PEOPLE IN NEED OF MEDICAL SERVICES, HOUSING, WATER AND SANITARY FACILITIES ARE INCREASING FASTER THAN THE ABILITY OF AUTHORITIES TO PROVIDE THESE SERVICES. TO PLACE THE ABOVE SOCIO ECONOMIC STATISTICS IN CONTEXT WE HAVE TO IDENTIFY THE CASUAL RELATIONSHIP BETWEEN EVENTS THAT HAVE PREVIOUSLY IMPACTED ON SOUTH AFRICA AND THOSE CONDITIONS THAT EXIST TODAY IN ORDER TO UNDERSTAND AFRICAN MARGINALIZATION IN THE GLOBAL CONTEXT.

### **IDENTIFY EVALUATE AND EXPLAIN CAUSES OF ECONOMIC MARGINILIZATION OF AFRICA.**

MOST IMPORTANT CAUSES OF MARGINILIZATION IN THE AFRICAN CONTINENT EXIST TODAY CAN BE IDENTIFIED AS:

- 1 IMPACT OF SLAVERY COLONIZATION ON SOCIO ECONOMIC WELFARE OF AFRICAN PEOPLE.
- 2 ATTRITION CAUSED BY POVERTY.
- 3.FAR REACHING EFFECTS OF RURAL-URBAN RESETTLEMENT IN AFRICAN COUNTRIES.
- 4 INFLUENCE OF PAN AFRICAN REDUCTION IN AGRICULTURE PRODUCTION.
- 5 UNSATISFIED QUEST OF REDISTRIBUTION OF LAND.

### **SLAVERY AND COLONIASM**

PRIOR TO 1444, DATE WHICH MARKED BEGINNING OF ATLANTIC SLAVERY PERIOD AFRICA AND ITS PEOPLE HARDLY FEATURED IN TERMS OF EUROPEAN AWARENESS. 3.5 CENTURIES OF WHICH MILLIONS OF SLAVES WERE BARTERED. FOLLOWED BY THE 'SCRAMBLE FOR AFRICA' BETWEEN 1884-1885. AFRICA WAS EMBELLISEHD BY FLAGS OF EUROPEAN COLONISING POWER. FLAGS FORMED COLLECTIVE SYMBOL OF LOOTING,SLAVE LABOUR. AFRICAN COUNTRIES SUBJECTED TO HUGE EXPORT OF SALVES WHICH RESULTED IN LOSS OF HUMAN CAPITAL SEVERLY UNDERMINED CAPACITY OF AFRICAN COMMUNITIES. TO GENERATE WEALTH COLONIASTS SORT TO ACHIEVE SAME OBJECTIVE AS SLAVERY. OBTAINED MINERAL/AGRICULTURE RAW MATERIALS AT LOWEST COST POSSIBLE. REDUCED CAPACITY OF AFRICAN COUNTRIES AND STRENGTHENED EXPORTS ON OWN ECONOMIES. MAIN CONSEQUENCE OF DIVERSION OF RESOURCES FROM AFRICAN CONTINENT DURING

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COLONIAL PERIOD IS THAT THE AFRICA OF TODAY IS CURRENTLY LOSING WAR AGAINST POVERTY.

### **ATTRITION CAUSED BY POVERTY.**

IS SELF EVIDENT THAT WITHOUT A WAR ON PVERTY WORLD WILL NEVER DEFEAT TERROR, WAR AGAINST POVERTY SLIDES INTO BACKBURNER. SINCE 911 TERROR ATTACKS DEVELOPMENT BECAME DECISIVE ON GLOBAL SCALE. FIRST IS TO ROUTE OUT MILITANTS, SECOND IS POLITICAL RISE OF THOSE ON RELIGIOUS MARGINS. 3<sup>RD</sup> IS GROWING GAP BETWEEN RICH AND POOR. WHILE ATTENTION IS ON TERROR CRISIS ON POVERTY IS DISREGARDED. PICTURE IS 1 OF POVERTY, HUNBER , MISERY AND FRUSTRATION. AVERAGE INCOME OF AFRICAN POPULATION HAS BEEN SHRINKING.COST OF LIVING RISING AND GAP BETWEEN RICH AND POOR GROWING AT ALARMING RATE, ANOTHER FACET HAS BEEN DEVLEOPMENT OF RURAL URBAN SETTLEMENT TREND. ADDED TO UNCERTAIN ECONOMIC FUTURE IN THE AFRICAN CONTINENT..

### **RURAL URBAN SETTLEMENT**

RURAL URBAN SETTLEMENT ON AFRICAN CONTINENT HAS BROUGHT ABOUT DEPOPULATION OF RURAL AREAS AS IMPOVERISHED SEEK SHELTER AND EMPLOYMENT IN URBAN AREAS. POPULATION FLOW HAS MEANT REDUCTION IN AGRICULTURAL ACTIVITIES AND PRODUCTION, A CONCOMITANT DEVERISION OF RESOURCES AWAY FROM WEALTH CREATION, INCREASING UNEMPLOYMENT, GROWING POVERTY IN ALL REGIONS WHERE MASS URBANIZATION OCCURRED. SUB SAHARAN AFRICA CONFRONTED WITH ECONOMIC STAGNATION POOR GOVERNANCE AND FRAGILE PUCLID INSITUTIONS. ESTIMATED THAT BY 2010 55% OF AFRICANS RESIDE IN CITIES. RURAL URBAN SETTLEMENT CAUSES REDUCTION IN AGRICULTURE.

### **REDUCTION IN AGRICULTURAL PRODUCTION**

LACK OF OWNERSHIP OF SUFFICIENT FARMLAND AND FINANCIAL RESOURCES ARE CONTRIBUTING FACTORS THAT HAVE RESULTED IN PEOPLE MOVING AWAY FROM AGRICULTURAL ACTIVITIES AND SEEKING PUBLIC SECTOR, URBAN SERVICE OR LOW SKILL MANUFACTURING JOBS IN URBAN AREAS. THE NET AFFECT OF ALL THIS HAS BEEN ENTRENCHMENT OF A VIOUS DOWNWARD CYCLE, CONFIRMING AFRICAS PERIPHERAL AND DIMINISHING ROLE IN WORLD ECONOMY.. GENERAL NEGLECT OF AGRICULTURE HAS BEEN A FOREMOST FACTOR BEHIND AFRICAS SEVERE ECONOMIC DECLINE. AGRICULTURE ACCOUNTS FOR 1/3 OF THE CONTINENTS GDP., 2/3 OR EMPLOYMENT AND 40% OF EXPORT REVENUE. THIS HAS HARMED THE WHOLE ECONOMY BY DEPRESSING OUTPUTS OF BOTH FOOD AND CASH CROPS, THEREBY REDUCING EXPORTS OF AGRICULTURE COMMODOTIES

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NECESSITATING MORE IMPORTS OF FOOD STUFF. HOPE FOR AFRICA'S PEOPLE REST ON THE MAGNANIMITY OF OTHERS. THIS HAS TRANSFORMED THE OBJECTIVE OF DISEMPOWERMENT OF THE AFRICAN PEOPLES INTO THE VIEW THAT THEY ARE INCAPABLE OF SELF-EMPOWERMENT. COULD ALSO BE LINKED TO THE UNEVEN DISTRIBUTION OF LAND.

### **REDISTRIBUTION OF LAND**

DISCUSSANTS HAVE CRITICISED VIEW GENERALLY HELD BY WESTERN COUNTRIES ON THE TROUBLES SURROUNDING ISSUE OF LAND DISTRIBUTION IN DIFFERENT PARTS OF AFRICA PARTICULARLY SOUTHERN AFRICA. REFERRED TO AS KIND OF HISTORICAL AMNESIA, BLAME IS PLACED SQUARELY ON AFRICAN MISGOVERNANCE WHILE THE PART PREVIOUSLY PLAYED BY WESTERN INTERESTS IS FORGOTTEN OR IGNORED. THUS IT IS ARGUED THAT DURING THE ERA WHEN LAND WAS ACQUIRED FROM INDIGENOUS PEOPLE, IT WAS OFTEN BY FORCE AND COERCION. MOREOVER THIS PROCESS WAS NOT REVERSED AT INDEPENDENCE, BUT RETAINED AND WRITTEN INTO NEW CONSTITUTION. WESTERN PRESSURE PROTECTED THE INTEREST OF WHITE SETTLERS AND FOREIGN INVESTMENT AND ENSHRINED THE LAND-OWNERSHIP STATUS QUO. NOT ALL LAND WAS ACQUIRED THROUGH FORCE AND COERCION, SOME LAND WAS LEGALLY PURCHASED. THERE IS STILL SOME UNFINISHED BUSINESS REGARDING THE REDISTRIBUTION OF LAND BUT WESTERN GOVT ARE NOT PREPARED TO SUPPORT WHITE SETTLERS.

### **DISCUSS AND EXPLAIN RECENT AND CURRENT ACTIVITIES FOR AFRICA'S SOCIO ECONOMIC DEVELOPMENT PAGE 335**

UNDER THE HEADING OF MORE RECENT CURRENT INITIATIVES FOR AFRICA SOCIO ECONOMIC DEVELOPMENT WE WILL DISCUSS :

1 THE COTONOU AGREEMENT WHICH SETS OUT THE RELATIONSHIP BETWEEN THE EU AND THE AFRICAN CARIBBEAN AND PACIFIC (ACP) GROUP AND IN PARTICULAR DEVELOPMENT INITIATIVES FOR THE ACP GROUP OF COUNTRIES.

2 THE DEVELOPMENTAL ROLE OF REGIONAL ECONOMIC INTEGRATION

3 NEPAD PLAN AND ACTION FOR AFRICA'S REDEVELOPMENT.

THE COTONOU AGREEMENT PROVIDES FOR IMPORTANT ECONOMIC AND SOCIAL DEVELOPMENT INITIATIVES AND WAS SIGNED AFTER YEARS OF CONTROVERSIAL NEGOTIATIONS BETWEEN AFRICA, PACIFIC AND CARIBBEAN. MAIN FOCUS IS ON 48 AFRICAN MEMBER COUNTRIES AND ON 16 CARIBBEAN AND 14 PACIFIC COUNTRIES AND ISLANDS. AFRICAN MEMBER COUNTRIES ACCOUNT FOR 95% OF THE ACP POPULATION, THEY ARE TARGET FOR 80% OF TOTAL BENEFITS OF AGREEMENT.

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### **REGIONAL ECONOMIC INTEGRATIONS PAGE 336**

CURRENT ERA MARKED BY CHANGES AND DEVELOPMENTS IN GLOBAL POLITICAL ECONOMY, SPECIFICALLY THE PROCESS OF REGIONAL ECONOMIC FUSION THAT IS TAKING PLACE IN MANY PARTS OF THE WORLD, INCLUDING IN THE AFRICAN.

DISCUSSANTS ARGUE THAT 2 CONFLICTING TRENDS HAVE INFLUENCED THE EFFORTS OF AFRICAN COUNTRIES TO ACHIEVE REGIONAL CO-OPERATION AND INTEGRATION IN THE POST COLONIAL PERIOD. FIRST TREND HAS BEEN TO ADHERE TO RIGIDLY TO COLONIAL BORDERS DRAWN IN IMPERIAL CAPITALS ALTHOUGH THESE BORDERS MIGHT WELL MILITATE AGAINST THE ECONOMIC, POLITICAL OR SOCIAL VIABILITY OF AND COHERENCE OF AFRICAN NATIONAL STATES. SECOND TREND HAS BEEN INCLINATION TO EMPHASIZE, FROM OUTSET OF INDEPENDENCE, THE INDESPENDISIBILITY OF ECONOMIC INTEGRATION ACROSS AFRICA'S SUBREGIONS AND THE CONTINENT AS A WHOLE.

### **THE NEPAD STRATEGY PAGE 337**

IS THE MOST RECENT ATTEMPT TO CHART A STRATEGIC COURSE FOR GOOD GOVERNANCE AND EFFECTIVE AND SUSTAINABLE ECONOMIC, SOCIAL AND HUMAN DEVELOPMENT FOR AFRICAN CONTINENT. THE NEPAD PLAN OF ACTION IS A STRATEGIC DEVELOPMENT INITIATIVE AS WELL AS A COMPREHENSIVE ACTION PROGRAMME.

THE FOLLOWING ASPECTS ARE CONSIDERED.

- 1 THE SOCIO ECONOMIC BLUEPRINT OF NEPAD.
- 2 STUMBLING BLOCKS IN THE WAY OF NEPAD ACTION PLAN.
- 3 ECONOMIC OBJECTIVES OF THE NEPAD STRATEGY.
- 4 SOCIAL OBJECTIVES OF THE NEPAD STRATEGY
- 5 REQUIREMENT FOR IMPLEMENTING THE NEPAD STRATEGY.

### **EXPLAIN DEVELOPMENT INITIATIVES FOR SOUTH AFRICA PG 340**

THE FOLLOWING ISSUES ARE DISCUSSED:

- 1 IMPACT OF REGIONAL TRADE BLOCS ON SA ECONOMY.
- 2 DEVELOP AN OVERVIEW OF EU-SOUTH AFRICAN RELATIONS IN TERMS OF TRADE AND DEVELOPMENT AID.

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### **IMPACT ON REGIONAL TRADE BLOCS IN SA ECONOMY**

WHEN EVALUATING IMPORTANCE OF WORLDS LEADING REGIONAL TRADE BLOCS AND CRTIERA FOR THEIR SUCCESS, NEED TO CONSIDER WHAT THE POTENTIAL IMPACT IS ON THESE TRADE BLOCS ON THE SA ECONOMY. IT CAN BE STATED IN GENERAL TERMS THAT THE ESTIMATED COSTS AND BENEFITS OF INTEGRATION HAVE BOTH RELATIVELY IMMEDIATE IMPACT EFFECTS AND MORE DYNAMIC

CONSEQUENCES THAT ARE REALISED OVER A LONG PERIOD OF TIME. BOTH IMPACT AND DYNAMIC

EFFECTS INFLUENCED BY GLOBAL ECONOMIC ENVIRONMENT, AFFECTING ACCESS OF REGIONAL PRODUCTS INTO WORLD MARKETS. REGIONAL TRADE BLOC WITH MOST IMPACT ON SA ECONOMY IS THAT OF THE EUROPEAN UNION.

### **EU SA RELATIONS**

IN TERMS OF EU-SA RELATIONS WE NEED TO TAKE NOTE OF THE FACT THAT THE EU IS SOUTH AFRICAS MOST IMPORTANT TRADING PARTNER., ACCOUNTING FOR APPROX 40% OF ITS IMPORTS AND 30% OF ITS EXPORTS. IN DIFFICULT GLOBAL TIMES AS WELL TRADE SLOWED , THE MARGINAL DECLINE IN EU IMPORTS FROM SOUTH AFRICA IN 2002 WAS LESS THAN THE WORLD. SOUTH AFRICA RETAINED ITS POSITION AS THE FIFTEENTH MOST IMPORTANT IMPORTER AND THE 22<sup>ND</sup> MOST IMPORTANT DESTINATION FOR EU EXPORTS..

IN THE AREA OF DEVELOPMENT CO-ORPERATION THE EU AND ITS MEMBER STATES REMAIN THE LARGEST DONOR TO SOUTH AFRICA.

### **EXPLAIN THE ROLE OF REGIONAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA.PAGE 344**

IN LINE WITH GENERAL THINKING BEHIND THE NEGOTIATONS THAT ESTABLISHED THE CONTONOU AGREEMENT, THE EU IS FOCUSING ON STONGLY DEVELOPING REGIONAL INTEGRATION AMONG THE STATES IN SEPARATE EPA TALKS. REGIONAL ECONOMIC INTEGRATION IS INTENDED TO SUPPORT AND FOSTER REGIONAL INTEGRATION AS A KEY INSTRUMENT FOR INTEGRATION OF ACP COUNTRIES INTO THE WORLD ECONOMY. THE EPAS ARE SEEN AS VEHICLES FOR ECONOMIC DEVELOPMENT AND INTEGRATION INTO THE WORLD ECONOMY. EU NEGOTIATING ARGUMENTS IS THAT REGIONAL MARKETS WILL DO AWAY WITH SMALL FRAGMENTED MARKETS CURRENTLY COMMON IN THE ACP. THE CREATION OF COMPETITION, INVESTMENT AND PROCUREMENT RULES BASED ON THESE ENLARGED MARKETS WILL BE TO THE BENEFIT OF THE ACP.

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**1 THE PREFERRED FORM OF REGIONAL INTEGRATION** – CONSIDER WHETHER FREE TRADE OR A CUSTOMERS UNION SYSTEM WOULD BE PREFERRED-ACHIEVE ECONOMIC INTEGRATION.

**2 THE SOUTHERN AFRICAN REGIONAL INTEGRATION CONUNDRUM:**SADC AND COMESA-SADC AND COMESA ARE THE 2 MAJOR ORGANIZATIONS. SADC INTEGRATION IS BASED ON PRINCIPLES OF CO-OPERATION AND DEVELOPMENT. COMESA DRIVES INTEGRATION THROUGH TRADE AND FOCUSES ALMOST EXCLUSIVELY ON TARIFFS AND OTHER IMPEDIMENTS TO TRADE. COMESA IS PROGRESSING TOWARDS FREE TRADE, SADC IS ADDRESSING ISSUES OF SUPPLY-SIDE CONSTRAINTS BEFORE ATTEMPTING TO OPEN UP TRADE.

**3 IMPACT OF EPAS ON SOUTHERN AFRICA** – ALL SA STATES UNCLDING SOUTH AFRICA AER CURRENTLY INVOLVED IN NEGOTIATING EPAS WITH THE EU AS A PRODUCT OF CONTONOU AGREEMENT. SA RELATIONSHIP WITH EU IS OF COURSE COVERED BY THE TRADE, DEVELOPMENT AND COORPERATION AGREEMENT., WHICH CREATED A FTA BETWEEN THE 2 SIDES. NEGOTIATIONS ARE CRITICAL FACTORS TO ALL ECONOMIC REGIONS IN AFRICA.

**4 IMPLICATIONS OF THE TDCA FOR THE SOUTHERN AFRICA REGIONS.**

TDCA ALTHOUGH IT IS A BILATERAL AGREEMENT BETWEEN EU AND SA HAS BEEN GREAT POLITICAL AND ECONOMIC IMPLICATIONS FOR ENTIRE SA REGION. CONTAINS PROVISIONS THAT WILL STIMULATE INTRAREGIONAL TRADE + ECONOMIC INTEGRATION OF SA REGION. GIVEN THE FACT THAT BOTSWANA,LESOTHO,NAMIBIA AND SWAZILAND SHARE A COMMON EXTERNAL TARIFF WITH SA THROUGH THE SOUTH AFRICAN CUSTOMS UNION (SACU), THE AGREEMENT WILL POSITION THEM SO THAT THEY ENTER INTO A DE FACTO FREE-TRADE AGREEMENT WITH THE EU AS WELL.

**THE END**



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