PGDM (IB), 2014-2016
GLOBAL BUSINESS ENVIRONMENT
Subject Code: IB-201
TRIMESTER –II, End Term Examination, 2014

Time Allowed: 2 hours, 30 minutes **Max Marks: 50**

Roll No:

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as Unfair Means. In case of rough work, please use answer sheet.

Sections	**No. of Questions to attempt**	**Marks**	**Marks**
A	3 out of 5(Short Questions)	5 marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 marks each	2*10= 20
C	Compulsory Case Study	15 marks	15
		Total Marks	**50**

SECTION A

Answer ***any three*** questions from this section.

Q.1.Differentiate between the following:

a. Greenfield FDI & Turnkey Projects
b. Specific duty & Ad-valorem duty

Q.2. Write short notes on **any one** of the following:

a. Use of candlesticks charts for technical analysis of exchange rates
b. Understanding Political & Economic risks for International investment decisions

Q.3. Briefly explain the following:

a. Transnationality index used by UNCTAD
b. Effective Rate of Protection

Q.4. Discuss the methodology for valuation and interest rate calculation of SDR, unit of accounting of IMF.

Q.5. Briefly highlight the various types of structure of global organizations consistent with their international business strategy.

SECTION B

Answer ***any two*** questions from this Section. Each question carries 10 marks

Q.1. With respect to regional trade agreements answer the following:

a. Issues negotiated in RTAs
b. Trade agreements blocking free trade
c. Types of RTAs

Q.2. Elaborate the following:
a. Exchange rate systems involving pegging of national currency
b. World Bank group's 'Ease of doing business' Index
c. Bollinger bands for currency rate movements.

Q.3. Suggest modes of international expansion with reasons for the companies going global in the following industries:
a. Industrial Chemicals & Fertilizers
b. Toys
c. Apparel
d. Drugs & Pharmaceuticals
e. Data Mining & Consultancy

SECTION C

Read the case and answer the questions given at the end.

As managing director of Goldman Sachs' South African office, Colin Coleman has witnessed, and advised, the execution of countless business contracts across Africa. Each deal — from China's US$9 billion copper deal with the Congo to Walmart's US$2.4 billion purchase of South African retailer Massmart — highlights the tenuous balance between domestic interests and foreign investment, and raises a set of key questions.

"How do you create a balance of domestic interests in Africa and the interests of globalization?" Coleman asked. "How do you create a balance of interests between the emerging markets and the developed world? Within emerging markets, how does Africa protect its place in an appropriate way?"

These questions become more pressing as Africa's economy grows and investors take notice. Africa today has 1.2 billion people, a US$1.8 trillion economy and real GDP growth of about 5.5% in 2011, Coleman pointed out."When you look at the statistics, the fact is that Africa as a whole ... is a significant contributor. It has a GDP that compares with any one of the BRICs."

Such questions led Coleman to wonder: Should Africa create a code for foreign direct investment (FDI) that would guide non-African investors as they increasingly seek out opportunities in Africa's growing markets. In a keynote speech at the recent Wharton Africa Business Forum, Coleman discussed what such a code might include. Here are some of the highlights:

An African investment code would have to address the question of local content. "What amount of local content is important?" Coleman asked. "When you look at local companies, are they in a position to challenge [MNCs] for their rightful place in their own home markets?" The debate on local content came to a head in Walmart's recent acquisition of Massmart, a South African retailer and wholesale distributor that operates in 14 countries in sub-Saharan Africa. In the transaction, which Goldman Sachs advised, Walmart took a 51% interest in Massmart for US$2.4 billion. Although the deal was announced in September 2010 and officially closed in 2011, the story is not over. "The scheme was made unconditional in May," says Coleman, but the departments of economic development, trade and industry, agriculture, and forestry requested a review of the competition tribunal's decision. The South African government was very concerned that local content — local procurement of a variety of goods that go into the stores of Massmart — was going to be undermined by Walmart's global procurement power." In a first ruling, the competition appeals court has asked Walmart to take back 503 dismissed workers. The Walmart-Massmart transaction "lays bare the question of on the one hand, globalization bringing benefits to a local environment, and [on the other hand], protectionism within the countries that are concerned about loss of local jobs," small businesses and the dynamism that the industry has created, Coleman said. The South African government has since negotiated a voluntary accord on local content procurement with the objective of acquiring 75% of their goods locally within South Africa, Coleman noted.

The concept of reciprocity in relation to investment will be another key element in an African investment code, Coleman said. "I think it's very important that you have inward and outward flows. Everybody thinks that it's a one way flow — from China or Brazil or South Africa into the rest of Africa. It shouldn't be that way. There are fantastic companies [in Africa] ... that can help these other countries, like Brazil and South Africa and China, grow their economies. These companies can be competitive globally." Dangote Cement, headquartered in Lagos, Nigeria, has the ability to be one of the largest cement companies in the world, Coleman said. Sasol, an energy and chemical company based in Johannesburg, South Africa, "has a fantastic edge in gas-to-liquid technology and could do very well." Whether private corporations or state-owned enterprises, he noted, local champions are important, Coleman said.

It is also important that the investments benefit African countries and local economies, not just foreign companies and investors. This could come in the form of skills transfer, technology transfer, job creation or infrastructure development. An example of such a potential win-win is China's exchange with the Democratic Republic of the Congo (DRC), in which China promised US$9 billion in financing for roads, railways, hospitals and schools in exchange for several million tons of copper and cobalt. Such deals are "very material to the countries that we're talking about because of their low base of development," Coleman said. Another example of reciprocity is Rio Tinto, an international mining company with dual headquarters in London and Melbourne, which has spurred development and invested in ports in Mozambique to support its coal mining initiatives there.

As part of its consideration of historical legacies, an African investment code might consider employee ownership, a concept used in South Africa, to help "previously disadvantaged individuals" gain a foothold in the economy as it grows, Coleman suggested. "In the DRC, you could argue that a community marginalized from owning the rubber plantations although they lived on the land for hundreds of years, [should be considered] 'previously disadvantaged.'" Some kind of employee ownership might serve as "a progressive step" moving forward, he said.

As foreign investment flows into Africa and economies grow, capital controls and liquidity are also becoming important issues. An African investment code might need to address the flow of capital in and out of Africa, as well as transparency in the stock markets and issues of liquidity. "How do you manage the flows of capital?" Coleman asked. "Facilitating liquidity depth and free access to global markets and standards while strengthening African standards is a very important challenge."

An African investment code might also address how Africa could develop regulatory oversight to protect domestic interests while still optimizing foreign direct investment. "This is very difficult, because on the one hand you want regulation, but you don't want the wrong regulations," Coleman said. "The wrong regulation is going to stop FDI — and these countries need FDI."

For example, South Africa is "near the edge of testing the patience of investors" in the natural resources sector, he pointed out. A host of empowerment codes, royalties, environmental regulations, rules about local content and a variety of other measures has driven business away. "South Africa has made itself relatively unattractive, and the government is aware of that and is debating the best way to pull back and make balances happen. We have just been through a resources boom and South Africa has largely missed that. It doesn't necessarily leave a good taste in the mouths of South Africans."

Q.1 With reference to the passage given above, suggest a sectoral FDI policy for the African countries.

Q.2. Suggest few incentives for the African governments to attract foreign direct investments.

Q3. Using the case as an example, you are required to give your views on FDI for international business expansion.