NATIONAL OPEN UNIVERSITY OF NIGERIA

FACULTY OF MANAGEMENT SCIENCES

COURSE CODE: BUS 419

COURSE TITLE: **INTERNATIONAL BUSINESS**

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COURSE GUIDE BUS 419: INTERNATIONAL BUSINESS

BUS 419: International Business is a one semester three credit unit course. It is available for all 400 levels under graduate programmes in the faculty of Management Sciences. The courses consist of sixteen (16) study units and subdivided into three modules covering such areas as: an overview of international trade and business; international business strategies and ethical and financial aspects of international business.

This course guide tells you briefly what the course is about, relevant textbooks to consult, and how you can work your way through this course material. It also contains some guidelines on your tutor marked assignments and as well as self- assessment exercises.

What you will learn in this Course

The major aim of international business is to expose learners to the basic concepts in international trade, international business and the basis of entering world business markets. The field of international business is challenging, most so we are a dynamic world where modern technologies have made the world business as a global village. International business can be embarked upon by any interested persons provided rules and ethics of the business are adhered to. It is arena of extending domestic market abroad. Therefore in order to achieve maximum usage of the resources, there is a need to studies some variablesthat affect such business activities.

Course Aims

The course aims to give you a broad knowledge of business and how this knowledge gained would be used in planning, coordinating executing necessary activities at the international business process. This would be achieved through studying:

1. International business and international trade
2. Theories of international trade
3. World business environment
4. Globalization
5. Foreign Direct Investment
6. Political Economy of international trade
7. Modes of entering international markets
8. International marketing
9. Distribution strategies
10. Exports and Imports practice
11. Multinational corporations
12. Ethical issues in international business
13. Financial influence on international business
14. International Monetary Fund system
15. International liquidity and
16. International finance and lending institutions

Learning Outcome

I order to achieve the aims set out above, the course sets overall objectives. You will also realize that each course unit objective s is always included at the beginning of each unit. Hence, you are encouraged to kindly read through the specific objectives before studying through the unit. However, the following are some of the broad objectives of this course. Thus, after thorough studying of the course, you should be able to:

1. Differentiate between international business and international trade
2. Explain mode of entering world markets
3. Explain globalization
4. Explain foreign direct investment (FDI)
5. Explain exports and imports practice
6. Describe mode of operations of multinational corporations (MNCs)
7. Explain some ethical issues on international business
8. Explain international monetary fund and its influence on international business
9. Explain international liquidity
10. Explain International finance and lending institutions and host of others

Working through this Course

It is important that you patiently read through the units and consult the suggested texts and other related materials. The units consist of self- assessment exercises and tutor marked assignments to help your studies.

Course Material

The major components of these course materials are:

1. Course Guide
2. Study Units
3. Main text
4. Activities and Tutor marked assignments
5. References and Further reading
6.

Study Units

There are Twenty-one (21) study units in this course. These are:

Module One: An Overview of International Trade and International Business

This module examined the fundamental factors that must be considered before going into international business. This is very imperative in order to avoid losing huge resources invested in international business by interested individuals. This module composes of:

Unit 1 Introduction to International Business
Unit 2 Basis of International Trade
Unit 3 World Market Environment
Unit 4 Globalization
Unit 5 Foreign Direct Investment (FDI)
Unit 6 Political Economy of International Trade

Module Two: International Business Strategies

This module which comprises of five units examined strategies necessary to maintain fair market shares of the international business. This is important because of the dynamism of the international business, changes in international business practice This module thus comprises of:

Unit 1 Mode of Entering International Markets

Unit 2 International Marketing
Unit 3 Distribution Strategies
Unit 4 Exports and Imports Practices and
Unit 5 Multinational Corporations (MNCS)

Module Three: Ethical and Financial Aspects of International Business

This module comprises of five units. It discusses ethical issues on international business; financial influence on international business activities and lending institutions. This module therefore composes of:

Unit 1 Ethical Issues on International Business
Unit 2 Financial Influence on International Business
Unit 3 International Monetary Fund Systems
Unit 4 International Liquidity and
Unit 5 International finance and lending institutions

Module Four: International Business – Financial Environment

This module also comprises of five units. It discusses ethical issues on international business; financial influence on international business activities and lending institutions. This module therefore composes of:

Unit 1 Development of Financial Institutions System
Unit 2 Appraisal of the Economic Performance of the Financial Institutions
Unit 3 Economic Development
Unit 4 The Legal Environment
Unit 5 The Regulatory Environment

Textbooks and References

You should note that there are no compulsory textbooks for the course. However, you are encouraged to consult some of the listed texts for further readings at the end of each unit.

Assignment File

The assignment file will be made available to you. Thus, you will find all the details of the work you must submit to your tutor for marking. The marks you obtained in these assignments will count towards the final mark you will obtain for the course.

Assessment

Your performance in this course will be based on two major components. These are tutormarked assignments (TMAs) and written examination.

The tutor marked assignment --------------------------------	30%
Final Examination..	70%
Grand total	100%

The self- assessment exercises are designed to aid your studies. They are not required to submit for grading; however they are very important that you attempt them.

Tutor Marked Assignment

At the end of each unit, there is a tutor marked assignment which you are encouraged to do. The centre director will inform you the number of tutor-marked assignments to be submitted.

Final Examination and Grading

At the end of the course, you are expected to sit for a final examination of three hours duration. The final examination grade is 70 percent while the remaining 30 percent is from TMAs. The final examination is a reflection of what you have read and previous TMAs encountered.

How do get the most from this course

The distance learning system of education is quite different from the traditional university system. Therefore you are encouraged to study the units thoroughly. The physical absence of the teacher has been replaced with step by step studying of the units and the necessary built in self-assessment exercises. Hence you to read and understand the course, not reading the units like novel.

Facilitators/Tutorials

Detailed information about learning support services or tutorial contact hours will be communicated to you through the centre directors of your respective centres. Other academic counseling will be offered to you by the academic counselors at the centre. However, you are encouraged to study the course material/units before attending any tutorial. This will help you to gain added advantage while the facilitator discusses such units being discussed. This will also enable you to contribute effectively on the discussion.

Summary

International business is a discipline that dwells on international business practices. It concerned itself with environmental variables, cultural differences, language differences, economic differences, ethical differences, and so forth. It aimed to create opportunities tointerested individuals and groups beyond domestic activities. Therefore, it is imperative to study the key variables that shape such activities.

Conclusion

Welcome to the world of international business, wishing you a successful study

UNIT 1: Introduction to International Business

Unit Structure

1.1 Introduction
1.2 Learning Outcomes (LOs)
1.3 Introduction to International Business
  1.3.1 International Business
  1.3.2 Brief History of International Business
  1.3.3 Skills Needed for Success in International Business
  1.3.4 Need for International Business
  1.3.5 Differences in Domestic and International Business
  1.3.6 Reasons for Business Going Abroad
  1.3.7 Reasons for International Trade
  1.3.8 Barriers to International trade
1.4 Summary
1.5 References/Further Readings/Web Resources
1.6 Possible Answers to Self-Assessment Exercises

1.1 Introduction

Trading is no longer limited to some selected individuals and countries again. Trade cut across nations and individuals of the world now days. It is more challenging and appreciated than before. This is because there is a fundamental shift in the world economy. It is moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment, by distance, time zones and language and national differences in government regulation, culture and business systems. And they are moving toward a world, which barriers to cross- border trade and investment are declining and perceived distance is shrinking due to advances in transportation and telecommunication technology. This unit examines international trade/business versus domestic business.

1.2 Learning Outcome (LOs)

By the end of this unit, you will be able to:

- explain International Business
- explain Domestic Business
- state the skills needed for International Business
- explain the differences between Domestic Trade and International Business and
- discuss the reasons for International Trade and barriers to International Trade

1.3 Introduction to International Business

1.3.1 International Business

International business differs from domestic business by degrees. Although laws, cultures, and economic conditions differ within countries, such differences are usually less marked than those among countries. Even though there are limitations on the movement of goods and services and the resources to produce them within countries, these limitations are usually less pronounced within than among countries.

But some countries have much greater internal variation than do others. Geographic and economic barriers in some countries can inhibit people's movements from one region to another, thus limiting their personal interactions. Despite all the differences among regions within countries, this diversity is small when compared to the differences among countries. To successfully conduct business abroad, companies must often adopt practices other than what they are accustomed to domestically. Differences in the legal-political, economic, and cultural environment all may necessitate a company's altering every type of business activity, from production and accounting to finance and marketing.

International business occurs in many different formats:

- The movement of goods from country to another (exporting, importing, trade)
- Contractual agreements that allow foreign firms to use products, services, and process from other nations (licensing, franchising)
- The formation and operations of sales, manufacturing, research and development, and distribution facilities in foreign markets

However, international business encompasses a full range of cross-border exchanges of goods, services, or resources between two or more nations. These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g. the right to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument).

1.3.2 Brief History of International Business

International business is not a new phenomenon but has been practiced around the world for thousands of years. Through the routes established in the Mediterranean, the Phoenicians, Mesopotamians, and Greeks did trading. As sophisticated business techniques emerged, facilitating the flow of goods, resources and funds between countries flourished. This growth was further stimulated by colonization activities. The Industrial Revolution further stimulated the growth of international business by providing methods of production for mass, markets and efficient methods for utilizing raw materials. The inventions and technological developments from Industrial revolution further accelerated the smooth flow of goods, services and capital between the countries. The production grew at unprecedented levels by 1880's as the industrial revolution was in full swing in Europe and the United States. Growth continued in an upward spiral as mass production was realized and the manufactures were pushed to seek foreign markets for their products. This marked the emergence of multinational corporations.

1.3.3 Skills Needed for Success in International Business

Of course, international business needs wide knowledge various business areas and social relations. However, the engagement with business leaders, world class faculty, and successful business mugal and business leaders, executives, organisations and individuals needs the following skills:

- Cross-cultural communication skills
- Excellent networking abilities
- Collaboration
- Adaptive thinking
- Emotional intelligence
- Resilience

Cross-Cultural Communication Skills: communication is the process of transmitting information from one person to another, from the sender to the receiver. Cross-cultural communication occurs when people from different cultures communicate with one another. The term 'crosscultural' (or 'intercultural') communication means "a transactional, symbolic process involving the attribution of meaning between people from different cultures" that takes place on international grounds. However, the need for cross cultural communication skills arises whenever people from different languages and cultures comes into contact.

Excellent networking abilities: Excellent networking and abilities to the exchange of information and ideas among people with a common profession or special interest, usually in an informal social setting. However, in international business, networking is needed to professionally speaks to business professionals.

Collaboration: collaboration is a working practice whereby individuals work together work for a common purpose to achieve business benefit. International business collaboration enables individuals, business executives and organisations to work together to achieve a defined and common business purpose. However, collaboration relies on openness and knowledge sharing but also some level of focus and accountability on the part of the business organisations. Governance should be established addressing the creation and closing of team workspaces with the assignment of responsibility for capturing the emergent results of the collaborative effort.

Adaptive thinking: international business environment, require confidence to react and adapt quickly, thinking "out of the box" to solve problems. Adaptive thinkers thrive in an ever-changing environment, making them well placed for success in international business**.** Adaptive thinking means taking thoughtful action rather than giving in to impulsion. It also means accepting when old solutions are not longer fit for purpose. However, adaptive thinking was previously the remit of military commanders, taking decisive action in times of danger and uncertainty.

Emotional intelligence: Strong emotional intelligence is noted as a critical skill when it comes to how to do international business**.** This is because it influences nearly every aspect of business interaction. Emotionally intelligent people are self-aware and in control of their emotions**,** meaning they are better able to react calmly in critical or stressful business situations and adapt flexibly to change. They are also able to work together effectively, collaborating and communicating well thanks to above-average interpersonal skills and a strong sense of empathy.

Resilience: To succeed in international business unequivocally demands mental toughness and resilience**.** On a practical level, working across time zones and cultures involves long hours. Failure and setbacks are also a fact of life in the business world, but defeat isn't**.** This is where resilience comes in.

1.3.4 Need of International Business

International Business is important to both Nation and Business organizations. It offers them various benefits.

Benefits to Nation

1. It encourages a nation to obtain foreign exchange that can be utilized to import merchandise from the global market.

2. It prompts specialization of a country in the production of merchandise which it creates in the best and affordable way.
3. Also, it helps a country in enhancing its development prospects and furthermore make opportunity for employment.
4. International business makes it comfortable for individuals to utilise commodities and services produced in other nations which help in improving their standard of life.

Benefits to Firms

1. It helps in improving profits of the organizations by selling products in the nations where costs are high.
2. It helps the organisation in utilizing their surplus resources and increasing profitability of their activities.
3. Also, it helps firms in enhancing their development prospects.
4. International business also goes as one of the methods for accomplishing development in the firms confronting extreme market conditions in the local market.
5. And it enhances business vision as it makes firms more aggressive, and diversified.

1.3.5 Differences in Domestic and International Business

Technically, domestic trade & international trade are more or less identical & are based on the same basic principles of trades.

Domestic Business	International Business
Domestic business refers to the business where economic transactions are conducted within the geographical boundaries of the one country.	International business refers to the business where economic transactions are conducted across border with several countries in the world.
In Domestic business buyer and seller belong to same country.	In International business buyer and seller belong to different countries
Domestic business is limited to territory	International business is quite wide
In Domestic business selling procedure remain unaltered.	In International business selling procedure changes.
Quality of product or standards may be lower.	Quality of product or standards are expected and enforced.
In domestic business it is very easy to conduct business research.	In international business, business research is very expensive and hard to conduct.
It deals with single currency.	It deals with multiple currencies.

In domestic business capital investment is less.	In international business capital investment is huge.
There are few restrictions on domestic business.	There are a lot restrictions on international business
The nature of customers in domestic business is homogeneous.	The nature of customers in international business is heterogeneous.
In domestic business the degree of risks are low.	In international business the degree of risks are high.

1.3.6 Reasons for Businesses Goings Abroad

Many company and business go abroad for such reasons as discussed below:

1. **Increase Sales and Profitability:** Expanding on a global marketspace is more likely to increase overall revenue sales and reduce operational costs, through attracting a larger customer base. In addition, through the help of technologies and the revolution of the internet, international commerce has become even more attractive, for smaller businesses. Through having the opportunity to outsource, they are able to reduce costs and improve their business management & operational efficiency.
2. **Greater Economies of Scale**: Some companies may want to expand their business products, as they are more likely to be accepted around the world. In many industries, expansion through internationalisation may benefit companies, through achieving better economies of scale. This is especially the case for companies operating in smaller more domestic markets. Moreover, internationalisation may also serve as an opportunity to differentiate or exploit a new product extension, service, or brand.

3. Enter new Markets & Spread the Risk: The popularity of internationalization is also thanks to countries opening up trade barriers and lowering tariffs across the world. Internationalization allows companies to diversify their businesses and be able to ease the risk of decelerating demand, across different countries. Operating in various countries also gives companies the opportunity to invest in innovation and develop different variations of their products and services, which may also shield them from declining interest in a particular product or service.

4. Attracting new Talents: Going international enables companies to have access to a broader talent pool. Employees that speak multiple languages and are accustomed to different cultures are able to amplify connections with a wider customer base. Moreover, it allows companies to create global work teams, that have expertise in local markets and that are able to exploit domestic market resources and raw materials, through connecting with local suppliers.

5. Saturation of Home Market & Competitors' Move: Offset of home market is also a reason as to why companies decide to expand globally, as well as first mover advantage, as this avoids local rivalry and could lead to exceptional high returns on invested capital.

1.6.1 Reasons for International Trade

International trade is an indispensable and inevitable activity in modern business. Hereare some factors which accounted for this:

1. **Factor Endowment:** International trade owes it origin to the varying resources of different regions. Resources are not evenly distributed across the globe. Some areas are blessed with abundant supply of minerals such like Africa, while others have little or nothing. Some of these resources are better utilized outside its origin place.
2. **Climatic Condition:** Some commodities can only be grow under particular climatic condition and on certain soil. Because of these differences in climatic conditions, this call for international trade among nations of the world.
3. **Level of Technical Know-How:** Developed countries of Europe and America have acquired special skills due to their development in technology and technical know- how. They produced machines and other advanced equipment which are not obtainable in the less developed countries , such like Nigeria, Ghana, etc In order for the less developed nations to benefits from these advanced technologies, this calls for international trade.

1.6.2 Barriers to International Trade

Some of the barriers to international trade are briefly explained below:

1. **Government Interference:** Government of many nations interferes in the free flow of goods and services across the country's borders. For instance, a country can impose import duties, import quota, tariffs etc. This in no small measure woks against the attainment of principles of comparative advantage/cost and thus serves as a

impediment to international trade

2. **Currency Differences:** Each country has its own currency and before a country can trade with other countries, it must obtain the currencies of it trading partners.
3. **Language Problem:** Language problem make international trade difficult. Communication is vital for any successful transaction to take place
4. **Legal System:** The legal system of a country refers to the rules or laws that regulate behavour along with the processes by which the laws are enforced and through which redress for grievances is obtained The legal system of a country is of immense importance to international trade/business.
5. **Cultural Difference:** A culture is defined as system of rules and norms that are shared among a group of people and that when taken together constitute a design for living. Cultures vary from community to community. These differences account for barriers in international business practice

Self-Assessment Exercises

1. Outline the required skills needed to be relevant in International business
2. Write short history of international business

1.5 References/Further Reading/Web Recourses

Adler, N.J. (2018), 'International business scholarship: contributing to a broader definition of success', in J. Boddewyn (ed.), *The Evolution of International Business Scholarship: AIB Fellows on the First 50 Years: Volume 14 of Research in Global Strategic Marketing,* Greenwich, CT: JAI Press/Elsevier

Buckley, P.J. (ed.) (2015), *What is International Business?,* New York: Palgrave Macmillan.

Buckley, P.J. and M.C. Casson (1976), *The Future of the Multinational Enterprise,* London: Macmillan

Dunning, J.H. (ed.) (2013), *Making Globalization Good: The Moral Challenges of Global Capitalism*, Oxford: Oxford University Press

1.6 Possible Answers to SAEs

Answer to SAE 1

1. Skills needed to be relevant in International business are:

- Cross-cultural communication skills
- Excellent networking abilities
- Collaboration
- Adaptive thinking
- Emotional intelligence
- Resilience

2. **International business** is not a new phenomenon but has been practiced around the world for thousands of years. Through the routes established in the Mediterranean, the Phoenicians, Mesopotamians, and Greeks did trading. As sophisticated business techniques emerged, facilitating the flow of goods, resources and funds between countries flourished. This growth was further stimulated by colonization activities. The Industrial Revolution further stimulated the growth of international business by providing methods of production for mass, markets and efficient methods for utilizing raw materials.

UNIT 2: BASES OF INTERNATIONAL TRADE

Unit Structure

2.1. Introduction

2.2 Learning Outcomes (LOs)

2.3 Bases Of International Trade

2.3.1 Production Possibility Curve (PPC)

2.3.2 Some of the Uses of Production Possibility Curve (PPC)

2.3.3 Principles of Absolute Advantage

2.3.4 Principles of Comparative Advantage

2.3.5 Factor Endowment Theory

2.3.6 New International Trade Theory

2.4 Summary

2.5 References /Further Reading/Web Resources

2.6 Possible Answers to Self-Assessment Exercises

2.1 Introduction

A country specializes in a specific commodity due to mobility, productivity, and other endowments of economic resources. This stimulates a country to go for international trade. The basis of international trade lies in the diversity of economic resources in different countries. All countries are endowed by nature with the same production facilities. A country specializes in a specific commodity due to mobility, productivity, and other endowments of economic resources. This stimulates a country to go for international trade. The basis of international trade lies in the diversity of economic resources in different countries. All countries are endowed by nature with the same production facilities.

2.2 Leaning Outcome

After studying through this unit, you should be able to:

1. Explain Basis for Trade Among Nations and individuals and
2. Explain some theories in respect of international trading.

2.3 Bases of International Trade

2.3.1 Production Possibility Curve (PPC)

Production Possibility Curve (PPC) is the graph which indicates the various production possibilities of two commodities when resources are fixed. The production of one commodity can only be increased by sacrificing the production of the other commodity. It is also called the production possibility curve or product transformation curve. The PPC is a decision-makinsg tool for managers deciding on the optimum product mix for the company.

Let us understand the concept of production possibility curve with the help of an example.

Suppose an organization produces two goods A and B.

Table-1 Shows different combinations of A and B produced by an organization:

Table-1: Production Possibilities

Production possibilities	A(thousands)	B(thousands)
P	0	20
Q	2	14
R	4	10
S	5	5
T	6	0

In Table-1, it can be seen that when A has the quantity of 6000, then B has not been producer at all. Similarly, when the quantity of B reached 20 000 then the quantity of A is zero. This is because all the resources are utilized in manufacturing one good. However, these are the extreme cases. In between these cases, there are several points where A and B both are manufactured simultaneously.

Now, we can plot this table on a graph to obtain production possibility curve, which is shown in Figure-1:

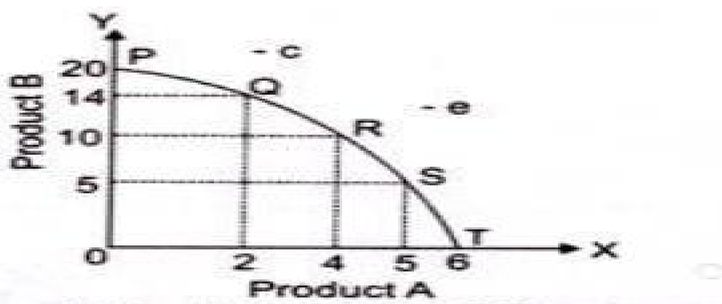

Figure-1: Production Possibility Curve

In Figure-1, the production possibility point's g and h are attainable combinations, whereas c and e are unattainable combinations. Production possibility schedule can also be termed as production transformation schedule.

The rate at which a product is transformed into another product by sacrificing the amount of one product for the other is called marginal rate of transformation. For example, in case of A and B, the amount of B that is sacrificed to produce A is termed a marginal rate of transformation. Due to this transformation, the curve of production possibility is concave in nature.

2.3.2 Some of the Uses of Production Possibility Curve (PPC) are as follows:

1. Enables the planning authority of a developed nation to divert the usage of its resources for the production of necessary goods to the production of luxury goods and from consumer goods to producer's goods, after a certain point of time.
2. Helps a democratic nation to focus and shift a major amount of resources in the production of public sector goods instead of private sector goods. The public sector goods are supplied and financed by government, such as public utilities, free education, and medical facilities. These goods are free or involve a negligible cost. On the other hand, private sector goods are manufactured by privately owned organizations and are purchased by individuals at a certain price.
3. Helps in guiding the movement of resources from producer goods to capital goods, such as machines, which, in turn, increases the productive resources of a country for achieving a high production level.

2.3.3 Principles of Absolute Advantage

Adam Smith helped to originate the concepts of absolute and comparative advantage in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations.* Smith argued that countries should specialize in the goods they can produce most efficiently and trade for those goods they can't produce as well.

Smith described specialistion and international trade as they relate to absolute advantages. He suggested that Nigeria can produce more textiles per labor hour and Togo can produce more wine per labor hour so Nigeria should export textiles and import wine and Togo should do the opposite.

Absolute advantage is the ability of an individual, company, region, or country to produce a greater quantity of a good or service with the same quantity of inputs per unit of time, or to produce the same quantity of a good or service per unit of time using a lesser quantity of inputs, than another entity that produces the same good or service.

For instance, consider the Table 2 of Possible Physical Output below.

Table 2: Possible Physical Output

	Product	**Nigeria**	**Ghana**
Case 1	Computer	20	10
	Automobile	10	20
Case 2	Computer	20	10
	Automobile	30	20
Case 3	Computer	20	10
	Automobile	40	20

From the table above, case 2 shows that given certain resources and labour, Nigeria can produce twenty computers or ten automobiles or some combination of both. In contrast, Ghana is able to produce only half as many computers (i.e. Ghana produces ten for every twenty of Nigeria produces). The disparity might be the result better skills by Nigerian workers in making this product. Therefore, Nigeria has an absolute advantage in computers. However, Ghana has an absolute advantage in automobiles.

At this point, it should be clear why trade should take place between the two countries. Nigeria has an absolute advantage for computers, but absolute disadvantage for automobiles. For Ghana, absolute advantage exists for automobiles and absolute disadvantage for computers. Therefore, if each country specializes in the product for which it has an absolute advantage, each can use it resources more efficiently while improving consumer welfare at the same time.

This implies that since Nigeria would use fewer resources in making computers, it should produce these products for its own consumption as well as for export to Ghana. Base on this arrangement, Nigeria should import automobiles from Ghana rather than manufacture them itself. While for Ghana, automobiles would be exported and computers imported. Thus, for practicability each person should concentrate on and specialize in the craft that person has mastered. Similarly, it should not be practical for consumers to attempt to produce all the things they desire to consume. One should practice what one does well and leave the production of other things to people who produce them well.

2.3.4 Principles of Comparative Advantage

Comparative advantage is an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners. A comparative advantage gives a company the ability to sell goods and services at a lower price than its competitors and realize stronger sales margins.

The law of comparative advantage is popularly attributed to English political economist David Ricardo and his book "On the Principles of Political Economy and Taxation" written in 1817, although it is likely that Ricardo's mentor, James Mill, originated the analysis.

In the case of comparative advantage, the opportunity cost (that is to say, the potential benefit which has been forfeited) for one company is lower than that of another. The company with the lower opportunity cost, and thus the smallest potential benefit which was lost, holds this type of advantage.

Another way to think of comparative advantage is as the best option given a trade-off. If you're comparing two different options, each of which has a trade-off (some benefits as well as some disadvantages), the one with the best overall package is the one with the comparative advantage.

Analyzing from the comparative advantage theory, Nigeria's cocoa occupy a dominant position in the international market. The main factor is that the comparative advantage is even more obvious. In addition, Nigeria is a big country in agriculture, and its unique climate and natural conditions are more suitable for fruit production. Therefore, these factors have also greatly improved the comparative advantages of Nigeria's dried cocoa and enhanced its international competitiveness.

2.3.5 Factor Endowment Theory

The principles of absolute and relative advantage provide a primary basis for trade tooccur, but the usefulness of these principles is limited by their assumptions. One basic assumption is that th advantage, whether absolute or relative, is solely determined by labour in terms of time and cost. Labour then determines comparative production costs and subsequently product prices for the same commodity.

However, if labour is indeed the only factor of production or even a major determinant of product content, then countries with high labour cost should be in serious trouble.

It is misleading to analyse labour costs without also considering the quality of that labour. A country may have high labour cost on an absolute basis, yet this cost can be relatively low if productivity is high. Furthermore, the price of a product is not necessarily determined by the amount of labour it embodies, regardless of whether the efficiency of labour is an issue or not. Since product price is not determined by labour efficiency alone, other factors of production must be taken into consideration, including land and capital. In conclusion, since countries have different factor endowments, a country would have a relative advantage in a commodity that embodies in some degree that country‟s comparatively abundant factors. A country should thus export that commodity that is relatively plentiful within the relatively abundant factor.

It should be noted that there are other theories such as production life cycle, Leentief paradox and so forth that you can read on your own.

2.3.6 New International Trade Theory

The New Trade Theory mainly refers to a series of international trade theories that have emerged since the end of World War II, especially since the 1980s, to explain the new trade phenomenon. The new trade theory has a close relationship with the competition theory. The most important representative is Krugman. He believes that intra-industry trade, the division of labor between developed countries and the rapid growth of longterm trade have become the main phenomenon of today's international trade. The new trade theory believes that this is because the causes and foundations for the development of international trade have changed. Because of the difference in technology and factor endowment, it brings trade. The new trade theory analyzes the motivation and foundation of international trade from the perspectives of supply, demand, and technology gap.

Self-Assessment Exercises

1. What are the examples of Nations with an absolute advantage?
2. What happens to the possibilities for trade, if one country has an absolute advantage in everything?

2.4 Summary

This unit explained basis of trade, and some theories of trade among nations.

2.5 References/Further Reading/Web Resources

Ricardo, David (1817*): On the Principles of Political Economy and Taxation,* London: Murray.

Salvatore, Dominick (2011): *International Economics: Trade and Finance,* 10th edition, Hoboken, NJ: Wiley.

Smith, Adam (1776 [2013]): T*he Wealth of Nations: An Inquiry into the Nature and Causes of the Wealth of Nations*, Ware, Herfordshire: Wordsworth.

2.6 Possible Answers to SAEs

1. A clear example of a nation with an absolute advantage is Saudi Arabia, The ease with which oil is extracted which greatly reduces the cost of extraction is its absolute advantage over other nations. Other examples include Colombia and its climate ideally suited to growing coffee, or Zambia being blessed with some of the world's richest copper mines. For Saudi Arabia to try and grow coffee and Colombia to drill for oil would be an extremely costly and, likely, unproductive undertaking.

2. This is typical for high-income countries that often have well-educated workers, technologically advanced equipment, and the most up-to-date production processes. These high-income countries can produce all products with fewer resources than a low-income country. If the high-income country is more productive across the board, will there still be gains from trade. Good students of Ricardo understand that trade is about mutually beneficial exchange. Even when one country has an absolute advantage in all products, trade can still benefit both sides. This is because gains from trade come from specializing in one's comparative advantage.

UNIT 3: World Business Environment

Unit Structure

3.1 Introduction

3.2 Learning Outcomes (LOs)

3.3 World Business Environment

3.3.1 World Business Environment

3.3.2 Components of World Business Environment

3.3.3 Challenges of International Business

3.4 Summary

3.5 References /Further Reading/Web Resources

2.6 Possible Answers to Self-Assessment Exercises

3.1 Introduction

Knowledge of world business environment is imperative especially the environment prospective companies want to trade with. Some companies products fail at the world market not because the products are not quality enough, or the target markets do not need them, but they fail to study such environment for their business operations. Some business persons confused the world market environment with home market environment by considering them to be one and the same. This unit examines the world business environmental variables as they affect marketing activities.

3.2 Intended Learning Outcome

After studying through this unit, you should be able to:

1. Explain world business environment
2. Explain the variables at the world business environment, and
3. Explain some of the challenges of international business

3.3 World Business Environment

3.3.1 World Business Environment

World business environment is multidimensional including the political risks, cultural differences, exchange risks, legal & taxation issues. Therefore, international business environment comprises the political, economic, regulatory, tax, social & cultural, legal, & technological environments. An international business environment is the surrounding in which international companies run their businesses. It brings along it with many differences. World business environment is the environment in different sovereign countries, with factors exogeneous to the home environment of the organisation, influencing decision making on resource use and capabilities. The global business environment can classified into the external environment and the internal environment.

3.3.2 Components of World Business Environment

1. **Political Environment:** Political environment is concern with government policies, laws and administrative orientations of different countries and regional economic blocks. The political factors form the basis for regulating international trade with respect to tariffs, quotas and technical standards. For example, the European Union has regulations that guarantee preferential trade treatment for member countries. Political stability is also an important aspect of the international business environment. Frequent political unrest and military coups could force a multinational cooperation to suspend or close operations.
2. **Economic Environment:** Rates of economic growth influence the levels of demand for your goods or services in international markets. However, economic growth rates may be high in some countries and low in others. For example, the 2010-2012 Eurozone debt crisis slowed down economic growth in many European countries at a time when countries in other regions were experiencing an economic boom. Consider such disparities of economic growth in the operational and planning activities of a multinational corporation.
3. **Demographic Environment:** Demographic factors such as size of the population, population growth rate, age composition, life expectancy, family size, spatial dispersal, occupational status, employment pattern etc, affect the demand for goods and services. Markets with growing population and income are growth markets. But the decline in the birth rates in countries like the Nigeria have affected the demand for baby

products. Johnson and Johnson have overcome this problem by repositioning their products like baby shampoo and baby soap, promoting them also to the adult segment, particularly to the females. Hwoever, a rapidly increasing population indicates a growing demand for many products. High population growth rate also indicates an enormous increase in labour supply

4. **Natural Environment**: Differences in geographical conditions between markets may sometimes call for changes in the marketing mix. Geographical and ecological factors also influence the location of certain industries. For example, industries with high material index tend to be located near the raw material sources. Climatic and weather conditions affect the location of certain industries like the cotton textile industry. Topographical factors may, affect the demand pattern. For example, in hilly areas with a difficult terrain, jeeps may be in greater demand than cars. Ecological factors have recently assumed great importance. The depletion of natural resources, environmental pollution and the disturbance of the ecological balance has caused great concern.
5. **Socio-Cultural Environment:** The socio-cultural fabric is an important environmental factor that should be analysed while formulating business strategies. The cost of ignoring the customs, traditions, taboos, tastes and preferences, etc., of people could be very high. The buying and consumption habits of the people, their language, beliefs and values, customs and traditions, tastes and preferences, education are all factors that affect business. For a business to be successful, its strategy should be the one that is appropriate in the socio-cultural environment. For example, consumption patterns, living styles and the priority of needs are all dictated by culture. In addition to consumption habits, thinking processes are also affected by culture. Food preparation methods are also dictated by culture preferences.
6. **Competitive Environment:** The competitive environment also changes from country to country. This is partly because of the economic, political, & cultural environments; these environmental factors help determine the type & degree of competition that exists in a given country. Competition can come from a variety of sources. It can be a public or a private sector, come from the large or the small organizations, be domestic or global, & stem from traditional or new competitors, GST regustration. For a domestic firm, the most likely sources of competition might be well understood. The same isn't the case when a person moves to compete in the new environment.

7. **Technological Environment:** The availability of technological infrastructure and technical capacities determine the prosperity of a multinational corporation in host countries. Factors such as broadband connectivity and technical training have become essential ingredients of successful operations in the modern business world. Moreover, the levels of technological developments in a given country determine the scope of technical understanding among its population. While it may be easier to establish and maintain technical operations in high-technology countries, the same cannot be said of low-technology countries.

3.3.3 Challenges of International Business Environment

Businesses are expanding and diversifying overseas to reach new clients, enhance their customer base, and increase overall earnings. While global markets are becoming more accessible and are more interconnected, the following risk and challenges involved in doing international business shall be tackled throughout:

1. **Company's structure**: The structure of the company may pose a challenge to your business if its working structure is not pre-decided. There should be a qualified team if the company wishes to be globally competitive, for which it would consider the organization structure and location from where the team operates.
2. **Foreign Laws**: Not having clear understanding of the foreign laws poses a challenge for international businesses. Therefore gain a comprehensive understanding of laws and regulations. There have been instances where businesses had to face the heat due to the lack of understanding of foreign laws. It's a major challenge that needs to be attended.
3. **Accounting**: It is a critical concept when it comes to multinational business liable to pay corporate tax in the countries they operate. Various tax implications, tax rates and compliance requirements make accounting a challenge in international operation.
4. **Liability to pay taxes**: A company is liable to pay taxes in the country of its operations. Paying multiple taxes proves to be a challenge for companies with double taxation even reducing their overall revenue. Tax liabilities pose a challenge to companies because of lack of understanding of tax concepts like tax treaties between countries etc. Companies should get advice and knowledge in tax concepts which can help the company.

5. **Payment methods**: Payment methods become one of the most terrain challenges in international business environment. This is because payment methods applicable in the home country may not be acceptable abroad. Therefore it becomes a challenge for any business as payment is the key of running business. However, to tackle this, businesses may decide to keep different methods of accepting payment.
6. **Fluctuation in currency rates**: Fluctuation in currency rates is one of the challenges in international business environment that should be considered by the business operating overseas. Major volatility can affect the expense and profits.
7. **Cultural Differences**: Communication is an efficient skill for businesses, whether operating in the home country or overseas. However, differences in cultures and languages across countries constitute a significant challenge. Considering that effective communication is critical for international business success, companies look to adopt means to bridge cultural differences.
8. **Political risk and Terrorism:** International businesses have to deal with cases of political instability, and uncertainties as political risk is a major challenge and threat. Regulations and policies that are not pro-business can adversely affect the working of a business. Terrorism has also been another massive issue that needs to tended as global trade is not easy with terrorism.

Self-Assessment Exercises

1. Enumerate the component of world business
2. What are the challenges of international business environment

3.4 Summary

In this unit, you learned about world market environment as it affect international marketing activities.

3.5 References/Further Reading:/Web Recourse

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3.6 Possible Answers to SAEs

Component of world business are:

- Political Environment:
- Economic Environment:
- Demographic Environment:
- Natural Environment
- Socio-Cultural Environment:
- Competitive Environment
- Technological Environment

Businesses are expanding and diversifying overseas to reach new clients, enhance their customer base, and increase overall earnings. While **global markets** are becoming more accessible and are more interconnected, the following risk and challenges involved in doing **international business** shall be tackled throughout:

i. Company's structure: The structure of the company may pose a challenge to your business if its working structure is not pre-decided. There should be a qualified team if the company wishes to be globally competitive, for which it would consider the organization structure and location from where the team operates.

ii. Foreign Laws: Not having clear understanding of the foreign laws poses a challenge for international businesses. Therefore gain a comprehensive understanding of laws and regulations. There have been instances where businesses had to face the heat due to the lack of understanding of foreign laws. It's a major challenge that needs to be attended.

iii. Accounting: It is a critical concept when it comes to multinational business liable to pay corporate tax in the countries they operate. Various tax implications, tax rates and compliance requirements make accounting a challenge in international operation.

iv. Liability to pay taxes: A company is liable to pay taxes in the country of its operations. Paying multiple taxes proves to be a challenge for companies with double taxation even reducing their overall revenue. Tax liabilities pose a challenge to companies because of lack of understanding of tax concepts like tax treaties between countries etc. Companies should get advice and knowledge in tax concepts which can help the company.

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viii. Political risk and Terrorism: International businesses have to deal with cases of political instability, and uncertainties as political risk is a major challenge and threat. Regulations and policies that are not pro-business can adversely affect the working of a business. Terrorism has also been another massive issue that needs to tended as global trade is not easy with terrorism.

UNIT4: Globalization

Unit Structure

4.4 Introduction

4.2 Learning Outcomes (LOs)

4.3 Globalization

4.3.1 Globalization

4.3.2 The Globalisation of Market

4.3.3 The Globalisation of Production

4.3.4 The Main Features of Globalisation

4.3.5 Benefits of Globalisation

4.3.6 Merit amd Demerit of Globalisation

4.3.7 Merit of Globalisation

4.3.8 Demerit of Globalisation

4.3.9 Short Coming of Globalisation

4.3.10 Drivers of Globalisation

4.3.11 Implications of Globalisation of Product and Martket

4.4 Summary

4.5 Reference / further Readings/web Resources

4.6 Possible Answers to Self-Assessment Exercises

4.1 Introduction

Globalization has intensified interdependence and competition between economies in the world market. This is reflected in Interdependence in regard to trading in goods and services and in movement of capital. As a result, domestic economic developments are not determined entirely by domestic policies and market conditions. Rather, they are influenced by both domestic and international policies and economic conditions. It is thus clear that a globalizing economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level.

4.2 Intending Learning Outcome

On successful completion of this unit, you should be able to:

a. Define globalization
b. Itemize benefits of globalization
c. List the short coming of globalization
d. Mention drivers of globalization

4.3 Globalization

4.3.1 Globalization

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world.

Globalization is not new, though. For thousands of years, people and, later, corporations have been buying from and selling to each other in lands at great distances, such as through the famed Silk Road across Central Asia that connected China and Europe during the Middle Ages. Likewise, for centuries, people and corporations have invested in enterprises in other countries. In fact, many of the features of the current wave of globalization are similar to those prevailing before the outbreak of the First World War in 1914.

4.3.2 The Globalization of Markets

The globalization of markets refers to the merging of distinct and separate national markets into one – huge global marketplace. In this situation, the tastes and preferences ofconsumers in different nations are beginning to converge on some global norm. Therefore, it is no longer meaningful to talk about the German market, the American market or the Japanese market. All these markets are looked as a single market. For example coca cola company is most part of the world producing and selling soft-drink as coke even the taste change from one country to another.

It should however be noted that a company does not have to be the size of thesemultinational giants such as coca- cola, Sony, Kodak, etc. to facilitate, and benefit from the globalization of markets. The most global markets currently are not markets for consumer products – where national differences in t astes and preferences are still often important enough to act as a brake on globalization, but markets for industrial goods and materials that serve a universal need the world over. These include the markets for commodities, such as aluminum, oil and wheat for industrial products such as microprocessors. In global markets, the same firms frequently confront each other as competitors in nation after nation. For example, coca-cola's rivalry with Pepsi cola, just as Ford and Toyota. As firms follow each other around the world, they bring with them many of the assets that served them well in other national markets – includ ing their products, operating strategies, marketing strategies and brand names-creating some homogeneity across markets. Hence, greater uniformity replaces drivers.

4.3.3 The Globalization of Production

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and qualityof factors of production (Land, Labour, capital etc). By so doing these companies hope to lower their overall cost structure or improve the quality of functionality of their product offering, thereby allowing them to compete more effectively.

For example, Lenovo Thinkpad laptop computer . Lenovo a Chiness company, acquired Ibm's personal computer operations in 2005. The thinkpad is designed in United States because Lenovo believes that the country is the best location in the world to do the basic design work. However, keyboard and hard drive are made in Thailand; the display screen and memory in South Korea; the built in wireless card in Malaysia; and the Micro processor in the United States. In deciding on where to manufacture each component, Lenovo assessed both the production and transportation costs involved in each location. These components were then shipped to a plant in mexico, where the product is assembledbefore being shipped to the united States for final sale. Lenovo located located the assembly of the thinkpad in Mexico, because of low labour costs in the country. The marketing and sales strategy for North America was developedin the United states, primarily because Lenovo believes that U.S personel possess better knowledge of local market place than people based elsewhere. It is also important to note that globalization of production is not limited to large firms like coca – cola, Pepsi – cola, general motors, Toyota. It also applies to other smaller firms, who are willing to take advantage of opportunities offered by globalization.

4.3.4 The Main Features of Globalization:

The following are features of Globalisation

1. Globalization involves expansion of business operations throughout the world.
2. It leads to integration of individual countries of the world into one global market thereby erasing differences between domestic markets and foreign markets.
3. It creates interdependency between nations.
4. Buying and selling of goods and services takes place from to/any country in the world.
5. Manufacturing and marketing facilities are set up anywhere in the world n the basis of their feasibility and viability rather than on national considerations.
6. Products are planned and developed for the world market.
7. Factors of production like raw materials, labour, finance, technology and managerial skills are sourced from the entire globe.
8. Corporate strategies, organizational structures, managerial practices have a global orientation. The entire globe is viewed as a single market.
9. Globalization does not take place overnight. It proceeds gradually through several stages of internationalization.

4.3.5 Benefits of Globalisation

1. Business freedom: There should not be unnecessary government restrictions which come in the way of globalization, like import restrictions, restrictions on sourcing finance or other factors from abroad, foreign investments, etc.

2. Facilities: The extent to which an enterprise can develop globally from home country base depends on the facilities available like the infrastructural facilities.

3. Government support: Although unnecessary government intervention is a hindrance to globalization, government support can encourage Globalization. Government support may take the form of policy and procedural reforms, development of common facilities like infrastructural facilities, R and D support, financial market reforms and so on.

4. Resources: Resources is one of the important factors which often decides the ability of a firm to globalize. Resourceful companies may find it easier to thrust ahead in the global market. Resources include finance, technology, R and D capabilities, managerial expertise, company and brand image, human resource, etc.

5. Competitiveness: The competitive advantage of the company is very important determinant of success in global business. A firm may derive competitive advantage from any one or more of the factors such as low costs and prices, product quality, product differentiation, technological superiority, after sales service, marketing strength, etc.

6. Orientation: A global orientation on the part of the business firms and suitable globalization strategies are essential for globalizations.

4.3.6 Merits and Demerits of Globalization

4.3.7 Merits of Globalization

1. Wider Markets: Globalization offers larger markets to domestic producers. Domestic firms can export their surplus output. They can understand the nature of foreign markets through direct and indirect marketing channels. Domestic firms can realize higher prices from foreign markets. Global operations help to improve public image which is helpful in attracting better talent.

2. Rapid Industrialization: Globalization helps in the free flow of capital and technology between countries. Global firms can acquire finance at lower cost of capital. Free flows of capital and technology from advanced countries help the developing countries to boost up their industrialization. Industrialization of developing countries leads to balanced development of all the countries.

3. Greater Specialization: Globalization enables the domestic firms to specialize in areas where they enjoy competitive or comparative advantage. By focusing on the functions or products of their core competence domestic firms can compete successfully in the international markets. Specialization also helps to save resources and promote exports of the country.

4. Competitive Gains: Globalization increase competition for domestic firms through imports and multinational corporations. Domestic firms learn about new products, new technologies and new management systems. They are under pressure to increase efficiency, introduce innovations and reduce costs. The domestic entrepreneurs who fail to learn from their foreign rivals suffer in the long run.

5. Higher Production: Globalization leads to spread up o manufacturing facilities in different countries. Firms with worldwide contacts can outsource funds, technology, distribution and other functions from anywhere in the world. They can negotiate subcontracting to remain focused on areas of their core competence. International outsourcing and subcontracting help to improve operational efficiency and o reduce costs.

6. Price Stabilization: Globalization can reduce price differences between countries. Free trade and international competition help to equalize price levels in international markets. Countries with a high degree of globalization can attract greater foreign investment which supplements domestic funds, brings in foreign and improves balance of payments.

7. Increase in Employment and Income: Globalization creates job opportunities in developing countries and the incomes of people increases due to increased industrialization.

8. Higher Standards of Living: Lower prices, better quality and higher incomes help to enhance consumption and living standards of people particularly in developing countries. Moreover, increased economic development enables the governments of these countries to provide better welfare facilities like education, health, sanitation, etc. There is all round increase in welfare and prosperity of public.

9. International Economic Cooperation: Globalization improves economic cooperation between nations in the form of trade agreements, international treaties, standardization of commercial procedures, avoidance of double taxation, intellectual property protection and so on. International cooperation also helps countries to harmonize their macroeconomic policies for their mutual benefit.

10. World Peace: Globalization promotes cultural exchange and mutual understanding among different nations. International cooperation and brotherhood contribute to peace and prosperity in the world.

4.3.8 Demerits of Globalization

1. Interdependence: Globalization increases interdependence between nations of the world. As a result, economic sovereignty and control over the domestic economy are reduced. There is a danger of foreign economic dominance over the developing economies.

2. Threat to Domestic Industry: Globalization leads to the establishment of manufacturing and marketing facilities by multinationals n developing countries. The domestic firms in these countries fail to face the onslaught of multinationals. As a result they sell out to foreign firms. Cheap imports from china and other countries also kill domestic business particularly in the small sector. Availability of high quality foreign products reduces the demand for domestic products and domestic production is eroded.

3. Unemployment: Globalization leads to restructuring of industry. Technology upgradation and focus on areas of comparative advantage create unemployment and underemployment among low skilled workers. As a result, income inequality, poverty and social unrest may increase.

4. Drain of Basic Resources: Globalization results in exploitation of natural resources and basic raw materials in developing countries. These countries are often the sellers of agricultural and other inputs and buyers of finished products. Talented human resources are also transferred to developed nations which offer better remuneration and career prospects. Economic underdevelopment of poor countries is the result of exploitative character of international trade.

5. Technological Dependence: Globalization offers readymade foreign technology which scuttles domestic research and development. Foreign technologies are available at a high cost and often are not adaptable to local conditions. Developing countries become technologically dependent on developed countries.

6. Alien Culture: Globalization promotes consumption patterns and lifestyles which are inconsistent with the local culture and values. It may lead to shift in the industrialization pattern contrary to the national priorities. Now after looking at Globalization from both supportive and contradicting point of view; we can now take a stand on whether the claims against globalization are sustainable or not. Based on the above points, we can firmly say that globalization is not responsible fully for the global economic situations alone. It might have played a part in the crisis, but it did not start the fire.

4.3.9 Short-Comings of Globalization

The anti-globalization protesters are of the views that globalization of the world markethas adverse effects on the individuals and nations. They argued that:

1. The following barriers to international trade destroy manufacturing jobs in wealthy advanced economies such as United States and the United Kingdom. The critics ague that falling trade barriers allow firms to move manufacturing activities to countries where wages rates are much lower. For example in the case of Lenovo company, Thinkpad was produced in Mexico because of low labour costs. This is exactly the Chinese companies do in Nigeria. They relocate their plant to Nigeria, especially on production of CDS, electrical cables, etc where it has been established that cost of production is much lower than in China. Hence,

selling such products lower than Nigeria made products. Even though, the quality of Nigerian company's products were much superior, consumers still prefer Chinese products.

2. Free trade encourages firm's advanced nations to move manufacturing facilities to less developed countries that lack adequate regulations to protect labour and the environment from abuse by the unscrupulous. This is the case in Nigeria where Lebanese, Chinese and India companies hired Nigeria – middle class and lower class labourer much more lower than the amount/wages paid by Nigeria's companies. Simply because of some defeats in Nigeria's International laws and policies. Globalization critics often argued that adhering to labour and environment regulations, significally increases the costs of manufacturing enterprises and puts them at a competitive disadvantage in the global market place visa a vis, firms based in developing nations that do not have to comply with such regulations. They therefore suggest that free trade would lead to an increase in pollution and result in firms from advanced nations exploiting the labour less developed nations.

3. Another concern of the critics of globalization is that today's increasingly interdependent global economy, shifts economic power away from national governments and toward super national organizations such as the world trade organization, the European union, and the united Nations. They argued that unelected bureaucrats now impose policies on the democratically elected governments of nation states, thereby under-mining the sovereignty of those and limiting the nations ability to control its own destiny, Nigeria a case study.

4. Critics of globalization argue that despite the supposed benefits associated, with free trade and investment, over the past hundred years or so, the gap between the rich and the poor nations of the world has gotten wider. Critics argue that if globalization is such a positive development this divergence between the rich and the poor should not have occurred.

4.3.10 Drivers of Globalization

Globalization does not just appear on its own there are some factors/innovations which facilitated its application. This unit take a look at some of the innovations which took place and which contributed towards globalization reality.

a. **Declining Trade and Investment Barriers:** During the 1920s and 30s many of the worlds nation – states erected formidable barriers to international trade and foreign direct investment.However, after World War, the advanced industrial nations of the west committed themselves to removing barriers to the free – flow of goods services and capital between nations. In addition, to reducing trade barriers, many countries have also been progressively removing restrictions to foreign direct investments. Such trends have been driving both the globalization of markets and the globalization of production. (The evidence also suggests that foreign direct investment is playing an increasing role in the global economy as firms increase their cross -border investments).

b. **The role of Technological change:** The lowering of trade barriers made globalization of markets and production a theoretical possibility, but technological change made it a tangible reality. Since the end of World War Ii, the world has witnessed major advances in communication, information processing, and transportation technology, including the explosive emergence of the internet and world wide web. Telecommunication is creating a global audience and transportation is creating a global village.

4.3.11 Implications of Globalization of Production and Markets are:

As transportation costs associated with the globalization of production declined, dispersal of production to geographically separate locations become more economical. As a result of the technological innovations, the real costs of information processing and communication would be falling, thus make it possible for firms to create and then manage a global dispersed productionsystem.

In addition, technological innovations would facilitate the globalization of markets. Low-cost global communization such as th e World Wide Web wouldhelp to create electronic global market places.

Self-Assessment Exercises

1. Briefly define globalization
2. What are the benefits of glo**b**alization

4.4 Summary

This unit discussed globalization system as it affects domestic and informational trade. It looks into globalization of markets and production, the drivers of globalization and its implications global production and markets.

4.5 References / Further Readings/Webs Resources

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4.6 Possible Answers to SAEs

1. Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world.

2. **The Benefits of Globalization are:**

i. **Business freedom:** There should not be unnecessary government restrictions which come in the way of globalization, like import restrictions, restrictions on sourcing finance or other factors from abroad, foreign investments, etc.

ii. **Facilities:** The extent to which an enterprise can develop globally from home country base depends on the facilities available like the infrastructural facilities.

iii. **Government support:** Although unnecessary government intervention is a hindrance to globalization, government support can encourage Globalization. Government support may take the form of policy and procedural reforms, development of common facilities like infrastructural facilities, R and D support, financial market reforms and so on.

iv. **Resources:** Resources is one of the important factors which often decides the ability of a firm to globalize. Resourceful companies may find it easier to thrust ahead in the global market. Resources include finance, technology, R and D capabilities, managerial expertise, company and brand image, human resource, etc.

v. **Competitiveness:** The competitive advantage of the company is very important determinant of success in global business. A firm may derive competitive advantage from any one or more of the factors such as low costs and prices, product quality, product differentiation, technological superiority, after sales service, marketing strength, etc.

vi. **Orientation:** A global orientation on the part of the business firms and suitable globalization strategies are essential for globalizations.

Unit 5: Foreign Direct Investment (FDI)

Unit Structure

5.1 Introduction

5.2 Learning Outcome (LOs)

5.3 Foreign Direct Investment (FDI)

5.3.1 Foreign Direct Investment

5.3.2 Types of Foreign Direct Investment

5.3.3 Merger and Acquisition

5.3.4 Why Merger and Acquisition Fails

5.3.5 Reasons for Foreign Direct Investment

5.3.6 Theory of Foreign Direct Investment

5.3.7 Rate of Return Theory

5.3.8 Location Theory

5.3.9 Oligapolistic Theory

5.3.10 Internationalisation Theory of FDI

5.3.11 The Product Life Cycle Theory of Trade

5.3.12 The Elistic Foerign Direct Theory

5.3.13 FDI Theory Based on Strength of Currency

5.4 Summary

5.5 References/Further Reading/Web Resources

5.6 Possible Answers to Self-Assessment Exercises

5.1 INTRODUCTION

Foreign Direct Investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. The challenges primarily address host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them.

5.2 Intended Learning Outcome

On successful completion of this unit, you should be able to:

1. Describe Foreign Direct Investment (FDI)
2. Give reasons for foreign direct Investment
3. Example two theories of FDI
4. State benefits of F.D.I

5.3 Foreign Direct Investment (FDI)

5.3.1 Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities.

Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an enterprise, or capital received from an investing enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra-company loans.

i. Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
ii. Reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.

5.3.2 Types of Foreign Direct Investment

Foreign direct investments are commonly categorized as horizontal, vertical, or conglomerate.

- With a horizontal direct investment, a company establishes the same type of business operation in a foreign country as it operates in its home country. A U.S.-based cell phone provider buying a chain of phone stores in China is an example.
- In a vertical investment, a business acquires a complementary business in another country. For example, a U.S. manufacturer might acquire an interest in a foreign company that supplies it with the raw materials it needs.
- In a conglomerate type of foreign direct investment, a company invests in a foreign business that is unrelated to its core business. Since the investing company has no prior experience in the foreign company's area of expertise, this often takes the form of a joint venture.

5.3.3 Merger and Acquisition

A merger or an acquisition is a method that is carefully planned to achieve a synergistic effect. The synergistic effect of mergers and acquisitions includes economics of scale through greater output, avoidance of duplication of facilities and staff services and stronger financial base. The economic benefits as rational for pursuing a merger or an acquisition include income enhancement, cost reduction and growth. The reasons for mergers and acquisitions include to:

- buy up a company having competent management;
- improve earning per share, inject fresh ideas for better prospects and enhancement of shareholders wealth, gain access to the financial market, eliminate duplicate and competing facilities, secure scarce raw materials, diversify into other products or markets or to complete a product range, greater asset backing; and
- enhance economy of scale and corporate growth.

5.3.4 Why Merger & Acquisition Deals Fail?

1. **Limited Owner Involvement:** Appointing M&A advisors at high costs for various services is almost mandatory for any mid to large size deal. But leaving everything to them just because they get a high fee is a clear sign leading to failure. Advisors usually have a limited role, until the deal is done. Following that, the new entity is the onus of the owner. Owners should be involved right from the start and rather drive and structure the deal on their own, letting advisors take the assistance role. Among others, the inherent benefit will be a tremendous knowledge-gaining experience for the owner, which will be a lifelong benefit.

2. **Misvaluation:** The numbers and assets that look good on paper may not be the real winning factors once the deal is through.
3. **Poor Integration Process:** A major challenge for any M&A deal is the post-merger integration. A careful appraisal can help to identified key employees, crucial projects and products, sensitive processes and matters, impacting bottlenecks, etc. Using these identified critical areas, efficient processes for clear integration should be designed, aided by consulting, automation or even outsourcing options being fully explored.
4. **Cultural Integration Issues**: The Daimler Chrysler case is a study of the challenges inherent in cultural and integration issues. This factor is also quite evident in global M&A deals, and a proper strategy should be devised either to go for hard-decision forceful integration setting aside cultural differences or allowing the regional/local businesses to run their respective units, with clear targets and strategy on profit-making.
5. **Large Required Capacity:** The deals with the purpose of expansion require an assessment of the current firm's capacity to integrate and build upon the larger business. Are your existing firm's resources already fully or over-utilized, leaving no bandwidth for the future to make the deal a success? Have you allocated dedicated resources (including yourself) to fill in the necessary gaps, as per the need? Have you accounted for the time, effort, and money needed for unknown challenges that may be identified in the future?
6. **High Recovery Costs:** The Daimler Chrysler case also ran up high costs toward the expected integration attempts, which could not sail through. Keeping bandwidth and resources ready with correct strategies which can surpass the potential costs and challenges of integration could have helped. Investments today in a difficult integration spread over the next few years may be difficult to recover in the long run.
7. **Negotiation Errors:** Cases of overpaying for an acquisition (with high advisory fee) are also rampant in executing M&A deals, leading to financial losses and hence failures.
8. **External Factors:** The Bank of America/Countrywide failure was also due to the overall financial sector collapsing, with mortage companies being the worst hit. External factors may not be fully controllable, and the best approach in such situations is to look forward and cut further losses, which may include completely shutting down the business or taking similar hard decisions.

9. **Assessment of Alternatives:** Instead of buying to expand with an aim to surpass competitors, is it worth considering being a sale target and exit with better returns to start something new? It helps to consider extreme options which may prove more profitable, instead of holding onto the traditional thoughts.
10. **Backup Plan:** With more than 50% of M&A deals failing, it's always better to keep a backup plan to disengage in a timely manner (with/without a loss), to avoid further losses. The above-mentioned examples, although failed, they do seem to have executed the do-merger in a timely manner.

5.3.5 Reasons for Foreign Direct Investment

This will be address from the limitations of exporting and licensing as means for capitalizing onforeign market opportunities.

Limitations of Exporting: The viability of an exporting strategy is often constrained by transportation costs and trade barriers. When transportation costs are added to production costs, it becomesunprofitable to ship some products over a long distance. This applies to products withlow value do weight ratio and that can be produced in almost any location. For example, cement. Soft-drink, etc. For such products, the attractiveness of exporting decreases relative to either FDI or licensing. In addition, for products with high value -to-weight ratio, transportation costs are normally a minor component total landed cost. For example, electronic components, personal computers, medical equipment, computer soft wares, etc, they have little impact on the relative alternatives of exporting, licensing and FDI

Limitations of Licensing: The international business theory of foreign direct investment seeks to explain why firms often prefer foreign direct investment over licensing as a strategy for entering foreign market. This theory states that licensing has three major drawbacks as a strategy for exporting foreign market opportunities. These are:

1. Licensing may result in a firm's giving valuable technological know-how to a potential foreign competitor
2. That licensing does not give a firm the tight control over manufacturing, marketing and strategy in a foreign country that may be required to maximizes its profitability
3. That licensing arises when the firms competitive advantage is based not as muchas its products as on the management, marketing, and manufacturing capabilities that produce these products. The problem here is that such capabilities are often not amendable to licensing.

5.3.6 Theoreis of Foerign Direct Investment (FDI)

5.3.7 Rate of Return Theory

One of the earliest theories explaining FDI is the neo classical theory of Rate of Return on Investment. The theory postulates that the most important reason for investing directly overseas is differences in the rate of return on investment between different nations. The theory posits that, all things being equal, capital tends to flow from low returns to high returns countries in order to gain the best returns. This arbitrage phenomenon will persist until all countries have the same return on capital. However, this theory fails to explain the difference between portfolio investment and FDI. FDI involves control but portfolio investment is not necessarily about control. If interest rates are higher overseas, an investor would consider lending money overseas, but there is no imperative for that investor to control the firm to which the money has been lent. Thus, the main shortcoming of the rate of return theory is failure to explain the element of control. In fact, prior to 1950, FDI was viewed as a special case of portfolio investment. At that time there was no separate theory for FDI.

5.3.8 Location Theory

Location theory posits that multinational corporations choose a location which is close to markets or raw materials. It emphasises that every host country location is characterized by a set of factors that may attract or repel investment. The factors can be classified into two broad groups. First, there are locational endowments, which mainly consist of proximity to natural resources or proximity to markets. Second, there exists a range of man-made factors such as skilled labor, political, economic and infrastructural factors of a host country. Both types of factors play an important role in a firm's decision to enter a host country through FDI. Once a location attracts investment it begins to experience agglomeration economies – a concept advanced by Alfred Marshall in the 1890s, endures almost 130 years later as a central explanation of urban development, productivity and investment. That is foreign investors may be attracted to areas with existing concentrations of foreign-owned firms. This is natural - being less knowledgeable about the country, investors may emulate decisions of other foreign firms to reduce risk. In addition there are spillovers from the local foreign agglomeration to the pool of potential international investors in the form of specialized labor markets and supplier networks as well as knowledge spillovers. Further, investment in a location with substantial clustering of industries is likely to incur lower costs than in areas with dispersed industrial activities. This is because clustering saves transportation. Thus pioneering firms tend to locate in areas that have potential to aggregate industries.

5.3.9 Oligopolistic Theory of FDI

Firms often exhibit imitative behavior, i.e. they follow the internationalization of competitors so that they will not lose their strategic advantage. Oligopolistic market conditions, firms in an industry tend to follow each other's location decision. However, Knickerbocker's proposition of oligopolistic reaction holds time only when uncertainty exists about costs in the host country. The weakness of this theory is that it does not explain what motivated the first firm to undertake FDI.

5.3.10 The Internalization Theory of FDI

This theory was developed by Buckley & Casson (1976) who postulated that transnational companies organize their internal activities so as to develop specific advantages, which can then be exploited. The theory is known as internalization because the authors stressed this point with regard to the creation of Multinational Corporations. They articulated their theory based on three simple propositions:

- Firms maximize profits in a market that is imperfect;
- When markets of intermediate products are imperfect, there is an incentive to bypass them by creating internal markets.
- Internalization of markets across the world leads to MNCs.

The theory explain what happens when the external market which is available to a MNC fails to offer an efficient environment in which the business can profit by using its technology, production processes, know-how and brand name. Under such a situation, the firm is likely to create an internal market via investment in multiple countries and thus create the needed market to achieve its objectives. Firm creates hierarchies when either there is no market for intermediate products needed by MNC or because external market for such products is inefficient. The transaction cost of intra firm transaction is negligible compared to their market cost.

5.3.11 The Product Life Cycle Theory of Trade

Product Life-Cycle (Vernon, 1966) is a dynamic theory that explains changes in the trade position of a nation in the long run. It predicts that an innovative product from an advanced country, once exported, could ultimately end up being imported as the technology is transferred to the lower cost nations. The argument is that comparative advantage shifts from one nation to another as a product matures through its life cycle.

Briefly the theory assumes that, in general, trade in manufactured goods typically follows a cycle with four main phases: introduction, growth, maturity and decline. During the early stages of the cycle a product is first produced in the country which has discovered it. The new product is mainly for use in the local market and some limited for exports. At this very early stage, the innovating firm is interested in the domestic market of the product. In this early stage of the cycle, comparative advantage rests with the innovating country because of "technological gap" between the innovating country vis-a'-vis the others place the innovating country in a monopoly position. In the initial phase of the cycle, usually, manufacturing occurs in a developed country, such as the US, where the innovator is motivated by a potentially profitable market.

In phase two, growth of demand in the importing nations may provide sufficient volume to justify local manufacture by the innovating firm and competitors who may copy the innovation. As production begins abroad, the exports of the initiating nation rapidly reduce because other producing countries take a share of the market.

In the second phase of the cycle, usually manufacturing occurs in other advanced countries, say in Europe.

The third stage occurs as the product matures. A mature product uses an already established technology and a lower skilled labor content. In this situation, the less developed countries may be able to underprice the more advanced countries by applying their cheap less-skilled labor to the technology already designed to product. Thus the less developed nations may become attractive production points for multinational firms and begin exporting the product to more advanced countries.

The decline stage is characterized by concentration of production in emerging economies. The innovating country becomes a net importer of the product it innovated in the first place. Comparative advantage shifts from one nation to another as a product matures; and so does FDI. However, this alone is not the only factor that influences foreign investors to invest in less developed countries as factors such as government regulations to protect their domestic enterprises from foreign competition increase. This, usually seen as a threat to MNEs, drove them to start investing directly into these markets instead, to avoid facing tariff barriers.

5.3.12 The Eclectic FDI Theory

The eclectic theory Dunning (1977), popularly known as OLI, is an integration of three theories. The theory posits that firms undertake FDI when the advantages of Ownership, Location and Internalization combine to make it appealing to undertake FDI. Ownership advantage is the benefit that a company gets due to its ownership of some special asset, such as a powerful brand, intellectual property, technical knowledge or management ability. Location advantage is the benefit of setting an economic activity in a place because of the natural or acquired characteristics of the locale. Internalization advantage is the gain that arises from undertaking a business activity in-house rather than leaving it to a relatively inefficient market. According to (Nayyar, 2014), the theory therefore holds that FDI is the result of firms possessing Ownership specific (income generating) advantages (O) that they want to exploit in foreign Locations (L), which they cannot profitably do except through Internalization (I).

This theory further introduces the concept of a 'seeker" (Dunning & Lundan, 2008) in which a company or an individual, is described as a 'seeker' looking into investing and is normally driven by four motives. First, there are the "natural resource seekers", who are looking for abundant natural resources at a lower cost than that of their home country. Second, there are "market seekers" who are interested in gaining access to larger markets. Third, there are "efficiency seekers", who are looking for investment in different countries so as to gain economies of scale. Finally, there are "strategic asset seekers" who want assets that will help them strengthen their competitiveness in the global marketplace.

5.3.13 FDI Theory based on Strength of Currency

Aliber (1970) and Dinkar & Rahul (2014) made an attempt to explain FDI on the basis of the strength of currency. They posited that weaker currencies compared with stronger investing country currencies had a higher capacity to attract FDI in order to take advantage in differences in the market capitalization rate. Aliber had tested had tested his hypothesis and found the results to be true in relation to developed countries such as the United States of America, United Kingdom and Canada. This theory seems to be failing in explaining FDI between two or more developed countries that have currency values that are equal also it does not seem to be relevant to FDI in less developed and developing countries.

Self-Assessment Exercises

1. Explain why merger and acquisition deal fails
2. Discuss the internationalization theory of FDI (Foreign Direct investment)

5.4 Summary

Business is longer domestic, duly local markets may be inadequate for thr goods producedat home or foreign markets offers better advantage in terms of production costs and sales. Hence, firms look for best way of entering foreign markets. One of such ways is through FDI. This unit examines FDI on thr basis of business implications. Forms of FDI were looked into, benefits of FDI and some theories of FDI were equally looked into.

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5.6 Possible Answers to SAEs

1. ***Merger and acquisition deal fails because of the following:***
    i. **Limited Owner Involvement:** Appointing M&A advisors at high costs for various services is almost mandatory for any mid to large size deal. But leaving everything to them just because they get a high fee is a clear sign leading to failure. Advisors usually have a limited role, until the deal is done. Following that, the new entity is the

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ii. **Misvaluation:** The numbers and assets that look good on paper may not be the real winning factors once the deal is through.

iii. **Poor Integration Process:** A major challenge for any M&A deal is the post-merger integration. A careful appraisal can help to identified key employees, crucial projects and products, sensitive processes and matters, impacting bottlenecks, etc. Using these identified critical areas, efficient processes for clear integration should be designed, aided by consulting, automation or even outsourcing options being fully explored.

iv. **Cultural Integration Issues**: The Daimler Chrysler case is a study of the challenges inherent in cultural and integration issues. This factor is also quite evident in global M&A deals, and a proper strategy should be devised either to go for hard-decision forceful integration setting aside cultural differences or allowing the regional/local businesses to run their respective units, with clear targets and strategy on profit-making.

v. **Large Required Capacity:** The deals with the purpose of expansion require an assessment of the current firm's capacity to integrate and build upon the larger business. Are your existing firm's resources already fully or over-utilized, leaving no bandwidth for the future to make the deal a success? Have you allocated dedicated resources (including yourself) to fill in the necessary gaps, as per the need? Have you accounted for the time, effort, and money needed for unknown challenges that may be identified in the future?

vi. **High Recovery Costs:** The Daimler Chrysler case also ran up high costs toward the expected integration attempts, which could not sail through. Keeping bandwidth and resources ready with correct strategies which can surpass the potential costs and challenges of integration could have helped. Investments today in a difficult integration spread over the next few years may be difficult to recover in the long run.

vii. **Negotiation Errors:** Cases of overpaying for an acquisition (with high advisory fee) are also rampant in executing M&A deals, leading to financial losses and hence failures.

viii. **External Factors:** The Bank of America/Countrywide failure was also due to the overall financial sector collapsing, with mortage companies being the worst hit.

External factors may not be fully controllable, and the best approach in such situations is to look forward and cut further losses, which may include completely shutting down the business or taking similar hard decisions.

ix. **Assessment of Alternatives:** Instead of buying to expand with an aim to surpass competitors, is it worth considering being a sale target and exit with better returns to start something new? It helps to consider extreme options which may prove more profitable, instead of holding onto the traditional thoughts.

x. **Backup Plan:** With more than 50% of M&A deals failing, it's always better to keep a backup plan to disengage in a timely manner (with/without a loss), to avoid further losses. The above-mentioned examples, although failed, they do seem to have executed the do-merger in a timely manner.

2. This theory was developed by Buckley & Casson (1976) who postulated that transnational companies organize their internal activities so as to develop specific advantages, which can then be exploited. The theory is known as internalization because the authors stressed this point with regard to the creation of Multinational Corporations. The theory explain what happens when the external market which is available to a MNC fails to offer an efficient environment in which the business can profit by using its technology, production processes, know-how and brand name. Under such a situation, the firm is likely to create an internal market via investment in multiple countries and thus create the needed market to achieve its objectives.

Unit 6: Instruments of International Trade Policy

Unit Structure

6.1 Introduction

6.2 Learning Outcomes (LOs)

6.3 Instruments of International Trade Policy

6.3.1 Instrucments of Trade Policy

6.3.2 Tariff

6.3.3 Subsidies

6.3.4 Import Quotas

6.3.5 Local Content Requirment

6.3.6 Administrative Trade Policies

6.3.7 Anti-Dumping Policies

6.3.8 Political Argument for Trade Intervention

6.3.9 Economic Argument for Trade Intervention

6.4 Summary

6.5 References/Further Reading/ Web Resource

6.6 Possible Answers to Self-Assessment Exercises

6.1 Introduction

The political economy is the study of how political factors influence the functioning of an economic system, such as the international trading system. It describes how political realities have shaped and continue to shape the international trading system. Although many nations are normally committed to free trade; they tend to intervene in international trade to protect the interests of politically important groups or promote the interests of key domestic producers. When governments intervene, they often do so by restricting imports of goods and services into their nation, while adopting policies that promote exports. Normally their motives are to protect domestic producers and jobs from foreign competition while increasing the foreign market for products of domestic producers. This unit concerned itself with political instruments used by government for safeguarding domestic trade against international trade.

6.2 Intended Learning Outcome

On successful completion of this unit, you should be able to:

1. Define political economy
2. Explain instruments of trade policy and
3. Explain political arguments for and against intervention in international business

6.3 Instruments of International Trade Policy

6.3.1 Instruments of International Trade Policy

Political economy is the study of how political actors influence the functioning of an economic system, such as the international trade. It aim to describe how political realities have shaped and continue to shape the international trade system. Governments adopt various policies to curb cross-border trade. Among these policies is the trade policy. Trade policy concerned itself with instruments that government s used to control in-flow and out-flow of goods within a country. The most common among these instruments are discussed below:

6.3.2 Tariffs: Tariffs are the oldest form of trade policy, usually placed on imports of foreign products.They fall into two categories:

- Specific tariffs which are levied as a fixed charged for each unit of a good imported and
- Ad valorem tariffs are levied as a proportion of the value of the imported good. An example of ad valorem tariffs is the 25 per cent Bush's administration placed on imported on light trucks (Pick up trucks, Four-Wheel-drive vehicles, etc.) In most cases, tariffs are placed on imports to protect domestic producers from foreign competition by raising the price of imported goods. Tariffs also serves as major source of various nations. The federal republic of Nigeria receives major source of revenue from tariffs on various goods that imported to country. In addition, the U.S government received most of its revenues from tariffs. T he issue of who suffers and who gains in tariffs should be stress here. Governments" gains. This is because the

tariff affords them some production against foreign competitors by increasing the cost of imported foreign goods. But the consumers lose. This is because; they must pay for certain imports. For example, in March 2002, the US government placed a valorem tariff of 8 per cent to 30 percent on imports of foreign steel. The effect was to reduce the price of steel products in the United States between 30 and 50 per cent.

However, by November 2002, the whole trade organization declared that the tariffs represented a violation of the WHO treaty, thus, the United States consequently removed them in December of that year. Nevertheless, two conclusions can be draw from economic analysis of the effect of import tariffs:

a. Tariffs are unambiguously pro-producer and anti consumers. While it protect producers from foreign competitors, this restriction of supply also raises domestic prices. The case of Bush‟s administration mentioned earlier is a good example.
b. Import-tariffs reduce the overall efficiency of the world economy. They reduce efficiency because a protective tariff encourages domestic firms t produce more efficiently abroad. The consequence is an inefficient utilization of resources. For example the importation of tariff on band of rice , cements, vehicles etc by federal republic of Nigeria. These has made prices of these goods to rise up, hence consumers find it difficult to buy them. In the long-run, it is the citizens of such countries where tariffs are imposed that suffer the consequences.

6.3.3 Subsidies: A subsidy is a government payment to a domestic producer. Subsidies take many forms, such cash grants, low-interest loans, tax breaks and government equity participation in domestic firms. By lowering production costs, subsidiaries help domestic producers in two ways: a) competing against imports and b) going export markets. Agriculture tends to be one of the largest beneficiaries of subsidiaries in most countries. In 2002, the European Union was paying $43 billion annually in farm subsidiaries. Also in May 2002, President George. W. Bush signed into law a bill that contained subsidiaries of more than $189 billion for US farmers spread out over 10 years. Government of Nigeria has been threatening to go strike any attempt to remove petroleum subsidiary. Some scholars argued that subsidiaries can help a firm achieve a first move advantage in an emerging industry. If this is achieved, further gains to the domestic economy arise from the employment and tax revenues that a major global company can generate. However, it ids observed that many subsidiaries tend to protect the inefficient and promote excess production. For example, agricultural subsidiaries:

a. Allow inefficient farmers to stay in business
b. Encourage countries to over produce heavily subsidized agricultural products
c. Encourage countries to produce products that could be grown more cheaplyelsewhere and imported
d. And therefore reduce international trade in agricultural products.

It has been observed that if advanced countries abandoned subsidiaries to farmers, global trade in agricultural products would be 50 per cent higher and the world as whole would be better off by $160 billion.

6.3.4 Import Quotas: An import quota is a direct restriction on the quantity of some goods that may be imported into a country. The restriction is usually enforced by issuing import licenses to a group of individuals or firms. For example, US have a quota on cheese imported. The only firms allowed to import cheese are certain trading companies each of which is allocated the right to import a maximum of pounds of cheese each year. Similar situation occurs in Nigeria, it is only Dangote firms that is allowed to import rice and cements.

6.3.5 Local Content Requirements: A local content requirement is a requirement that some specific fraction of ago be produced domestically. The requirement can be expressed either in physical terms (some per cents) or in value terms. Local content regulations have been widely used by developing countries to shift their manufacturing base from the same/simple assembly of products, whose parts are manufactured elsewhere into the local manufacturer of component parts. They are used by developed countries to protect local jobs and industry from foreign competition. This is the case of oil and gas industry in Nigeria, where certain per cent of local content is permitted to carried out by the local experts.

6.3.6 Administrative Policies: Administrative trade policies are bureaucratic rules designed to make it difficult for imports to enter a country. A case study here is Japan. Japan's formal tariff and non-tariff barriers have been among the lowest in the world.

However, charges the country imposed through administrative barriers to imports are grater than the lowest tariffs incentives. For example, the Netherlands exports tulip bulbs to almost every country in the world except Japan.

6.3.7 Anti-Dumping Policies: Dumping is defined as selling goods in a foreign market for less than their cost of production or below their market values. Dumping is therefore views as a method by which firms unload excess production in foreign markets. Some dumping may be the result of predatory behavior, with producers using substantial profits from their home markets to subsidize prices in a foreign market with view to drawing indigenous competitors out of that market. Once this has been established, the predatory firm can raise prices and earn substantial profits. This is exactly what Chinese's firms does to Nigeria market with their substandard tires, electrical cables and bulbs and pharmaceutical drugs Anti-dumping policies are designed to punish foreign firms that engage in dumping. The ultimate objective is to protect domestic producers from unfair foreign competitions.

6.3.8 Political Argument for Trade Intervention

Some of the political arguments for trade intervention are explained below:

1. **Protecting jobs and industries:** Perhaps the most common political argument for government intervention is that this necessary for protecting jobs and industries from unfair competitions. For example, tariffs imposed by George Bush on foreign steels.
2. **National security:** Countries sometimes argue that it is equally necssry to protect certain industries because they are important for national security. For example, defense related industries often get this kind of attention, such aerospace, airports and seaports.
3. **Retaliation:** A school thought argued that governments should use the threat t intervene in trade policy as a bargaining tool to help open foreign markets and force trading partners to "play by the rules of the game". The US government has used the threat of punitive trade sanctions to try to get Chinese government to enforce its intellectual property laws.
4. **Protecting consumers:** Many governments have long had regulations to protect consumers from unsafe products.
5. **Protecting human rights:** Protecting and promoting human rights in othercountries as an important element of foreign policy for many democratic governments.

Sometimes, it is use as attempt to improve the human right policies of trading partners.

6.7.1 Economic Arguments for Trade Intervention

With the development of the new trade theory and strategic trade policy, the economic arguments for government intervention have undergone a renaissance in recent years. Nevertheless, two arguments will be considered here:

1. **The infant industry arguments:** The infant industry argument is by far the oldest economic argument for government intervention. Alexander Humitton proposed it in 1972. He argued that many developing countries have a potential comparative advantage in manufacturing, but new manufacturing industries cannot initially compete with established industries in developed countries. To allow manufacturing to get benefits, the argument is that governments should temporarily support new industries, until they have grown strong enough to meet international competition.

The argument has had substantial appeal for the governments of developing nations during the past 50 years and the General Agreement on Tariff and Trade (GATT) has recognized the infant industry argument as a legitimate reason forprotectionism.

However, many economists remain critical of this argument for two reasons,namely:

- Protection of manufacturing firms from foreign competition does no good unless the protection helps to make the industry efficient. Protection seems to have done little more harm to the development of inefficient industries that have little hope of ever competing inn the world market.
- That firms are unable to make efficient long term investments by borrowing money from the domestic or international capital market. Therefore, governments are required to subsidize long term investments.

2. **Strategic Trade policy:** the strategic trade policy has two components, these are:

    a. It is argued that by appropriate actions, a government can help raise national income.
    b. That it might pay a government to intervene in an industry by helping domesticfirms overcome the barriers to entry created by foreign firms that have already reaped first mover advantages.

In conclusion, if these arguments are true, then government should target technologies that may be important in the future and use subsidiaries to support development work aimed at commercializing those technologies.

In addition, government should provide export subsidiaries until the domestic firms have established firm-mover advantages in the world market Government support may also be justified if it can help domestic firms overcome the first-mover advantage as viable competitors in the world market.

Self-Assessment Exercises

1. Give three reasons for political argument for trade interventions
2. Discuss three instrument of international trade policy

6.4 Summary

This unit examined the political economic system of a nation as it applies to international business. Various arguments for and against trade intervention were extensively discussedin this unit.

6.5 References/Further Readings/Web Resources

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6.6 Possible Answers to SAEs

Answer to SAE 1

Some of the political arguments for trade intervention are explained below:

6. **Protecting jobs and industries:** Perhaps the most common political argument for government intervention is that this necessary for protecting jobs and industries from unfair competitions. For example, tariffs imposed by George Bush on foreign steels.
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intervene in trade policy as a bargaining tool to help open foreign markets and force trading partners to "play by the rules of the game". The US government has used the threat of punitive trade sanctions to try to get Chinese government to enforce its intellectual property laws.

9. **Protecting consumers:** Many governments have long had regulations to protect consumers from unsafe products.
10. **Protecting human rights:** Protecting and promoting human rights in othercountries as an important element of foreign policy for many democratic governments. Sometimes, it is use as attempt to improve the human right policies of trading partners.

Answer to SAE 2

The most common among these instruments are discussed below:

- **i.** **Tariffs:** Tariffs are the oldest form of trade policy, usually placed on imports of foreign products.
- ii. **Subsidies:** A subsidy is a government payment to a domestic producer. Subsidies take many forms, such cash grants, low-interest loans, tax breaks and government equity participation in domestic firms.
- **iii.** **Import Quotas:** An import quota is a direct restriction on the quantity of some goods that may be imported into a country. The restriction is usually enforced by issuing import licenses to a group of individuals or firms.
- iv. **Local Content Requirements:** A local content requirement is a requirement that some specific fraction of ago be produced domestically. The requirement can be expressed either in physical terms (some per cents) or in value terms.
- **v.** **Administrative Policies:** Administrative trade policies are bureaucratic rules designed to make it difficult for imports to enter a country. A case study here is Japan. Japan's formal tariff and non-tariff barriers have been among the lowest in the world. However, charges the country imposed through administrative barriers to imports are greater than the lowest tariffs incentives.
- vi. **Anti-Dumping Policies:** Dumping is defined as selling goods in a foreign market for less than their cost of production or below their market values. Dumping is therefore views as a method by which firms unload excess production in foreign markets.

Unit 7: Mode of Entering International Market

Unit Structure

7.1 Introduction

7.2 Learning Outcomes (LOs)

7.3 Mode of Entering International Market

7.3.1 International Market Entrey Decision

7.3.2 Export

7.3.3 Indirect Export

7.3.4 Direct Export

7.3.5 Joint Venture

7.3.6 Licensing

7.3.7 Turnkey Operation

7.3.8 Direct Investment

7.3.9 Free Trade Zones

7.3.8 Introducing Product into International Market

7.4 Summary

7.5 References/Further Reading/Web Resources

7.6 Possible Answers to Self-Assessment Exercises

7.1 INTRODUCTION

Marketing opportunities exist in all countries regardless of the level of economic development. To assume that only developed countries offer more market potential is a misconception that wills lead international business manager astray. A particular market may initially seem attractive because of its potential demand and size in terms of the number of consumers or their purchasing power. Yet the market may be attracting more than its share of competition. Since the market is thus crowded by many competitors, it may not be especially attractive after all. As a result, Onkvisit and Shaw (1997) observed that LDCs may provide a better return on investment because competitive expenditures can be significantly less when sophisticated and expensive marketing techniques are not necessary.

A business manager usually discerns far more market opportunities that a firm's limited resources permit to be pursued. It therefore implies that a marketer must develop a priority system so that available resources will not be spread too thin for the needed impact. Countries must be screened based on certain relevant criteria for comparing opportunities. Such criteria may include market potential, economic growth, political risk, available resources, etc. In assessing market opportunities, there is no single ideal criterion. A marketer must therefore employ a set of criteria that is relevant to the market opportunity under consideration. This unit examines the various alternatives of entering international markets.

7.2 Intended Learning Outcome

After thorough study of this unit, you should be able to:

1. Explain modes of entering international markets
2. Select the best option for your business and
3. Advise clients on the modality of approaching an international market.

7.3 Mode of Entering International Market

7.3.1 International Business Entry Decision

Once a company has analyzed the environment of foreign market and concludes that it represents an alternative opportunity, the next step for the company is to take strategic decisions on how to enter the market. A company that has this kind of decision to make usually have three strategic options to consider and select the most appropriate. In tryingto select the most appropriate strategic option, the company has to consider the impact of some the crucial factors such as the nature of the product, nature of the market, financial capacity of the company, the management expertise, and the established objectives of the company. These options are thus discussed below.

7.3.2 Export

This is the quickest and simplest way through which a company can enter foreign markets. With the option, the manufacturing facilities of the company will remain located in the home country while the company simply makes arrangement on how to sell some of its present products abroad. Exporting is a strategy in which a company, without any marketing or production or organization overseas, exports a product from its home base market abroad.

Exporting allows a company to enter foreign markets with a minimum of change in its product line, company organization, investment, or company mission.

The main advantage of exporting strategy is the case in implementing the strategy. Risks are minimal because the company simply exports its excess production capacity when it receives orders from abroad. The problem with using an exporting strategy is that it is not always an optimal strategy. A desire to keep international activities simple, together with a lack of product modification, make a company’s marketing strategy inflexible and unresponsive.

However, any company that chooses to enter into international markets by only exporting its products to the foreign markets can achieve the objective through two ways, namely indirect export and direct export.

7.3.3 Indirect Export

Under this method or strategy, the firm does not have to develop an oversea sale force. It will only hire independent international middlemen in the countries concerned. Firms that are stating export business for the first time usually adopt this method. The method involve less investment and less risks. The assumption is that the middlemen‟s established goodwill, marketing know-how and services will enable the image of the product and possibly increase the speed of its acceptance in the market. Firms that adopt the indirect export method in their international business usually have three options of domestic middlemen arrangements. They can use any or combination of the following:

a. **Domestic Based Export Merchants:** Buys the manufacturers‟ products and then sell them abroad. With this arrangement, the exporting company only sells its products to the export merchant in the home country. After buying from the company, the export merchant will then sell the product to foreign markets on its own account. Because, the merchant takes title to the product, it shoulders all the burden and risks involved in exporting the product to foreign markets.

b. **Domestic-Based Export Agents:** The agents seek and negotiate foreign purchases and are paid commissions. The agents simply agree to seek for foreign buyers for the company. Their job normally is to bring foreign buyers into contact with domestic sellers. They receive commission on any business done. However, the exporting firm will bear the whole risk involved in the business. In selecting the agent to work with, the exporting company has the option of choosing any of the following:

i. **Export Buying Agents:** They reside in the manufacturer's country but represents foreign buyers. Their functions are to place orders with the manufacturers, take care of the

ii. **Brokers:** Their function is only to find buyers for the manufacturer. They do not handle the product.

iii. **Manufacturers' Export Agents:** These agents represent many manufacturers with non-competing interests. They renderselling and other marketing services to the manufacturers.

iv. **Cooperative Organization:** The cooperative organizations serve many producers with non-competing interests by making careful plans on how to export the products on their behalf. Although, the cooperative organization is independent, it is not wholly independent as the producers have a remarkable influence on the administrative control of its activities.

7.3.4 Direct Exports

The manufacturers concerned take responsibility of exporting their products instead of using the services of middlemen. However, not all the manufacturers can enter through this method. The method is often employed by big manufacturers with enough quality of products to sell to and by those whose market has grown to sufficient size to justify the burdens involved in it, for example the Coca-Cola Company.

Although, the method has a high probability of yielding a profitable return, the level of investment and risk associated with it is usually high. Notwithstanding, manufacturers that use this method as their entry strategy into international markets, can adopt any of the following options:

a). **Domestic-Based Export Department:** An export sale manager carries on the actual selling and draws on market assistance as needed. The department might evolve into a self-contained export department performing all the activities to export and operating as a profit centre.

b). **Overseas Sales Branch or Subsidiary:** An overseas sales branch allows the manufacturer to achieve greater presence and program control in the foreign market. The sales branch handles sales and distribution and might handle warehousing and promotion as well. It often serves as a display and customer service centre also.

c). **Traveling Export Sales Representatives:** The manufacturers concerned usually send one or two of their home-based sales representatives to foreign markets to canvas for business and possibly get orders from buyers. This strategy is often employed by big companies that are entering into a market newly and by small companies with financial handicap.

d). **Foreign-Based Distributors or Agents**: The company can hire foreign-based distributors or agents to sell the company's goods. These distributors and agents might be given exclusive rights to represent the manufacturer in that company or only limited rights.

7.3.5 Joint Venturing

Foreign investors may join with local investors to create a joint venture in which they share ownership and control. That is, companies that adopt this method as their entry strategy into foreign market join hands with the nationals in the foreign countries to set up production and marketing facilities abroad. For example, Kotler (1997) reported that Coca-Cola and the Swiss company Nestle are joining forces to develop the international market for "ready to drink" tea and coffee, which currently sell in significant amounts only in Japan. Also Procter and Gamble has formed a joint venture with its Italian archrival Fater to cover babies' bottoms in the United Kingdom and Italy. Some of the available options are:

7.3.6 Licensing: An export manufacturer will enter an agreement with a foreign company authorizing the foreign company to use the production process, trade mark, patent, or trade secret of the exporting manufacturer for a defined fee or royalty. Under this consideration, the exporting manufacturer is the licensor while the foreign partner is the licensee.

The advantage of licensing is that the licensor will gain entry into the market without much difficulty and at a little risk while then licensee will gain production expertise or well-known name without starting from the scratch.

However, the licensor will have less control over the business activities unlike if it had up its own production facilities. Besides, the licensor may even find out that it has set up a competitor. The licensee as well suffers from the foreign interference on it affairs.

7.3.7 Contract Manufacturing: In this strategy, the arrangement will be for the local company in the foreign country to be in charge of the production of the licensed products, while the marketing of the products will rest on the company. The export firm is only exporting its marketing expertise. The advantages and disadvantages of this are similar to that of licensing.

7.3.8 Management Contracting: In some cases, government pressure and restrictions force a foreign company either to sell its domestic operations or to relinquish control. In such a case, the company may have to formulate another way to generate the revenue given up. One way to generate revenue is to sign a management contract with the government or the new owner in order to mange the business for the new owner. The new owner may lack technical and managerial expertise and may need the former owner to manage the investment until local employees are trained to manage the facility. Examples are Aerk Airways, Ondo Oil, etc.

It should be noted that management contracts do not have to be only after a company is forced to sell its ownership interest. Such contracts may be used as a sound strategy for entering a market with minimum investment and minimum political risks. For example, Club Med, a leader I international resort vacations, is frequently wooed by LDCs with attractive financing options because these countries want tourism. Club Med's strategy involves having either minority ownership or none at all, even though the firm manages all then resorts.

7.3.9 Turkey Operations: A turkey operation is an arrangement by the seller to supply with a facility fully equipped and ready to be operated by the buyer's personnel, who will be trained by the seller. The term is sometimes used in fast-food franchising when a franchisor agrees to select a store site, build the store equip it, train the franchisee and employees and sometimes arrange for the financing. In international marketing, the term is usually associated with giant projects that are sold to government or government run companies. Large-scale plants requiring technology and large-scale construction processes unavailable in local markets commonly use this strategy. Such large-scale projects include building steel mills, Fertilizer, and chemical plants; etc.

7.3.10 Direct Investment: Direct ownership of foreign-based assembly or manufacturing facilities is the ultimate form of foreign investments. The foreign company can buy part or full interest in a local company or build its own facilities. When the firm feels that it has mastered the market and there are opportunities, it will then establish its own production facilities with full management and control. Some of the advantages include: The company may secure real cost economies in the areas of cheaper labour and raw materials. It can develop manufacturing and marketing policies that will be in agreement with the culture of the people and therefore enhance its long-term international objectives. However, the company suffers from exposing a large investment to certain risks, such as devaluation of currencies, keen competition, etc.

7.3.11 Free Trade Zones: When entering a market, a company should go beyond an investigation of market entry modes. Another question that should be asked is whether a free Trade Zone (FTZ) is involved and needs consideration. The decisions concerning market entry and FTZs are somewhat independent. An FTZ can be used regardless of whether the entry strategy is exporting or local manufacturing. A FTZ is a secured domestic area in international commerce, considered to be legally outside a country's customs territory. It is an area designed by a government for the duty free entry of goods. It is also a location where imports can be handled with few regulations, and little or no customs duties and excise taxes are collected. As such, goods enter the area without paying any duty. The duty would be paid only when goods enterthe customs territory of the country where an FTZ is located, for example Calabar, Nigeria.

Variations among FTZs include free ports, tariff-free zones, airport duty free arcades, export processing zones, and other foreign grade zones. FTZs are usually established in countries for the convenience of foreign trades. The zones may be run by the host government or by private entries.

FTZs offer several important benefits, both for the country and for companies using them. These include:

a) Job retention and creation- when better facilities and plants are provided to attract MNCs, FTZs can generate foreign investment and jobs.
b) Some countries offer superior facilities for lower costs.
c) Lower theft rate, lower insurance costs, delay of tax payment, and reduction ofinventory in transit.
d) It improves the cash flow for a company since FTZ eliminates the need to payduty immediately on docking.
e) An FTZ can eliminate the waiting period for the arrival of a product from an overseas firm.
f) The firm can hold goods in an FTZ until the quota opens up, making it possible to move the goods immediately into the market at the earliest opportunity.
g) FTZs also provide a means to circumvent import restrictions.

h) FTZs provide a means to facilitate imports and exports; some forth.

7.3.10 Introducing a Product into International Market

Introducing a product into international market is not an easy task. The company has to first of all research the market to such an extent that all the components and supportive attributes of the product have to be clearly detected. Both the market research and the product introduction have to be done with careful consideration of the following factors:

Time Scale: In interpreting the research findings, the firm has to take into consideration the dynamic fashion environment in the market and rapidly changing tastes and demands of the consumers. Without that, the firm may discover that it has succeeded in introducing a product that is already out-of-fashion and therefore has no demand in the market. This is one of the tricky aspects of modern international marketing. A tactful marketer must try to combine facts with changing scenes.

Firms Resources and Goals: It is imperative to note that firms have to design their products within the frame-work of their economic realities, resources and goals. Although, the aim is to attain the full satisfaction of the consumers' needs, the firm has to do it in such a way as to make profit or attain other objectives.

Specified Markets: In designing the product, the firm has to have a defined target group at the back of its mind. The target group can be a wide one, consisting of country or region or a small area of few consumers. No matter the size, what is important is that the job must be carried outwith a definite buyer in mind.

Factors to be considered whether to Standardize or to Differentiate: It should be recall that standardization and differentiation have been looked into in the earlier part of the course. Thus, there are many factors to be considered at any time a decision is to be taken on the issue of standardization and differentiation. Some of these are thus briefly examined below:

1. **Corporate Objectives:** An international firm that seeks to maximize profits regardless of international market penetration goals is more likely to strike towards product standardization. This is because by the nature of such strategy, the firm is likely to generate a better profit performance in the short-run that if differentiation is opted for.
2. **The Market Usage of the Product:** Standardization is hereby recommended where the consumers' usage of the product is similar in all the markets. However, where it

differs, differentiation is considered as a better option.

3. **Company Resources:** Differentiation involves consideration in production facilities, inventory management and marketing mix ingredients. Because of these financial resources requirements, most weak firms do not go for differentiation strategy, rather prefer standardization strategy option.
4. **Level of Service Required:** Products with high technical services either before or after the delivery adopt standardization strategy, for example electronics, automobiles and so forth.
5. **Base of Production:** A product that requires intricate manufacturing processes is likely to support differentiation strategy than a product which can be manufactured with ease. Toilet soaps and Aero-plane are two different products with different skills, this thus call for different strategies.
6. **Legal Considerations:** Legal systems can have a major impact on the design of a product, its packaging and theprinted messages incorporated. For example, a packet of cigarette in Nigeria must containa warning about the health hazard of smoking. It should however be noted that the law is not interested in the inconveniences that such regulations may impose on marketingpersonals as it is their duty to assess the market and know which strategy is better option.

Self-Assessment Exercises

1. Briefly define FTZ Free Trade zone and explain its benefits
2. Briefly examines factors to be considered whether to standardized or differentiate

7.4 Summary

This unit examined various modes of entering international markets.

7.5 References/Further Reading/Web Resources

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7.6 Possible Answers to SAEs

Answers to SAEs 1

A FTZ is a secured domestic area in international commerce, considered to be legally outside a country's customs territory. It is an area designed by a government for the duty free entry of goods. It is also a location where imports can be handled with few regulations, and little or no customs duties and excise taxes are collected. As such, goods enter the area without paying any duty. The duty would be paid only when goods enter the customs territory of the country where an FTZ is located, for example Calabar, Nigeria.

FTZs offer several important benefits, both for the country and for companies using them. These include:

a) Job retention and creation- when better facilities and plants are provided to attract MNCs, FTZs can generate foreign investment and jobs.
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g) FTZs also provide a means to circumvent import restrictions.
h) FTZs provide a means to facilitate imports and exports; some forth.

Answers to SAEs 2

Some of these are thus briefly examined below:

i. **Corporate Objectives:** An international firm that seeks to maximize profits regardless of international market penetration goals is more likely to strike towards product standardization. This is because by the nature of such strategy, the firm is likely to generate a better profit performance in the short-run that if differentiation is opted for.

ii. **The Market Usage of the Product**: Standardization is hereby recommended where the consumers' usage of the product is similar in all the markets. However, where it differs, differentiation is considered as a better option.

iii. **Company Resources:** Differentiation involves consideration in production facilities, inventory management and marketing mix ingredients. Because of these financial resources requirements, most weak firms do not go for differentiation strategy, rather prefer standardization strategy option.

iv. **Level of Service Required:** Products with high technical services either before or after the delivery adopt standardization strategy, for example electronics, automobiles and so forth.

v. **Base of Production:** A product that requires intricate manufacturing processes is likely to support differentiation strategy than a product which can be manufactured with ease. Toilet soaps and Aero-plane are two different products with different skills, this thus call for different strategies.

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Unit 8: International Marketing

Unit Structure

8.1 Introduction

8.2 Learning Outcomes (LOs)

8.3 International Marketing

8.3.1 International Marketing

8.3.2 Information Required for International Market

8.3.3 Market

8.3.4 Characteristics of International Market

8.3.6 Reasons for International Marketing

8.3.7 Challenges in International Marketing

8.3.8 Target Market Selection

8.3.9 International Screening

8.3.10 Concentration verse Diversification

8.3.11 Marketing Management

8.3.12 Standardization verse Adaptation

8.3.12 Product Policy

8.3.13 Pricing Policy

8.3.14 Distribution Policy

8.3.15 Promotion Policy

8.4 Summary

8.5 References/Further Reading/Web Resources

8.6 Possible Answers to Self-Assessment Exercises

8.1 INTRODUCTION

Marketing is the process of planning and executing the conception, pricing, promotion, and Distribution of ideas, goods and services to create exchange that satisfy individual believes. That is marketing basically is talking about satisfaction on a daily basis. Companies are striving to satisfy their customers, that is why a lot of them follow their customers abroad. The marketing managers on daily basis work on their task on how to satisfy their customers.

He must work with his internal and external environment. The internal include the product, price, place and promotion. While his external are technology,culture, and economy etc. once you go international, the foreign countries factors equally affects your decision. As such this unit focuses on strategies of marketinginternationally.

8.2 Intended Learning Outcome

At the end of this unit you should be able to:

1. Differentiate between target market selection and marketing management from international scene.
2. Define international marketing.
3. Explain standardization and adaptation and
4. Explain international promotional policies.

8.3 International Marketing

8.3.1 International Marketing

According to the American Marketing Association (AMA) "international marketing is the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives."

International marketing is a broader concept and includes export marketing. Export marketing is concerned with the production of good in one country and marketing them in different countries of the world while international marketing is a boarder concept and includes globalization.

International Marketing is essential for all countries-small & big; developed & developing and rich & poor. This is because no country in the world is self-sufficient as regard all the requirements and no country can live in complete economic and political isolation. Every country has to import something from other country and has to export whatever surplus available. The natural resources are not divided equally among the countries of the world. There is disparity among countries as regards geographical area, population, climate condition, availability of natural resources, economic growth, technology development, production activities and so on. Such disparity leads to inter dependent of countries. It is this situation which serves as base for the conduct of large scale international marketing activities.

8.3.2 Information Required for International Marketing

International business firms require a large variety of data and information, such as markets, customers, market intermediaries like wholesalers and retailers, competitors, foreign exchange, resource information and general conditions.

8.3.3 Markets:

- **Day to day changes in demand**: due to competitors' products, promotional programmes, shift in government policies, changes in consumer incomes, change in technology and the like.
- **Consumer Behaviour:** Shifts in consumer behavior caused due to cultural variations, shifts in social institutions and other factors.
- **Products:** Product features, product uses, development of new products, introduction of new products and changes to the existing products of competitors
- **Marketing channels:** Shifts in the preference over channels in the consumer preferences, shifts in channel preferences and used by competitors, levels of satisfaction of the existing market intermediaries etc.
- **Communication Media Availability:** International marketing managers need to data and information about the availability and intensity of communication media. This information is useful to plan for promotional programmes. They also need information regarding the efficiency of media in reaching targeted consumers and its cost.
- **Market Responsiveness:** Information is needed regarding the responsiveness of different parties in the market regarding the product, price, promotion and channels of the international business firms. Rate of market responsiveness of different parties enable international markets to make decisions more accurately.

8.3.4 Characteristics of International Marketing

Given below are some points that describe the basic characteristics of international marketing:

1. ***Broader market is available:*** A wide platform is available for marketing and advertising products and services. The market is not limited to some precise local

market or for people residing in a particular place, region or country but is free for all. People from different nations sharing different cultures and traditions can actively participate in it.

2. ***Involves at least two set of uncontrollable variables:*** By uncontrollable variables, we mean the geographical factors, political factors prevailing in different countries. At the global level, all the companies have to face uncontrollable variables from different countries. While establishing business globally, a company has to learn to deal with these variables.
3. ***Requires broader competence*** : International market requires more expertise and special management skills and wider competence to deal with various circumstances and handle different situations like changes in the strategies of the government, the mindset of the people and many other such factors.
4. ***Competition is intense:*** Competition is very tough in international market, as the organizations at the global level have to compete with both competitors in their home countries and also in the foreign lands. Competition is high because the clash is between developed & developing countries and both have different standards and are unequal partners.
5. ***Involves high risk and challenges:*** International marketing with its own advantages is also prone to different and tangible risks and challenges. These challenges come in the form of political factors, regional and cultural differences, changing fashion trends, sudden war situation, revision in government rules and regulations and communication barriers

   The nature of international marketing is dependent on various factors and conditions and above all, it is dependent on the policies framed by different countries which are active participants in international marketing. International marketing tends to ensure balanced import and export to all countries big or small, rich or poor, developed or developing.

   Management of international market is tough and requires thorough market research. It is a predefined process which is directed towards designing and delivering products based on the demands from the overseas customers. Proper management also helps the company attain its objectives.
6. ***Large-scale operation:*** Large-scale operations involve relative amount of labor and capital to cater to the needs such as transportation, and warehousing.

7. ***Domination of multinationals and developed countries:*** International marketing is highly dominated by multinational corporations due to their worldwide reach. These organizations apply efficient and effective business practices to all their business operations. They have a stable position and with their global approach find themselves fitting into the arena of international marketing.
8. ***International restrictions:*** The international market needs to abide by different tariff and non-tariff constraints. These constraints are regulated because different countries follow different regulations. All nations tend to rationally abide by tariff barriers. All the imports and exports between the nations participating in international marketing follow some restrictions in foreign exchange.
9. ***Sensitive character:*** International marketing is highly sensitive and flexible. The demand for a product in a market is highly influenced by political and economic factors. These factors can create as well as decrease the demand for a product. In fact, use of advanced technology by a competitor or the launch of a new product by another competitor may affect the sale of a particular firm's product worldwide.
10. ***Importance of Advanced Technology:*** International market is dominated by developed countries like the USA, Japan, and Germany as they use highly advanced technology in production, marketing, advertising and establishing a brand name. They provide admirable quality of products at reasonable prices. Presently, Japanese products have got substantial existence in markets around the world. The Japanese could achieve this only because of automation and effective use of advanced computer technology.
11. ***Need for specialized institutions:*** Marketing at global level is highly prone to risks & is very complex and knotty. It undergoes lengthy and time taking procedures & formalities. Competent expertise is required for handling various sections of international marketing.
12. ***Need for long term planning:*** International marketing calls for long term planning. Marketing practices differ from nation to nation influenced by social, economic & political factors.
13. ***Lengthy & Time Consuming:*** The activities in international marketing are very time-consuming and knotty or complex. The main cause of these difficulties are the local laws and policies enforced on different nations, issues in payment as different countries use different currencies, distance between the participating nations and time taking formalities involved therein.

The current trend of globalization does not limit companies to their national borders and invites them for marketing on a higher platform, i.e., international platform. Every nation is free to trade with any nation. New markets are indicating signs of growth and are marking signs of development in economies like China, Indonesia, India, Korea, Mexico, Chile, Brazil, Argentina, and many other economies all over the world.

8.3.5 Reasons for International Marketing

Most companies would prefer to remain domestic, if their domestic market were large enough. This because, managers would not need to learn another country's language and laws, deal with volatile currencies, face political and legal uncertainties or redesign their products to suit different customers needs and expectations. Besides, business would be easier and faster at home.

However, Kotler (1997) gave several reasons that might draw a company into international marketing. Some of these are:

1. Global firms offering better products or lower prices might attack the company's domestic market. The company might want to counter attack these competitors in their home markets to tie up their resources.
2. The company might discover that some foreign markets present higher profit opportunities than the domestic market
3. The company might need a large customer base to achieve economies of scale.
4. The company might want to reduce its dependence on any one market so as to reduce the risk
5. The company's customers might be going abroad and might require internationalservicing
6. Differences in factor endowment- international trade owe it origin to the varying resources of different regions. Resources are not evenly distributed around the globe, thus some countries are better in some resources than the other.

8.3.6 Challenges in International Marketing

Most companies, if not all, they are compelled to go abroad, however, wish to limit their marketing activities to home markets. Some of the reasons why some of these companies do not want to abroad include:

1. **Unstable Government**: High indebtedness, high inflation, and high unemployment (most especially African countries, Nigeria in particular) in several countries have resulted in high unstable governments that expose foreign firms to high risks. Some companies" have to adopt strategy of sponsoring the government in power during campaign processes, because of their investments in such countries. These activities engaged by these companies, add to the marketing costs which they have to content with.For such reasons, most of the companies do not want to global.

2. **High Foreign Indebtedness:** Many companies and countries have accumulated huge foreign debts on which it is difficult to pay back, even the interest. This indebtedness could be attributed to loans taken, poor leadership, paying employees abroad, paying necessary taxes, etc, as stipulated by the governments abroad.

3. **Foreign Exchange Problem:** High indebtedness and economic-political instability decreases the value of a country's currency. Foreign firms want payments in hard currencies with profit repatriation rights. But these options may not be available in total in markets.

4. **Foreign Government Entry Requirements and Bureaucracy:** Governments of most countries places some regulations on foreign firms operations. These laws and regulations most companies most especially in developing world find it difficult to meet up. Thus,they find it difficult to go abroad.

5. **Tariffs and other Trade Barriers:** Governments often impose high tariffs to protect their domestic markets. They also resort to invisible trade barriers, such as slowing down importand approvals, requiring costly product adjustments and slowing down inspections or clearance of arriving goods mostly especially at the ports.

6. **Corruption:** Officials, who charged with the responsibility of discharging one service or the other, requires bribes before necessary documents are signed. Most often they awards contract/business to highest bidders rather lowest bidders.

7. **Technological Pirating:** A company locating its plant abroad worries about foreign managers learning how tom make its products and breaking away to compete openly either due to some disagreements, change in foreign government and policies, or inability of the firms to meet up with the economic conditions or intentional break-off. All these challenged most companies to go global.

8. **High Cost of Production and Communication Adaptation:** A company going abroad must study each foreign market critically and carefully, this because it must be

sensitive to its economics, laws, politics, and socio-cultural and adapt appropriately its products and communications to such markets.

9. **Shifting Border issues:** Many international boundaries are in a state of flux. National borders are fundamentals to marketing activities, this because they dominate and shape economic behaviour within the country's borders. Changing boundaries may mean moving targets for international marketers.

8.3.7 Target Market Selection

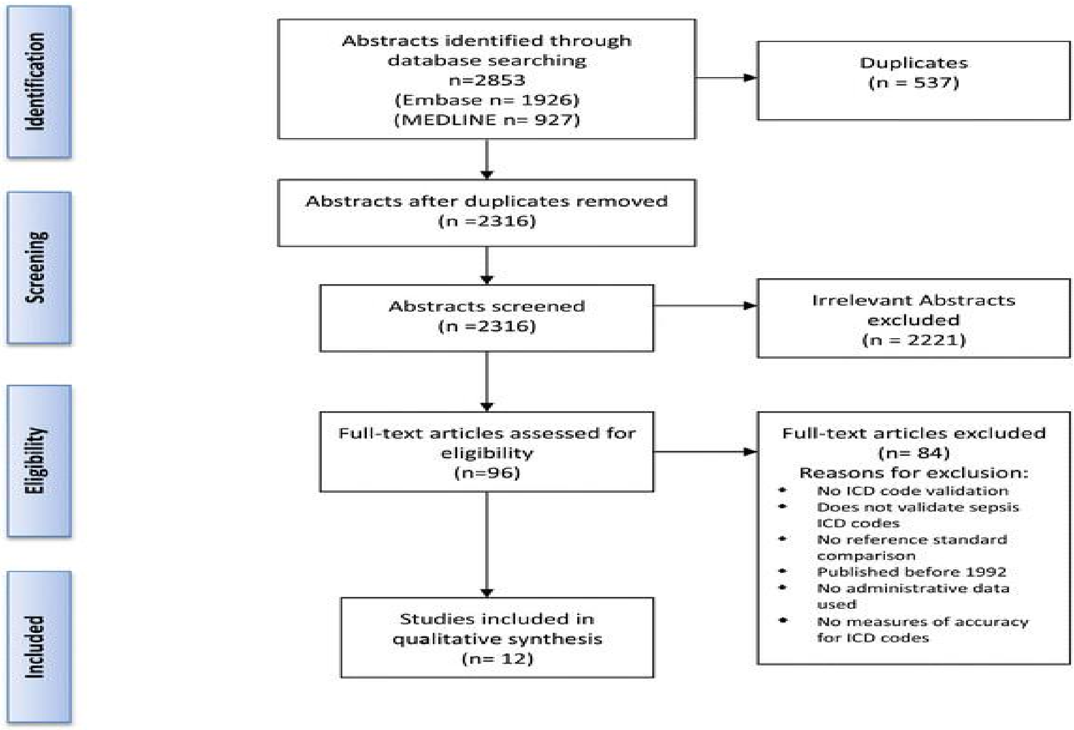
Target market is that segment of the market that a company focuses its attention on so that the consumers will be satisfied. In international business when we discuss about target market selection we are looking at countries for possible target market within which the companies are willing to satisfy. It thus involves:

a. To identify potential markets for entry

b. Expanding selectively over time to those deemed attractive

8.3.8 International Screening

Identification and screening has four stages or process. It starts with very general criteria and ends with product specific market analyses. Data's for screening are gottenfrom secondary and primary data. The diagram below illustrate this.



The four processes of screening countries that will serve as target market include.

1. **Preliminary Screening:** It relies solely on secondary data to know the general country factors either favorable or unfavorable to you and the generic product factor. If both are positive on your side itmeans you have gotten prospective target countries and if unfavorable you reject the countries and look for a more favorable country.
2. **Estimating Market Potential:** Market potential is the sales in physical or monetary units that might be available to all firms in an industry during a given period under a given level of industry, marketing effort and given environmental condition.
3. The feeling of whether it is favorable or unfavorable after using the income, elasticity of demand, market audit, analogy and longitudinal analysis to measure the market you either reject the market and if favorable you proceed to what is call high market potential countries.
4. **Estimate Sales Potential:** After studying the market and believing that they market has prospect, there is need for estimating the sales potential of the target market. You need data to help you look at competition, market, consumer, product and channel structure. If they are favorable you then you can proceed to the next stage, that is the highest sales potential control and if not you can either reject the country or look at other target markets.
5. **Identifying Segment:** There is need to identify the most profitable target relying mostly on primary data, if it is favorable you proceed to optimal segment mix in target market and if not favorable, you may reject segment and look for a more favorable one.

8.3.9 Concentration versus Diversification

Concentration is a small number of market or diversification which is characterized by growth in a relatively large number of markets in the early stages of international market expansion. Expansion alternatives- have two options. Concentrate in a small area i.e. a segment or you go into a broad market if the resources are available.
Expansion alternative depend on the following factors.

a. Market growth rate
b. Sales stability

c. Sales response function
d. Competition lead time
e. Spillover effects
f. Need for product adaption
g. Need for communication adaption
h. Economics of scale in distribution
i. Extents of constraints
j. Program control requirement

Marketing Management

Czinkota etal 2002 believes that after target markets are selected, the next step is the determination of marketing efforts at appropriate levels. A key question in international marketing concerned itself with the extent to which the elements of the marketing mix-product, price, place and distribution should be standardized. The market also faces the specific challenge of adjusting each of the mix elements in the international market place.

8.3.10 Standardization versus Adaptation

Here are some factors to be considered under standardization or adaptation.

1. Make no special provision for international market place but rather identify potential target markets and then choose products that can easily be marketed with little or no modification.
2. Adapt to local condition in each and every target market (multi domestic approach).
3. Incorporate differences into a regional or global strategy that will allow for local difference in implementation (globalization approach).

8.3.11 Factors Affecting Adaption

1. The market(s) targeted

2. The product and its characteristics
3. Company characteristics including factors such as resources and policy.

8.3.12 Product Policy

There are lots of factors that affect product adaptation in an international market; they are broadly divided into three.

1. **Regional, Country or Local Characteristics:** They may include government regulations non-tariff Barriers, customer's characteristics (Expectations and preferences) purchase patterns economic status of potential users, stages of economic development, competitive offerings, climate and geography.
2. **Product Characteristics:** They include, product consistent Brands, packaging, physical form of appearance (e.g. Size, Style, Colour) Function, Attributes, Features, method of operation or usage, durability, Quality, Ease of installation, maintenance, after sales services, country of origin.

8.3.13 Product Line Management

International market product line must be local, regional and global brand. Product Counterfeiting Is a general problem worldwide, producing inferior product to look like original one. The four way of fighting it, is through legislative action, bilateral and multinational negotiations, joint private sector action and measure fallen by individual forms.

8.3.14 Company Consideration

These factors include profitability, market opportunities, (e.g. market potential, product- make fit) cost of Adapting, policies, (e.g. commonality, consistency) organization resources.

8.10.1 Pricing Policy

Price is a critical element in international business. Here are four categories of international pricing situation.

1. **Export pricing:** Are dual pricing that differentiate product that are domestic and international. In dual pricing, cost plus and marginal cost method are mostly used;

while market differentiated pricing is used base on demand oriented strategy. If not carefully use, it can lead to price escalation or dumping.

2. **Foreign Market Pricing:** International product pricing for instance when the manufacturer operation is defined by corporate objectives, costs, customer behavior and market conditions market structure and environmental constraints.
3. **Price Coordination:** Call for price coordination of product in this has increase because of the introduction of Euro. Environmental factor will continue to affect price coordination worldwide, its difficult to coordinate prices worldwide.
4. **Transfer Pricing:** Transfer or intercompany pricing is the pricing of sales to members of corporate family. It means charging almost the same price for all products in the same industry.

8.3.15 Distribution Strategy

This is what connects the manufactures with the buyers; it takes time for a decision to be arrived at. Distribution strategy takes into account the following.

1. **Channel design:** The length and width of the channel employed is affected by so many factors such as product, market, etc.
2. **Selection and Screening of Intermediaries:** You have to look for appropriate channel members.
3. **Managing the Channel Relationship:** Conflict arises among members because it is like a marriage; you continue to manage these members so as to reduce conflict, if such conflictis not settled it could affect the company.

8.3.16 Promotion Policy

An international business man must think of the most appropriate promotional mix for his product. Basically, these include: Advertising, personal selling, sales promotion and public Relations. These are briefly explained below.

1. **Advertising:** Majorly, advertising decision focus its attention on which strategy to use. the promotional messages and the organization of the promotional program that must conform with the market been served
2. **Personal Selling:** Is “one on one” selling in intern ational business. Industrial goods, high priced items, require more of personal selling.
3. **Sales Promotion:** Any method of attracting customer for more purchases apart from advertising, personal selling or publicity is sales promotion. They include, coupons,

sampling, premiums, point of purchase, direct mail is a good example of sales promotion. Any of these could be used for international marketing depending on the product and the environment.

8.3.17 Public Relations

Public Relation (PR) is the marketing communication function, charged with executing programs to earn public understanding and acceptance. Foreign companies need it for more understanding, for instance the oil companies in Niger Delta and Niger Delta crises is a good example that PR could have assisted if well utilized.

Self-Assessment Exercises

1. State two factors that affect product adaptation?
2. Discuss steps taken in choosing an international target market

8.4 Summary

In this unit you studied how marketing and it activities aids international business. Standardization, adaption and diversification were examined as a way of launching products into an international market. The difference between market concentration and market diversification was also looked into.

8.5 References/Further Reading/Web Recourses

Agarwal, G. P., Gubitz, A., & Nunnenkamp, P. (1991). Foreign direct Investment in Developing Countries: The case of Germany. Tbingen, Germany: J.C.B. Mohr.

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Dunning, J. H., & Lundan, S. M. (2008). Multinational Enterprises and The Global Economy. Cheltenham:

8.6 Possible Answers to SAEs

Answer to SAE 1

1. **Regional, Country or Local Characteristics:** They may include government regulations non-tariff Barriers, customer's characteristics (Expectations and preferences) purchase patterns economic status of potential users, stages of economic development, competitive offerings, climate and geography.
2. **Product Characteristics:** They include, product consistent Brands, packaging, physical form of appearance (e.g. Size, Style, Colour) Function, Attributes, Features, method of operation or usage, durability, Quality, Ease of installation, maintenance, after sales services, country of origin.

Answer to SAE 2

Steps taken in choosing an international target market:

1. **Preliminary Screening:** It relies solely on secondary data to know the general country factors either favorable or unfavorable to you and the generic product factor. If both are positive on your side it means you have gotten prospective target countries and if unfavorable you reject the countries and look for a more favorable country.
2. **Estimating Market Potential:** Market potential is the sales in physical or monetary units that might be available to all firms in an industry during a given period under a given level of industry, marketing effort and given environmental condition.
3. The feeling of whether it is favorable or unfavorable after using the income, elasticity of demand, market audit, analogy and longitudinal analysis to measure the market you either reject the market and if favorable you proceed to what is call high market potential countries.
4. **Estimate Sales Potential:** After studying the market and believing that they market has prospect, there is need for estimating the sales potential of the target market. You need data to help you look at competition, market, consumer, product and channel structure. If they are favorable you then you can proceed to the next stage, that is the highest sales potential control and if not you can either reject the country or look at other target markets.
5. **Identifying Segment:** There is need to identify the most profitable target relying mostly on primary data, if it is favorable you proceed to optimal segment mix in target market and if not favorable, you may reject segment and look for a more favorable one.

UNIT 9: Distribution Strategy

Unit Structure

9.1 Introduction

9.2 Learning Outcomes (LOs)

9.3 Distribution Strategy

9.3.2 Channel of Distribution

9.3.3 Forms of channel of distribution

9.3.4 Types of Intermediaries

9.3.5 Direct Channel

9.3.6 Indirect Channel

9.3.6 Channel Adaptation

9.3.7 Determinants of channel Types

9.3.8 Channel Management Decision

9.4 Summary

9.5 References/Further Reading/Web Resources

9.6 Possible Answers to Self-Assessment Exercises

9.1 INTRODUCTION

A manufacturer can sell directly to end users abroad, but this type of channel is generally not suitable or desirable for most consumer goods. In foreign markets it is far more common for a product to go through several parties before reaching the final consumer. The purpose of this unit is to discuss the various channels of distribution that are responsible for moving products from manufacturers to consumers. The unit also describes the varieties of intermediaries involved in moving products between countriesas well as within countries. It should be noted that certain types of intermediaries do not exist in some countries and that the pattern of use as well as the importance of each typeof intermediary varies widely from country to country. A manufacturer is expected to make several decisions that will affect its channel strategy, including the length, width, and number of distribution channels to be used.

9.2 Intended learning outcome

After thorough studying of this unit, you should be able to:

1. Define a channel of distribution for goods or services
2. Explain channel members involved in moving goods from manufacturers to the consumers, and
3. Explain the determinants of channel types

9.3 Distribution Strategy

9.3.1 Channel of Distribution

A channel of distribution for a product is the route taken by the title to the product as it moves from the producer to the ultimate consumer or industrial user. It can also be describe as a set of institutions which performs all the activities or functions utilized to move a product and its title from production to consumption. A channel always includes both the producer and the final customer for the product, as well as all middlemen involved in the title transfer. Even though, agent middlemen do not take actual title to the goods, they are included as part of the distribution channel. This because, they play such an active role in the transfer of ownership. A trade channel does not include facilitating agencies in marketing. This is because they only assist in the performance of distribution but neither takes title to goods nor negotiates purchasesor sales.

9.3.2 Forms of Channel of Distribution

Companies use two principal channels of distribution when marketing abroad. These are indirect selling and direct selling.

Indirect selling, also known as the local or domestic channel, is employed when a manufacturer in Nigeria, for example, markets its product through another Nigeria's firm that acts as the manufacturer's sales intermediary. By exporting through an independent local middleman, the manufacturer has no need to set up an international department. The middlemen's, acting as the manufacturer's external export organization, usually assumes the responsibility for moving the product overseas. The intermediary may be a domestic agent if it does not take title to the goods, or it may be a domestic merchant if it does take title to the goods.

Some of the advantages to be gained by employing an indirect domestic channel include:

1. The channel is simple and inexpensive- the manufacturer incurs no start-up cost for the channel and is relieved of the responsibility of physically moving the goods overseas.
2. The intermediary very likely represents several clients who can help share distribution costs, the costs for moving the goods are further reduced.

An indirect channel does have some limitations, which include:

1. The manufacturer has been relieved of any immediate marketing costs, but in effect, has given up control over the marketing of its products to another firm. This situation may adversely affect the product's success in the future.
2. The indirect channel may not necessarily be permanent. Being in the business ofhandling products for profit, the intermediary can easily discontinue handling a manufacturer's product if there is no profit or if a competitive product offers a better profit potential.

Direct selling is employed when a manufacturer develops an overseas channel. This channel requires that the manufacturer deal directly with a foreign party without going through an intermediary in the home country. The manufacturer must set up the overseas channel to take care of the business activities between the countries. Being responsible for shipping the product to foreign markets itself, the manufacturer exports through its own internal export department or organization. Some of its advantages are:

1. There is active market exploitation
2. There is a greater control

However, it suffers from difficulty in management of the channel, especially if the manufacturer is unfamiliar with the foreign market. Also, the channel is time consuming and expensive.

9.3.3 Types of Intermediaries

9.3.4 Direct Channel

There are several types of intermediaries associated with direct channel of distribution. Some of these include:

1. **Foreign Distributor:** A foreign distributor is a foreign firm that has exclusive rights to carry out distribution for a manufacturer in a foreign country or specific area. Orders must be channeled through the distributor, even when the distributor chooses to appoint a subagent or sub distributor. The distributor purchases merchandise from the manufacturer at a discount and then resells or redistributes the merchandise to retailers and sometimes final consumers. Hence, the distributor's function in many countries may be a combination of wholesaler and retailer. But in most cases, the distributor is usually considered as an importer or foreign wholesaler. In some situations, the foreign distributor is merely a subsidiary of the manufacturer.
2. **Foreign Retailer:** Foreign retailers are employed for consumers" products rather industrial products.
3. **State-Controlled Trading Company:** Some products are sold to state-controlled trading company, before they are further resell to individuals and institutions. These entail heavy equipment and machineries.
4. **End user:** Sometimes, a manufacturer is able to sell directly to foreign end user with no intermediary involved in the process. The direct channel is a logical and natural choice for costly industrial products. However, it is challenging, for example, a consumer may place an order without understanding his or her country's import regulations. When the merchandize arrives, the consumer may not be able to claim it. As a result, the product may be seized or returned on a freight-collect basis. Continued occurrence of this problem could become expensive for the manufacturer.

9.3.5 Indirect Channel

For a majority of products, a manufacturer may find it impractical to sell directly to the various foreign parities. Other intermediaries more often than not, have to come between these foreign buyers and manufacturer's country. Wi th an indirect channel, a manufacturer does not have to correspond with foreign parties in foreign countries. Agents can be further classified according to the principal whom they represent.

1. **Export Broker:** The function of an export broker is to bring a buyer and a seller together for a fee. The broker may be assigned some or all foreign markets in seeking potential buyers. It negotiates the best terms for the seller, but cannot conclude the transaction without the principal's approval of the agreement. As a representative of the manufacturer, the export broker may operate under its own name or that of the manufacturer.
2. **Manufacturer's Export Agent or Sale Representative:** This is an independent business person who usually retains his or her own identity by not using the manufacturer's name. A sales representative can select when, where and how to work within the assigned territory. Working methods include presenting product literature and samples to potential buyers. The manufacturer's export agent works for commission. The manufacturer's export agent may present some problems to the manufacturer becausean agent does not offer all services. An export agent may take possession but not title tothe goods and thus assumes no risk- the risk of loss remains with the manufacturer.
3. **Export Management Company (EMC):** An export management company (EMC) manages, under contract, the entire export program of a manufacturer. An EMC is also known as a combination export manager (CEM) because it may function as an export department for several allied but non- competing manufacturers. The EMC has greater freedom and consideration authority. The EMC provides extensive services, ranging from promotion to shipping arrangement and documentation. The EMC is responsible for all of the manufacturer's international activities.
4. **Cooperative Exporter:** A cooperative exporter is a manufacturer with its own export organization that is retained by other manufacturers to sell in some or all foreign markets. Except for the fact that this intermediary is also a manufacturer, the cooperative exporter functions like any other export agents. It operates as an export distributor for other suppliers.

Tit takes possession of goods but not title.

a) Others forms of agents include:

1. Purchasing/Buying Agent
2. Country-Controlled Buying agent
3. Resident buyer
4. Export merchant
5. Export drop shipper
6. Export distributor
7. Trading company; etc.

9.3.6 Channel Adaptation

Because the standardization/globalized approach to international marketing strategy may not apply to distribution strategy in foreign markets, it is imperative that international marketers understand the distribution structures and patterns in those markets/countries. Hence, comparative analysis should be conducted.

Some channel adaptation is frequently a necessity. For example, Avon has had to develop other distribution methods in Japan and Thailand. A traditional distribution channel may seem inefficient, inefficient, but it may maximize the utilization of inexpensive labour, leaving no idle resources. A manufacturer must keep in mind that, because of adaptation, a particular type of retailer may not operate in exactly the same manner in all countries. A particular distribution concept proven useful in one country may have to be further refined in another.

9.3.7 Determinants of Channel Types

There is no single across-the-board solution for all manufacturers" channel decisions. However, there are certain guidelines that can assist a manufacturer in making a good decision. Factors that must be taking into consideration include:

1. **Objectives of the firm:** The objectives of the firm are the corner-stone that determines the kind of channel to be used in any given market. This is because it is the objective that will determine whether the channel to be selected should be long or short.
2. **Legal Considerations:** A country may have specific laws that rule out the use of particular channels or middlemen. France, for example, prohibits the use of door-to-

door selling. Although private importers in Iraq may choose to deal through commission agents, Iraqi legislation prohibits state enterprises from dealing with third-party intermediaries in obtaining foreignsupplies.

3. **Managerial Resources:** The management of distribution channels depends on to a great extent on the experiences that vest in the firm's mangers. A firm that is entering an international market for the first time, mighty lacks the expertise that is required to be able to choose and control short channels or the firm's own local subsidiary. Such firms would prefer to give the job to middlemen. Sometime, even well-established firms often seek the assistance of middlemen in cases of involving new products or new/segments that calls for the acquisition of a new type of experience.
4. **Product Image:** The product mage desired by a manufacturer can dictate the manner in which the product is distributed. A product with a low-price image requires intensive distribution. On the other hand, it is not necessary or even desirable for a prestigious product to have wide distribution. For example, Waterford Glass has always carefully nurtured its posh image by limiting its distribution to top-flight department and specialty stores. Although intensive distribution may increase sale in the short run, it is potential harmful to the product's image in the long run.
5. **Channel Availability:** This is of course a major consideration as one will not expect to selects a specific type of channel in a given country if:
   a. Such a channel does not exist
   b. It belongs to a competitor
   c. It does not wish to distribute your product.
6. **Product Characteristics:** The type of product determines how that product should be distributed. For low priced, high-turnover convenience products, the requirement are for an intensive distribution network. The intensive distribution of ice cream is an example. For high-unit-value, low-turnover specialty goods, a manufacturer can shorten and narrow its distribution channel. Consumers are likely to do some comparison shopping and will more or less actively seek information about all brands under consideration. In such cases, limited product exposure is not an impediment to market success. One should always remember that products are dynamic, and the specialty goods of today may be nothing moiré than the shopping or even convenience goods of tomorrow. For example,. Computers which were once an expensive specialty product that required a direct and exclusive channel, today they

have become shopping goods, necessitating a long and more intensive channel.

7. **Middlemen's Loyalty and Conflict:** One ingredient for an effective channel is satisfied channel members. As the channel widens and as the number of channels increases, more direct competition among channels members is evitable.
8. **Local Customs:** Local business practices, whether outmoded or not, can interfere with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than desired. For example, Because of Japan‟s mutlitiered distribution system, which relies on numerous layers of middlemen, companies often find it necessary to form a joint venture with Japanese firms. Domestic customs can explain why a particular channel is in existence. Yet customs may change or may b overcome\me, especially if consumer tastes change. For example Onkvisit and Shaw (1997: 486) reported that there are some 82, 000 British pubs, 50,000 of which are owned by brewing companies; the problem they face was the trend toward beer consumption at home. The pubs have had to adjust by emulating trendy American bars, selling more win and such food as hamburgers.
9. **Control:** If it has a choice, a manufacturer that wants to have better control over its product distribution may want to both shorten and narrow its distribution channel. However, control to be administered depends on the nature of the products and laws of such countries, the products being marketed to. In conclusion, there other factors that affect channel decisions. However, most of these factors are inter-related.

9.3.8 Channel Management Decision

Whether then intermediaries are the employees of the firm's subsidiary or whether they are totally independent, there is a mutuality of interest between the supplying company and its channels' personnel and it is important that the best principles of management employed. After a company has determined its basic channel deign, individual middlemen have to be managed in such a way as to:

1. Create distributor loyalty
2. Ensure that distributors are adequately remunerated
3. Train and develop distributors
4. Determine standards of performance, and

5. Evaluate performance against standard.

Self-Assessment Exercises

1. State determinants of channel types
2. State types of intermediaries in distribution strategy

9.4 Summary

This unit examined various channel members involved in moving goods/services to the end users. These channels are classified into six. The channel chosen by marketing executives depends of the nature of the products and the expertise of the channel members. It also considered factors to be look into before selecting a channel.

9.5 References/Further Reading/Intended Learning Outcome

Agarwal, G. P., Gubitz, A., & Nunnenkamp, P. (1991). Foreign direct Investment in Developing Countries: The case of Germany. Tbingen, Germany: J.C.B. Mohr.

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Dunning, J. H., & Lundan, S. M. (2008). Multinational Enterprises and The Global Economy. Cheltenham:

9.6 Possible Answers to SAEs

Answer to SAE 2

determinants of channel types are;

1. **Objectives of the firm:** The objectives of the firm are the corner-stone that determines the kind of channel to be used in any given market. This is because it is the objective that will determine whether the channel to be selected should be long or short.
2. **Legal Considerations:** A country may have specific laws that rule out the use of particular channels or middlemen. France, for example, prohibits the use of door-to-door selling. Although private importers in Iraq may choose to deal through commission agents, Iraqi legislation prohibits state enterprises from dealing with third-party intermediaries in obtaining foreignsupplies.
3. **Managerial Resources:** The management of distribution channels depends on to a great extent on the experiences that vest in the firm's mangers. A firm that is entering an international market for the first time, mighty lacks the expertise that is required to be able to choose and control short channels or the firm's own local subsidiary. Such firms would prefer to give the job to middlemen. Sometime, even well-established firms often seek the assistance of middlemen in cases of involving new products or new/segments that calls for the acquisition of a new type of experience.
4. **Product Image:** The product mage desired by a manufacturer can dictate the manner in which the product is distributed. A product with a low-price image requires intensive distribution. On the other hand, it is not necessary or even desirable for a prestigious product to have wide distribution.
5. **Channel Availability:** This is of course a major consideration as one will not expect to selects a specific type of channel in a given country if:
    a. Such a channel does not exist
    b. It belongs to a competitor
    c. It does not wish to distribute your product.
6. **Product Characteristics:** The type of product determines how that product should be distributed. For low priced, high-turnover convenience products, the requirement are for an intensive distribution network. The intensive distribution of ice cream is an example. For high-unit-value, low-turnover specialty goods, a manufacturer can shorten andnarrow its distribution channel.
7. **Middlemen's Loyalty and Conflict:** One ingredient for an effective channel is satisfied channel members. As the channel widens and as the number of channels increases, more direct competition among channels members is evitable.
8. **Local Customs:** Local business practices, whether outmoded or not, can interfere with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than desired.
9. **Control:** If it has a choice, a manufacturer that wants to have better control over its product distribution may want to both shorten and narrow its distribution channel. However, control to be administered depends on the nature of the products and laws

of such countries, the products being marketed to. In conclusion, there other factors that affect channel decisions. However, most of these factors are inter-related.

Answer to SAE 2

Types of intermediaries in distribution strategy are:

i. **Foreign Distributor:** A foreign distributor is a foreign firm that has exclusive rights to carry out distributionfor a manufacturer in a foreign country or specific area. Orders must be channeled through the distributor, even when the distributor chooses to appoint a subagent or sub distributor. The distributor purchases merchandise from the manufacturer at a discount and then resells or redistributes the merchandise to retailers and sometimes final consumers.

ii. **Foreign Retailer:** Foreign retailers are employed for consumers" products rather industrial products.

iii. **State-Controlled Trading Company:** Some products are sold to state-controlled trading company, before they are further resellto individuals and institutions. These entail heavy equipment and machineries.

iv. **End user:** Sometimes, a manufacturer is able to sell directly to foreign end user with no intermediary involved in the process. The direct channel is a logical and natural choice for costly industrial products. However, it is challenging, for example, a consumer may place an order without understanding his or her country's import regulations. When the merchandize arrives, the consumer may not be able to claim it. As a result, the product may be seized or returned on a freight-collect basis. Continued occurrence of this problem could become expensive for the manufacturer.

UNIT TEN 10: Export and Import Practice

Unit Structure

10.1 Introduction

10.2 Learning Outcomes (LOs)

10.3 Export and Import Practice

10.3.1 Export and Import

10.3.2 Advantages of Exporting

10.3.3 Why Exports

10.3.4 Reasons Why Firms Don't Export

10.3.5 Sources of Export Counselling

10.3.6 Documents Related to Payment

10.3.7 Payment and Financial Procedures

10.3.8 Export Procedures

10.3.9 Pitfalls and Mistakes of New Exporters

10.4 Summary

10.5 References/Further Reading/Web Resource

10.6 Possible Answers to Self-Assessment Exercises

10.1 Introduction

Exporting and import is an important aspect of modern business.Exporting is one of the ways of taking your goods abroad while importing is a way foreign businessmen send their goods to your own country. This unit discusses reasons for exporting and importing. It also examines situation what export and import entails. It also explains process and documents involve in export and import of goods.

10.2 Intended Learning Outcome

By the end of the unit students should be able to:

1. Define Export and Import.

2. Describe people who are involved in export
3. Give reasons for export
4. Mention procedure for import and export
5. List documents involved in exporting and importing of goods/ and services

10.3 Export and Import Practice

10.3.1 Export and Import

Exporting refers to sending of goods and services from the home country to a foreign country. In a similar vein, importing is purchase of foreign products and bringing them into one's home country. There are two important ways in which a firm can export or import products: direct and indirect exporting/importing.

In the case of direct exporting/importing, a firm itself approaches the overseas buyers/suppliers and looks after all the formalities related to exporting/ importing activities including those related to shipment and financing of goods and services.

Indirect exporting/ importing, on the other hand, is one where the firm's participation in the export/import operations is minimum, and most of the tasks relating to export/import of the goods are carried out by some middle men such as export houses or buying offices of overseas customers located in the home country or wholesale importers in the case of import operations. Such firms do not directly deal with overseas customers in the case of exports and suppliers in the case of imports.

10.3.2 Advantages of Exporting include:

1. As compared to other modes of entry, exporting/importing is the easiest way of gaining entry into international markets. It is less complex an activity than setting up and managing joint-ventures or wholly owned subsidiaries abroad.
2. Export ing/ import ing is less involving in the sense that business firms are not required to invest that much time and money as is needed when they desire to enter into joint ventures or set up manufacturing plants and facilities in host countries.
3. Since exporting/importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower than that is present when

firms opt for other modes of entry into international business.

10.3.3 Why Exports

Companies export for the following reasons

1. To increase profit and sales
2. Protect their business from being eroded

By exporting, companies are likely to achieve these:

1. To serve markets where the firm has no production facilities or the local plant does not produce the firm complete product mix
2. To satisfy a host of government requirement.
3. To test foreign market and foreign competition inexpensively.
4. To remain competitive in the home market
5. To meet actual or prospective customer request for the firm to export
6. To off set cyclical sales of the domestic market.
7. To achieve additional sales, which allow the firm to use its excess production capacity to cover unit fixed costs
8. To extend a products life cycle by exporting to counties where technology is less advanced
9. To distract foreign competitions that is in the firm home market by entering their home markets and
10. To improve equipment utilization rates.

10.3.4 Reasons Why Firms Don't Export

Some companies do not wish to export. Some of the reasons why they do not exportinclude:

1. Preoccupation with the home market
2. Reluctance to be involve in a new and unknown operation.

Some known exporting firms in US gives the following reasons for not engaging in international business

a. **Payment and financing markets:** The payments and finance involves in foreignmarket is considered to be huge, and not easily recouped

b. **Locating foreign markets:** Locating foreign markets involves a lot of researchwhich is capital intensive.
c. **Export procedures:** Export procedure vary from country to country and this need tobe critically studied before embarking on foreign market business

10.3.5 Sources of Export Counselling

Information about foreign market which an international businessman wishes to go into can be obtained through:

a. Trade information center
b. Department of Agriculture
c. Small business Administration

In Nigeria, they are so many agencies where you can get your export counseling from, some of these include:

i. Central bank
ii. Ministry of foreign affairs
iii. Nigeria investment promotion council
iv. Nigerian export processing zone Authority
v. Customs and excise and a host of others.

10.3.6 Documents related to Payment

1. **Letter of credit:** A letter of credit is a guarantee issued by the importer's bank that it will honour up to a certain amount the payment of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions

2. **Bill of exchange:** It is a written instrument whereby the person issuing the instrument directs the other party to pay a specified amount to a certain person or the bearer of the instrument. In the context of an export-import transaction, bill of exchange is drawn by exporter on the importer asking the latter to pay a certain amount to a

certain person or the bearer of the bill of exchange. The documents giving title to the export consignment are passed on to the importer only when the importer accepts the order contained in the bill of exchange.

3. **Bank certificate of payment:** Bank certificate of payment is a certificate that the necessary documents (including bill of exchange) relating to the particular export consignment has been negotiated (i.e., presented to the importer for payment) and the payment has been received in accordance with the exchange control regulations.

10.3.7 Payment and Financial Procedures

Different countries have different payment and financing procedure, this involves the documents used in export procedures. This procedure is follows strictly before any businessman is allowed to export to any country.

Foreign Freight Forwarders: These are special independent business that handles export shipments for compensation. They are experts in this field they offered advises in terms of markets, import and export regulations, and the best mode of transport, export packing and cargo insurance.

Export Financing: Export financing are both private and public. The private sources include:

- **Bankers Acceptance**: A time draft with maturity of less than 270 days that has been accepted by the bank in which the draft was drawn, thus becoming the accepting banks obligation. May be document may be bought and sold at a discount in the financial market like other commercial paper.
- **Factoring:** Discounting without recourse to an account receivable
- **Forfeiting:** Purchasing without recourse to account receivable, whose credit terms are longer than the 90 to 180 days usual in factoring; unlike factoring, political and transferrisk are borne by the Forfeiter.

Export-Import Bank: It is a bank own by federal government that aids its citizen who are ready for exports by means of loans, guarantees by insurance programmes.

They grant: Direct and intermediary loans

- Working capital guarantees

- Guarantees
- Export credit insurance
- Public Source

In America the have:

i. Overseas private investment corporation

ii. Foreign sales corporation

iii. Foreign trade zone

10.3.8 Export Procedure

The number of steps and the sequence in which these are taken vary from one export transaction to another. Steps involved in a typical export transaction are as follows.

(i) **Receipt of enquiry and sending quotations:** The prospective buyer of a product sends an enquiry to different exporters requesting them to send information regarding price, quality and terms and conditions for export of goods. Exporters can be informed of such an enquiry even by way of advertisement in the press put in by the importer. The exporter sends a reply to the enquiry in the form of a quotation—referred to as proforma invoice. The proforma invoice contains information about the price at which the exporter is ready to sell the goods and also provides information about the quality, grade, size, weight, mode of delivery, type of packing and payment terms.

(ii) **Receipt of order or indent:** In case the prospective buyer (i.e., importing firm) finds the export price and other terms and conditions acceptable, it places an order for the goods to be despatched. This order, also known as indent, contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

(iii) **Assessing the importer's creditworthiness and securing a guarantee for payments:** After receipt of the indent, the exporter makes necessary enquiry about the creditworthiness of the importer. The purpose underlying the enquiry is to assess the risks of non payment by the importer once the goods reach the import destination. To minimise such risks, most exporters demand a letter of credit from the importer. A letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions.

(iv) **Obtaining export licence:** Having become assured about payments, the exporting firm initiates the steps relating to compliance of export regulations. Export of goods in India is subject to custom laws which demand that the export firm must have an export licence before it proceeds with exports.

(v) **Obtaining pre-shipment finance**: Once a confirmed order and also a letter of credit have been received, the exporter approaches his banker for obtaining pre-shipment finance to undertake export production. Preshipment finance is the finance that the exporter needs for procuring raw materials and other components, processing and packing of goods and transportation of goods to the port of shipment.

(vi) **Production or procurement of goods:** Having obtained the preshipment finance from the bank, the exporter proceeds to get the goods ready as per the specifications of the importer. Either the firm itself goes in for producing the goods or else it buys from the market.

(vii) **Pre-shipment inspection:** The Government of India has initiated many steps to ensure that only good quality products are exported from the country. One such step is compulsory inspection of certain products by a competent agency as designated by the government.

(viii) **Excise clearance:** As per the Central Excise Tariff Act, excise duty is payable on the materials used in manufacturing goods. The exporter, therefore, has to apply to the concerned Excise Commissioner in the region with an invoice. If the Excise Commissioner is satisfied, he may issue the excise clearance. But in many cases the government exempts payment of excise duty or later on refunds it if the goods so manufactured are meant for exports.

10.3.9 Pitfalls and Mistakes of New Exporter

These. include among others:

1. Failures to obtain qualified export counseling and develop a master internationalmarketing plan before starting an exporting business
2. Insufficient commitment by top management to overcome the initial difficultiesand financial requirement of exporting.

3. Insufficient care in selecting overseas distributors.
4. Chasing orders from around the world instead of establishing a basis for profitableoperations and orderly growth.
5. .Neglecting export business when income market booms.
6. Failure to treat international distributors on an equal basis with domestic counterparts.
7. Assuming that a given market technique and product will automatically besuccessful in all countries.
8. Unwillingness to modify products to meet the regulations or cultural references ofother countries.
9. Failure to print service sale and warranty messages in locally understoodlanguages.
10. Failure to consider the use of an export management company.
11. Failure to consider licensing or joint venture agreements
12. Failure to provide readily available servicing for the product

Self-Assessment Exercises

1. Outline different sources of export counselling
2. Discuss the following terms relating to export financing (a) Bankers 'acceptance" (b) factoring (c) Forfeiting

10.4 Summary

This unit examined export and import practices as it applies to international business. Emphases were on America practice as a case study.

10.5 References/Further Reading/Web Resources

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10.6 Possible Answers to SAEs

Answer to SAE 1

i. Central bank
ii. Ministry of foreign affairs
iii. Nigeria investment promotion council
iv. Nigerian export processing zone Authority
v. Customs and excise and a host of others

Answer to SAE 2

i. **Bankers Acceptance**: A time draft with maturity of less than 270 days that has been accepted by the bank in which the draft was drawn, thus becoming the accepting banks obligation. May be document may be bought and sold at a discount in the financial market like other commercial paper.
ii. **Factoring:** Discounting without recourse to an account receivable
iii. **Forfeiting:** Purchasing without recourse to account receivable, whose credit terms are longer than the 90 to 180 days usual in factoring

Unit 11: Multinational Corporations (MNCs)

Unit Structure

11.1 Introduction

11.2 Learning Outcomes (LOs)

11.3 Multinational Corporations

1.3.1 Multinational Corporation

11.3.2 Argument For Multinational Corporations

11.3.3 Argument Against Multinational Corporations

11.3.3 Patterns of Multinational Operations

11.4 Summary

11.5 References/Further Readings/Web Resources

11.6 Possible Answers to Self-Assessment Exercises

11.1 Introduction

Firms going global are inevitable in modern business. This is because there are both challenges and threats which they have to content with. Some products are produced not for the consumption of local markets but for international markets. International market calls for critical studying of consumer's preference, purchasing power and socio-cultural factors. Multinational corporations (MNCs) are major actors in the world business. Modern communication and transportation systems have made international business much easier than before. For instance, globalization and internet facilities have aided the process of multinational corporations. This unit looked into various definitions of multinational corporations, argument against MNCs and forms of multinational corporations.

11.2 Intending Learning Outcome

By the end of the unit, students should be able to:

1. Define a multinational corporation
2. List the criticism for and against multinational corporation and
3. Classify forms of multinational corporations

11.3 Multinational Corporations

11.3.1 Multinational Corporation (MNC)

Multinational Corporation (MNC) is an enterprise operating in several countries but managed from one (home) country. Generally, any company or group that derives a quarter of its revenue from operations outside of its home country is considered a multinational corporation. There are four categories of Multinational corporations:

1. A multinational, decentralized corporation with strong home country presence
2. A global, centralized corporation that acquires cost advantage through centralized production wherever cheaper resources are available
3. An international company that builds on the parent corporation's technology or R&D
4. A transnational enterprise that combines the previous three approaches. According to UN data, some 35,000 companies have direct investment in foreign countries, and the largest 100 of them control about 40 percent of world trade.

11.3.2 Arguments for Multinational Corporations (MNCs)

The existence of multinational corporations creates a further development on the globe. More and more of them have been trying to be responsible members of the society. For example, Onkvisit and Shaw (1991) reported that Toyota Company has been supporting American community projects. Also, multinational corporations have power and prestige; hence they create social benefits by facilitating economic balance.

11.3.3 Argument Against Multinational Corporations (MNCs)

The mentioning of MNCs usually elicits mixed reactions. MNCs are considered as firms associated with exploitation and ruthlessness. They are often criticized for moving resources in and out of a country as they strive for profit without much regard for the country"s social welfare. For example, Varity Corp, a Canadian Multinational firm was criticized for its action in 1991 to relocate its headquarters from Toronto to the United States (Buffalo) in order to take advantage of the US Canadian Free Trade Agreement. In addition, Indians referred to MNCs as “agent of neo colonialism”. They considered MNCssuch as Pepsi Cola, Coca Cola, and host of others as “foreign devils”.

11.3.4 Patterns of Multinational Corporations (MNCs)

Multinational market group take several forms, varying significantly in the degree of cooperation, dependence and inter-relationship among participating nations. There are five fundamental groupings which are briefly explained below:

1. **Regional Corporation Groups:** The most basic economic integration and cooperation is the regional cooperation for development. In the regional cooperation for development arrangement, governments agree to participate jointly to develop basic industries beneficial to each economy. Each country makes an advance commitment to participate in the financing of a new joint venture and to purchase a specified share of the output of the venture. Most capital intensive projects in Nigeria are carried out through this form of cooperation between the federal republic of Nigeria and necessary country concerned.
2. **Free Trade Areas:** A free trade area (FRA) requires more cooperation and integrations than the regional cooperation groups. It is an arrangement among two or more countries to reduce or eliminate custom duties and non-tariff trade barriers among partner countries, while members maintain individual tariff schedule for external countries. That is, an FTA provides its members with a mass market without barriers that impede the flow of goods and services. For example, the United States has free trade agreements with Canada and Mexico and separately with Israel.
3. **Customs Union:** A customs union represents the next stage in economic cooperation. It enjoys the free- trade area‟s reduced or eliminated internal tariffs and adds a common external tariff on products imported from countries outside the union. The customs union is logical stage of cooperation in the transition from an FTA to a common market. Examples are European Union and Economic Community of West African States (ECOWAS), and host of others.
4. **Common Market:** A common market agreement eliminates all tariffs and other restrictions on internal trade, adopts a set of common external tariffs and removes all restriction on the free flow of capital and labour among member nations. It is a unified economy and lacks only political unity to become a political union.
5. **Political Union:** Political union is the most fully integrated form of regional cooperation. It involves complete political and economic integration, either voluntary or enforced. The most notable (enforced) political unions was the Council for Mutual Economic Assistance, Commonwealths of Learning, Economic Community of West

Africa States (ECOWAS).

11.4 Summary

This unit examined Multinational Corporation (MNCs) as an arm of international business activities. Various definitions of multinational corporations were discussed; argument for and against were explained, and forms of multinational corporation were looked into.

Answer

MNCs are considered as firms associated with exploitation and ruthlessness. They are often criticized for moving resources in and out of a country as they strive for profit without much regard for the country's social welfare. For example, Varity Corp, a Canadian Multinational firm was criticized for its action in 1991 to relocate its headquarters from Toronto to the United States (Buffalo) in order to take advantage of the US Canadian Free Trade Agreement. In addition, Indians referred to MNCs as "agent of neocolonialism". They considered MNCs such as Pe psi Cola, Coca Cola, and host ofothers as "foreign devils".

Self-Assessment Exercises

1. Outline types of multinational corporation (MNC)
2. Discuss patterns of multinational corporations (MNC)

11.5 References/Further Reading/Web Resources

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11.6 Possible Answers to SAEs

Answers to SAEs 1

i. A multinational, decentralized corporation with strong home country presence
ii. A global, centralized corporation that acquires cost advantage through centralized production wherever cheaper resources are available
iii. An international company that builds on the parent corporation's technology or R&D
iv. A transnational enterprise that combines the previous three approaches. According to UN data, some 35,000 companies have direct investment in foreign countries, and the largest 100 of them control about 40 percent of world trade.

Answers to SAEs 2

i. **Regional Corporation Groups:** The most basic economic integration and cooperation is the regional cooperation for development. In the regional cooperation for development arrangement, governments agree to participate jointly to develop basic industries beneficial to each economy.

ii. **Free Trade Areas:** A free trade area (FRA) requires more cooperation and integrations than the regional cooperation groups. It is an arrangement among two or more countries to reduce or eliminate custom duties and non-tariff trade barriers among partner countries, while members maintain individual tariff schedule for external countries.

iii. **Customs Union:** A customs union represents the next stage in economic cooperation. It enjoys the free- trade area's reduced or eliminated internal tariffs and adds a common external tariff on products imported from countries outside the union.

iv. **Common Market:** A common market agreement eliminates all tariffs and other restrictions on internal trade, adopts a set of common external tariffs and removes all restriction on the free flow of capital and labour among member nations. It is a unified economy and lacks only political unity to become a political union.

v. **Political Union:** Political union is the most fully integrated form of regional cooperation. It involves complete political and economic integration, either voluntary or enforced. The most notable (enforced) political unions was the Council for Mutual Economic Assistance, Commonwealths of Learning, Economic Community of West Africa States (ECOWAS).

UNIT 12: Ethical Issues in International Business

Unit Structure

12.1 Introduction

12.2 Learning Outcomes (LOs)

12.3 Ethical Issues in International Business

- 12.3.1 Ethical Issues in International Business
- 12.3.2 Theories of Business Ethics
- 12.3.3 Stakeholder Theories
- 12.3.4 Social Contact Theory
- 12.3.5 Legitimate Theory

12.4 Summary

12.5 References/Further Readings/Web Resources

12.6 Possible Answers to Self-Assessment Exercises

12.1 Introduction

Domestic business is not the same with an international business. Thus, the ethics that governed domestic business are quite different from that of an international business. Ethical issues arise because of the differences in economic development, politics, legal systems and culture. The term ethics refers to accepted principles of right or wrong that governed the conduct of a person, the members of a profession, or the actions of an organization. Business ethics are the accepted principles of right or wrong governing the conduct of business people. This unit examines ethical issues as it affects international business.

12.2 Intending Learning Outcome

By the end of this unit, students should be able to:

a. State ethical issues in international business and

b. Explain ethical issues in international business

12.3 Ethical Issues in International Business

12.3.1 Ethical Issues in International Business

Business ethics are the accepted principles of right or wrong governing the conduct of business people. An ethical strategy is a strategy or course of action that does not violate these accepted principles.

Many of the ethical issues and dilemmas in international business are rooted in the fact that political systems, law, economic development, and culture vary significantly from nation to nation.

In the international business setting, the most common ethical issues involve:

1. Employment practices
2. Human rights
3. Environmental regulations
4. Corruption
5. Moral obligation of multinational corporations

1. **Employmenet Practices:** Ethical issues may be related to employment practices in many nations. The conditions in a host country may be much inferior to those in a multinational's home nation. Many may suggest that pay and work conditions need to be similar across nations, but no one actually cares about the quantum of this divergence.

   12-hour workdays, minimal pay, and indifference in protecting workers from toxic chemicals are common in some developing nations. Is it fine for a multinational to fall prey to the same practice when they chose such developing nations as their host countries? The answers to these questions may seem to be easy, but in practice, they really create huge dilemmas.

2. **Human Rights:** Basic human rights are still denied in many nations. Freedom of speech, association, assembly, movement, freedom from political repression, etc. are not universally accepted.

   South Africa during the days of white rule and apartheid is an example. It lasted till 1994. The system practiced denial of basic political rights to the majority non-white population of South Africa, segregation between whites and nonwhites was prevalent, some occupations were exclusively reserved for whites, etc. Despite the odious nature of this system, Western businesses operated in South Africa. This unequal consideration depending on ethnicity was questioned right from 1980s. It is still a major ethical issue in international business.

3. **Environmental Pollution**: When environmental regulation in the host nation is much inferior to those in the home nation, ethical issues may arise. Many nations have firm regulations regarding the emission of pollutants, the dumping and use of toxic materials, and so on. Developing nations may not be so strict, and according to critics, it results in much increased levels of pollution from the operations of multinationals in host nations.

   Is it fine for multinational firms to pollute the developing host nations? It does not seem to be ethical. What is the appropriate and morally correct thing to do in such circumstances? Should MNCs be allowed to pollute the host countries for their economic advantage, or the MNCs should make sure that foreign subsidiaries follow the same standards as set in their home countries? These issues are not old; they are still very much contemporary.

4. **Corruption:** Corruption is an issue in every society in history, and it continues to be so even today. Corrupt government officials are everywhere. International businesses often seem to gain and have gained financial and business advantages by bribing those officials, which is clearly unethical.

5. **Moral Obligations:** Some of the modern philosophers argue that the power of MNCs brings with it the social responsibility to give resources back to the societies. The idea of Social Responsibility arises due to the philosophy that business people should consider the social consequences of their actions.

   They should also care that decisions should have both meaningful and ethical economic and social consequences. Social responsibility can be supported because it is the correct and appropriate way for a business to behave. Businesses, particularly the large and very successful ones, need to recognize their social and moral obligations and give resources and donations back to the societies.

12.3.3 Theories of Business Ethics

This section examines some three theories of business.

12.3.4 Stakeholder Theory

The stakeholder theory of the firm is used as a basis to analyse those groups to whom the firm should be responsible. In this sense, the firm can be described as a series of connections of stakeholders that the managers of the firm attempt to manage. A stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholders are typically analyzed into primary and secondary stakeholders. Primary stakeholder group is one without whose continuing participation in the corporation will survived as going concern. A primary group includes investors, employees, customers and suppliers, together with the public. The secondary groups are defined as those who influence or affect the operations of the corporation but not engaged in any transaction with the corporation and thus not essential for its survival.

12.3.5. Social Contract Theory

The social contract theory has a long tradition in ethical and political theory. In general, this theory considers the society as a series of social contracts between members of societyand society itself. The social contract theory in business ethics argues that corporate rights and responsibilities can be inferred from the terms and conditions of an imaginary contract between business and society. An integrated social contracts theory, as a way for managers to take decisions in an ethical context, has been developed. Here, distinction is made between macro social contracts andmicro social contracts. Thus, a macro social contract in the context of communities, for example would be an expectation that business provides some support to its local community and the specific form of involvement would be the micro social contract. Hence companies who adopt a view of social contracts would describe their involvementas part of social expectation.

12.3.6 Legitimacy Theory

Legitimacy is defined as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions. There are three types of organizational legitimacy: Pragmatic, Moral and Cognitive.

It should be pointed out that legitimacy management rests heavily on communication. Therefore, any attempt to involve legitimacy theory, there is a need to examine some forms of corporate communications.

Self-Assessment Exercises

1. State the Ethical issues in International business
2. Briefly differentiate between primary and secondary stakeholders?

12.4 Summary

In this unit, you learnt about business ethics, ethical issues in international business and theories of business ethics.

12.5 References/Further Readings/Web Resource

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12.6 Possible Answers to SAEs

Answers to SAEs 1

The most common ethical issues involve:

1. Employment practices
2. Human rights
3. Environmental regulations
4. Corruption
5. Moral obligation of multinational corporations

Answers to SAEs 2

Primary stakeholders	Secondary stakeholders
Primary stakeholder group is one without whose continuing participation in the corporation will survived as going concern. A primary group includes investors, employees, customers and suppliers, together with the public.	The secondary groups are defined as those who influence or affect the operations of the corporation but not engaged in any transaction with the corporation and thus not essential for its survival.

UNIT 13: Financial Influence on International Business

Unit Structure

13.1 Introduction

13.2 Learning Outcomes (LOs)

13.3 Financial Influence on International Business

13.3.1 Financial Force

13.3.2 Fluctuating Currency Values

13.3.3 Currency Exchange Quotation

13.3.4 Currency Exchange Control

13.3.5 Balance of Payment

13.3.6 Tariffs and Duties

13.3.6 Taxation

13.3.7 Inflation

13.4 Summary

13.5 References/Further Reading/Web Resources

13.6 Possible Answers to Self-Assessment Exercises

13.1 Introduction

Financial influence on an international business is an uncontrollable factor and they include foreign currency exchange Risks, National balance of payment, taxation, tariffs, national monetary and fiscal policies inflation and national business accounting rules. Though all these are controllable variables looking like disadvantages to a business concern, if well studied and apply accordingly they could turn out to be an advantage to a business concern. This unit examines financial influence on international business activities.

13.2 Intended Learning Outcome

By end of the unit, students should be able to:

a. Explain factors that affect international business finance.
b. Explain the implication of foreign currency on international business.
c. Explain balance of payment and
d. Explain tariff, taxation and Government regulatory policy on international businessactivities.

13.3 Financial Influence on International Business

13.3.1 Financial Forces

These are some financial factors that a business man who goes international struggles with in order to be successful in an international business. These factors are uncontrollable, because as a businessman you do not have control over them however; if you critically study them and take advantage of the opportunity being created by them, the sky may be your limit.

13.3.2 Fluctuating Currency Value

History has it that one of the major currencies Nigeria depends on in term of exchange is dollar. In early 90s and late 90, to be precise during Abacha's Regime, Nigeria Naira was about ₦70 to 75 per Dollar. But these days, that in 2011, Nigerian currency has been fluctuating between ₦160 and ₦ 180 per dollar.

The Essence of this account is to examine the effect of this on an international businessman who operates in Nigeria at this period. The cost of goods that are brought in from outside Nigeria will continue to rise and fall thereby affecting business activities either positively or negatively depending on situation at hand and the policies of the Government.

In situation, where the currency fluctuation is higher central bank intervenes in selling and buying the dollar. You must continue to look at exchange rate if you must go into an international business. With a press of button in your set you can get the currency value of naira against major currencies in the world. You must bear it in mind that the rates are not always stable

13.3.4 Foreign Exchange Quotations

Foreign Exchange Quotations- Is the price of one currency expressed in terms of another. Ball et al (2002), in the worlds currency exchange markets, the US dollar (US $) define it as the common unit being exchange for other currencies. Even if a holders of Japanese Yen (¥)wants British pounds (₣) the trade particularly if it involves a large amount, usually will be to buy US $s with the ¥ and then to buy pounds with the US $s**.**

13.3.5 Currency Exchange Controls

Ball et. al (2002) describes it as currency exchange control limit or prohibit the legal use ofa currency in international transaction. Typically, the value of the currency is arbitrarily fixed at a rate higher than its value in the free market and it is decided that all purchase or sales of other currencies be made through a government agency, black markets inevitably springs up, but it is of little use to a finance manager who usually wants to avoid or break the laws of a country in which the company is operating. In addition, the black market is rarely able to accommodate transaction of the size involved in a multinational business.

In Nigeria the currency exchange was highly controlled with two different exchange rates- Inter banks rate and FEM rate. FEM rate determined at fortnightly auctions. Borrowing from abroad is subject to finance ministry approval. To incoming direct investment, approval is needed from finance ministry and ministry of internal affairs limits on foreign equity varies, 100% ownership is not allowed. Incoming Portfolio Market requires finance ministry approval. Remittance of dividends and profits, finance ministry approval is required. Delays are frequent, no ceilings is paid out of current-year after- tax profits. Remittance of interest and principal, finance ministry approval is required. Remittance of Royalties and fees, the finance ministry approval is required. Reparation of capital, finance ministry approval is required, followed by authorized foreign dealer approvals. Documentation for remittance is onerous and complex, transfer via authorize dealers onlyis allowed.

13.3.6 Balance of Payments

Balance of payments is described as a situation where countries export and import is equal.If the balance of payment is slipping into deficit, government is probably considering one or more market or non-market measures to correct or suppress that deficit. This can be achieved through:

1. Currency devaluation
2. Restrictive monetary or fiscal policies
3. Currency or trade controls.

In terms of export, government will encourage export incentives, tax holidays, lower cost financing, or other advantages governments give to international businesses to encourage them to export, buy goods and service. All these and affect an international business either positively or negatively.

13.3.7 Tariffs and Duties

The word Tariffs or Duties are used interchangeable, they are taxes usually imposed on imported goods.

Tariffs and Duties are imposed on some goods for:

i. Natural Defense

ii. Protect infant industry

iii. Protect Domestic jobs from cheap foreign labour

iv. Scientific Tariff or fair competition

v. Retaliation

vi. Other arguments in favour of tariffs and duties are:

   - Permit diversification of the domestic economy

   -improve of the balance of trade.

13.3.8 Taxation

Taxes are collected from corporations by government so as to provide social services to its citizen. So many people believe that customer pay taxes through high price of goods and the corporation transfers it to government. It means a company with lower taxes, charges its customers less for its product. This may sound truthful, but in practice is not the case in Nigeria.

International companies' pay more taxes because they operate in more countries; which entail a lot of documentation and paying necessary fees. There are different taxes in different countries. If you study countries, you will discover that the income tax is the biggest revenue earner for governments especially in America. There are other taxes like value-added taxes, capital gain taxes, property taxes and social security.

13.3.9 Inflation

Increase in prices of goods and services over a period of time is known as inflation. History has it that inflation ended an economic boom in 1973 which was enjoyed immediately after World War II. Reasons for inflation may be because of

4. Rising demand
5. Increased money supplies

Inflation has a lot of effects on interest rates because companies borrow; the cost borrowing is dependent on the rate of inflation. Once inflation sets in, the borrower looses because the value of money is reduced and the person that borrows, gain, because the value of money has gone down.

Inflation equally has an effect on a country"s monetary and fiscal policies. (Monetary policy is the amount of money in circulation, while fiscal policies are the collecting and spending of money by governments). Inflation has both positive and negative effect to a business especially the international business. To businessmen, High inflation encourages borrowing because on repayment it will be cheaper. High inflation rate bring about high interest rate and may discourage lending to businesses.

Self-Assessment Exercises

1. List two export incentives Nigeria has granted foreign investors?
2. Outline reasons or purpose why tariffs or duties are imposed on some goods

13.4 Summary

In this unit you learnt about factors that affects international business finance, importance of foreign exchange currency on international business activities, such as Tariff, taxation and other government regulatory policies.

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13.6 Possible Answers to SAEs

Answers to SAEs 1

Taxes are collected from corporations by government so as to provide social services to its citizen. So many people believe that customer pay taxes through high price of goods and the corporation transfers it to government. It means a company with lower taxes, charges its customers less for its product. This may sound truthful, but in practice is not the case in Nigeria.

International companies' pay more taxes because they operate in more countries; which entail a lot of documentation and paying necessary fees. There are different taxes in different countries. If you study countries, you will discover that the income tax is the biggest revenue earner for governments especially in America. There are other taxes like value-added taxes, capital gain taxes, property taxes and social security.

Answers to SAEs 2

i. Natural Defense

ii. Protect infant industry

iii. Protect Domestic jobs from cheap foreign labour

iv. Scientific Tariff or fair competition

v. Retaliation

vi. Other arguments in favour of tariffs and duties are:

- Permit diversification of the domestic economy

-improve of the balance of trade.

UNIT 14: International Monetary System

Unit Structure

14.1 Introduction

14.2 Learning Outcomes (LOs)

14.3 International Monetary System

14.3.1 International Monetary System Definition

14.3.2 Bretton Woods System

14.3.3 Collapse of Bretton Woods System

14.3.4 European Monetary System

14.3.5 Features of European Monetary System

14.3.6 Suggestions for Monetary System Reform

14.3.7 Brexit Introduction

14.3.8 Brexit Monetary Policy Implication

14.4 Summary

14.5 References/Further Readings/Web Resource

14.6 Possible Answers to Self-Assessment Exercises

14.1 Introduction

International monetary system is recognized as catalyst for the development of international trade and promotion of currency movements across national frontiers. This unit provide a comprehensive analysis of the various monetary systems that are available in ensuring and facilitating international business across the globe. The systems discussed in this unit include; Bretton Woods system and European monetary systems.

14.2 Intended Learning Outcome

By the end of this unit, students should be able to:

1. Trace the origin of international monetary systems
2. Discuss the Bretton wood and European monetary systems and

3. Identify the features of European monetary system

14.3 International Monetary System

14.3.1 International Monetary System

International monetary system refers to the system prevailing in world foreign exchange markets through which international trade and capital movements are financed and exchange rates are determined.

14.3.2 Bretton Woods System

During the period preceding World War I almost all the major national currencies were on a system of fixed exchange rates under the international gold standard. This system had to be abandoned during World War I. There were fluctuating exchange rates from the end of the War to 1925. Efforts were made to return to the gold standard from 1925. But it collapsed with the coming of the Great Depression. Many countries resorted to protectionism and competitive devaluations-with the result that world trade was reduced to almost half. But depression completely disappeared during World War II.

In July 1944, the allied countries met at Bretton Woods in the USA to avoid the rigidity of the gold standard and the chaos of the 1930s in international trade and finance and to encourage free trade. The new system was the present International Monetary Fund (IMF) which worked out an adjustable peg system.

Under the Breton Woods system exchange rates between countries were set or pegged in terms of gold or the US dollar at $35 per puce of gold. This related to a fixed exchange rate regime with changes in the exchange within a band or rage from 1 per cent above to 1 per cent below the par value. But these adjustments were not available to US which has to maintain the gold value of dollar. If the exchange rate hit either of the bands, the monetary authorities were obliged to buy or sell dollars against their currencies. Large adjustments could be made where there were “fundamental disequilibrium” (i.e. persi stent and large deficits or surpluses) in BOP with the approval of the IMF and other countries. Member countries were forbidden to impose restrictions on payments and trade, except for a transitional period. They were allowed to hold foreign reserves partly in gold and partly in dollars. These reserves were meant to incur temporary deficits or surpluses by member countries, while keeping their exchange rates stable. In case of a BOP deficit, there was a reserve outflow by selling dollar and reserve inflowin case of a BOP surplus.

Reserve outflows were a matter of concern under the Bretton Woods system. So the IMF insisted on expenditure reducing policies and evaluation to correct BOP deficit. Temporary BOP deficits were also met by borrowing from the Fund for a period of 3 to 5 years. A country could borrow from the Fund on the basis of the size of its quota with it. The loans by the IMF were in convertible currencies.

The first 25 per cent of its quota was in gold tranche which was automatic and the remaining under the credit tranches which carried highinterest rates. To provide a long-term loan the World Bank (or IBRD) was set up in 1946 and subsequently it two affiliates, the International Finance Corporation (IFC) in 1956 and International Development Association (IDA), in 1960, for the removal of trade restrictions, the General Agreement on Tariffs and Trades (GATT) came into force from January 1948. To supplement its resources, the Fund started borrowing from the ten industrialised countries in order to meet the requirements of the international monetary system under General Agreement to Borrow (GAB) from October 1962. Further, it created special Drawing Rights (SDRs) is January 1970 to supplement international reserves to meet the liquidity requirement of its members. The Bretton Woods system workedsmoothly from 1950s to mid 1960s. During this period world output increase and with the reduction of tariffs under the GAFT, world trade also rose.

14.3.3 Collapse of Bretton Woods System

The following are the principal causes sequences of the breakdown ofthe Bretton Woods system:

1. **Built-in Instability:** The Bretton Woods System had a built-in instability that ultimately led toits breakdown. It was an adjustable peg system within plus or minus 1per cent of the par value of $ 35. In case of fundamental disequilibrium, acountry could devalue its currency with the approval of the IMF. But countries were reluctant to devalue their currencies because they had to export more goods in order to pay for their imports from other countries. This led countries to rely on deflation in order to cure BOP deficits through expenditure-reducing monetary fiscal policies.
2. **The Tariff in Dilemma:** Since the dollar acted as a medium of exchange, a unit of account and a store of value of the IMF system, every country wanted to increase its reserves of dollar which led to dollar holdings to a greater extent than needed.

Consequently, the US gold stock continued to decline and the US balance of payment continued to deteriorate. This is the Tariff in Dilemma which actually led to the collapse of the Bretton Woods System in 1971.

3. **Lack of International Liquidity:** There was a growing lack of international liquidity due to increasing demand for the dollar in world monetary markets. With the expansion of world trade, BOP deficits (and surpluses) of countries increased. This necessitated the supply of gold and of the dollar. But the production of gold in African was increasing every little. This led to larger demand and holdings of the dollar. Countries also wanted to have more dollar holdings because they earned interest. As the supply of dollars was inadequate in relation to the liquidity needs of countries, the US printed more dollars to pay for its deficits which other countries accepted as reserves.

4. **Mistakes in US Policies:** The BOP deficits of the US became steadily worse in the 1960s. To overcome them, the policies adopted by the US government ultimately led to the world crises. Rising US government expenditure in the Vietnam War, the financing of US space programme and the establishment of the "Great Society" (social welfar e) programme in the1960s led to large outflow of dollar from the US. But the US monetary authority did not devalue the dollar. Rather, it adopted monetary and fiscal measures to cut its BOP deficit.

5. **De-stabilising Speculation:** Since countries with "fundamental disequilibrium" i n BOP were reluctant to devalue their currencies and also took time to get the approval of the IMF, it provided speculators an opportunity to resort to speculation in dollars. When devaluations were actually made, there were large doses of devaluation than originally anticipated. This was dueto de-stabilising speculation which made controls over capital flowseven through monetary-fiscal measures ineffective.

6. **Crisis of Confidence and Collapse:** The immediate cause of the collapse of the Bretton Woods System was the eruption of a crisis of confidence in the US dollar. The pound had been devalued in 1967. There was no control over the world gold market with the appearance of a separate price in the open market. The immediate cause for the collapse of the Bretton Woods System was the rumour in 1971 that the US would devalue the dollar. This led to a huge outflow of capital from the US. The US in the order hand, suspended the conversion of dollars into gold when some small European central banks wanted to convert their dollar reserves into gold at the US. It refused to intervene in the

foreign exchange markets to maintain exchange rate stability and imposed a 10% import surcharge.

14.3.4 European Monetary System (EMS)

The European Monetary System (EMS) was officially launched in 1979 under the sponsorship of German Chancellor Helmut Schmidt and French President Valery Giscard d'Estaing. The nine European Community members who fully participate in the EMS include: Britain, Belgium, Denmark, France, West Germany, Ireland, Luxembourg, Netherlands and of course Italy also later agrees to participate in the system under modified conditions due to difficulties it experienced with its currency. The European Monetary System, commonly referred to as the EMS, is an arrangement among the member nations to limited fluctuations in their currencies and achieves monetary stability. It was taught that international trade between the participating nations would be improved if exchange rates were stable and predictable.

14.3.5 Features of European Monetary System

The European Monetary System (EMS) consists of a number of special features, such as a common currency unit, detailed regulation of permissible currency fluctuations among member nations, mutual credit facilities for participating countries, and the creation of a central reserve fund consisting of Gold, Dollars, and the currencies of the participating countries.

14.3.6 Suggestions for Monetary System Reform

Economists have suggested a number of measures in order to avoid the excessive fluctuations and large disequilibria in exchange rates forreforming the present world monetary system.

1. **Coordination and Cooperation of Policies:** Experts suggested that there should be international co-operation and co-ordination of policies among the leading developed countries for exchange rate stability. The most industrialized countries of the world such as the US, Germany and Japan should have the optimal degree of exchange rate stability by fixing the exchange rates among their currencies at the equilibrium level based on the purchasing power parity.

2. **Establishing Target Zones:** A call had also been made for the establishment of target zones within which fluctuations in exchange rates of major currencies may be permitted. According to experts, the forces of demand and supply should determine the equilibrium exchange rate. There should be an upper targetzone of 10% above the equilibrium rate and a lower target zone of 10% below the equilibrium exchange rate. The exchange rate should not be allowed to move outside the two target zones by official intervention.

3. Improving Global Liquidity: The reform package of the present world monetary system should improve global liquidity. As a first step, both BOP deficit and surplus countries should take step to reduce a persistent imbalance through exchange rate changes via internal policy measures. Second, they should also cooperate in curbing large flows of "hot money" that de-stabilise their currencies. Third, t hey should be willingto settle their BOP imbalances through SDRs rather than through gold or dollar as reserve assets. Fourth, there should be increasing flow of resources to the developing countries.

4. **Leaning against the Wind:** To reduce the fluctuations in exchange rates, the IMF Guidelines for the Management of Floating Exchange Rate, 1974 suggested the idea of leaning against the wind. It means that the central banks should intervene to reduce short-term fluctuations in exchange rates but leave the long-term fluctuations to be adjusted by the market forces.

5. **Establishment of Global Central Bank:** There should be a global central bank with a global currency whichshould be a global lender of last resort.

6. **Creation of International Bankruptcy Court:** It was also proposed by experts that International Bankruptcy Courtshould be created which should deal with countries.

7. **Objective Indicators:** To iron out exchange rate fluctuations, the IMF Interim Committee suggested the adoption of such objective indicators as inflation unemployment, growth of money supply, growth of GNP, fiscal balance, balance of trade and international reserves. The variations in these indicators require the adoption of restrictive monetary-fiscal measures to bring stability in exchange rates.

13.3.7 Brexit Introduction

Brexit is occurring at a time when many developing countries are being hit by multiple shocks, including lower oil and commodity prices. While direct trade and finance links to the UK may not be significant for all developing countries, Brexit certainly represents a new external disturbance which highly exposed economies may need to prepare for.

In particular, Brexit could have consequences for economic and financial stability in developing countries, through channels such as external demand and global trade, liquidity and portfolio rebalancing. Spill-over effects are likely to be associated with changes in capital flows, higher volatility in currency and financial markets, and restricted access to liquidity. The extent of these effects is likely to vary across countries depending on, among other determinants, their scale of exposure to developed markets, their own cyclical positions, the stability and depth of their financial systems and the type and scale of their monetary authorities.

Commonwealth countries, particularly those most vulnerable to external shocks, will need to devise strategies to mitigate any negative Brexit impact. This would entail devising plausible policy responses once disengagement of the UK from the EU has officially begun and its form is better known.

13.3.8 Brexit Monetary Policy Implications

Commonwealth developing countries follow a more restrictive monetary policy framework than their advanced country counterparts, as reflected in the preponderance of exchange rate anchors and stabilised (whether de facto or de jure) and managed exchange rate arrangements. This is particularly the case in the Caribbean and Asia-Pacific regions, where there is a high reliance on different forms of quasi-fixed exchange rate regimes. These differences in monetary policy arrangements, the current health of important monetary policy aggregates and the potential implications for the wider economy, given potential fallout from Brexit, are analysed.

In a sense, one could deem an analysis of this sort quite premature, especially given the uncertainty around what will happen in terms of new UK–EU trade arrangements, and the uncertain implications of Brexit for non-European countries. Nevertheless, the main purpose of this note is to initiate discussion among policy-makers on the myriad of external shocks including Brexit. The growth outlook for many Commonwealth countries is moderate, with limited fiscal and monetary policy space to weather future economic shocks.

The Commonwealth is an organisation of a diverse pool of countries and there are considerable differences in the monetary policy frameworks and exchange rate arrangements. The policy options available to Commonwealth central banks to effect changes in the economy and, by extension, their ability to respond to any negative implications from Brexit will be conditioned by the prevailing frameworks.

Inflation targeting is the framework of choice in the developed Commonwealth, while several LDCs engage in monetary aggregate targeting. The majority of Commonwealth central banks have an exchange rate anchor, indicating that monetary policy autonomy is limited. Exchange rate anchors are particularly common among Commonwealth small states in the Caribbean and Pacific regions, and these countries mostly follow the US dollar. However, some anchors are tied to composite currency baskets, the South African rand, the euro and the Singapore dollar.

Self-Assessment Exercises

1. What is your understanding of (IMF) international Monetary system?
2. Discuss scenario of Bretton Woods System
3. Identify the factors responsible for the collapse of Bretton WoodsSystem

14.4 Summary

International monetary system is a system prevailing in foreign exchange market through which international trade and capital movements, in particular international business are financed Bretton Woods system exchange rates between countries were pegged in terms of gold or the Unites States dollar. However, the system collapse for lack of international liquidity and the fact that the overall system was built on instability.

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14.6 Possible Answers to SAEs

Answer to SAE 1

UNIT 15: International Finance and Lending Institutions

Unit Structure

15.1 Introduction

15.2 Learning Outcomes (LOs)

15.3 International Finance and Lending Institutions

15.3.1 Monetary Fund

15.3.2 Objectives of International Monetary Fund

15.3.3 Organisation of International Monetary Fund

15.3.4 Resources of International Monetary Fund

15.3.5 International Development Association (IDA)

15.3.6 Organisation of International Development Association (IDA)

15.3.7 Financing Policy of International Development Association (IDA)

15.3.8 International Financial Corporation (IFC)

15.3.9 International Financial Corporation (IFC) Structure

15.3.10 International Financial Corporation Investment Policy

15.3.11 African Development Banks

15.3.12 Sources of Finance of African Development Banks

15.3.13 Organizational Structure of African Development Banks

15.4 Summary

15.5 References/Further Readings/Web Resources

15.6 Possible Answers to Self-Assessment Exercises

15.1 Introduction

The need for financial assistance for developing nations is great and generates a higher degree of risk than normally encountered in traditional commercial lending situations.

International Lending agencies have been established to fill the needs of developing and other countries. Although these agencies are numerous, this unit traces the origin, objectives as well as the working structure of major ones among them.

15.2 Intended Learning Outcome

On successful study of this unit, you should be able to:

1. Identify the various International Financing and Lending agencies.
2. Explain the working organization or structures of these agencies and
3. State the objectives behind each of agencies

15.3 International Finance and Lending Institutions

15.3.1 International Monetary Fund (IMF)

International Monetary Fund (IMF) is an international monetary institution established by different countries after the World War II with an objective of providing exchange stability throughout the world and increasing liquidity so that balanced multilateral trade is promoted through the cooperation of the member nations. Various historical conditions and events that led to the establishment of IMF are summarized below:

- Gold standard functioned with reasonable success and provided a medium of international payments before World War I.
- The onset of World War I forced most of the countries to abandon gold standard and put restrictions on the movement of gold as well as goods.
- After the World War I, some countries came back on the gold standard but the gold standard could not work well between the periods 1919 –1931.
- The world faced the Great Depression of the thirties between 1929 and 1936. Prices, profits, share prices, production, employment and income of the leading countries fell very low. Competitive devaluation, tariffs and exchange controls were adopted by the nations.
- World War II (1939-45) further disrupted the pattern of international trade and dislocated the economies of the world. After the world-wide depression and the World War II, it was recognised that; the gold standard could not be restored in future; and lack of any mechanism like the gold standard would generate instability of exchange rates and discourage international trade and investment. Therefore, the

monetary authorities of the world felt the need for international cooperation to establish a stable international monetary order. With this objective, a conference of 44 major countries was held at Bretton Woods, New Hampshire, in 1944. The result of this conference was the establishment of the International Monetary Fund (IMF) and the International Bank for reconstruction and Development (IBRD). These two institutions are known as Bretton Woods's twins.

15.3.2 Intended Learning Outcome IMF

Basically, the purpose of the IMF was to; achieve the international advantages of the gold standard without subjecting nations to its internal disadvantages; and achieve internal advantages of paper standard while avoiding its international disadvantages. The main objectives of the Fund, as summarised in the Article of Agreement, are as follows:

(i) To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economy policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciations.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In according with the above, to shorten the duration and lesson the degree of disequilibria in the international balance ofpayments of members.

15.3.3 Organization of IMF

The IMF came into existence in December 1945 and started functioningin March 1947. It is an autonomous organization and is affiliated to the U.N.O. It has its main office in Washington. Initially, the IMF had 30 countries as its members. Nowadays, the members is increasing as more prospectivemembers are desiring to be part of the organization

The management of the Fund is under the control of two bodies: Board of Governors and Board of Executive Directors. The Board of Governors is the general body of management consisting of one Governor and an Alternate Governor for each member country. The Board of Governors has the responsibility of formulating the general policies of the Fund. The Board of Executive Directors controls the day to-day activities of the Fund.

Currently, it consists of 22 directors; six of these directors are appointed by the members having the largest quotas, namely, the United States, the United Kingdom, West Germany, France, Japan and Saudi Arabia, and the remaining sixteen directors are elected by other nations. The Managing Directors is the chairman of the Board of Executive Directors as well as thehead of the staff of the Fund.

15.3.4 Resources of IMF

The resources of the IMF are subscribed by the members. The subscription quota of each member is based on its national income and its position in the international trade/business. Every member nation must contribute 25% of its quota in international reserve assets and the remaining 75% in its own currency. The payment of 25% part of the quota was originally in gold, but now it is in Special Drawing Rights (SDRs). SDRs are an international reserve asset created by the IMF in 1969. The Fund may also enlarge its resources by borrowing, by selling gold to the public and by receiving fee from the borrowing members.

15.3.5 International Development Association (IDA)

The International Development Association (IDA) was established in 1960 as an affiliate to the World Bank. As matter of policy, the World Bank‟s finance is conditional and inadequately meets the creditrequirements of the underdeveloped countries. Its loans are for specific development purposes; bear relatively high rate of interest and are for relatively short period. There are many projects (such as irrigation, railway construction, education, public health, housing etc.) in the underdeveloped countries which are vital to general economic development, which have longer gestation period and which do not yield sufficient returns to meet the amortisation charges. As per rules of the World Bank, loan cannot be given for such general development projects. The IDA was started to supplement the World Bank's development assistance and to make available loans to the developing countries on softer terms and for longer periods. The main objectives of the IDA are asfollows:

(i) To provide development finance to the less developed countries on easy and flexible terms.

(ii) To promote economic development, increase productivity, and thus, raise the standard of living in the less developed countries.

(iii) To supplement the objectives and activities of the World Bank.

15.3.6 Organizational Structure of IDA

The membership of the IDA is open to all the members of the World Bank. The members of the IDA are divided into two parts. Part 1 countries are developed countries which are required to pay their subscription in gold or freely convertible currencies. Part II countries are less developed countries which are required to pay on 10% of theirsubscription in gold or freely convertible currencies and the remaining 90% is payable in their domestic currencies. Nigeria falls in Part II. Legally and financially, IDA is a distinct entity from the World Bank, but is administratively managed by the same staff.

15.3.7 Financing Policy of IDA

The IDA loans are different from the conventional loans, the following are the distinctive features of the financing policy of the IDA:

(i) The IDA grants loans for protects whether they are directlyproductive or not.

(ii) The IDA loans are interest free; only a nominal annual rate of 3.4% on the amounts withdrawn and outstanding is charged to meet the administrative expenses.

(iii) The IDA loans are for long periods, i.e., for 50 years.

(iv) There is a 10 years of grace and no amount is repayable during this period of grace. After this only 1% of the principal is to be repaid annually for 10 years and 3% annually for the remaining 30 years.

(v) IDA loans are generally repayable in foreign exchange.

(vi) IDA loans are granted to the government of the country concerned.

15.3.8 International Financial Corporation (IFC)

International finance Corporation (IFC) was established in July 1956 as an affiliate of the World Bank to provide finance to the private sector. The World Bank grants loans to the governments of the member countries or provides loan capital to the private enterprises out of the guarantee of the member governments. Moreover, the World Bank does not provide risk capital. The IFC was established with the specificpurpose of providing risk capital to the private enterprises in the less developed countries without government guarantee.

15.3.9 IFC Organization Structure

Though the IFC is affiliated to the World Bank, but it is a separate legal entity with separate fund and functions. The membership of the Corporation is open only to the members of the World Bank. The organization of the Corporation is the same as that of the World Bank. The Board of Governors and the Executive Directors of the World Bank also function as the Board of Governors and the Executive Directors of the IFC. The Corporation started with the initial authorised capital of $100 million which has been increased from time to time. The subscription quota of each member is proportionate to its share of subscription to the capital of the World Bank.

15.3.10 IFC Investment Policy

The following are the main features of the investment policy of the IFC:

(i) The IFC considers only those enterprises which are predominantly industrial and contribute to economic development of the country.

(ii) The project to be financed by the IFC must be in the private sector and must be productive in nature

(iii) Before making any investment, the Corporation satisfies itselfthat the enterprise has experienced and competent management.

(iv) The IFC's loan will not be more than half of the capital neededfor an enterprise.

(v) The minimum investment to be made by the IFC to a singleenterprise is fixed at $ 100,000: no upper limit is fixed.

(vi) The rate of interest for the IFC loan is determined by mutual negotiation, depending upon the degree of risk involved and other terms of investment.

(vii) The IFsC's loans are disbursed in lump-sum or in instalments and are repayable in a period of 5 to 15 years.

15.3.11 African Development Bank (ADB)

The African Development was formed under the auspices of the Economic Commission for Africa. Although the agreement establishing the bank was signed in Khartoum, Sudan on 4th August, 1963 and came into force about a year later, the actual operation commenced only in July, 1966. Its head office is located at Abidjan, Cote D'Ivoire. Functions

The bank's main functions as set forth in the statute establishing it are: To use the resources at its disposal for financing of investment projects relating to the economic and social development of its members.

1. To undertake and participate in the selection, study and preparation of projects enterprises and activities contributing to such development
2. To mobilize both within Africa and outside Africa, resources for thefinancing of such investment programmes.
3. To promote investment in Africa of public and private capital in projects or programmes
4. To provide such technical assistance as may be needed in Africa for the study, preparation, financing and execution of development projects or programmes and
5. To undertake such other activities and provide such other activities as may advance its purpose

15.3.12 Sources of Finances of ADB:

More specifically, the bank's ordinary capitalresources come from the following sources:

1. Subscribed capital by members.
2. Fund raised through borrowing by the bank
3. Fund received in repayment of past loans
4. Income derived from the bank's loans and guarantees.
5. Any other funds received that do not constitute special sources

15.9.1 Organizational Structure of ADB

The consist of a Board of Governors, Board of Directors, a President, at least one Vice-President and other officers and staff. All powers of the bank are vested in the board of governors appointed by each member of the bank who exercises the voting power to which that member state is entitled. Each governor is entitled to a five year term, but can be reappointed for another term.

Self-Assessment Exercises

1. State functions of African Development Bank
2. Give reason for establishment of (IFC) International Financial Corporation

15.4 Summary

In this unit we have discuss and provides comprehensive explanation of the various International Financing agencies such as the International Monetary Fund (IMF), International Finance Corporation (IFC), International Development Association (IDA), and the African Development Bank (ADB). This analysis includes the objective, working structure as well as the sources of funding available.

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15.7 Possible Answers to SAEs

Answer to SAE 1

i. To undertake and participate in the selection, study and preparationof projects enterprises and activities contributing to such development
ii. To mobilize both within Africa and outside Africa, resources for the financing of such investment programmes.
iii. To promote investment in Africa of public and private capital inprojects or programmes

iv. To provide such technical assistance as may be needed in Africa for the study, preparation, financing and execution of development projects or programmes and
v. To undertake such other activities and provide such other activities as may advance its purpose

Answer to SAE 2

i. The IFC considers only those enterprises which are predominantly industrial and contribute to economic development of the country.
ii. The project to be financed by the IFC must be in the private sector and must be productive in nature
iii. Before making any investment, the Corporation satisfies itself that the enterprise has experienced and competent management.
iv. The IFC's loan will not be more than half of the capital neededfor an enterprise.
v. The minimum investment to be made by the IFC to a single enterprise is fixed at $ 100,000: no upper limit is fixed.
vi. The rate of interest for the IFC loan is determined by mutual negotiation, depending upon the degree of risk involved and other terms of investment.
vii. The IFsC's loans are disbursed in lump-sum or in instalments and are repayable in a period of 5 to 15 years.

UNIT 16: International Liquidity

Unit Structure

16.1 Introduction

16.2 Learning Outcomes (LOs)

16.3 International Liquidity

16.3.1 International Liquidity Definition

16.3.2 Problems of International Liquidity

16.3.3 International Liquidity Problem in Developing Countries

16.3.4 IMF and International Liquidity

16.3.5 Concept of Special Drawing Rights (SDRs)

16.3.5 Features of SDRs

16.3.6 Workings of SDRs

16.4 Summary

16.5 References/ Further Readings/Web Resources

16.6 Possible Answers to Self-Assessment Exercises

16.1 Introduction

International liquidity is crucial to the development of country's economy as it is a yard-stick for participating in the world monetary system. This unit provides detailed analysis of the importance of international liquidity as it affects international business activities.

16.2 Intended Learning Outcome

On successful completion of this unit, you should be able to:

1. Define the meaning of international liquidity
2. Identify the problems associated with international liquidity and
3. Discuss the concept of Special Drawing Rights

16.3 International Liquidity

16.3.1 International Liquidity Defined

International liquidity refers to the availability of internationally acceptable means of payment. It comprises all types of generally acceptable assets available to the countries for financing the deficits in their international balance of payments. In common language, international liquidity means international reserves. International reserves have been defined to include official holdings of gold, foreign exchange, special drawing rights (SDRs), reserve position in the IMF. Private holdings of foreign assets are not included in international liquidity. Therefore, international liquidity is the sum total of the international reserves of all nations participating in the world monetary system. The world"s need for international liquidity depends upon; the volume of international business transactions, and the imbalances that characterize these transactions. Given the volume of world trade and payments, the greater the collective payments imbalances of the participating countries, the more pronounced will be the overall need for international liquidity.

16.3.2 Problems of International Liquidity

The problem of international liquidity is concerned with the imbalances in the demand for and supply of international liquidity. International liquidity shortage (i.e., the demand exceeding the supply) leads to recession in the world economy. On the contrary, international liquidity surplus (i.e., supply exceeding demand) tends to have inflationary impact on the international business activities. Answer to the problem of international liquidity relates to the attempt to ensure that there exists neither a liquidity shortage nor a liquidity surplus. The supply of and demand for international liquidity must be balanced so that the contraction or expansionary pressures do not disturb the world trade. The international liquidity should play a neutral role of lubricating international business and the mechanism without generating destructive forces of its own.

16.3.3 International Liquidity Problem in Developing Countries

The liquidity problem is all the more serious and is of different nature in the developing and less developed countries. These countries experience chronic deficiency of capital and technology and have to depend largely on the developed countries for their scarce resources.

They required resources for; covering their short-term balance of payments resources, and for meeting long-term capital requirement of economic growth. The liquidity problem of the developing countries has the following features which are quite different from those of the developed countries.

1. **Undeveloped Financial Markets:** Domestic financial markets in the developing countries are undeveloped and are subject to heavy government control. These characteristics have the following effects:

   Lending often takes place at artificially low interest rates fixed by the government to favour certain industries or sectors of the economy. This means an implicit subsidy to the recipients of the loans and an implicit tax on the banking system, few and not very attractive assets are available to the savers.

   Government controls prevent domestic savers from holding foreign assets all these effects indicate discouragement to domestic saving which is already at the low level because of low income levels.
2. **Heavy Government Expenditures:** Government spending in the developing countries forms a very high percentage of national income. In order to finance its budget deficits, the government resorts to the printing of new money (i.e. deficit financing) which usually result in high rates of inflation.
3. **Exchange Control:** In the developing countries, exchange rates are set by the central bank rather than determined in the foreign exchange market. Private international borrowing and lending are strictly restricted. The residents are allowed to purchase foreign exchange only for certain selected purposes.
4. **Primary Exports:** Most of the developing countries mostly rely for their export earnings ona small number of natural resources or agricultural products. Dependence on such primary products makes these countries vulnerable to shocks in the international markets because the prices of these goods are highly variable relative to those of manufactured goods.
5. **Dependence of Foreign Borrowing:** Since most of the developing countries have low saving rates and very high investment opportunities, they largely rely on capital inflow from abroad to finance their domestic investment. Recently, these countries have borrowed on a large scale from rich countries and have built up a large debt to the rest of the world.

16.3.4 IMF and International Liquidity

The International Monetary Fund (IMF) has been established with an objective of extending short-term financial assistance to its members to overcome the balance of payments difficulties as well as emergency situations. It contributes to the international liquidity in two ways: by providing conditional liquidity; and by providing unconditional liquidity.

1. **Conditional Liquidity:** The IMF provides conditional liquidity under its various lending schemes. The credit provide to the members is generally subject to certain conditions. Most of the IMF loans require an adjustment programme to be undertaken by the member country for improving its balance of payments position. Moreover, obtaining funds from the IMF under agreed conditions increases the member‟s access to international capital market. Important credit facilities provided by the IMF are: basic credit facility, extended fund facility, compensatory financing facility, buffer stock facility, supplementary financing facility, trust fund, and structural adjustment facility amongst others. In order to make the resources easily and more adequately available, the IMF has been introducing various procedure changes from time to time.
2. **Unconditional Liquidity:** The supply of unconditional liquidity takes the form of reserve assets that can be used for balance of payments financing. The IMF provides unconditional liquidity through the allocation of Special Drawing Right (SDRs), and also in the form of reserve positions in the Fund to member countries without having to enter into policy commitments with the fund.

16.3.5 Concept of Special Drawing Rights

The establishment of the scheme of Special Drawing Right (SDRs) is a significant attempt of the International Monetary Fund (IMF) to reform the international monetary system and to solve the problem of intentional liquidity. After the World War II, the gold standard was replaced by the currency standard. But the continued use of the pound sterling and the U.S. dollar as the key reserve currencies proved unsatisfactory because of the deficits in the balances of payments of the U.S. and the U.K. There was a serious problem of the international liquidity, i.e. the inadequate growth of monetary reserves. In such conditions, the need arose for a new reserve asset thus leading to the introduction of SDR as a new international reserve asset by the IMF. The scheme for creating Special drawing Rights

(SDRs) was outlined at Annual Meeting of the IMF in October 1967 at Rio de Janeiro (Brazil). The detailed proposals of the scheme were approved by the Board of Governors in April 1968 and the Special Drawing Account came into being on August 6, 1969. The basic idea behind the SDR scheme was to establish a new reserve asset whose quantity could be consciously adjusted in response to the world"s need for international reserves. The objective of creation of the SDR was to assure an adequate, but not excessive, growth of monetary reserves.

Under this scheme, the IMF has the power to grant SDRs to member nations on a specified basis. Allocation of SDRs is made annually by the collective decision of the participating countries on the basis of their quotas. Possession of SDRs entitles a country to obtain a defined equivalent of currency from other participating countries. The IMF can create new SDRs from time to time in response to the need for additional international reserves. The newly created SDRs are allocated amongmember nations in proportion to their IMF quotas. When a member's SDR balance falls below its total allocation, it must pay interest to the IMF on the difference. Similarly, the members are paid interest by the IMF on SDR holdings in excess of allocations. Thus, by creating SDRs, the IMF aims at increasing the availability of resources to the member countries without putting additional train on its own resources.

16.3.6 Features of SDRs

The following are the salient features of SDR s:

1. **Additional Reserve Asset:** The SDRs scheme provides a new international asset, in addition to the traditional assets, i.e., gold, key currencies. Now, the member countries of the IMF can hold and use SDRs along with gold and key currenciesas international reserves.
2. **Cheque Book Currency:** In the physical sense, SDRs are a cheaque-book currency and are createdwith the strokes of pen. They are simply book keeping entries atthe IMF in accounts for the member countries and the Fund itself. They are just like coupons which can be exchanged for currencies needed by the holder of SDRs for making international payments.
3. **Transferable Assets:** SDRs are transferable assets. The member countries are required to provide their currencies in exchange for SDRs. A country can acquire convertible currency in exchange for SDRs. A country can acquire convertible currency from the designated country in exchange for SDRs. Designated country is

that which has strong balance of payments or largereserves.

4. **Backing of SDRs:** SDRs are a liability of the IMF and asset of the holders. There is no backing for SDRs in the form of an asset like key currency. The real backing is the undertaking given by the member countries to abide by the SDR regulations. The country which agrees to the creation of SDRs is obliged to permit drawal and other countries are obliged to accept them as unit of adjustment.
5. **Basis of SDRS:** The creation of SDRs is based on the fundamental principle of credit creation in the banking system. The SDR scheme is an extension of this principle to the international level. The IMF can create new SDRs without any increase in deposits of gold or currency by the participating countries. Thus, issue of SDRs means an increase in world's monetary reserves.
6. **Allocation of SDRs:** The SDRs are allocated to the member countries in proportion to their quotas in the IMF. The lion's share goes to the developed countries and the developing countries get only about a quarter.
7. **Special Drawing Account:** Under the changed rules, the IMF maintains two separate accounts: General Account which deals with the general transactions of the IMF relating to quotas, subscriptions, ordinary drawings, etc. and Special Drawing Account which deals with SDRs are created as a percentage of existing resources (quotas).
8. **Paper Gold:** Initially the scheme envisaged that the SDRs would be a sort of paper gold. Their value was fixed in terms of gold. But, since 1974, the SDR has been valued on the basis of a currency basket.
9. **Fiduciary Reserve System:** The SDR scheme proposes a purely fiduciary reserve system. SDRs are regularly created by the IMF, accepted by the number countries as paper gold reserves and used for the settlement of international payments.
10. **Interest-Bearing Asset:** SDRs are interest-bearing assets. The IMF pays interest to the countries holding SDRs and charge interest from the countries using SDRs. It should however be noted that there are features of SDR.

Self-Assessment Exercises

1. Discuss the characteristics of "Undeveloped Financial Market'
2. State factors responsible for liquidity problems in developing nation
3. What are the reasons for inadequacy in international reserves?

16.4 Summary

International liquidity consists of all total reserves of all nations participating in the world monetary system. The inadequacy of international liquidity is caused by inadequate growth of reserves, uneven expansion of reserves, slow growth of gold, and the lack of solution by rising IMF Quota. However, the problem of liquidity in developing countries is caused by factors such as undeveloped financial markets, heavy government expenditures, exchange control, primary exports, dependency of foreign borrowing, forms of foreign borrowing and corruption

16.5 References/Further Readings/Web Resource

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16.6 Possible Answers to SAEs

Answer to SAE 1

The characteristics of Undeveloped Financial Market are Lending often takes place at artificially low interest rates fixed by the government to favour certain industries or sectors of the economy. This means an implicit subsidy to the recipients of the loans and an implicit tax on the banking system, few and not very attractive assets are available to the savers.

Answer to SAE 2

1. **Undeveloped Financial Markets:** Domestic financial markets in the developing countries are undeveloped and are subject to heavy government control.
2. **Heavy Government Expenditures:** Government spending in the developing countries forms a very high percentage of national income. In order to finance its budget deficits, the government resorts to the printing of new money (i.e. deficit financing) which usually result in high rates of inflation.
3. **Exchange Control:** In the developing countries, exchange rates are set by the central bank rather than determined in the foreign exchange market. Private international borrowing and lending are strictly restricted. The residents are allowed to purchase foreign exchange only for certain selected purposes.
4. **Primary Exports:** Most of the developing countries mostly rely for their export earnings ona small number of natural resources or agricultural products. Dependence on such primary products makes these countries vulnerable to shocks in the international markets because the prices of these goods are highly variable relative to those of manufactured goods.
5. **Dependence of Foreign Borrowing:** Since most of the developing countries have low saving rates and very high investment opportunities, they largely rely on capital inflow from abroad to finance their domestic investment. Recently, these countries have borrowed on a large scale from rich countries and have built up a large debt to the rest of the world.

UNIT 17: DEVELOPMENT OF FINANCIAL INSTITUTIONS SYSTEM

Unit Structure

1.1 Introduction

1.2 Learning Outcomes (LOs)

1.3 Development of Financial Institutions System

1.3.1 What is meant by Financial System

1.3.2 Overview of the Development of Financial System

1.3.3 Structure and Roles of the Financial System

1.3.4 Formal Sector

1.3.5 Informal Sector

1.4 Essential Features of an Ideal Financial System

1.5 Summary

1. 6 References /Further Reading/Web Resources

1.7 Possible Answers to Self-Assessment Exercises

1.1 Introduction

This unit delves further into the subject of the financial system while also making it more understandable. An introduction of how the financial system works and its key features is also included in the course material. There was a lack of effective financial regulation, monitoring, and accountability that led to the late-1990s financial crises and the global financial crisis of 2008. Another important lesson from this catastrophe is that systemic risk must be effectively monitored and managed. We have ramped up our efforts to assist nations adopt methods that promote stable financial systems as a result of these concerns.

1.2 Intended Learning Outcome

After studying through this unit, you should be able to:

1. What is financial system?
2. What is intended by the term "financial system" in relation to this topic?
3. Observe the Nigerian Financial System in detail.
4. Dissect Nigeria's formal and unofficial economic sectors.
5. Draw attention to the most important characteristics of an ideal financial system.

1.3 Development of Financial Institutions System

1.3.1 What is meant by Financial System?

The local financial system of the country contains several educational and other arrangements, as well as individuals who acquire savings and put them to good use, such as investments or expenditures. Financial institutions and other depository institutions pool and transfer funds according to a set of procedures, which includes the management, organization, coordination, and issuance of viable and transferable long-term securities on the capital markets. Other procedures include the issuance, purchase, and sale of these assets on the money and credit markets.

In the financial sector, every financial intermediary is part of the economy's financial system. It is based on the idea that there are two types of economic entities: surplus and deficit. The surplus economic entities are individuals, groups, and organizations that have more money than they need to meet their immediate needs. They are the banking system's primary source of extra cash. The economic entities in deficit are those that are unable to meet their financial obligations and must rely on borrowing in order to continue operating. In the financial system, they are the recipients of the extra or excess cash that is being provided by the surplus spending entities

Developing economic activities, financial intermediation, efficient capital generation, and effective payment system monitoring are all facilitated by the financial system's supportive environment. Savings are channeled via intermediaries, who in turn lend to businesses and other entities that may make use of the money. Instead of suing the company directly, the saver has a claim against the middlemen. By lowering individual costs, providing information, increasing diversity, and ensuring enough liquidity, these organizations benefit society as a whole.

1.3.2 Overview of the Development of Financial System in Nigeria

Nigeria has a broad variety of financial institutions, from money and capital markets to regulators and supervisors to organizations that offer development funding, such the Urban Development Bank and the Nigerian Agricultural and Rural Cooperatives Bank (NARCB) (insurance companies, pension funds, financial institutions). A wide range of financial services are available via this company, including those provided to corporations, banks, and other large lending institutions (e.g. Treasury bills, Treasury notes, central bank certificates).

When it comes to Nigeria's banking sector, there's been a major change in ownership structure, as well as the range of financial products, number of institutions, regulation, and general macroeconomic climate. This economy is also made up of people and organizations that interact with one other. It is their job to encourage and mobilize Nigerian deposits and to guide investments to productive investment units. Nigeria's financial institutions are dominated by commercial banks.

1.3.3 The Financial System's Structure and Roles

Listed below are the components of Nigeria's financial system.

1.3.4 Formal Sector

Non-bank financial institutions are also included in this category.

a) Central banks, commercial banks, community banks, and internet banks are the four main kinds of banking institutions (Horton, 2020).
b) Non-bank financial institutions cannot take deposits from the general public since they lack a full banking license.

The alternative financial services that they provide include risk sharing, financial advice and brokering, money transit, and check cashing. Consumers may get credit from them as well. Other financial organizations that aren't part of a bank include venture capitalists and currency exchanges. Pawn shops are other examples of non-bank financial institutions.

1.3.5 Informal Sector

This region is home to a broad variety of businesses. People and families opt to start their own businesses since there aren't enough employment available in the formal sector. Because this business was created by entrepreneurs who wanted to dodge state regulations, it plainly implies that they operate outside of the government's regulatory power. Public policy is influenced by numerous facets of this business, including economics, socioeconomics, and facts that are difficult to measure. Cause-and-effect work, unpaid labor, subsistence farming,

and more are all examples of these types of commercial activity. The informal sector includes money lenders and savings institutions in the community.
the SEC, the NIC, the FDIB, the Federal Mortgage Bank of Nigeria, and the Nigeria Deposit Insurance Corporation all keep an eye on financial institutions in the country (FMBN). The informal sector is mainly unregulated in the absence of any type of institutional control. To understand and evaluate the financial system, one must have an understanding of its role in the economy. The financial system plays critical functions in economic growth and development by allocating resources efficiently and ensuring economic growth is sustainable. These are the roles:

a) Without an appropriate and efficient payment mechanism, manufacturing specialization would be hindered to a large extent.
b) It brings together excess funds from net surplus economic units and invests them in the economy's future.
c) Having a stronger overall economy helps to improve the economic performance of players in the game.
d) It provides a financial infrastructure that facilitates in distributing resources to persons and units that may be more productive so that they may invest them.
e) Further efficient movement of resources and finances is made possible. When one financial institution has more knowledge than the others, inefficiencies in financial resource allocation and information asymmetry may arise.
f) If the issue of information asymmetry can be overcome, it provides a balance between those with money to invest and those who need money to invest.
g) There is no need for banks to facilitate direct cash transfers from surplus economic units (people and companies) to deficit economic units (governments and corporations).

1.4 Essential Features of an Ideal Financial System

In Anyanwu's (1996) definition of an ideal financial system, stability, efficiency, competition, flexibility, and balance are all highly interrelated characteristics. These are some of the things he touched on:

i. **Stable:** Faith in the monetary system is essential at all times, but it becomes much more so in times of panic. When the business cycle changes, it must be capable of both absorbing macroeconomic shocks caused by contractionary effects on activity and trade, while also being able to manage both inflationary impacts on price levels.
ii. **Efficient:** Investing in high-yielding assets allows for some risk to be tolerated in a well-functioning financial system. There is a lot of overlap between these three categories.
iii. **Competitive:** Adequate participation is required in an ideal financial system.
iv. **Flexible:** When the financial and economic landscape evolves, so must the tools and techniques used.
v. **Balanced:** In order to attain financial system balance, it is necessary to match current savings with the stock of historical savings across numerous financial systems. Customers and financial institutions should work together to come up with a solution

that doesn't cause undue hardship. As the economy continues to expand, the best combination of these interrelated qualities will change.

Self-Assessment Exercises

1. Enumerate and explain the Essential Features of an Ideal Financial System
2. What is meant by Financial System?

1.5 Summary

An ideal financial system has certain traits that aren't present in Nigerian finance. You studied about these characteristics in this session's last lecture.

1.6 References/Further Reading/Web Resources

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1.7 Possible Answers to SAEs

Answers to SAE 1

i. **Stable:** Faith in the monetary system is essential at all times, but it becomes much more so in times of panic. When the business cycle changes, it must be capable of both absorbing macroeconomic shocks caused by contractionary effects on activity and trade, while also being able to manage both inflationary impacts on price levels.

ii. **Efficient:** Investing in high-yielding assets allows for some risk to be tolerated in a well-functioning financial system. There is a lot of overlap between these three categories.

iii. **Competitive:** Adequate participation is required in an ideal financial system.

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v. **Balanced:** In order to attain financial system balance, it is necessary to match current savings with the stock of historical savings across numerous financial systems. Customers and financial institutions should work together to come up with a solution that doesn't cause undue hardship. As the economy continues to expand, the best combination of these interrelated qualities will change.

Answers to SAE 2

The local financial system of the country contains several educational and other arrangements, as well as individuals who acquire savings and put them to good use, such as investments or expenditures. Financial institutions and other depository institutions pool and transfer funds according to a set of procedures, which includes the management, organization, coordination, and issuance of viable and transferable long-term securities on the capital markets. Other procedures include the issuance, purchase, and sale of these assets on the money and credit markets.

UNIT 18: APPRAISAL OF THE ECONOMIC PERFORMANCE OF THE FINANCIAL INSTITUTIONS

Unit Structure

2.1 Introduction

2.2 Learning Outcomes (LOs)

2.3 Appraisal of the Economic Performance of the Financial Institutions

2.3.1 Overview of Performance of the Financial Institutions

2.3.2 Dimensions of Diversity and Financial Institutions Services

2.3.2 Appraisal of the Economic Performance of the Financial Institutions

2.4 Summary

2.5 References /Further Reading/Web Resources

2.6 Possible Answers to Self-Assessment Exercises

2.1 Introduction

This study unit provides the student with an overview of the financial institution's performance over a period of time, the aspects of diversity and financial institution services, and an evaluation of the economic performance of the financial institution in Nigeria.

2.2 Intended Learning Outcome

At the end of this Study Session, you should be able to:

1. Explain the performance of the financial institutions
2. Discuss the dimensions of diversity of financial institution Nigeria has
3. Expatiate of the financial institutions services in Nigeria
4. Highlight the appraisal of the economic performance of financial institutions in Nigeria

2.3 Appraisal of the Economic Performance of the Financial Institutions

2.3.1 Overview of Performance of the Financial Institutions

There has been a resurgence of interest in monitoring and identifying the causes of financial system fragility and measuring financial system resilience in response to the 2007-2009 global economic crisis. A timely reminder of this interconnectedness is provided by recent financial crises, which serve as a timely reminder of this dependency. For the most sustained economic growth, central bankers believe that a degree of financial stability is necessary to ensure a consistent supply of financial services. Therefore, banks are now being closely watched by banking authorities, who are looking for macro prudential leading indicators that indicate the emergence of new threats to their stability and ability to withstand economic downturns.

The Nigerian financial industry has seen several transformations since the colonial era. Nigeria has one of the strongest financial systems in Africa, and this is seen in the fact that several Nigerian banks have started up operations in other African nations.

All of Nigeria's banking regulator's modifications have had an impact on the banking system's future prospects, character, and operations.." By the end of 2005, there were only 25 deposit money banks in Nigeria after the government increased the minimum capital requirement for banks from NGN2 billion to NGN25 billion. Stability and public confidence in Nigeria's financial sector were the primary objectives of the reforms.

A hazardous implicit assumption made by many in the banking industry is that stability and resiliency are primarily determined by the amount of capital a bank has on hand. Diversification of the financial sector, including the banking industry, has been recognized as a proven technique of enhancing financial system stability and resilience, which fosters competition in the sector. In certain countries, such as the United Kingdom, this is now a key governmental goal. Diverse financial systems are characterized by a wide range of individuals, each of whom fills a distinct role in the system and makes use of a diverse set of tactics to succeed. Financial system stability and diversity are intertwined, underlining the many facets of diversity and their effects on the financial sector's behavior and performance. Ownership and organizational diversity, rivalry, financial resiliency, and geographic dispersion are all part of this picture.

2.3.2 Dimensions of Diversity and Financial Institutions Services

The following are the characteristics of variety involved in Nigerian financial institutions' performance:

i. **Ownership and Corporate Diversity:** In the financial services industry, banks and other financial organizations differ greatly in terms of their ownership and organizational structure. Ownership type has a direct impact on the financial system's behavioral differences. As stated in their articles of association, government-owned banks are less likely to be profit-oriented than privately held banks. Banks owned by foreigners are more likely than local ones to have access to capital because of the ties they have with their parent companies. Diversity in ownership/corporate ownership is important because it ensures systemic stability by allowing banks with varied business strategies to manage risk. Again, it aids in boosting competitiveness by using a number of different company methods.

ii. **Market Competition:** Competition among banks is aided by the financial system's diversity. Competition in banking was long believed to be inhibited by market concentration, resulting in higher product costs and worse quality, as well as economic inefficiencies and a loss of deadweight benefit for customers (Michie&Oughton, 2013). The 'too large to fail' component of the financial sector concentration issue has gained prominence in the wake of the financial crisis. The financial crisis reaffirmed the severe practical consequences of this dilemma, which had been previously acknowledged.

iii. **Balance Sheet Structure Resilience:** This has to do with how financial institutions are funded. Retail deposits or wholesale financing, for example, are the mainstays of banking institutions' funding structures. A credit crisis may be avoided by doing this. A financial institution's resilience increases with the breadth of its financing sources. Systemic risk, according to Haldene and May (2011), increases in direct proportion to the amount of financing model variety that is lost. Banking institutions are more vulnerable to failure if they rely too much on other financial organizations for their wholesale financing. Banking on the other hand, relies on the money market or capital markets, which will help diversify the economy and decrease systemic risk.

iv. **Geographic/Regional Diversity:** Regional concentration of financial services has both direct and indirect consequences on an economy, which is why the geographic/regional diversity sub-index is so important. Employment and revenue creation in the industry, as well as its geographic distribution or regional concentration, have a direct influence. Direct effects of financial inclusion, on the other hand, are connected to the key role played by the financial services sector in providing capital to business and consumers. This leads to distorted inequality and a contradiction in the poor's poverty profile when financial services are concentrated in one area. Contrarily, a more varied financial services industry will help to disperse wealth and eliminate regional disparities. It is more stable and resilient to have a diversified financial services industry in the long run.

2.3.2 Appraisal of the Economic Performance of the Financial Institutions

The following are some of the results of Nigeria's financial institutions' economic performance:

a) **Financial Development and Economic Growth:** Financial development includes improvements in the production of information about potential investments and allocating capital, monitoring firms and exerting corporate governance, trading, diversification, and risk management, mobilization and pooling of savings, and facilitating the exchange of goods and services. However, financial institutions are responsible for the increase in financial economic development on the opposite side.

b) **Evaluating and Assessing Financial Stability:** An economy's methods for assessing fair pricing, distributing resources and managing financial risks (such as credit or liquidity, counterparty risk, and market risk) may be assessed using financial institutions.

c) **Assessing Diversity in the Financial System:** Good financial institutions help to diversify a nation's financial system. According to Weller and Zulfiquar (2013), a diverse financial sector is beneficial to a nation's growth and development.

d) **Financial Regulatory Bodies and Financial Stability in Nigeria:** For stakeholders, shareholders, and members of the general public to have faith in and benefit from financial reforms that affect them, Ogbeide and Akanji (2017) used the Cointegration test and an error correction model to examine the relationship between Nigerian financial legislation and banking sector performance. The majority of financial regulation measures should be regularly made public, they say.

e) **Financial Stability and Systematic Risk:** Laeven and Levine (2008) used cash flow rights (z score) to evaluate the link between bank risk, capital constraints, and deposit insurance regulations. Each bank's ownership structure is heavily influenced by these characteristics, as is the marginal impact of regulation on risk, according to evidence from studies.

Self-Assessment Exercises

1. What are the characteristics of Dimensions of Diversity and Financial Institutions Services
2. list the results of Nigeria Financial institutions economic performance

2.4 Summary of the Study Session four

This study session has given you an overview of the performance of financial institutions and aspects of diversity and financial institutions services and an assessment of the economic performance of financial institutions in Nigeria.

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2.6 Possible Answers to Self-Assessment Exercises

Answers to SAE 1

i. **Ownership and Corporate Diversity:** In the financial services industry, banks and other financial organizations differ greatly in terms of their ownership and organizational structure. Ownership type has a direct impact on the financial system's behavioral differences. As stated in their articles of association, government-owned banks are less likely to be profit-oriented than privately held banks. Banks owned by foreigners are more likely than local ones to have access to capital because of the ties they have with their parent companies. Diversity in ownership/corporate ownership is important because it ensures systemic stability by allowing banks with varied business strategies to manage risk. Again, it aids in boosting competitiveness by using a number of different company methods.

ii. **Market Competition:** Competition among banks is aided by the financial system's diversity. Competition in banking was long believed to be inhibited by market concentration, resulting in higher product costs and worse quality, as well as economic inefficiencies and a loss of deadweight benefit for customers (Michie&Oughton, 2013). The 'too large to fail' component of the financial sector concentration issue has gained prominence in the wake of the financial crisis. The financial crisis reaffirmed the severe practical consequences of this dilemma, which had been previously acknowledged.

iii. **Balance Sheet Structure Resilience:** This has to do with how financial institutions are funded. Retail deposits or wholesale financing, for example, are the mainstays of banking institutions' funding structures. A credit crisis may be avoided by doing this. A financial institution's resilience increases with the breadth of its financing sources. Systemic risk, according to Haldene and May (2011), increases in direct proportion to the amount of financing model variety that is lost. Banking institutions are more vulnerable to failure if they rely too much on other financial organizations for their wholesale financing. Banking on the other hand, relies on the money market or capital markets, which will help diversify the economy and decrease systemic risk.

iv. **Geographic/Regional Diversity:** Regional concentration of financial services has both direct and indirect consequences on an economy, which is why the geographic/regional diversity sub-index is so important. Employment and revenue creation in the industry, as well as its geographic distribution or regional concentration, have a direct influence. Direct effects of financial inclusion, on the other hand, are connected to the key role played by the financial services sector in providing capital to business and consumers. This leads to distorted inequality and a contradiction in the poor's poverty profile when financial services are concentrated in one area. Contrarily, a more varied financial services industry will help to disperse wealth and eliminate regional disparities. It is more stable and resilient to have a diversified financial services industry in the long run.

Answers to SAE 2

1. Financial Development and Economic Growth
2. Evaluating and Assessing Financial Stability
3. Assessing Diversity in the Financial System
4. Financial Regulatory Bodies and Financial Stability in Nigeria
5. Financial Stability and Systematic Risk

UNIT 19: ECONOMIC DEVELOPMENT

Unit Structure

3.1 Introduction
3.2 Learning Outcomes (LOs)
3.3 Economic Development
3.4 What is Economic Development?
3.5 Goal and Objectives of Economic Development
3.6 Economic Development Indicators
3.7 Economic Development Strategy (EDS)
3.8 Recent Economic Developments
3.8.1 Some Recent Economic Development Challenges and Actions in Nigeria
3.9 How Economic Development can be Achieve in Nigeria?
4.0 Summary
4.1 References /Further Reading/Web Resources
4.2 Possible Answers to Self-Assessment Exercises

3.1 Introduction

Rapid economic expansion emerged as a critical concern after World War II. Underdeveloped nations were branded in the post-colonial era in order to contrast their economies with those of more developed countries like Canada, the United States and Western Europe, the majority of Eastern European countries (including the Soviet Union), Japan and South Africa. There were various countries that were known as Developing Countries as a result of their rising living levels.

3.2 Intended Learning Outcome

At the end of this Study Session, you should be able to:

1. What is meant by economic development?
2. Discuss the goal and objectives of the economic development
3. Examine the various economic indicators in Nigeria
4. Discuss the economic development strategy in Nigeria
5. Discss the few cases of recent economic development in Nigeria

3.3 Economic Development

There is no doubt that economic growth is the principal objective of most countries. At least in public conversation, this reality seems to be controversially acknowledged. The most pressing social task of our day is to improve the well-being and socioeconomic skills of people throughout the world. This aim is being worked toward year after year via the provision of financial assistance, investments, the formulation of policies, and the development of elaborate strategies. To what extent may these efforts be measured? In determining whether or not a nation is developed or undeveloped, how can we measure its current state? Is there a way to quantify growth?

3.4 What is Economic Development?

People's definitions of economic growth vary widely. Economic development encompasses a wide range of activities undertaken by a society to improve its economic well-being. Increasingly, economic development experts are attempting to describe their area in terms that are more explicit and succinct to policymakers, the public, and other professionals.

Developing a community's economy from a public policy standpoint means making efficient use of scarce resources like land, labor and capital while also encouraging innovation and entrepreneurialism. To deliberately interfere with regular economic development by making it simpler or more appealing, that is what this is all about. Nigerians are increasingly on the lookout for ways to help the country's finances stay stable and become stronger economically.

New riches, more and higher quality employment, and an enhanced quality of life for our inhabitants are all components in economic growth. A mix of human work, capital investment, infrastructure development, and effective utilization of natural resources is used to create marketable products and services in this economy. Cottonwood's ideal and distinctive vision for sustainable economic development should be the chosen route for such initiatives.

A community's economic well-being and quality of life are the primary goals of economic development. Transformation from primitive, low-income economies to contemporary industrial ones is known as economic development. As a synonym for economic growth, the word is widely used to denote a development in a country's economy that is both qualitative and quantitative.

A city or county's appropriate governing body makes a determined effort to influence the direction of private sector investments in order to provide chances for long-term economic growth. The local workforce, businesses, and tax revenues may all benefit from ongoing economic development, which provides enough incomes for the local workforce, businesses, and tax revenues to support this sustained growth. The only alternative to private sector investment as a driver of economic development is to support multiple efforts that stimulate investment in areas where the community feels it is most urgently required.

Economic growth is distinct from community development, as should be obvious to everyone. Developing a community so that it is a better location to live and work is referred to as "community development". By providing shared advantages, economic growth may be achieved. Improving local economic growth can be accomplished in just three ways**. They're as follows:**

i. Business maintenance and expansion to improve the existing business.

ii. Business expansion to attract new business.

iii. Establishing a business to promote the growth of new business

3.5 Goal and Objectives of Economic Development

Coordinated and targeted efforts are required to guarantee the execution of economic development initiatives. The strategy acknowledges the need of establishing sustainable neighborhood economic development via community cooperation and strong public-private partnerships. Companies' varied tasks and duties must be clearly defined and accepted by the partnership. As an added benefit, the connection benefits from clear lines of communication and coordinated efforts. However, some of the purposes and goals of economic growth include:

1. To reduce unemployment, achieve economic stability, and increase the standard of living for all citizens
2. To build a highly skilled, flexible workforce.
3. To concentrate on retaining and expanding existing local businesses.
4. To increase the number of small firms within the region by fostering local entrepreneurship
5. To recruit businesses that are suited to the region, require a highly skilled work force or are willing to train an entry-level work force and are experiencing growth.
6. To identify the economic needs of the chronically unemployed and underemployed in the region, and encourage programming – including education and retraining -- to meet those needs.
7. To maintain and strengthen region's position as a tourist destination.
8. To promote and encourage preservation of the region's historic assets.
9. To strengthen the local tax base.
10. To establish and maintain housing and transportation, communication, and utility systems which support and foster quality development.
11. To strengthen, maintain, and continually upgrade technology infrastructure and systems, and provide adequate access and capacity for current and anticipated needs.
12. To provide an adequate supply of vacant, development-ready land for commercial and industrial use.
13. To encourage development that is environmentally sensitive.

3.6 Economic Development Indicators

A number of indicators of economic growth are used and these are introduced below.

1. **Gross Domestic Product (GDP):** Gross domestic product is a measure of economic activity in a country. It is calculated by adding the total value of a country's annual output of goods and services.

$$\boldsymbol{GDP = private\ consumption + investment + public\ spending + the\ change\ in\ inventories + (exports - imports)}.$$

By deducting indirect taxes and adding any government subsidies, GDP may be computed at the cost of producing a product. Factors of production get a more precise picture of their compensation via this method.

GNP is calculated by deducting the amount paid to investors overseas from the amount received by domestic inhabitants from their investments abroad (GNP). Some people hate GDP as an economic policy goal since it isn't an accurate indicator of well-being.

It excludes luxuries like going to the movies or participating in other forms of entertainment. Neither does it cover activities that contribute to the economy, such as parents educating their children to read. However, it does contain certain activities that harm the environment and so diminish overall quality of life.

Gross National Product (GNP): GNP is computed by subtracting from GDP the income received by locals from overseas investments and adding it back in.

National debt (ND): A country's national debt is the total amount of money the government has borrowed (usually including national and local government). Often referred to be a burden, public debt may really have economic advantages. Even if the money borrowed is carefully invested, debt created by a generation may be a hefty burden on future generations.

1. A government's total unpaid debt is known as its "national debt," which is distinct from an annual public-sector budget deficit. But despite its massive budget surplus in 2020, Nigeria's national debt amounted to almost half of its GDP.
    2. **Trade Balance (TB):** Exports and imports in an economy are measured by the difference in their monetary value over time, known as the balance of trade (or net exports, sometimes known as NX). The link between a country's imports and exports is known as the trade balance If you export more than you import, you have a trade surplus; if you import more than you export, you have a trade deficit, which is also known as a trade gap.
    3. The trade balance may be broken down into a products and a services balance for ease of analysis.
    4. Because of difficulties in documenting and collecting data, measuring the balance of trade may be difficult. Exports outnumber imports by a few percentage points when official data from all nations across the globe is tallied; as a result, it looks that the world's trade balance is positive. Since each nation's account is debited or credited equally, this cannot be accurate.
    5. The disparity is largely considered to be caused by money laundering, tax evasion, smuggling, and other visibility issues. However, in industrialized nations, the results are more likely to be accurate.
    6. **Credit Rating (CR):** One's creditworthiness is determined by one's credit rating. This may be applied to individuals, corporations, or even nations. An entire credit history examination is performed by credit bureaus. A credit rating is a report generated by a credit bureau at the request of a lender that assesses a prospective borrower's capacity to repay debt. The history of a company's finances, as well as its present assets and obligations, go into determining its credit rating. A credit rating is often used by

lenders and investors to assess the likelihood that a borrower will be able to repay a loan. However, in recent years, credit scores have been used to modify insurance rates, evaluate job eligibility, and decide the amount of a utility or lease deposit.

7. **Distribution of Wealth (DoW):** A comparison of the wealth of different individuals or groups within a society is known as the distribution of wealth. The distribution of assets in a society, as opposed to the present income of its members, is the focus of this study, as opposed to the distribution of income. Wealth is a person's net worth, expressed as:

$$\boldsymbol{Wealth = assets - liabilities}$$

Wealth and income are frequently used interchangeably. Different but similar concepts are referred to by these two words. An individual's wealth is made up of the economic value they possess, but their income is the value they get from others.

3.7 Economic Development Strategy (EDS)

The Economic Development Strategy (EDS), which has a national emphasis, includes all of these sectors, as well as developing industries that allow for economic diversification. As part of the strategy to make sure the Falkland Islands have a bright economic future, the plan aims to expand business opportunities, diversify the local economy, and open up new markets abroad. With the use of this method, we can pinpoint the roadblocks that stand in our way. EDS has provided many suggestions that are in line with our overarching goals, including increasing the production capacity of current businesses, promoting economic diversification, and improving the business environment. In order to achieve the strategic goals of the EDS, a foundation and infrastructure must be built.

a. Any country's public and private sectors must work together to develop a successful EDS document.
b. Establish a Board of Investments to provide business enabling facilities and pro-active international promotion (joint responsibility with the FIG Head of Policy).
c. Complete a review of and make necessary recommendations to FIDB on the role and remit of FIDC (a joint responsibility with the FIG Chief Executive).
d. Put in place a capital market development plan and capital availability plan (joint responsibility with the Head of Policy).
e. Develop a mechanism for providing both technical and financial assistance in enhancing accommodation offers in key (tourism) sites.
f. Collaborate with relevant stakeholders to implement the FIMCo Recovery Plan, including supply to the plant, livestock transportation, increasing lamb rates and size of the ewe flock, and improvement in finishing and worm control.

3.8 Recent Economic Developments

In 2019, Nigeria is expected to maintain a growth rate of 2%, driven mostly by services, notably telecommunications. Insurgent activity in the Northeast and continuing farmer-herder clashes continue to hamper agricultural progress. Growth in the oil industry was constant, while industrial output decreased as a result of a weaker electricity supply sector. With poor demand from consumers as well as weaker public and private investment in 2019, the recovery is expected to be delayed in 2019.

There are both internal and external risks that jeopardize the country's economic growth. Geopolitical and trade tensions are on the increase as a result of the global economy slowing significantly more than expected. The main dangers in the domestic environment are the predictability of macroeconomic policy and the pace of structural change. If major improvements are not made, growth in 2020-2021 is likely to average 2.1 percent.

3.8.1 Some Recent Economic Development Challenges and Actions in Nigeria

a. Resilience through reforms

Oil prices improved and government initiatives to alleviate the economic shock were adopted as a result of easing pandemic restrictions and a resumption of growth in 2020.

A lesser decrease (-1.8 percent) in Nigeria's economy was forecasted when the epidemic started, as a consequence (-3.2 percent). Many long-delayed policy changes were implemented by the administration in response, frequently in the face of strong resistance. Notably, the government:

i. Began to harmonize exchange rates;

ii. Began to eliminate gasoline subsidies;

iii. Started adjusting electricity tariffs to more cost-reflective levels;

iv. Cut nonessential spending and redirected resources to covid-19 (coronavirus) responses at both the federal and the state levels; and

v. Enhanced debt management and increased public-sector transparency, especially for oil and gas operations.

These policies saved the economy from a far severe recession and laid the groundwork for a faster recovery by generating more budgetary flexibility and optimizing the effect of the government's limited resources.

Changes that are critical for Nigeria's recovery have yet to be enacted, putting it at risk. According to the baseline scenario, Nigeria's economy would increase by 1.8% in 2021. However, with oil prices rising and economies expanding in developed countries, reform slippages might impede Nigeria's economic recovery and jeopardize the country's long-term development goals. If the government fails to continue recent macroeconomic and structural reforms, GDP growth in 2021 might be as low as 1.1 percent.

b. Rising to the challenges of COVID-19 Response

It is expected that Nigeria's economy would suffer its worst recession since the 1980s by 2020 because of the COVID-19-related disruptions, such as decreasing oil prices and remittance, increasing risk aversion in global financial markets, and travel restrictions. Assuming the continuation of macroeconomic reforms and a gradual rise in crude oil prices, our baseline scenario projects that Nigeria's GDP would fall by nearly 4 percent in 2020, rise mildly by 1.1 percent in 2021, and then recover gradually towards the predicted population growth rate of 2.6 percent . As the economy continues to develop at a lower rate than the rate of population increase, it will become more difficult for workers to get full-time employment. If Nigerian reforms continue at their present rate, the spread of COVID-19 might be delayed while the economy would benefit. A robust recovery and progress toward raising 100 million people out of poverty may also be achieved by redirecting public expenditure away from subsidies that favor Nigeria's wealthy and toward investments in the country's people and youth in particular. Policy solutions in five areas should be discussed by the NDU in order to assist Nigeria recover from the crisis and reduce its effects:

i. Managing the domestic spread of COVID-19 until a vaccine is available for distribution;
ii. Enhancing macroeconomic management to boost investor confidence;
iii. Safeguarding and mobilizing revenues;
iv. Reprioritizing public spending to protect critical development expenditures; and
v. Supporting economic activity and access to basic services and providing relief for poor and vulnerable communities.

c. Water supply, sanitation and Hygiene wake-up call

There has been a slow but steady rebound from recession in Nigeria's real GDP in 2018. This year's growth rate was lower than the 0.8 percent reported in 2017 notwithstanding official projections and pre-recession levels. Oil and gas production fell back into decline in Q2 of 2018, reversing the momentum of the non-oil economy.

While the Central Bank of Nigeria (CBN) failed to offset the impacts of violence and weather disasters on non-oil and non-agricultural growth in 2017, it returned in 2018, but remained sluggish, with services (particularly ICT) once again being the dominant engine.

Because the oil industry is not labor-intensive and the non-oil economy is still relatively poor, about a quarter of the workforce was unemployed or underemployed in 2018. As of September, there were 90.5 million people in the workforce, an increase of 3.9 million net entrants (or 4.5 percent) since the end of 2017, despite the fact that the unemployment rate has climbed by 2.7 percentage points (9.9 percent in Q3 of 2015).

d. Investing in Human Capital for Nigeria’s Future

The Nigerian economy relies heavily on the country's modest oil industry, which accounts for less than 10% of GDP. There is a risk that oil price volatility may have a negative impact on Nigeria's balance of payments and government revenues. Oil-price-driven boom-bust cycles have, in fact, had a detrimental influence on Nigeria's economic development and investment opportunities.

The longer-term trend of low domestic income mobilization was revealed as a consequence of the collapse in oil prices in late 2014 and the accompanying budgetary crisis at the national and state levels. Growth and development, particularly in Nigeria's social sector, are greatly impacted by difficulties related to revenue collection. As a consequence, reducing the country's dependency on oil is essential if it is to enhance its economic and social well-being.

Payments to all levels of government are being constrained by increased oil revenues because of unbudgeted fuel subsidies and other deductions. As a consequence, the fuel subsidy is no longer available to Nigeria's poorest residents, who are said to be paying higher prices in countries where the gasoline is smuggled in.

Total income realization is constrained by constraints on non-oil revenues and the slow (relative to GDP) increase in oil revenues, which limits budget execution and the formation of fiscal buffers. To a great extent, this increase in public debt may be attributed to an increase in the number of Eurobonds being issued, some of which were used to liquidate more costly domestic short-term debt.

Nigeria's Economic Recovery and Growth Plan (ERGP) 2017-2020 must be executed more swiftly in order to achieve macroeconomic stability and economic diversification. The development of Nigeria's human capital is the subject of this study. According to studies, human capital accounts for between 10% and 30% of the differences in per capita income across countries. The direct and indirect costs of malaria in Nigeria are estimated to be 13.5 percent of GDP, excluding death. As a result, Nigeria and many other nations have been underinvesting in their human resources. The importance of physical capital is undeniable, but it cannot account for all of the gains in growth.

3.9 How Economic Development be Achieve in Nigeria?

With a projected 35 million population increase over the next ten years, Nigeria might become the world's most impoverished nation unless it improves its economic development and employment creation. To meet the needs of an ever-increasing work force, a new economic model focused on productivity growth will be necessary.

According to the most recent economic study, Nigeria could help millions of its inhabitants transcend poverty over the next decade by implementing significant changes aimed at increasing economic efficiency.

There has been a significant increase in productivity in Nigeria during the last several decades, which has led to an increase in the country's economic growth and a rise in the number of jobs. The study also outlines four key areas that would help Nigeria transition to a new economic model that makes better use of its big, youthful population and vast natural resources in order to foster long-term prosperity and reduce poverty:

i. **Ensure policy transparency** and predictability, which will be critical to reduce investment risk and promote growth outside the extractive industry

ii. Improvements in education, infrastructure, land tenure security, trade regime liberalization, and trade and transit facilitation would all help Nigeria build its value chains and reallocate its production elements more efficiently, lowering its overall production costs.

iii. **Reduce regulatory discretion** to help attract foreign and domestic investment to the non-oil sector, encourage competition, and promote formalization

iv. **Improve access to finance**, which could enable new firms to compete with incumbents and allow more productive firms to scale up their operations

As a result of the report's recommendations, changes that are necessary to decrease risks and promote quicker, more inclusive, and long-term development are being urged to gain pace. areas where change is needed include:

i. Leverage trade integration to harness the benefits of the Africa Continental Free Trade Area

ii. Improve basic education financing to improve human capital outcomes

iii. Monitor the impact of conflict on the welfare of households to protect poor and vulnerable people

iv. Leverage digital technologies to diversify the economy and create jobs for young workers.

This and other changes will help Nigeria increase its macroeconomic resilience, encourage private sector growth, and improve public service delivery, according to a research.

Self-Assessment Exercises

1. State the purposes and goals of economic growth in Nigeria
2. How can local economic growth can be accomplished?

4.0 Summary of the Study Session four

This study session five has introduced students meaning of economic development, goals and objectives of economic development, economic development indicators, economic development strategy and recent cases of economic development overview.

4.0 Self-Assessment Questions (SAQ) for the Study Session

Having gone through, you can now determine how well you have achieved the learning outcomes by answering the following essay and multiple choice questions.

4.1 References

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4.2 Possible Answers to Self-Assessment Exercises

Answers to SAE 1

- To reduce unemployment, achieve economic stability, and increase the standard of living for all citizens
- To build a highly skilled, flexible workforce.
- To concentrate on retaining and expanding existing local businesses.
- To increase the number of small firms within the region by fostering local entrepreneurship
- To recruit businesses that are suited to the region, require a highly skilled work force or are willing to train an entry-level work force and are experiencing growth.
- To identify the economic needs of the chronically unemployed and underemployed in the region, and encourage programming – including education and retraining -- to meet those needs.

Answers to SAE 2

- Business maintenance and expansion to improve the existing business.
- Business expansion to attract new business.
- Establishing a business to promote the growth of new business

UNIT 20: THE LEGAL ENVIRONMENT

Unit Structure

4.1 Introduction
4.2 Learning Outcomes (LOs)
4.2 The Legal Environment
4.3 Legal System
4.4 Legal Environment
4.5 Legal Environment and Business Decision
4.6 Government Acts and Policies in Legal Environment of Business Operations
4.7 Laws and Administrative Orders of the Government
4.8 The Judicial System
4.9 Nigeria Legal System
 4.9.1 Tier 1 Court: Supreme Court
 4.9.2 Tier 2 Court: Court of Appeal
 4.9.3 Tier 3 Court: Federal Court
 4.9.4 Tier 4 Court: State Court
 4.9.5 Tier 5 Court: Other Court
5.0 Acts and Decrees
5.1 Summary
5.2 References /Further Reading/Web Resources
5.3 Possible Answers to Self-Assessment Exercises

4.1 Introduction

This course will provide you an introduction to the legal system. The rules issued by the government that regulate how businesses operate are referred to as the legal environment. Every country's government has laws and regulations governing how businesses operate. The governing body's rules are referred to as the legal environment. All choices of an organization are influenced by the legal context of the nation in which they are made. Subtopics in this session include the legal system, the legal environment and business decisions, government legislation and then the judicial system. etc.

4.2 Intended Learning Outcome

At the end of this study session, you should be able to:

1. Explain what a legal system is
2. Explain what is meant by legal environment
3. State some government acts & government policies relating to legal environment for business operations
4. State some act and decree in nigerian legal environment
5. Briefly explain the function of court of appeal
6. Explain the influence of legal environment on business organization

4.3 The Legal Environment

4.4 Legal System

Legal systems are collections of laws and established legal concepts, as well as organizations of judicial and administrative officials who are responsible for enforcing them. It's a set of social norms and regulations that express the desires of the ruling class and are enforced via the use of coercive state power in order to maintain social harmony, comfort, and order while also benefiting the ruling class's own interests and those of the general population (Vyshinsky,1948).

The government establishes the country's legal framework.

The legal environment refers to the rules and regulations that the government sets in place for businesses to operate. Every country's government has laws and regulations governing how businesses operate. The governing body's rules are referred to as the legal environment. In practice, the legal and regulatory frameworks are intertwined. ' The legal environment, which is also known as the regulatory environment, sets the parameters for businesses to operate within.

4.4 Legal Environment

The state's laws and regulations are referred to as the "legal environment." Financial, banking, and anti-trust laws may have a significant influence on company choices both inside and outside of the area since they cover a wide range of topics such as liability for property damage or personal injury, and they are all intertwined. Every country's government governs business in accordance with its declared goals, and rules and regulations have an impact on how an organization markets and sells its products and services.

Legal agendas have a significant part in management choices, as explained in The Legal Environment of Business. In the course of running a business, it helps managers understand the constraints and bounds of what they may do in the name of their company. It ensures that their judgments are in accordance with the law.

4.5 Legal Environment and Business Decision

All choices of an organization are influenced by the legal context of the nation in which they are made. To avoid significant fines and penalties for non-compliance with government rules, every company must be aware of and adhere to all applicable laws and regulations, which are heavily influenced by the government.

Any firm, but financial institutions in particular, must consider the impact of the legal environment. Legislative restrictions, such as tax payments, minimum salaries for employees, and the maintenance of a safe working environment or circumstances, often have an undesirable influence on the goal of profit maximization.

4.6 Government Acts and Policies in Legal Environment of Business Operations:

The following are some of the Government Acts & Government Policies relating to legal or regulatory environment for business operations:-

(i) The Sale of Goods Act, 1930.

(ii) Indian Companies Act, 1956.

(iii) Income Tax Act, 1961.

(iv) The Consumer Protection Act, 1986.

(v) The Weights & Measures Act, 1958.
(vi) Environment Protection Act, 1986.
(vii) Agricultural Policy.
(viii) Industrial Policy.
(ix) Foreign Investment Policy.
(x) Monetary Policy.
(xi) The Factories Act, 1948
(xii) The Minimum Wages act, 1948.

The components of the Legal Environment of a business concern are:

(a) Laws and administrative orders of the government.
(b) The judicial system of the country.

4.7 Laws and Administrative Orders of the Government.

a) The consumer protection legislation

Secure, accurate, and timely disclosure of consumer credit information is critical for banks, and this can only be achieved with well-designed systems that adhere to all applicable laws and regulations, or that are explicitly consented to by the customers themselves.

An ATM or wire transfer system must be safe and secure transactions must not put the consumer at danger. This is a legal requirement for the customer. In order for the poor to be able to get credit, a reasonable cost structure and easy access to basic services are required.

Legislation aimed at safeguarding the interests of consumers should mandate the complete and appropriate disclosure of pricing and terms and conditions of retail sales. Comprehensive consumer protection requires financial institutions to be held to a high standard of transparency in their dealings with customers.

b) Creditors' Rights and Insolvency Systems

Effective creditor rights and insolvency systems are vital for financial stability because they enable market participants and stakeholders to accurately price and manage the risks of default and non-performance. The market's confidence in business is bolstered as a result of their efforts. Credit is predicated on repayment, and the costs it entails are influenced by the likelihood and cost of default, as well as the time it takes to recoup any losses.

It is essential that the country's banking industry develop an informal, out-of-court method for dealing with situations of corporate financial distress, particularly in areas where company bankruptcy is systemic (possibly with help from the central bank or finance ministry). An informal process has a far higher chance of surviving if there are suitable creditor remedies and insolvency procedures in place.

There is a heavy reliance on existing bodies and regulations in commercial enforcement and bankruptcy proceedings. The three most important parts of an institutional framework are the institutions that conduct proceedings, the operational system through which cases and judgements are processed, and the rules essential to safeguard the integrity of those institutions.

Insolvency administrators must possess the attributes of objectivity, objectivity, and impartiality required by an efficient regulatory system. Legal duties and public expectations for fairness, impartiality, transparency, and accountability should be established by regulatory or oversight agencies independent of the bankruptcy administrators themselves.

4.8 The Judicial System

Economic growth and social progress cannot be maintained or encouraged in nations where the judicial system is dysfunctional, according to common belief. In order to facilitate legal change and foster social and economic progress, an independent and impartial judiciary must constantly enforce a set of clear standards. In order to be effective, the court must apply and execute the law in a predictable and efficient manner.

It is essential that the legislative, executive, and judicial departments of government have proper checks and balances in place, regardless of whether the legal system is based on civil law or the common law heritage. Regulation of the financial industry should be carried out by the legislature, which should function as an enabling and enlightened arm. As a watchdog over the other two branches to ensure that they stay on course with their respective mandates, the executive must be effective and efficient in carrying out the will of the legislative.

The basis of a society ruled by the rule of law is the process through which rules and regulations are conceived, prepared, adopted, announced, and enforced. An ineffective legislative process results in laws that are out-of-date and poorly worded, leaving the executive branch without a solid legal foundation on which to operate. In order to prevent this, one must avoid situations where policy and practices may be reversed and executive actions and regulatory acts can be challenged in court because of this.

In order for the legal and judicial system to function well, it must be able to resolve conflicts between private parties and the state. Conflicts may be settled fairly via the use of courts. In order to reach a decision, the courts must rely on independent fact-finding. The state must enforce these rulings. Alternative conflict resolution methods are not comparable to the state-enforced standards of the courts. In addition to reducing the risk of violence, state enforcement may help enhance the economic environment. However, the other arms of government must also follow the law in order for the courts to be successful. The judicial system must operate as a counterweight to the power of the state. If the court is to fulfill its duty of protecting the country, it must be seen as fair in the eyes of the public. Courts must operate well and be accessible to the public.

Judicial judgments are judged on the basis of judges' actual and perceived independence. Enough protections must be in place to guarantee that court rulings are free from political meddling and the sway of influential private parties, as well as that government officials may be held accountable for their actions. Justice cannot be overridden or ignored by other government agencies. If this occurs, legal action should be taken against them. Judges' judgments are based only on the facts of the case and the relevant law, which is a requirement of their independence. Accurate procedural safeguards are necessary to ensure that court rulings are impartial. There should be an opportunity for members of the public to participate in public hearings. Assigning cases should be done in accordance with a uniform procedure, and the expense of bringing a case to court (legal aid costs) should be reduced.

Simple or low-value conflicts should be subjected to speedier and less resource-intensive processes. Modest claims courts, where the parties may represent themselves, should handle cases involving small sums of money, for example.

The courts and the judiciary must be open to the public. To ensure that residents have access to justice, courts should be located within a reasonable distance of the populace and not just in the capital. Courts must be run in such a manner that bringing a case is not too burdensome. The cost of going to court should not be a barrier for the general public. Access to justice should not be hindered by the high expense of pursuing a legal claim. There should be many opportunities for low- or no-cost legal aid and guidance. Access to the courts should be guaranteed in the event of a need for legal assistance.

It is possible to misuse the function of the court of judicial review in developing nations, even if judicial review is being utilized as a means of ensuring checks and balances. In order to limit judicial review in banking, the legislation should define the function of the courts in judicial review and prohibit a stay of regulatory judgments.

It is possible to devise new methods of resolving disputes. Disputes between banks and customers, banks and other banks, and banks and regulators are all examples of this. Effective strategies for resolving disagreements have been shown to be a wise investment in the past. There is less time and money spent litigating disagreements, which instills higher confidence in the financial system amongst consumers as well as amongst banks and regulators. A banking ombudsman for customer-banker conflicts and banking courts to address conflicts between the banks and the regulator should also be considered. The use of arbitration by banks should also be considered.

4.9 Nigerian Legal System

An important part of Nigerian law is the diversity of courts, offences, and legislation. On May 29, 1999, Nigerians ratified the country's constitution. It is Nigeria's constitution that serves as the country's highest authority. English law, common law, customary law, and sharia will all be referred to as Nigerian law in this article. After the nation gained its freedom from colonial rule, Nigeria adopted both common law and English law.

You may trace the roots of customary law all the way back to pre-colonial Yoruba land secret groups and dispute settlement meetings in Igboland and Ibibioland. The term "Islamic law" or "Sharia law" is used interchangeably with "Islamic law" or "Sharia law" in Northern Nigeria. Muslims in Lagos, Nigeria, are among those who utilize it. When it comes to appeals, the Nigerian Supreme Court is the country's highest court.

Currently, it is only valid in southern Nigeria's Christian-majority states, where it is contained in Nigeria's 1990 Federal Laws (Chapter 77). First Baron Lugard, High Commissioner of British Colonialism in Nigeria from 1904 to 1916, developed a British colonial code, which subsequently became the Criminal Code of 1916 and was adopted into Nigerian law in 1958. It was only valid in Nigeria's northern states until 1959, but after 1963 it has only been applicable in the country's southern states.

Only Muslim-majority states in northern Nigeria have been governed by the Penal Code of Northern Nigeria since 1960, also known as the Nigerian Penal Code. On September 30, 1960, the Sudanese Penal Code, based on the Indian Penal Code, was initially put into effect.

Nigeria's constitution allows for the establishment of state or federal courts. Although state governors pick state court judges, the president appoints federal judges. One of the most striking differences between the two is this. The National Judicial Council nominates all federal and state judges.

The Federal courts are: Supreme Court, Court of Appeals, and Federal High Court.

The State courts include: The supreme court, the court of customary appeals, and the court of sharia appeals all exist in the same state. Legally, any of the thirty-six states may have these courts. Sharia courts, on the other hand, are more prevalent in Muslim-majority northern areas. Sharia courts do not prevalent in the southern states, which are mostly Christian.

The Federal Capital Territory (FCT) courts federal courts have judges who are nominated by the President, making them the same as state courts. The FCT has three levels of court: The High Court, the Customary Court of Appeal, and the Sharia Court of Appeal, all of which are located in the Federal Capital Territory.

4.9.1 Tier 1 Court: Supreme Court

Nigeria's Supreme Court is the country's highest court. Its headquarters are located in Nigeria's capital city of Abuja. As the nation's last appeal court, the Supreme Court has considerable appellate authority. Additional jurisdictions include conflicts between states and the federal government, in addition to the issues between states. Justices of the Supreme Court work together to reach decisions that have ramifications for the whole court. The Senate must first confirm the Chief Justice and the Court's Associate Justices before they may assume their places on the bench.

4.9.2 Tier 2 Court: Court of Appeal

As the capital of Nigeria, the city of Abuja is home to Nigeria's Court of Appeal. The Court of Appeals, on the other hand, is organized into sixteen divisions dispersed around the nation as a counterweight to this. The "President of the Court of Appeal" refers to the person in command of the court. The courts are behind him/her. The appointment of an appeals court president does not need Senate approval.

Even though the Court of Appeal is an appeals court, it also has initial jurisdiction over nominations for the presidency and the vice presidency. A venue where Nigeria's many legal systems (English, customary, and sharia) meet is the Federal Court of Appeal. There must be a minimum of three conventional and a minimum of three Islamic judges of personal law, according to the legislation. The Supreme Court may hear an appeal from a lower court (the tier 1 court).

4.9.3 Tier 3 Courts

The Federal Court of Appeals is the highest-ranking federal court. Courts of last resort in a state or federal jurisdiction, including those with customary or Sharia appellate authority, must adhere to this rule. Each of the 36 states in the United States has its own police force. As a last resort, no other court has the power to hear cases. Further appeals are available to the Tax Appeal Tribunal. Other judges sit in on proceedings.

If one is located in a state or the Federal Capital Territory, it serves as the supreme court of English law (FCT). State/FCT high courts and the Federal Court of Appeal have a similar authority balance. Identifying which branch of the Federal High Court belongs to which state is challenging since each state has its own High Court and division of that court. In Lagos, for example, there is both a Federal High Court and a State High Court (sometimes referred to as The Lagos State High Court). Numerous more judges keep tabs on the proceedings.

This is where you may find the highest Customary law court in your state/FCT. The President of the State's Customary Court of Appeal (FCT) relies on the assistance of additional judges to carry out their responsibilities (FCT).

It is the Sharia Court of Appeal that has jurisdiction over the Federal Capital Territory (FCT). Other Khadis help the Grand Khadi in running the show.

It is possible for an appeal from a lower court to be heard by the Federal Court of Appeal, which is tier 2. (Federal Court of Appeal).

4.9.4 Tier 4 Courts: State Courts

A majority of the United States' lower courts are situated in their respective states (there is no federal court in this group). A Magistrate's Court that adheres to English law Customary Courts and Sharia Courts are two other sorts of courts that handle matters regulated by customary law.

For appeals against tier 4 court decisions, only tier 3 courts (e.g., the UK's High Court of Justice/FCT) may hear them.

4.9.5 Other Courts

(a) Election Tribunal

Electoral petitions are heard by the Election Tribunals for the National Assembly and the Governorship and Legislative Election Tribunals. Customary and/or grand khalifah Sharia courts, as well as federal customary courts, approach a president of the federal court of appeal to set up electoral tribunals for various reasons.

(b) Code of Conduct Tribunal

Code of Conduct Bureau and Tribunal was established under the Laws of the Federation of Nigeria, 2004, Chapter C15, to deal with claims of corruption by public employees for infractions of its provisions.

An individual must have served in a Nigerian higher court of record or be eligible to serve on the Code of Conduct Tribunal in order to serve (CCT). The chairman of the CCT would be compensated in accordance with Nigerian law. The president shall appoint the chair and other members of the Tribunal based on recommendations from the National Judicial Council. At seventy years old, the chairman and members of the CCT will be dismissed from their positions in the CCT

A majority of the Nigerian National Assembly must petition President Goodluck Jonathan to remove them from their seats if they are unable to discharge the responsibilities of their office owing to mental or physical incapacity, misdeeds or a breach of the Code of Conduct. No Tribunal member who has not yet attained retirement age may be dismissed under this law. The Code of Conduct Tribunal's findings may be appealed to the second layer of courts. (Federal Court of Appeal).

(c) **Sharia**

Only in the Muslim-majority north of the country is Sharia, or Islamic law, enforced. There has been a religious system known as Sharia in Nigeria for centuries. Since Nigeria's independence, civil sharia law has been included into the country's constitution. The old constitution was repealed in 1999, and a new one took its place. Certain Muslim-majority northern districts of the nation have since 1999 had full sharia law implemented. the criminal as well as the civil aspects As a result of this, Zamfara has implemented full Sharia law, which went into effect in January of that year. One hundred and ten other states have followed suit since then. The nine states of Nigeria are Kano, Katsina, Niger, Bauchi, Borno, Kaduna, Gombe, Sokoto, Jigawa, Yobe, and Kebbi. Each of them is a state.

5.0 Acts and Decrees

Among the many pieces of legislation enacted by the National Assembly are the following:

Acts of the National Assembly

- The Bills of Exchange Act (1917)
- Electricity Ordinance Act 1929.
- The Anatomy Act (1933)
- Electricity Corporation of Nigeria Ordinance 1950.No. 15.
- The Acts Authentication Act (1962)
- The Niger Dams Act 1962.
- National Electric Power Authority Decree 1972.No. 24.
- The Bankruptcy Act (1979)
- Energy Commission of Nigeria Decree 1989.No. 19
- Energy Commission of Nigeria Act 1988.No 32
- Electricity Act 1990

- National Electricity Power Authority (NEPA) Act 1990.
- The Arbitration and Conciliation Act (1998)
- National Electric Power Authority (Amendment) Act 1998.No. 29.

4th Parliament: 1999 - 2003

- Constitution of the Federal Republic of Nigeria 1999
- The Criminal Code Act
- The Penal Code
- The Child Right act 2003
- National Electric Power Authority Act 2004.
- Electric Power Sector Reform (EPSR) Act 2005.No. 6.

5th Parliament: 2003 – 2007

- Border Communities Development Agency Act, 2003
- 6th Parliament: 2007 – 2011
- Public Procurement Act 2007
- 7th Parliament: 2011 - 2015
- Federal Capital Territory Internal Revenue Service Act 2015

8th Parliament: 2015 - 2019

Trafficking in Persons (Prohibition), (Enforcement And Administration) Act, 2015

Decrees of the Federal Military Government

- Energy Commission of Nigeria Decree 1979. No. 62
- Electricity (Amendment) Decree 1998.
- NEPA (Amendment) Decree 1998.
- Privatization and Commercialization Decree 1988.No. 25.
- The Administration of Justice Commission Decree 1991 (No 55)
- The Admiralty Jurisdiction Decree 1991 (No 59)
- The Banks and Other Financial Institutions Decree 1991
- The Central Bank of Nigeria Decree 1991(No 24)
- The Exclusive Economic Zone Decree
- The Land Use Decree 1978
- The Petroleum Decree 1978

Self-Assessment Exercises

1. what is Legal System?
2. what components of the Legal Environment of a business

5.1 Summary

This section explains the significance and determinants of financial institution performance in a clear and concise manner. Specifically, both quantitative and qualitative measures of bank performance are scrutinized. In the last section, CAMEL's indicator of bank performance is explained in terms of its actual use and interpretation.

5.3. **References** /Further Reading/Web Resources

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5.3 Possible Answers to Self-Assessment Exercises

Answers to SAE 1

Legal systems are collections of laws and established legal concepts, as well as organizations of judicial and administrative officials who are responsible for enforcing them. It's a set of social norms and regulations that express the desires of the ruling class and are enforced via the use of coercive state power in order to maintain social harmony, comfort, and order while also benefiting the ruling class's own interests and those of the general population

(Vyshinsky,1948).

Answers to SAE 2

(a) Laws and administrative orders of the government.

(b) The judicial system of the country.

UNIT 21: THE REGULATORY ENVIRONMENT

Unit Structure

5.1 Introduction

5.2 Learning Outcomes (LOs)

5.3 The Regulatory Environment

5.3.1 Overview of the Nigerian Banking Sector

5.3.2 Banking Regulations/Legislations

5.3.3 The Origin of Banking in Nigeria

5.4 Central Bank of Nigeria

5.4.1 Banking Act of 1969

5.4.2 Nigerian Enterprises Promotion Act 1977 (NEP Act)

5.5 Security and Exchange Commission (SEC)

5.5.1 Historical Development

5.5.2 Statutory Enactment for SEC Operation

5.5.3 Objectives of Security and Exchange Commission (SEC)

5.5.4 Capital Market Development

5.5.5 Functions of Securities and Exchange Commission

5.5.6 Prospectus

5.6 National Insurance Commission (NAICOM)

5.6.1 Background

5.6.2 Functions of NAICOM

5.6.3 The Services of National Insurance Commission (NAICOM) to Customers

5.7 Summary

5.8 References /Further Reading/Web Resources

5.9 Possible Answers to Self-Assessment Exercises

5.1 Introduction

Financial institutions play a significant role in the entire financial system since they are both borrowers and lenders. In order to achieve investment goals, financial systems must first and foremost mobilize and distribute financial resources across the economy.

It doesn't matter what's going on in the country's economy; a robust and stable banking sector is critical to it. We need to dig deep and explore for strategic solutions to make our dream banking sector a reality. Most people in the globe, including Nigerians, like to see a strong and stable financial system in the country. Financing institutions should be regulated.

5.2 Intended Learning Outcome

At the end of this study session, you should be able to:

1. Give a brief overview of the banking sector
2. Trace the historical background of the banking sector
3. Examine the elements that have contributed to the expansion of Nigeria's private banking sector
4. Explain the nature of the financial system
5. Identify three variables that contribute to the banking sector's health and instability.

5.3 An assessment of the banking industry in Nigeria.

All the actors in Nigeria's banking business have a same goal: building a robust and stable industry. In the event of a crisis, people may sleep well at night without fearing that something horrible would happen before the day rises. The financial industry in Nigeria has been mostly deregulated and liberalized since its independence in 1960. Since the onset of financial crisis cycles, which resulted in the liquidation of 37 banks between 1994 and 2003, the situation has changed considerably. Since then, there has been no stability or soundness in the financial industry or the surrounding environment. Asset destruction, a lack of faith in the system, and an increasingly difficult process managing money outside of the banking system have all contributed to serious economic losses.

We can easily point at a number of factors that may be contributing to the unhealthiness and instability in the banking sector. Such factors include:

1. Unstable macroeconomic and fiscal policies.
2. Unethical and unprofessional practices.
3. Inadequate supervisory activities rank high on the scale.

A strong and stable financial sector is essential if the global economy is suffering difficulties. Consequently, in order to assure the fulfillment of our aspirational banking sector, careful evaluation and the pursuit of strategic initiatives are essential. For both Nigeria's economy and the global economy, a robust and stable financial system in Nigeria is desired. In order to achieve this aim, financial institutions must be properly controlled.

5.3.2 Banking Regulations/ Legislations

The banking sector is heavily regulated in many nations throughout the globe due to the nature of its operations. Economic progress depends on a bank's capacity to mobilize resources. So it's no wonder banks are so heavily regulated here in the US. Politicians are concerned about the long-term survival of the banking industry. There is a great deal of potential for systemic instability if a bank declares bankruptcy.

Reasons for its tight control are in many cases obvious.

1. If left unchecked, this might have a devastating effect on the economy. Banks play a huge role in the creation of new money because they act as a middleman. If banks are not controlled, there is a danger that they will print too much money. High inflation has long been recognized as an economic barrier.
2. Banks manage other people's money, therefore it's vital to monitor them to make sure the money is being utilized wisely and where it is most needed. They must also be protected from total collapse or suffering, which is even more critical.
3. In the absence of restrictions, banks may find it difficult or impossible to fund some sectors of the economy. There are a number of examples to choose from. Banks have been urged from time to time to focus their resources on the most productive parts of the economy. As with the agricultural loan guarantee program, banks have been asked to help agricultural growth on occasion.
4. For the sake of keeping the financial industry competitive and, therefore, efficient, banks are subject to regulation. Banks will be unable to innovate in a way that benefits the economy as long as cartels are permitted to form.
5. Maintaining public trust in the financial sector is made easier by enforcing regulations. Depositors' money must be protected so that they may be converted to cash without harming the client's finances.

This industry has been heavily regulated and supervised in Nigeria since 1957, when the nation achieved its independence from the United Kingdom. A combination of economic nationalism and development ambitions drove the first wave of interventionist measures in Latin America. Since laws redirected resources away from sectors where profits might have been maximized, while giving the government with affordable access to resources, the intervention had financial repression at first.

In the broad concept of economic regulation, the government regulates economic activity. Preventive regulation in banking differs from protective regulation in that the former is focused on preventing problems before they arise. This includes measures like restricting the types of activities banks may participate in and requiring banks to be licensed as part of preventive regulation. Banks are also subject to a variety of additional safeguards, such as capital adequacy regulations, liquidity and statutory reserve limits, and bank exams.

Examples include deposit insurance and the ability of the central bank to take over banks. Nigeria's banking laws are broken down into three categories.

Included in this list of regulations are legislative requirements and Central Bank directives.

5.3.3. The Origin of Banking in Nigeria

The African Banking Corporation (ABC) and the British Bank of West Africa (BBWA) were Nigeria's first modern banks, founded in 1883. It has been in operation since its inception, although Standard West Africa and Standard Nigeria both fell under within a few years of being established. It wasn't long after that the Union Bank of Nigeria PLC was established. For the benefit of foreign owners, these banks discriminated against indigenous businesses, who were effectively locked out of the economy due to their lack of access to funding from these banks. A feeling of estrangement resulted, which strengthened Nigerian nationalists' support for locally owned banks. Four of the country's 26 banks were established between 1929 and the country's independence in 1960. National banks in Nigeria include Wema Bank, initially Agbonmagbe Bank, and African Continental Bank of the North. Public outrage over the recent run of local bank failures led the government to form the Paton's commission. According to the report's conclusions, the country's financial rules were formally kicked out in earnest with the passing of the Financial Ordinance in 1952.

Banks were forced to meet new legal requirements for the first time as a consequence of this regulation. As a result, no company may engage in banking operations in Nigeria without first obtaining a license from the finance secretary. The Financial Secretary has positioned himself as a pioneering figure in banking industry supervision and monitoring after being awarded these and other authorities. In contrast, some nationalists believed that a central bank should take over the financial secretary's regulation and oversight functions since it was better situated to do so than the secretary of the Treasury.

5.4 Central Bank of Nigeria

Mr. JB Loynes's 1957 investigation into banking in Nigeria and subsequent discussions on banking problems prompted the colonial administration to draft an ordinance establishing the central bank of Nigeria.

1. Issuance of a legal tender currency in Nigeria
2. Maintenance of external reserves so as to safeguard the international value of the currency.
3. Promotion of monetary stability and a sound financial system.
4. Banker and financial adviser to the federal government and
5. Banker to other banks in Nigeria and Abroad.

The 1958 central bank of Nigeria ordinance came into effect on July 1, 1959, and since then, the central bank has expanded its powers and taken on more and more responsibility for the growth of Nigeria's banking system.

That same year's banking ordinance also overturned and replaced the state's original 1952 banking law. It was formerly up to "the minister in charge of banking," i.e., the federal minister of finance, to issue a banking license after consulting with the Central Bank of Canada, but this responsibility has now been transferred to the Financial Secretary. There are no legal banks in Nigeria that operate without a legal license given under the 1958 ordinance, and licenses received under the 1952 statute are still valid today.

If Nigeria's finance minister considered that giving a Nigerian banking license would harm the country's national interest, he had to alert the governor-general in council. For more than half a century, Nigeria's banking sector has been closely controlled by the federal ministry of finance and the country's central bank (formally referred to as the "CBN" in Nigeria). After 1958, the Federal Ministry of Finance's role as the primary regulator and mediator between the Central Bank of Nigeria (CBN) and the Federal Executive Council was no longer necessary since the banking sector had fundamentally changed.

5.4.1 The Banking Act of 1969

For eight years in the 1960s, the CBN Act underwent revisions. the CBN additional power but keeping preserving its responsibilities as laid down in the 1958 legislation was the primary aim. A 1969 legislation that repealed and replaced the 1958 banking ordinance was one of the most important banking laws of this period. According to the Banking Act of 1969, no banking activities may be carried out in the country until a company was founded with a valid banking license given by the minister of finance. All license requests must be filed in writing to the central bank. According to a subsequent revision, an operating permit would have been issued only after approval by Minister of Commerce and Industry of the company's mission statement, which had been submitted to CBN for evaluation and approval. It has now been possible for the government to influence the structure of banks, including the distribution of ownership and appointment of directors and top managers.

However, a limited liability corporation may still be licensed notwithstanding this need. It was not necessary for the company to be incorporated in Nigeria from the outset. The Corporations Act of 1968 imposed Nigerian incorporation as a condition of tax exemption for international enterprises operating in Nigeria. To do business in Nigeria, a corporation had to be incorporated in Nigeria, which meant it was subject to the laws of Nigeria. This provision is still in effect thanks to the Companies and Allied Matters Act of 1990.

5.4.2 Nigerian enterprises promotion Act 1977 (NEP Act)

The 1977 Nigerian Enterprises Promotion Act had a huge impact on Nigeria's banking sector (NEP Act). Instead of include banks, the NEP Act of 1972 ignored them entirely. Companies listed on Schedule 2 are required to have 60 percent of their stock or ownership held by Nigerians, under a rule passed in 1977. To comply with the regulations at the time, several banks were forced to transfer their shares to Nigerians. Because of the majority ownership, Nigerians were able to rise to the top of the corporate ladder and become top managers and directors. As a result of learning so much from those who came before them, Nigerian bankers were more willing to build their own privately held institutions than they had been in the past. Due to government policy and present bank regulation's authorization of unrealistically high entry obstacles and excessive bureaucracy, Nigeria's banking industry has expanded slowly despite the opportunities given as part of Nigeria's indigenization push. Due to the fact that banks were making tremendous profits in the 1980s, public discontent with the quality of service offered by banks increased. In 1983, when the second republic ended, it was clear that the country's financial system was in dire need of repair and modernization.

There are several government regulations and restrictions that impede the progress of the country. Banking innovation and competitiveness were absent until the government's structural adjustment program was enacted in July 1986.

5.5 Security and Exchange Commission (SEC)

5.5.1 Historical Development

The Securities and Exchange Commission was created by the Securities and Exchange Commission Act 71 of 1979, as amended by Decree No. 29 of 1988. (SEC). The Capital Issues Committee underwent many reorganizations after being designated the Capital Issues

Commission in 1973 by the Capital Issues Decree. Thus, the structure's primary function has changed throughout time, just as the goals for its growth have. The director-general sits on the commission's board of directors, which determines its policies. The board, on the other hand, gave the director-general responsibility for the commission's day-to-day operations. The board of directors of a corporation is often composed of individuals picked for their expertise in the financial sector and their views on the overall health of the economy.

They were first employed as Central Bank personnel, where they had previously worked (an inevitable fact of its history). Because of the company's new position as an independent business, there are more accountants, economists, statisticians, and even attorneys and assistant lawyers. Each of the divisions of the commission has its own department. There must be a manager or higher in control of every level. The commission's primary goal is to protect investors while simultaneously growing the market, in order to secure long-term economic growth.

5.5.2 Statutory Enactment for SEC Operation

More laws apply to Nigeria's securities and investment business than only Decree No. 1988 of Nigeria's Securities and Exchange Commission, for which the commission is accountable. Legislation governing trustee investments from 1957 and 1962, as well as the work of the technical committee and the 1988 decree on privatization and commercialization, are all noteworthy examples. ' According to the Companies and related problems order of 1990, the SEC is in charge of all unit trust schemes that fall within its jurisdiction.

5.5.3 Objectives of Security and Exchange Commission (SEC)

The commission's main goals are:

- Protecting investors and developing the capital market in order to promote greater social and economic progress.

Investor protection

Investing in financial assets involves investor protection because of their nature. A physical examination, as is the case with the majority of other items, cannot be used to determine the former's worth. Financial services, on the other hand, are seen by the public as lacking in information and laden with jargon. Thus, investors find it difficult to evaluate the quality of the services and products on offer. Individual investors, on the other hand, don't have access to all of the information they need to make an informed investment decision.

An important part of investor protection is to make sure that investors get the information they need to make informed decisions. To preserve the public's faith in the stock market, safeguards against deception and price manipulation, as well as unfair exploitation of price-sensitive information, are sought.

A wide range of market activities and operators are subject to the commission's rules and regulations, which are meant to safeguard both local and foreign customers.

Investors are safeguarded by the Securities and Exchange Commission, which ensures that companies:

(a) The prospectus contains all relevant information.

(b) Reporting on the finances in a timely manner.
(c) Achieving a level playing field while issuing securities.
(d) Ethical business practices

5.5.4 Capital market development

A different goal is to promote public understanding of the market's role as a source of capital and a driver of rapid economic growth.

Capital market efficiency and competitiveness have increased as a result of these efforts. In addition, there have been a number of new instruments and rules that have had an overall favorable effect on the market, as well. According to the commission, regulation must be balanced with development and forward-looking efforts.

Nigeria's leading capital market regulator, the SEC is routinely approached for views on a broad variety of capital market-related subjects and problems.

5.5.5 Functions of Securities and Exchange Commission

(a) Choosing whether to sell stocks via an offer for sale or an offer for subscription, as well as the price at which they should be offered, are all important considerations.

(b) The process of registering securities that are to be offered for sale or subscription.

(c) Surveillance of securities markets in order to guarantee fair and orderly trading of securities.

(d) In order to maintain high standards and professionalism in the financial services industry, registrars, securities dealers, and other market participants are required to do so.

(e) Be on guard against any potential misuse of the stock market that might be caused by insider trading.

(f) The Nigerian Stock Exchange's regulatory apex organization, which it would be free to transfer authority to.

(g) Controlling the process of putting together a new company.

(h) establishing the conditions essential for the capital market to flourish in an orderly manner.

(i) Operators and issuers in the market are required to provide full disclosures.

(j) Conducting market surveillance in order to keep tabs on the trading of financial instruments. In the market, securities and financial institutions must be registered.

(k) Enlightenment for everyone, research, and education about the securities business for the general public.

(l) Inquiry into allegations of securities law violations and possible violations.

(m) The creation of regulations to guide the market in a certain direction.

5.5.6 Prospectus

Investors require a firm selling securities, whether via an offer for sale or an offer for subscription, to provide Securities and Exchange Commission with a prospectus outlining the specifics of its offering.

The following is often included in the prospectus:

a. Summary of the offer
b. Parties to the offer
c. Chairman's Letter
d. The Profit Forecast
e. Accountant's Report (content)
f. Statutory and General Information:

Parties to the offer

- Names of directors
- Company Secretary
- Issuing houses
- Stockbrokers
- Solicitors
- Reporting accountants
- Auditors and registrar.

5.6 National Insurance Commission(NAICOM)

5.6.1 Background

When NAICOM Act Number 1 of 1997 came into force in 1997, its primary goal was to improve the efficiency of insurance regulation and administration in Nigeria by establishing the National Insurance Commission.

5.6.2 Functions of NAICOM

NAICOM was established to render the following services:

i. Establish standards for the conduct of insurance business in Nigeria.
ii. Approve rates of insurance premiums to be paid in respect of all classes of Insurance business.
iii. Approve rates of commissions to be paid in respect of all classes of insurance business.
iv. Ensure adequate protection of strategic government assets and other properties.
v. Regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria.
vi. Act as adviser to the Federal Government on all insurance related matters.

vii. Approve standards, conditions and warranties applicable to all classes of insurance business.
viii. Protect insurance policy-holders and beneficiaries and third parties to insurance contracts.
ix. Publish for sale and distribution to the public, annual reports and statistics on the insurance industry.
x. Liaise with and advise Federal Ministries, Extra Ministerial Departments, statutory bodies and other government agencies on all matters relating to insurance contained in any technical
xi. agreement to which Nigeria is a signatory.
xii. Contribute to the educational programmes of the Chartered Insurance Institute of Nigeria and the West African Insurance Institute.

5.6.3 The Services of National Insurance Commission(NAICOM) to Customers

Agents and brokers, as well as insurers and reinsurance businesses, all benefit from the services that NAICOM provides. It also helps the government in its role of providing insurance to the general populace (federal, state and local).

The Commission is expected to achieve the following target in the course of performing its functions:

i. Assist in the establishment of an insurance market that is calm, organized, and free of abuse. A three-month or ninety-day claim period is the intent of the commission.
ii. Within sixty (60) days of registering a company.

Self-Assessment Exercises

1. State the Functions of Securities and Exchange Commission
2. Functions of NAICOM

5.7 Summary

In this study session you have learnt the origin of Banking in Nigeria, historical development of the Central Bank of Nigeria, Security and Exchange Commission (SEC), NAICOM. The regulatory functions of these institutions as well as the mechanism employed to protect the investing public and other stakeholder in the financial system.

5.8 References /Further Reading/Web Resources

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5.9 Possible Answers to Self-Assessment Exercises

Answers to SAE 1

- ❖ Choosing whether to sell stocks via an offer for sale or an offer for subscription, as well as the price at which they should be offered, are all important considerations.
- ❖ The process of registering securities that are to be offered for sale or subscription.
- ❖ Surveillance of securities markets in order to guarantee fair and orderly trading of securities.
- ❖ In order to maintain high standards and professionalism in the financial services industry, registrars, securities dealers, and other market participants are required to do so.
- ❖ Be on guard against any potential misuse of the stock market that might be caused by insider trading.
- ❖ The Nigerian Stock Exchange's regulatory apex organization, which it would be free to transfer authority to.
- ❖ Controlling the process of putting together a new company.
- ❖ establishing the conditions essential for the capital market to flourish in an orderly manner.
- ❖ Operators and issuers in the market are required to provide full disclosures.
- ❖ Conducting market surveillance in order to keep tabs on the trading of financial instruments. In the market, securities and financial institutions must be registered.
- ❖ Enlightenment for everyone, research, and education about the securities business for the general public.
- ❖ Inquiry into allegations of securities law violations and possible violations.
- ❖ The creation of regulations to guide the market in a certain direction.

Answers to SAE 2

- ❖ Establish standards for the conduct of insurance business in Nigeria.
- ❖ Approve rates of insurance premiums to be paid in respect of all classes of Insurance business.

- Approve rates of commissions to be paid in respect of all classes of insurance business.
- Ensure adequate protection of strategic government assets and other properties.
- Regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria.
- Act as adviser to the Federal Government on all insurance related matters.
- Approve standards, conditions and warranties applicable to all classes of insurance business.
- Protect insurance policy-holders and beneficiaries and third parties to insurance contracts.
- Publish for sale and distribution to the public, annual reports and statistics on the insurance industry.
- Liaise with and advise Federal Ministries, Extra Ministerial Departments, statutory bodies and other government agencies on all matters relating to insurance contained in any technical
- agreement to which Nigeria is a signatory.
- Contribute to the educational programmes of the Chartered Insurance Institute of Nigeria and the West African Insurance Institute.