

Operational Cross-border Risks in Intra-African Trade

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by

Arne Matthias Brozio
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Abstract

Africa is in the unfortunate position of being the continent with the lowest intra-continental trade volumes and the lowest contribution to world trade. Looking at operational cross-border risks in intra-African trade is likely to shed some light on the factors that influence this situation and provide some insight not previously available. The study examines a number of theoretical models and conceptual frameworks and then uses the CAGE Distance Framework proposed by Ghemawat (2001) to develop an empirically-based category scheme to classify the data. The research method employed is a qualitative case study based on the assignments of second-year MBL study groups for the subject International Business. The results show an overwhelming emphasis on government policy and weak institutions as the causes of cross-border trade risk in Africa. Risk response recommendations concentrate on bypass solutions in the short term and improved governance in the longer term.

Declaration

I, Arne Matthias Brozio, declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Leadership in the Graduate School of Business Leadership of the University of South Africa. It has not been submitted before for any degree or examination in this or any other university.

Arne Matthias Brozio

November 2010

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Chapter 1: Orientation

1.1. Introduction

Within hours of the final whistle of the 2010 Soccer World Cup, the world congratulated South Africa and Africa on a job well done. FIFA's president awarded a rating of 9 out of 10 to the organisation and execution of the month long event (News24.com, 2010). It appeared that more than 300,000 visitors came to South Africa for the event, yet the large majority of the fans were from outside Africa, notwithstanding the expense and large distances (AFP, 2010).

Similarly, when shifting the focus from tourism to trade, the United Nations Economic Commission for Africa observed in its recent report dealing with intra-African Trade that "African countries in general tend to trade more with countries outside the continent than among themselves." (UNECA, 2010a:19).

1.1.1. Background

The researcher, on a recent trip to Tanzania, passed through a village in the rift valley near Lake Manyara. There was an abundance of high quality fruit and vegetables on display. However, the surroundings did not reflect the prosperity which should have been the consequence of this obvious convergence of the agricultural skills of the villagers and a favourable environment, consisting of a near-ideal climate, plentiful supply of water and rich soil. Searching for the reasons for this phenomenon, revealed that the community had not been able to find a feasible and cost-effective way of making their produce available to the foreign or even closer, regional markets. The more high-level rationale, however, remained elusive at the time.

Some time later, during 2009, while studying International Business at the Unisa Graduate School of Business (SBL), one of the group assignments for the course "Strategy Dynamics and International Business" required the compilation of a list of operational cross-border risks for intra-African trade. The synthesising and evaluation of the foregoing information for this study could possibly provide some reasons for the apparent difficulty and resulting reluctance of Africans to trade with each other.

1.1.2. Topic Introduction

Although operational cross-border risks are likely to be similar in other developing regions, trade within Africa, with only 8% of total exports and imports by African countries is by far the lowest compared to other regions. Intra-European Union (EU) trade, for example, is 63% of total trade by EU countries. Africa is also the only continent where the region's contribution to world trade has shrunk over the last 30 years. This puts Africa in the unfortunate position of being the continent with the lowest intra-continental trade volumes and the lowest contribution to world trade. Looking at operational cross-border risks in intra-African trade is likely to shed some light on the factors that influence this situation. The figures in the preceding paragraph have been drawn from *Assessing Regional Integration for Africa IV (ARIA IV, 2010)*.

A full definition of the terminology used is critical to the understanding of the study. The definition of 'risk' was adapted from the definition given by the Project Management Institute (2004:238) and states:

“Risk is an uncertain event or condition that, if it occurs has a positive or negative effect on stated objectives.”

When the study was initially proposed, the researcher found that there was no generally accepted definition for the main terms, 'operational cross-border risk' and 'intra-African trade'.

The following definitions were derived by drawing on a number of sources from various areas, for example, finance, banking, project management and others:

Operational cross-border risks are risks

- arising from conducting transactions across national borders,
- arising from execution of a company's normal business functions,
- which exclude market risk and credit risk,
- tariff and non-tariff trade barriers,
- but which include the risk of loss from events related to technology and infrastructure failure, from business interruptions, from staff-related problems, from external events such as regulatory changes and from foreign exchange

variations as long as they occur in the performance of cross-border .business transactions.

Intra-African trade involves buy and sell transactions of goods and services across borders on the African continent. Either the exporting or the importing country of both must be situated on the continent.

The detail of the derivation, including all the sources, is described in the next chapter.

While much information on barriers to trade in developing countries is available, little of this information focuses on Africa. Barriers are, by definition (WordNet, 2010) those obstacles that impede an event or reduce its effectiveness and trade barriers would, by extension, be the obstacles that actually prevent trade or significantly reduce trade effectiveness.

Operational risks are, by contrast, those factors that increase the uncertainty of the outcome of an allowed transaction already in progress. In the context of this study, therefore, operational risks would be conditions that increase the likelihood of an unfavourable outcome to trade within Africa.

1.2. Problem Statement

Based on the above, the identification and evaluation of operational cross-border risks in intra-African trade may currently evince a lack of understanding, even awareness. A better grasp of this phenomenon is, however, a critical pre-requisite to successfully doing business in Africa.

African countries, like the countries of any other continent, are trading with each other. There appear to be relatively few barriers to trade in Africa, which have not been overcome. Why then, is there not more trade within Africa? The researcher holds the view that it is not the presence of barriers but high risk that constrains intra-African trade.

Consequently the study will attempt to answer the questions below:

- What are the risks in trading across borders in Africa?
- Which are the most common operational cross-border risks in intra-African trade?
- How can they be mitigated?

1.3. Research Question

The purpose of the research is derived from the following research question: Whether the development of a ranked checklist, identifying and suggesting response actions for the most frequently encountered operational cross-border risks in Africa would contribute to lower the exposure of trade enterprise to uncertainty and the associated increase in non-productive trade cost?

1.4. Research Objectives

Consequently, the study seeks to enhance the appreciation of the volatility of trading within the African context. The study is concerned with the present and the short term future. In the longer term all stakeholders in intra-African trade must agree on a framework that will reduce or even eliminate unnecessary risk from doing business on the continent.

The primary objectives of this study are to

- identify the most common operational cross-border risks which businesses are likely to encounter in intra-African trade; and
- to indicate which responses would reduce the probability and impact of these risks.

The result is a 'risk checklist' for enterprise trading across borders in Africa.

1.5. Significance of the Study

While cross-border risks in international trade in general are well documented (Hill, 2007), an up-to-date checklist as described above currently does not appear to be readily available to businesses trading in Africa. This leads to a situation where each organisation that wishes to trade on the African continent must investigate and create its own checklist, formally or informally, in order to apply generally accepted principles of risk governance described, for example, by the King Report on Corporate Governance (King III, 2009a), which has gained widespread acceptance as a governance code. This task is likely to consume significant amounts of time and resources. A risk checklist which is the primary output from this study would assist businesses to draw up an overall risk management plan. This is one of the recommended practices to discharge an enterprise's responsibility for risk governance: "4.1.5. The board's responsibility for risk governance should manifest in a documented risk management policy and plan." (King III, 2009b:36)

The risks contained in the checklist would also be applicable to organisations trading with Africa from other continents. Here the checklist is likely to contribute to a better understanding of the trading landscape found on the African continent.

1.6. Delimitations and Scope

The study is primarily based on informed responses to question four of the first group assignment for the post-graduate course 'Strategy Dynamics and International Business' offered by the Unisa Graduate School of Business Leadership (SBL) in 2009.

The assignment question was formulated as follows: "Identify 10 key cross-border operational risks when doing business in Africa. Then, validate these risks with an IB Manager of a firm doing intra-African business. Then, select any one risk and develop a cross-border risk mitigation plan." (Coetzee, 2009c:2)

The analysis for this study is based on the assignment scripts submitted by 45 study groups, most of which are resident in South Africa. However, there are a number of groups from other countries in Africa, and virtual groups, who did not meet physically, but communicated using information and communications technology, are also part of the data set. Only findings which can be gleaned from this data set are included in the study, as explained in section 4.2.

The definition of operational cross-border risk above, explicitly excludes the categories of credit and market risk, tariffs and non-tariff barriers. Although these credit and market risks could have bearing on the study, they are excluded from the scope of the study since they are largely controlled by management or do not specifically impact on cross-border transactions as such. The potential risks associated with tariff and non-tariff barriers are excluded since the information is publically available and known (see section 2.1.3 below).

Also excluded is the direct application of country risk analysis, which has recently been shown to be unreliable as a predictor of future volatility in international business (Di Gregorio, 2005). This is further discussed in section 2.2 below.

The International Business (IB) managers, who validated the list of operational cross-border risks, were not further engaged. A scan of the data revealed that few of the groups provided the contact details of the IB managers surveyed. To obtain these

details via the group leaders would have necessitated much investigative effort, also involving SBL staff. This was judged to be beyond the scope of this study.

The review of the pertinent theory and literature has yielded some basic categories of operational cross-border risk encountered in intra-African trade. These are used to render the initial categorisation of the risks listed in the findings of the study groups.

The study uses a case study approach. Consequently, no attempt has been made to formulate hypotheses and/or to analyse the data quantitatively.

1.7. Underlying Assumptions

In order to be able to organise and analyse the empirical data for this research, the following assumptions are made:

- The data on which each group’s findings are based, was collected in an appropriate manner and not simply “manufactured”.
- The ten cross-border operational risks listed by each group were validated by an experienced IB manager, who has a grasp of intra-African trade.
- Interviews with the IB managers actually took place.
- The cross-border risk response plan presented by each group is feasible as presented.
- The risks presented are representative of those encountered throughout Africa, not only in the specific areas covered by the study groups’ initial research.

1.8. Chapter Overview

The structure of the report is shown below.

Table 1.1 - Report Structure

1	Orientation
2	Definitions and Theoretical Framework
3	General Literature Review
4	Research Design and Methodology
5	Research Results and Findings
6	Discussion, Conclusions and Recommendations

Source: Adapted from Booyesen (2009).

In the next chapter the definitions of the major terms as they are applicable to this study, in particular 'operational cross-border risks' and 'intra-African trade' will be synthesised from the relevant existing literature. A number of theoretical frameworks on which the study draws will be discussed. It will be shown that the C.A.G.E model as postulated by Ghemawat (2001) is the most suitable as it gives the widest coverage to the factors which can give rise to trade risk.

The general literature review in chapter 3 looks at sources which deal with intra-African trade in the context of regional integration, growth, poverty reduction, trade facilitation and infrastructure. The scenario which emerges is unique to Africa and provides insight into the trade landscape from which risk arises. There is little existing literature which deals directly with trade risk and operational cross-border risk within the African continent.

The research methodology employed is described in detail in chapter 4. As the study investigates what risks might be encountered when trading across borders in Africa today, it is an empirical enquiry suitable to be reported in the form of a case study (Watkins, 2008).

The results of the study are revealed in chapter 5, and analysed using relevant tools and techniques, for example, descriptive statistics, categorisation and content analysis.

The study concludes in chapter 6 with a discussion of the findings and recommendations which meet the objectives of the study, to identify, assess and suggest response actions for the most common operational cross-border risks which businesses are likely to encounter in intra-African trade.

1.9. Vocabulary

For the sake of clarity and ease of reading, the following vocabulary will be used in the remainder of the document. The term 'risk' will refer to 'operational cross-border risk' and 'trade' will refer to 'intra-African trade'. Where a more generalised usage of the aforementioned terms is required this will be explicitly stated.

Chapter 2: Definitions and Theoretical Frameworks

2.1. Definitions Used In the Study

Critical to the understanding of this study is the definition of the terminology, in particular the definition of the two main terms 'operational cross-border risk' and 'intra-African trade'. In the following section these terms are defined in the context of the study, moving from the more general to the more specific. This will be done starting with a general definition of 'risk', then defining 'operational risk' and 'cross-border risk'. Finally a definition of 'intra-African trade' is added to arrive at the meaning of 'operational cross-border risks in intra-African trade'.

2.1.1. Risk

Various authors have attempted to define risk and the definitions are many and varied.

Gitman (2000) defines risk in its most basic sense as the chance of financial loss. He also states that the term 'risk' is used interchangeably with the term 'uncertainty' to refer to the variability of returns associated with a given asset. The researcher considers this a narrow definition focusing mainly on financial risk.

A more general definition is offered by Essinger and Rosen (1991:4) who define risk as "... a measure of the anticipated difference between expectations and reality".

Valsamakis (1990:29) introduces the aspect of uncertainty and define risk "...as the presence of uncertainty, where there may be uncertainty as to the occurrence of an event producing a loss, and uncertainty as regards the outcome of the event..."

The Project Management Institute (2004:236) defines risk as "an uncertain event or condition that, if it occurs, has a positive or negative effect on a project's objectives."

For the purpose of this study the Project Management Institute's definition is adopted, with the change that the specific reference to 'project' is removed, thus risk is "an uncertain event or condition that, if it occurs, has a positive or negative effect on stated objectives." This description combines the two most important dimensions of risk, uncertainty and impact, in a concise way. It is noteworthy, that impact here does not necessarily equate to loss.

2.1.2. Operational Risk

The following two-pronged definition for operational risk is used in this study:

1. An operational risk is a risk arising from execution of a company's business functions.
2. Any risk that is not market or credit risk related. This includes the risk of loss from events related to technology and infrastructure failure, from business interruptions, from staff related problems, from external events such as regulatory changes and from foreign exchange variations. The terms market risk and credit risk are defined in the glossary which can be found in Appendix B .

These definitions are derived from simple web-searches for the term 'operational risk' and can be found in the WordNet Lexical Database of Princeton University (WordNet, 2010).

2.1.3. Cross-border Risks

The Yale Law School (2010) defines cross-border risks as "risks arising from conducting transactions across national borders." This emphasizes the transactional nature of operational cross-border risks and is sufficient for this study. While rivers and mountains form natural borders, they are not necessarily national and are not considered in the study.

Although tariff and non-tariff barriers are often seen as cross-border trade risks, the effects and impacts of these government-imposed import restrictions are known and, therefore, after a brief introduction, will be excluded from the study.

Tariff barriers are "barriers that are created when governments put financial levies on the import of goods" (Hough and Neuland, 2007:25), for example customs duties, surcharges and levies.

Non-tariff barriers (NTBs) "may be described as all measures besides tariffs that may affect international trade through quantitative governmental restrictions on imports" (Hough and Neuland, 2007:27), for example licenses, standards and quotas.

A table of the most common tariff and non-tariff barriers has been included in Appendix C .

Both types of barriers defined above are

- instituted by government,
- restrictions on imports, and
- quantitative in nature.

They are curbs put in place to protect the domestic economy and/or specific domestic markets. As such they create an artificial competitive advantage for the domestic industry. These barriers are known and definite to the cross-border traders, and, therefore, do not constitute risk as defined for the purposes of the current study (see section 2.1.1 above).

Unexpected volatility of tariff and/or non-tariff barriers, however, would create uncertain conditions and would, therefore, constitute risk according to the definition. This uncertainty will usually arise as the result of volatile government policy in formulating the laws and regulations pertaining to cross-border trade.

2.1.4. Intra-African Trade

Most definitions of trade agree that it is “the commercial exchange (buying and selling on domestic or international markets) of goods and services”, as offered by WordNet (2010).

Intra-African trade would then involve the commercial exchange of goods and services between countries where both the exporting and the importing country belong to the continent of Africa. This includes all the countries depicted and listed in Appendix B .

2.1.5. Operational Cross-Border Risks in Intra-African Trade

Based on the above, operational cross-border risks in intra-African trade can then be defined as risks

- arising from conducting transactions across national borders of countries belonging to Africa,
- in the execution of a company's normal business functions,
- which exclude
 - market risk,
 - credit risk,
 - tariff and non-tariff trade barriers,

- but which include the risk of loss from events related to technology and infrastructure failure, from business interruptions, from staff-related problems, from external events such as regulatory changes and from foreign exchange variations as long as they occur in the performance of cross-border business transactions.

2.1.6. Risk Response

The UK based Joint Information Systems Committee (JISC InfoNet, 2009) in its risk management 'infokit' provides a concise, yet complete description of possible actions in response to incidents of risk. Five different responses are distinguished. In all cases it is assumed that business proceeds according to a set plan.

Risk *avoidance*, also known as risk removal or risk prevention, seeks to alter the plan in order to eliminate or bypass the circumstances which are the cause for the risk. An example of this would be to use an alternative trade route which does not carry the risk of damage to goods due to poorly maintained transport infrastructure.

Risk *mitigation* is also known as risk reduction. This response attempts to reduce the probability or the impact of risk, for example, if the risk is a potential shortage of skilled staff, an offer of increased reward could well mitigate the risk.

Risk *transference* moves the impact and ownership of the risk out of the scope of the plan to a third party. Outsourcing and insurance are examples of this risk response technique.

Risk *deferral* involves postponing some aspects of the plan to a time when the risk is less likely to occur. In much of Africa an example of this response could be to wait with the movement of heavy goods over land until the dry season when the road network will be in a better state of repair.

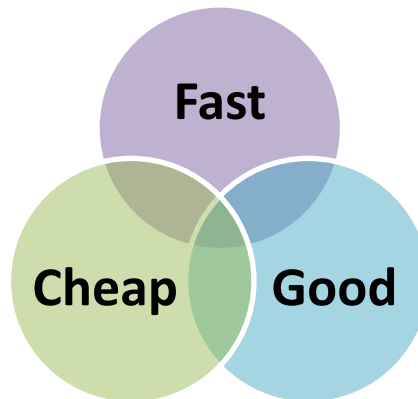
The four previous response types all led to changes in the plan. The last option is risk *acceptance*. This means dealing with the risk through creating a contingency which will provide resources to deal with the risk when it occurs, rather than changing the plan now.

2.1.7. Risk Consequences

All the response actions discussed above will lead to increased costs and/or delays or worsening quality. The latter conditions will ultimately also raise costs. Borrowing

from project management (Project Management Institute, 2004) this situation can be depicted as shown in the figure below. The consequence of risk will be that not all of the desired attributes, fast, cheap and good, of a trade transaction can be met. Keeping two of the attributes within the desired limits will necessitate sacrifices for the third.

Figure 2.1 - The "Pick-any-two" Triangle



Source: Researcher's Compilation.

In planning risk responses, as many options as possible should be examined and the option of least cost or time, or best quality chosen, depending on which dimension of cost, schedule or quality is considered to be most important in the circumstances.

Before introducing the theoretical models and conceptual frameworks, which form the foundation for the study, the effectiveness and relevance of existing country risk measures is discussed in the following section.

2.2. Relevance of Country Risk Measures

Country risk measures are provided by a number of commercial publishers, for example: Euromoney Magazine, Institutional Investor Magazine, International Country Risk Guide (ICRG) and Political Risk Services, to name but a few. Managers world-wide rely on these well established measures as the basis for their strategic decisions in international business (Oetzel, Bettis & Zenner, 2001).

Di Gregorio (2005:210) holds that country risk analysis, which "is commonly used to identify potential sources of volatility and downside risk in international environments, so as to steer investments away from high-risk situations", has a poor track record and is thought to be unreliable to predict future volatility. He draws this conclusion

from Oetzel *et al* (2001). The two sources above agree that the ineffectiveness of country risk measures has its origins in the following factors:

- Country risk measures are based on historical data and have been proven to be unreliable to predict future volatility. For example, country risk measures could not forecast economic crises in emerging markets (Oetzel *et al*, 2001).
- Country risk measures appear to address downside risk only. Analysis concentrates on the effects that negatively impact international business and ignores the possible positive dimension of risk which would attract the international entrepreneur with the possibility of higher returns.
- Country risk measures mainly deal with risks which are more likely to occur during the entry stage of international business. The measures mentioned by Oetzel *et al* (2001) are to a large extent financial and have only minor relevance to the operational aspects of international business and cross-border trade. An exception here is ICRG's inclusion of some government-political and legal-regulatory variables, which do have a bearing on cross-border trade.

Overall, country risk measures, as described above, have been found to be ineffective and largely irrelevant to the context of this study. They have consequently been excluded from the remainder of the study.

The discussion of the relevance or otherwise of country risk measures has confirmed, however, that the chosen definition of risk (see section 2.1.1 above), with its emphasis on uncertainty and volatility, allowing for both upside and downside risk, is appropriate in the context of the study.

Using the definitions in section 2.1 above as a guide, and mindful of the preceding discussion of country risk measures, a number of theoretical models and conceptual frameworks that endeavour to explain how risk can arise will be examined in the following sections.

2.3. Theoretical Models and Conceptual Frameworks

The models below describe the factors, dimensions and forces which are the cause of risk in international business and, in particular, cross-border trading risk.

2.3.1. Hofstede's Framework for Assessing Culture

Hill (2007) considers culture to be a system of values and the consequent rules and behaviours which are shared among a group of people.

From Central Intelligence Agency (2010) it is evident that Africa is a patchwork of hundreds of diverse cultures ranging from the nomadic Bedouin tribes in the North to the Afrikaans farmers in the South, from the hunter Baka pygmies in the West to the shepherd Masai in the East. This diversity extends into significant cultural differences between the countries of Africa, from the Islamic Arab country of Morocco in the North to the multi-cultural, multi-lingual South Africa in the South, from Liberia, a country founded by returning American slaves, in the West to Ethiopia in the East, where the ancient Amharic language and its Ge'ez script serve as the official language for the majority of citizens.

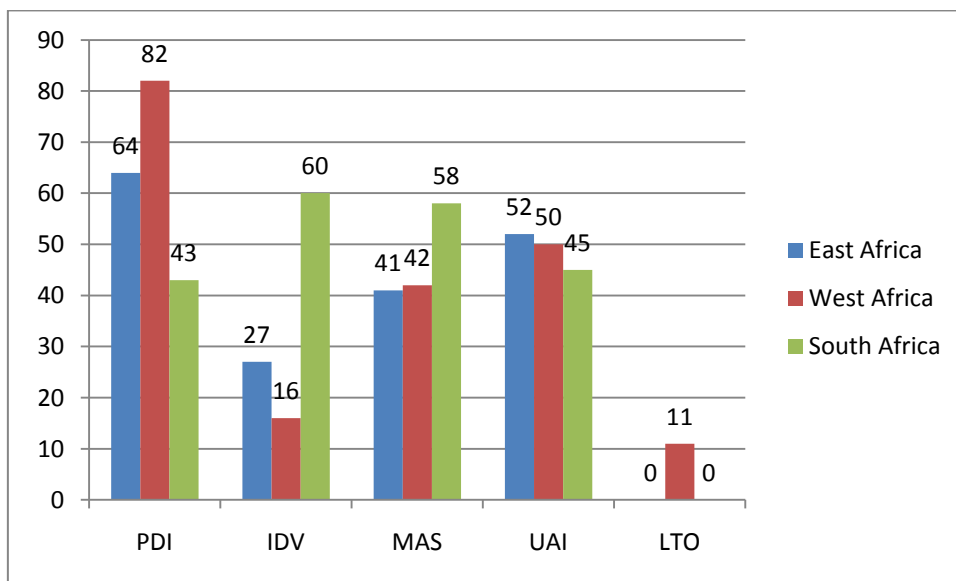
Hofstede's (2001) framework recognizes five cultural factors which influence work-related values and by extension business behaviour.

1. Power distance (PDI) can be described as the degree to which the less powerful members of organisations and institutions accept and expect that power is distributed unequally
2. Individualism (IDV) (as against collectivism) Is the degree to which members of an organisation are standing by themselves as against being strongly integrated into the group.
3. Masculinity vs. femininity (MAS) measures the strength of the assertive and competitive values (masculinity) versus the caring and modest values (femininity) of the female members of a group.
4. Weak vs. strong uncertainty avoidance (UAI) expresses the tolerance of society to uncertainty and ambiguity. Strong uncertainty avoidance often expresses itself in a body of rules and regulations to be followed and a belief in absolute truth.
5. Long vs. short term orientation (LTO) expresses itself in perseverance and a desire to plan, while short term orientation often finds fulfilment in tradition and social obligation.

Differences in culture between parent and host countries appear to be some major causes of international business risk. This is confirmed by Hill (2007).

Although Hofstede's framework was formulated in an intercontinental context, it is considered to be applicable in the intra-African trade environment. This is borne out by a comparison of the Hofstede cultural dimensions for three regions of Africa. There are significant differences, particularly in power distance and individualism between the regions as shown below:

Figure 2.2 - Hofstede Cultural Dimensions for Three Regions of Africa



Source: Adapted from Geert Hofstede™ Cultural Dimensions (<http://www.geert-hofstede.com/>).

Trade across borders will, therefore, be affected by cultural differences between the origin and destination locations and there are risks which arise from these differences. For example, not adhering to the business etiquette which is part of a country's culture could easily lead to a breakdown of communication between trading partners and increase the risk of transaction failure. Another case in point would be the situation where one of the trading partners expects on-time delivery according to the agreed schedules, whereas another partner in another country would consider the schedule as no more than a rough guideline. Similarly, strict punctuality is a must in, for example, Germany, while meetings and other events often start late in African cultures. This can and often does lead to strained relationships in the context of trading across cultural borders.

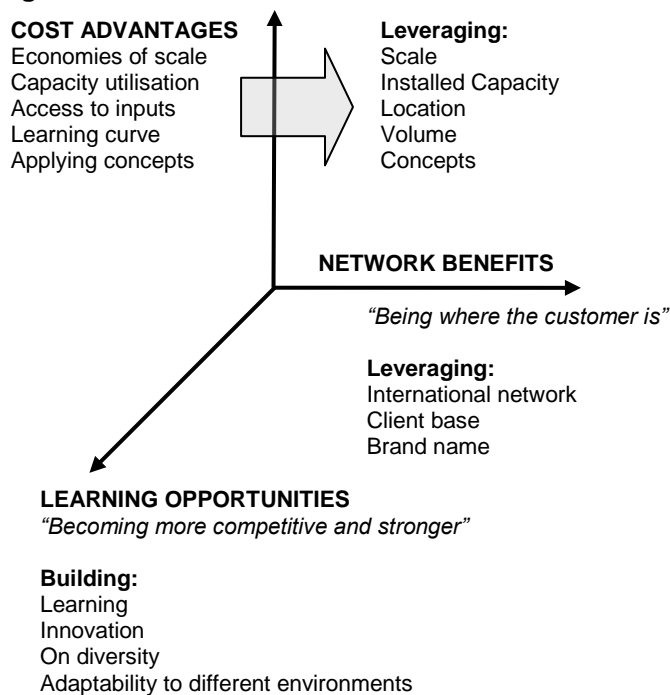
2.3.2. Conelearn Framework

The model, offered by Verdin and van Heck (2001), attempts to explain how internationalisation can add value to business in terms of three dimensions:

1. **Cost Advantages**, which can accrue from economies of scale, better use of capacity and access to inputs, moving down on the learning curve and applying existing concepts and formulas in foreign markets. For example, a number of corporations have successfully moved some of their manufacturing facilities to regions where there is access to cheaper labour, or where access to raw materials is more efficient.
2. **Network Benefits** refer to the importance for business to be 'where the client is'. Advantage can be gained by building and using an international network to serve the existing client base in foreign markets. The network can also be employed to access new clients and to introduce and strengthen the brand name in new markets. As an example, service providers will often follow their major clients into foreign markets. This has been done by many of the global advertising, auditing and consulting firms.
3. **Learning Opportunities** will cause the organisation to 'become more competitive and stronger'. As internationalisation leads the enterprise into the unknown, taking advantage of the favourable circumstances for learning will lead to an increased degree of innovation. Operating in foreign markets is almost certain to enhance diversity in the organisation. This, in turn, will help to make the organisation more adaptable to new and different circumstances. As an example, IBM, which was named the No 1 company for global diversity by Diversity Inc, states on its website "Our diversity is a competitive advantage and consciously building diverse teams helps us drive the best results for our clients." (International Business Machines, 2010)

The diagram below summarises how internationalisation can benefit the corporation.

Figure 2.3 - The Conelearn Framework



Source: Verdin & van Heck (2001)

These benefits carry in themselves internationalisation risks which are described as counter-forces in the 'Shaping Forces' model, proposed by Mann (2006), below.

For example, cross-border transaction costs will increase with the avoidance, transfer and/or mitigation of risks. This, in turn, may decrease or even negate the perceived cost advantages of doing business across borders.

Similarly, instead of building on diversity, assuming that the cultural dimensions on both side of the border are similar could easily destroy a developing trade relationship.

2.3.3. Shaping Forces

Mann (2006) sees the international business manager in a 'squeeze play' between the forces driving globalisation and the counter-forces emanating from the host countries. It is primarily the counter-forces that can give rise to increased risk:

Diverse regulatory regimes create resistance and, therefore, risk in the globalisation arena. There are significant differences in laws and regulations and even where trade is governed by common agreements, interpretation may vary from

country to country. Many of the regulations appear justified where they originate but could, nevertheless, be a significant risk factor.

Weak economic infrastructure is a major contributor to risk. This is evident for the physical infrastructure like transport, utilities and telecommunications, but holds equally for the institutional infrastructure which includes banking, professional and customs-related services.

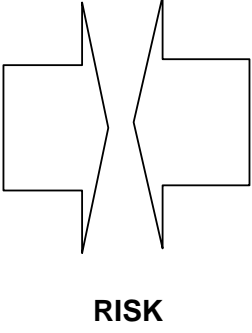
Workforce productivity varies widely with the quality of human capital. According to Mann (2006), human capital is the collection of knowledge, skills, competencies and other attributes held by individuals that are relevant to economic activity and influence the productivity of the workforce. He suggests that the quality of human capital can be measured with the United Nations' Human Development Index (HDI) and continues to point out that the differences in HDI between countries are huge. This would mean that the higher the HDI, the higher would be productivity in a country or region. Several factors, however, escape measurement with HDI. These include the availability of requisite skills, the impact of technology on global competition and shifting demographics of the workforce. Consequently, the quality of human capital and, therefore, workforce productivity, is often not what it is planned to be. This phenomenon increases the risk of labour related economic activities.

Distinctive cultural patterns resist standardisation. As has already been described in the discussion of Hofstede's cultural dimensions, differences in culture can significantly act as a counterforce to the forces driving globalisation. This will lead to a significant increase in risk. Mann (2006) recognises a number of contributing factors in this context, namely marketing, business conduct, ethics, and management approach. With the possible exception of marketing, all these are also risk factors.

Alienation and distrust of globalisation may generate resistance. This has been the experience in many countries that have undergone various degrees of globalisation. The fear that globalisation might undermine societal values and lead to exploitation, is often preceded by a suspicious attitude towards the capitalistic free-market system which is one of the major driving forces of globalisation. Additionally, in host countries, there may be apprehension that globalisation will move the factors of production to other locations. The ensuing attempts to protect corporation and society against these adverse effects of globalisation may lead to increased risk.

The figure below summarises the forces and counter-forces which may give rise to risk.

Figure 2.4 - Shaping Forces

Forces		Counter-forces
Expanding Trade Free Capital Movement Technology Convergence Information/IT Revolution Intensifying Competition Growing Consciousness	 <p>RISK</p>	Diverse Regulatory Regimes Weak Economic Infrastructure Varying Workforce Productivity Distinctive Cultural Patterns Alienation and Distrust

Source: Mann (2006)

The counter-forces listed above encapsulate many of the risk categories which are thought to be significant in cross-border trade in Africa. For example, the economic infrastructure of Africa is seen to be the weakest of all continents (ARIA IV, 2010).

2.3.4. Development Traps

Although not formally offered as a model, Paul Collier in his article “African Growth: Why a ‘Big Push’?” (Collier, 2006) suggests that in order to free Africa from the stigma of being the poorest continent, major efforts need to be made for the region to escape from the development traps which hold Africa back. The traps are four low-level economic equilibriums which have been cemented over time in Africa,

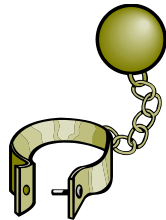
1. the *conflict* trap, which has become a ‘hallmark’ of Africa,
2. the *corruption* trap, rooted in excessive economic regulation by ‘control regimes’,
3. the *primary commodity* trap, reflected in a lack of diversification into manufacture and services, and
4. the *fractional society* trap, arising from the high degree of ethnic diversity combined with a low level of political accountability.

All the traps severely limit economic growth and, consequently, alleviation of poverty. In order to break away from the traps, Collier (2006) puts forward four non-traditional policy instruments, namely

1. an external security guarantee, so that decisions of regional bodies like the African Union (AU) can be enforced,
2. templates of good governance, addressing the traps of corruption and fractionalised societies,
3. temporary trade preferences to create opportunities for trade and overall economic growth, and
4. for development aid organisations, the conditioning of aid on processes of governance rather than on policies.

The traps together with the remedies form a framework as shown below.

Table 2.1 - Collier's Development Traps

Development Traps		Policy Instruments
Conflict		Security guarantee
Corruption		Template of good governance
Primary commodity		Temporary trade preferences
Fractional society		Conditioning of aid on processes

Source: Researcher's compilation.

The traps listed above can all be seen in the context of intra-African trade and all constitute significant trade risks. The policy instruments suggested to free the region from the traps are examples of responses to risks.

2.3.5. Vector Model for Cross-Border Venture Creation

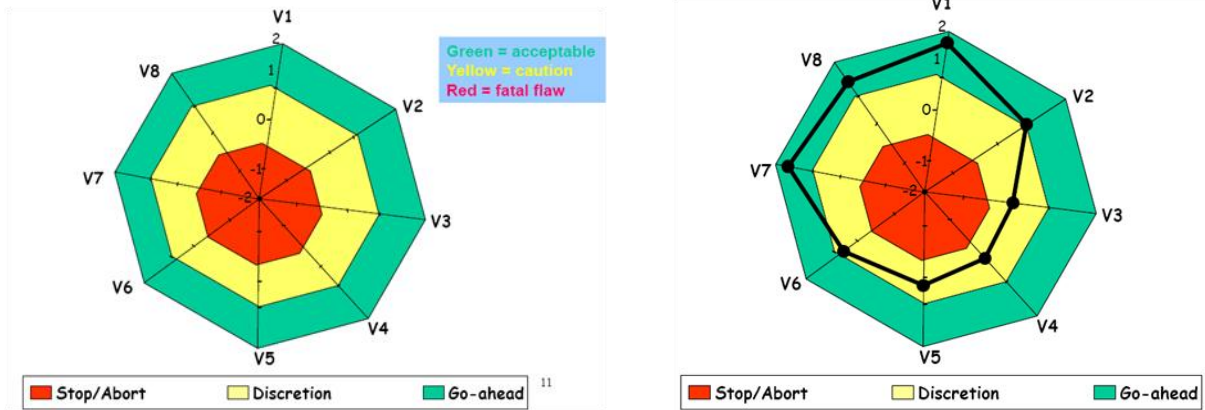
This model, proposed by Coetzee (2009a), lists 16 risk vectors which must be mitigated for successful cross-border ventures. Although primarily focused on venture creation, the risks described here are nevertheless useful as pointers in the operational context.

The first four vectors are based on the CAGE model by Ghemawat (2001) and these are considered to be of outstanding relevance in the assessment of operational cross-border risks. The CAGE model is discussed in detail below.

The vector model yields a conservative, but useful risk assessment technique. Each vector (risk) is assessed as 'acceptable' (green – go-ahead), 'caution' (yellow – discretion) or 'fatal flaw' (red – stop/abort). If any vector is assessed as being a 'fatal flaw', Coetzee recommends halting and possibly abandoning the venture.

The presentation of the risk vectors in the form of a radar chart also has merit and will be considered as a way of presenting the risk checklist. The diagrams below show the basic radar chart with the green, yellow and red regions for eight vectors and an example assessed to be in the discretionary region side by side.

Figure 2.5 - Vector Model for Global Venture Creation



Source: Coetzee (2009a).

The model is accompanied by a questionnaire which assists in evaluating each vector. Inspecting the questionnaire did not provide any additional risks relevant to the study, apart from those identified by the CAGE model discussed below.

A more detailed description of the vector model is included in Appendix E

2.3.6. The CAGE Distance Framework

The concept 'distance' is not only embodied in the separation of locations from one another by physical space but also in other factors of separation investigated below. It is intuitively accepted that trading across larger distances incurs more costs in the form of transportation, insurance and similar costs.

Ghemawat (2001:140) explains the concomitant costs and risks of international business in terms of four 'distance' dimensions:

1. Cultural

“Differences in religious beliefs, race, social norms and language are all capable of creating distance between two countries. Indeed, they can have a huge impact on trade.”

2. **Administrative or political**

“Historical and political associations shared by countries greatly affect trade between them.”

3. **Geographic**

“In general, the farther you are from a country, the harder it will be to conduct business in that country.”

4. **Economic**

“The wealth or income of consumers is the most important economic attribute that creates distance between countries, and it has a marked effect on the levels of trade and the types of partners a country trades with.”

The table below shows the most significant attributes which create ‘distance’ in each dimension.

Table 2.2 - The CAGE Distance Framework

Cultural	Administrative	Geographic	Economic
<ul style="list-style-type: none">• different languages• different ethnicities; lack of connective ethnic or social networks• different religions• different social norms	<ul style="list-style-type: none">• absence of colonial ties• absence of shared monetary or political association• political hostility• government policies• institutional weakness	<ul style="list-style-type: none">• physical remoteness• lack of a common border• lack of sea or river access• size of country• weak transportation or communication links• differences in climates	<ul style="list-style-type: none">• differences in consumer incomes• differences in costs and quality of:<ul style="list-style-type: none">• natural resources• financial resources• human resources• infrastructure• intermediate inputs• information or knowledge

Source: Adapted from Ghemawat (2001).

Ghemawat (2001:138) reports that the framework is supported by preceding research performed by Jeffrey Frankel and Andrew Rose found in an unpublished working paper, dated May 2000. The authors use the gravity theory of trade flows to predict the effect of some of the distance variables on trade volumes.

The detail of the CAGE framework is discussed in section 3.3 below.

2.3.7. Conclusion

In this section the following models and frameworks were briefly discussed and their relevance as sources of cross-border trade risk established:

Table 2.3 - Theoretical Models and Conceptual Frameworks

	Model or Framework	Author, year
1	Hofstede's Framework for Assessing Culture	Hofstede, 2001
2	Conelearn Framework	Verdin and van Heck, 2001
3	Shaping Forces	Mann, 2006
4	Development Traps	Collier, 2006
5	Vector Model for Cross-Border Venture Creation	Coetzee, 2009a
6	CAGE Distance Framework	Ghemawat, 2001

Source: Researcher's compilation.

Although the first five models or frameworks are the source for numerous risks, the majority are also indicated in the CAGE Distance Framework. Consequently the CAGE framework will mainly be used to categorise and classify the various cross-border operational risks uncovered in the study. This framework appears to provide the widest coverage and best match for the risks which have crystallised from the study.

In the following chapter pertinent literature will be reviewed to

- reveal the nature of trade in Africa on the basis of some recent reports published by prominent world organisations,
- expand on the character of cross-border risk,
- add detail to the CAGE framework in the African context and to
- derive the initial category scheme which will be used to classify the data.

Chapter 3: Literature Survey/Review

3.1. Introduction

At this stage, virtually no literature at the conceptual level appears to be available which deals specifically with operational cross-border risk in the intra-African trade context. For example, a search using the Boolean expression '(operation*) AND (cross-border) AND (risk*) AND (intra-africa*) AND (trade*)' on both the 'ProQuest ABI/Inform' and 'EBSCOHost Africa-Wide' information resource databases with no further restrictions, yielded no results when performed in July 2010. The study, therefore, relies largely on the theoretical frameworks described above to uncover the risks which are the subject of investigation.

The picture improves somewhat when moving to the practical level. Much has been written about country risks, for example, infrastructure risks. However, cross-border trade risks seem to have been largely ignored so far in scholarly articles, especially in the context of intra-African trade. Operational risks are seen mainly as financial and are described mainly in the context of enterprise risk management.

When describing and explaining risk, the context of the transaction is of importance. In order to place each risk in its appropriate environment, a great deal of background data about Africa and trade in Africa will be needed. In March 2010, the fourth in a series of reports dealing with Assessing Regional Integration in Africa (ARIA) was published through cooperation of the United Nations Economic Commission for Africa (UNECA), the African Union (AU) and the African Development Bank (ADB). This report is subtitled 'Enhancing Intra-African Trade' and its 14 chapters spanning 500 pages provide a comprehensive analysis of trade within Africa. While the report covers financial, market and credits risks, it fails to specifically review operational cross-border risks. ARIA IV will be used to provide much of the background information and statistics on trade in Africa in this study. In order to improve clarity, this report will be cited as ARIA IV (2010), rather than United Nations Economic Commission for Africa (2010a) or UNECA (2010a), as the rules of the Harvard referencing method prescribes. Both references are listed in the List of References.

Other sources of background data used in this report are:

Africa Development Indicators, published by the World Bank in March 2010, and available in Microsoft Excel spreadsheet format. (World Bank, 2010a)

Economic Report on Africa 2010, published by the United Nations Economic Commission for Africa in cooperation with the African Union in March 2010. (UNECA, 2010b)

World Development Indicators, published by the World Bank in April 2010. (World Bank, 2010b)

3.2. Cross-border Risks

A number of study groups used a list of cross-border risks provided in the course materials as a starting point for their identification of risks in the context of the assignment. This list was provided by Coetzee (2009b) and identifies a number of major cross-border risks which are described in some detail below. Some of these are not primarily operational trade risks, but most have operational trade 'flavours' and are applicable in Africa.

Mindset risk implies that any venture across borders can be hampered by lack of astuteness with respect to international business. Any such venture should employ people and teams who display a high level of international business maturity. This mindset grows with experience and will need time to develop fully. Cross-border trade transactions are affected by people on both sides of the border and can be impeded if this risk is ignored.

Frequently the deployment of *cross-cultural project teams* in a foreign location constitutes a severe risk. These teams tend to start off with a low cultural intelligence, due to the differences in cultural background. This can lead to conflict and the differences need to be defused upfront, creating a better chance to build a multi-cultural team, who shares a common vision, mindset and value system. In practice, facilitators or team leaders with high cultural intelligence and experience are often used to foster understanding and cooperation. Although teams, especially project teams, play a lesser role in cross-border trade, the practice of using an experienced facilitator in difficult cross-cultural situations can be successfully applied to mitigate this risk.

The process of business *negotiations* is at risk when the cultural factors which play a role are not understood or ignored. Examples are time orientation and/or individualism versus collectivism as described by Hofstede (2001), but also patterns of communications or the degree of emphasis on personal relations which differ from

country to country. Cross-border trade starts with negotiations and the consequent transactions could be affected by misunderstandings and differences in perceptions at the negotiation stage.

The failure of *expatriate managers* in a cross-border venture constitutes a significant risk. Failure rates are high, above 10% in the USA and Europe, mainly because the manager or a member of the family finds it impossible to adjust to the host country's circumstances, or because the manager finds it difficult to cope with the increased and unfamiliar responsibilities. This has a bearing on cross-border trade. At times one or both sides of the transaction are conducted by an agent who may well be an expatriate. Failure will lead to back-tracking as negotiations with a new agent are necessary.

Relationship or reputational risk has its origins in different cultures' perceptions of what is important in a business relationship. This results in differing attitudes towards bribes, other corruption and unfair business practices. It also may take significantly longer to establish a working relationship. This risk needs to be carefully analysed in the context of cross-border trade and responses planned to create a balance between the time and cost of establishing the relationship and the desired objectives. *Productivity* differs vastly from country to country. The time required to complete a particular task across the border may be a large multiple or a small fraction of what is required locally. Weather conditions, religious requirements, management and decision-taking overhead all can play a role. It is essential to obtain insight into productivity across the border, in fact all along the trade route. Specific, verified adjustment factors for each location should be available to facilitate mitigation.

The imperative of balancing schedule, cost and quality requirements and the resulting necessary *trade-offs*, must in the global business context also be weighed up against the need for good customer relationships across the border. In this situation the temptation is great to compromise on key deliverables. In the trade context the compromise could lead to delivery delays, goods damaged in transit and otherwise poor service delivery.

When operating in a foreign country and across the border, organisations can experience a *dilution of values*. Typical global corporate values centre on quality, integrity, respect and fair play, accountability and optimal use of local labour. Risk arises from the differing perceptions about quality, the cost of corruption versus the

cost of doing business, trust versus control, differing meanings of respect and fair play in various cultures, diverse concepts of accountability and labour policies which are not universal but follow local community needs.

Taking part in *corruption* is never an option and organisations should rather walk away from a deal, even a country to protect reputation and brand. Doing business across borders necessitates doing business differently. At times payments as tokens of country or community commitment are expected and normal, as long as the contributions are neutral, for example, to libraries, schools and community projects are made openly and remain within acceptable limits. There is, however, the risk that corruption will be experienced somewhere along the way. This applies to business in general, including all kinds of trade.

Finally Coetzee (2009b) describes the *alignment* risk of mismatching business with country and culture circumstances. He uses the CAGE model (Ghemawat, 2001) to uncover the relevant alignment risk factors. These are described below in the context of cross-border trade on the African continent using examples and statistics drawn from the sources introduced earlier, namely ARIA IV, Africa Development Indicators 2010 (World Bank, 2010a), Economic Report on Africa 2010 (UNECA, 2010b) and World Development Indicators (World Bank, 2010b).

3.3. CAGE in Context

In the following sections the four dimensions of the CAGE model (Ghemawat, 2001) will be examined in more detail and the attributes of the model, those factors which create distance, will be translated into risks where this is appropriate. The application of distance attributes to uncover risks will be put into the African context.

3.3.1. Cultural Risks

As Ghemawat (2001) suggests, the first dimension of the CAGE model is cultural distance, created by attributes like differences in language, ethnicities, religion and social norms. Of these some are easily understood and applied, for example, language, but others like social norms are often hidden but deep-rooted, and not easily grasped. Yet all these have a significant bearing on doing business (and trading) in a particular cultural set of circumstances.

Frankel and Rose (2002), in investigating the effect of a common currency on trade between two countries also discovered that there are other attributes which have a

significant relationship with trade. One of these is common *language*, which they predict to increase trade by 200%. Inversely the lack of a common language will influence trade between countries negatively and, therefore, constitutes a risk, which needs an appropriate response. According to Lewis (2009), there are 2110 living languages in Africa today. The number of official languages in 1997 is much less but there is a high likelihood of cross-border trade in Africa being affected by language differences. A table of official languages and the frequency of usage is shown below.

Table 3.1 - Distribution of Official Languages in Sub-Saharan Africa.

Language	Number of countries where it is the official language
French	19
English	17
Major African language (e.g., Kiswahili, Hausa, Somali)	8
Portuguese	5
Arabic	4
Spanish	1

Source: Working Group on Educational Research and Policy Analysis (1997).

Another major risk factor affecting trade in Africa is differences in the set of cultural attributes, different ethnicities, lack of connective ethnic or social networks, different religions and different social norms. Hill (2007) devotes a whole chapter to these factors, which can collectively be called '*culture*', and concludes that the culture has a significant effect on the cost of doing business in a region, country or society. The cost of doing business, in turn, has consequent effects on the cost of trading with that country and across borders. Therefore, culture constitutes risk. This is confirmed by Hofstede's (2001) studies on how culture relates to values in the workplace. This has already been described in the African context above. Verdin and van Heck (2001) recognize that learning about cultural diversity leads to competitive advantage, while Mann (2006) lists distinctive cultural patterns as one of the counterforces to globalisation.

If one uses language diversity as an indicator for cultural diversity, Africa has in excess of 2000 people groups with different languages and, therefore, cultures. This is likely to be one of the significant factors contributing to the relatively low levels of

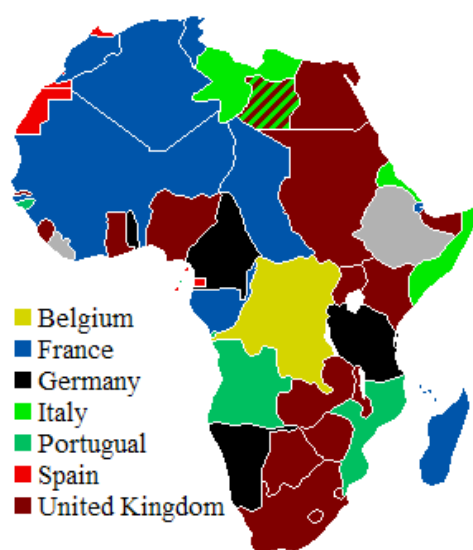
trade within Africa and across African borders. In South Africa 11 official languages are recognised. Although English is the common business language, the researcher's experience has many examples where language differences can be identified as a major risk in doing business. Implementing an information system for medical services in the northern part of Limpopo province (English, Afrikaans, Tshivenda) and dealing with a motor car workshop in Bloemfontein (English, Afrikaans) are just two incidents of how differing languages can contribute to business and, therefore, trade risk.

3.3.2. Administrative Risks

A second dimension put forward by Ghemawat (2001) is the administrative or political distance created by political hostility, government policies, regulations and law, and the weakness of institutions in a country or region on the one hand and the relative nearness produced by former colonial ties and other political or monetary associations on the other hand.

According to Frankel and Rose (2002), a *colony-coloniser relationship*, past or present, can boost trade by a staggering 900%. This will lead to a reduction of trade risk where such bonds exist. Continuing ties of African countries to their former colonial masters abound. The map below shows that apart from Ethiopia and Liberia all African countries were under colonial rule at one time or another in the past.















Figure 3.1 - Colonial Powers in Africa, 1914



Source: Adapted from Katsaris (2006).

Although most countries in Africa have been independent for around 50 years now, they still have strong ties not only with their ex-colonial masters, but countries colonised previously by the same power have lasting and significant associations with each other, for example the African members of the British Commonwealth, listed below. Frankel and Rose estimate that having a common coloniser increase trade volumes by 190%.

Table 3.2 - British Commonwealth - Current Members in Africa

Country	Joined	Population
 Botswana	September 1966	1,950,000
 Cameroon	November 1995	19,522,000
 Gambia	February 1965	1,717,000
 Ghana	March 1957	23,837,000
 Kenya	December 1963	39,856,000
 Lesotho	October 1966	2,000,000
 Malawi	July 1964	15,884,000
 Mauritius	March 1968	1,285,000
 Mozambique	November 1995	22,892,000
 Namibia	March 1990	2,131,000
 Nigeria	October 1960	154,796,000
 Rwanda	November 2009	9,998,000
 Seychelles	June 1976	84,000
 Sierra Leone	April 1961	5,695,000
 South Africa	December 1931	49,423,000
 Swaziland	September 1968	1,182,000
 Tanzania	April 1964	43,729,000
 Uganda	October 1962	32,816,000
 Zambia	October 1964	12,935,000
		441,732,000

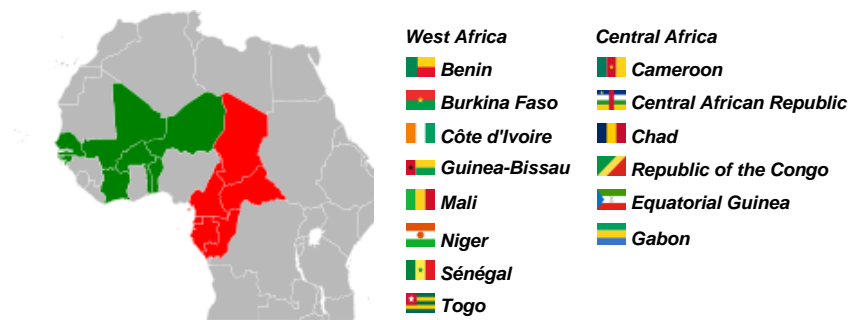
Source: Adapted from Commonwealth Secretariat (2010).

These members represent nearly half of the just fewer than 1 billion people in Africa. Trade risk among these countries and with the United Kingdom and other members of the Commonwealth outside Africa is expected to be significantly lower than normal.

Most of the previously French colonies are now part of the CFA Franc monetary union as shown below. According to Frankel and Rose (2002) the advantage of a common currency (+340%) can be added to the increase in international trade arising from the colony-coloniser relationship (+900%) and the common coloniser distance

attribute (+190%). These factors taken together lower trade risk significantly without taking into account other common factors which are described later.

Figure 3.2 - CFA Franc Zone

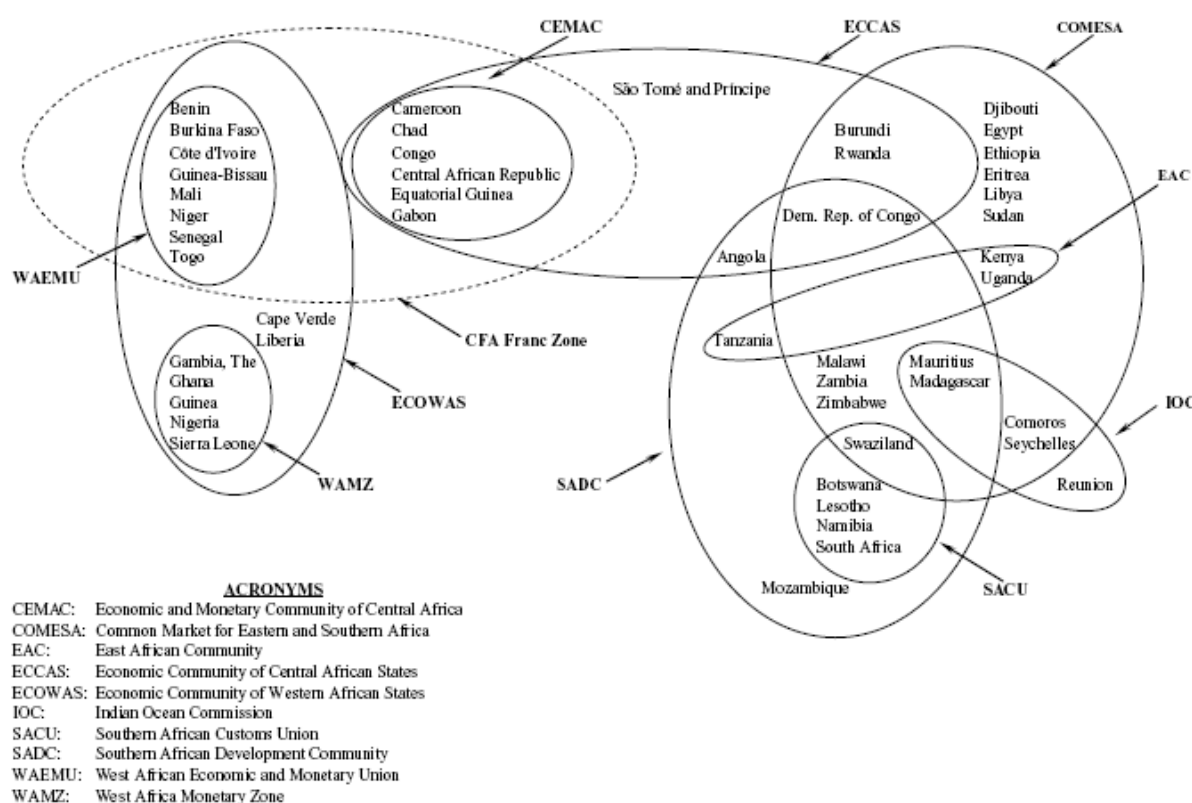


Source: http://en.wikipedia.org/wiki/CFA_franc.

The countries listed above make up another significant portion of Africa's population and trade between them should be flourishing. This appears not to be the case. Intra-REC trade as a percentage of total trade is shown to be below 25% for the West African CFA zone and below 5% for the Central African CFA zone. (ARIA IV, 2010)

There exist an amazingly large number of *monetary or political associations* in Africa. According to Yang and Gupta (2007), there are ten major Regional Economic Communities (RECs) in Africa, many with overlapping membership, as shown in the diagram below.

Figure 3.3 - Main African Regional and Sub-regional Economic Integration Arrangements



Source: Yang and Gupta (2007).

But overall, these have been largely ineffective in promoting trade. Small market size, poor transport and poor communications infrastructure have been the main inhibitors of intra-African trade. The same factors hinder trade between Africa and the rest of the world (Yang and Gupta, 2007). This view is confirmed by the studies of Frankel and Rose (2002). The same factors, size of country as well as weak transportation and communications links, are part of the geographic distance dimension of the CAGE model (Ghemawat, 2001) and will be discussed under their appropriate headings.

Overall trade risk remains high, in the face of a number of attempts at regional integration. The source of these risks, however, appears to be more geographic than administrative.

Political hostility was common in Africa. During the 1980s and 1990s, 31 out of 43 sub-Saharan African (SSA) countries suffered from civil conflict. This ‘crushes’ development and has a knock-on effect of trade. However, over the last decade, with the formation of the African Union, an attitude of non-interference by the former Organisation of African Unity has been replaced with a mind-set of non-indifference.

This has led to much smaller number of conflicts. Although experiences vary, it seems that with peace much progress can be made (Stern, 2006).

Many of the African countries number among the Least Developed Countries (LDCs). The lack of development is explained by Stern (2006) as mainly flowing from weak governance. SSA fares the worst in a comparison of world regions but as anywhere there are encouraging signs that the situation appears to be improving as of late. *Fragile government policies and institutional weakness* create distance (Ghemawat, 2001), and consequently trade risk.

Corruption in all areas of society is one of the sad penalties of this weakness. Musila and Sigué (2007) studied corruption and its effect on trade in African countries. This followed some earlier studies where only the importing country was measured and few countries from the African continent were included. These studies were largely inconclusive. Musila and Sigué (2007), however, were able to demonstrate a clear relationship between the level of corruption in both the exporting and importing countries and the cost of doing business between the two countries. They conclude by recommending “that policymakers in Africa make war on all levels/types of corruption a priority.” Corruption, then, clearly constitutes trade risk. This is consistent with the tenets of the Conelearn framework by Verdin and van Heck (2001) in that the cost advantages of international trade can easily be eroded by corruption. Corruption will also increase the opposing forces to globalisation put forward by Mann (2006), where it has an effect on regulatory regimes, and alienation and distrust.

3.3.3. Geographic Risks

The geographic distance attributes proposed by CAGE (Ghemawat, 2001) are in all likelihood the ones that are most easily understood as they are rooted in everyday life. We appear to come to terms with our physical world easier than with the cultural, political or economic worlds. The first four attributes, physical remoteness, lack of common border, lack of sea or river access and size of country are all covered by Frankel and Rose (2002). The table below shows the measured effect of these distance attributes on international trade.

Table 3.3 - Measuring the Impact of Distance

Distance Attribute		Change in International Trade (%)
Physical distance	1% increase	-1.1
Common border		+80
Access to ocean		+50
Physical size	1% increase	-0.2
Economic size (GDP)	1% increase	+0.8

Source: Adapted from Ghemawat (2001).

Some notable deductions flow from the analysis of the table above. Cross-border trade is significantly affected by how ‘closely packed’ the trading partners are in a continental region. Common borders and access to the ocean are important and this means that the land-locked countries of Africa are at a disadvantage. Few countries in Africa are physically small and economically large, which would be the ideal combination for trade. This puts countries like, for example, Mali, Niger, Chad, Central African Republic and Democratic Republic of the Congo at a special disadvantage. All are physically large but economically small and are landlocked (see Appendix C). Trading with these countries will be difficult and risky, but could provide competitive advantage for first-movers with good risk management practices.

Another (not so obvious) fact is that distances in Africa are relatively large. While one of the longest North-South distances in Europe, from Oslo (Norway) to Naples (Italy) is 2135 km, the North-South distance from Cairo (Egypt) to Cape Town (South Africa) is 7000 km, as the crow flies, more than three times that of Oslo-Naples. Physical distance has a significant effect on trade. Risk increases with distance as the roads travelled become longer and more remote and as more borders are crossed.

Physical distance can, to an extent, be shortened by good *transportation and communication* links. If these links are weak, however, ‘distance’ increases, trade suffers and risk increases. Mutambara (2009) identifies three transport infrastructure challenges within the Southern African Development Community (SADC):

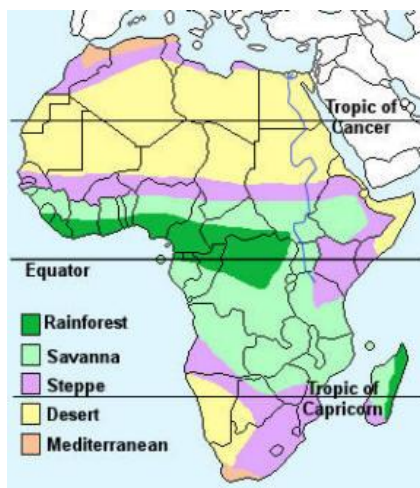
- lack of adequate and reliable road and rail networks,
- road and rail-user policies that still differ from country to country and are not harmonised,

- little emphasis on private sector involvement and lack of private-public partnerships (PPP).

These challenges are thought to also exist in the rest of Africa and each of them, but specifically the first two, gives rise to risk. Naudé (2009) argues that the geography of African countries causes them to experience a proximity gap. This gap appears to be the combination of Ghemawat's (2001) geographic distance attributes which have already been discussed above. One of the actions to overcome the proximity gap is the improvement of the transport infrastructure. This together with other actions like trade facilitation, decentralisation, local economic development, and migration would greatly mitigate risks arising from weak transportation and communication links.

Lastly, under the heading geographic risks, the distance attribute of differences in climate is briefly considered. The following map shows that Africa is a continent of climatic extremes.

Figure 3.4 - African Climate



Source: [http:// www.naturalhistoryonthenet.com/Continents/images/africaclimate.jpg](http://www.naturalhistoryonthenet.com/Continents/images/africaclimate.jpg).

The climate of Africa is governed by its position on the globe and can be broadly divided into five different climate types:

Rainforest - This region is characterised by very high temperatures and high rainfall throughout the year.

Savannah - This region has very high temperatures all year and rain during the summer season only.

Steppe - This region has high temperatures all year and only limited rainfall during the summer season.

Desert - High temperatures throughout the year with very little rainfall.

Mediterranean - Warm to high temperatures with rainfall in the autumn and winter months.

The common denominator appears to be 'high temperatures' and this, together with the rainfall extremes, is very different from the moderate climate of the major non-African trading partners in Europe and the USA. This difference translates into distance, an increase in the cost of doing business and consequently trade risk. An amusing example to demonstrate this was the case of a Scandinavian construction firm building bridges for the Trans-Kalahari highway, complete with special culverts to deal with heavy snow. Snow in the Kalahari? What would the additional cost for this unnecessary feature have been? (Anon)

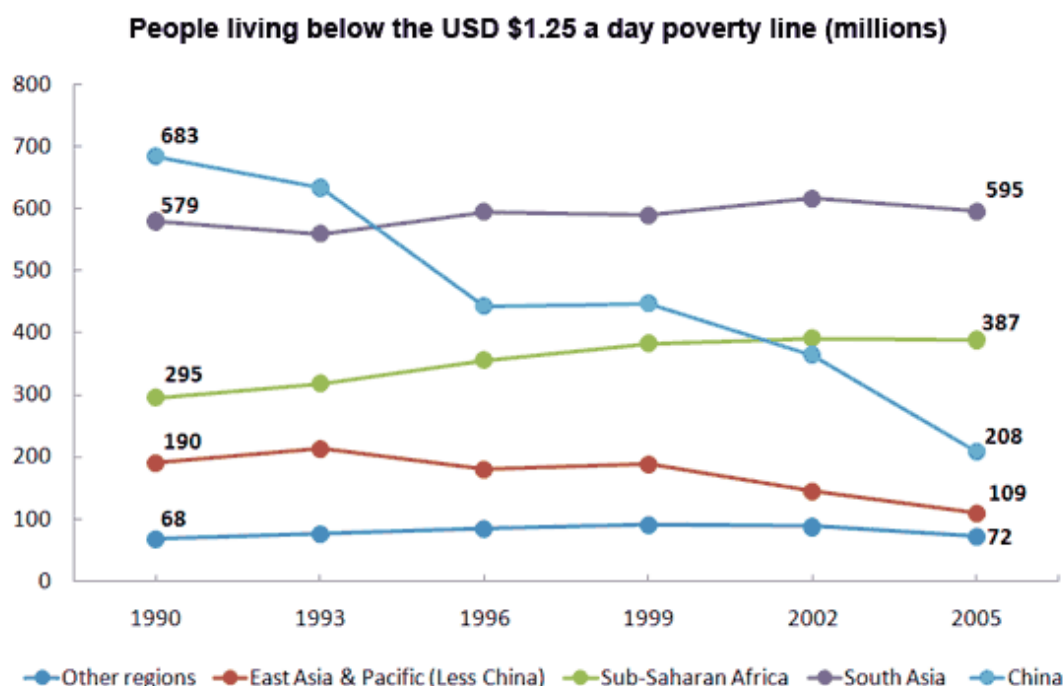
The discussion of the geographic attributes of distance in the preceding paragraphs has uncovered a set of important trade risks arising from Africa's unique geography. It remains to consider risks which arise from what Ghemawat (2001) calls economic distance.

3.3.4. Economic Risks

Two major attributes of economic distance and, therefore, risk are identified in the CAGE model (Ghemawat, 2001). These are differences in consumer income and differences in costs and quality of economic resources.

In September 2000 the United Nations unanimously adopted the Millennium Declaration and agreed to the Millennium Development Goals (MDG). The first target is to "Halve, between 1990 and 2015, the proportion of people whose *income* is less than one dollar a day." (World Bank, 2007)

Figure 3.5 - World Poverty 1990-2005



Source: World Bank (2007).

China managed to attain the first MDG almost 15 years in advance. The rest of the developing world will not attain the first MDG if it does not reduce its poverty at a higher pace.

Frankel and Rose (2002) hold, on the basis of their analysis using gravity models, that as income levels (expressed as GDP per capita) change, there will be a corresponding change in international trade. For every 1% increase in GDP per capita they expect a 0.7% increase in cross-border trade. This appears to be a pull-rather than a push-relationship. Page (2006:527), in the context of strategies for pro-poor growth in Africa, identifies three building blocks for shared growth, “(1) managing natural resource revenues, (2) creating and export push in agriculture and (3) strengthening sub-regional integration”. The latter two especially are trade related and this confirms the thinking that trade contributes to growth. On the basis of an empirical study of the relationship between trade liberalisation and poverty-alleviating growth, Winters (2004) finds that, although there is no simple, general conclusion about this relationship, the evidence supports the view that trade liberalisation will contribute to poverty alleviation (and growth) in the long run and on average. Dollar (1992) found that trade liberalisation, as evident in open economies with outward

orientation and easily available imported inputs and machinery, promotes growth, both in the long and the short run. All these authors also warn that the goal of poverty alleviation cannot be achieved outside of an enabling environment. This environment can, in Africa, be created by escaping the development traps postulated by Collier (2006). These traps and the policy instruments that will assist escape have already been discussed above.

As long as these traps still exist and long as there are vast differences in income levels between African countries and between Africa and its major non-African trading partners, there will be trade risks arising from this economic distance attribute.

The second distance attribute in the economic category of the CAGE model (Ghemawat, 2001) is differences in costs and quality of economic resources. The first three sub-attributes mentioned by Ghemawat (2001) pair with the well-known factors of production,

1. natural resources and 'land',
2. financial resources and 'capital' and
3. human resources and 'labour'.

It appears that Ricardo's (1817) theory of comparative advantage should apply in this situation, and that economic distance should increase trade. This was, however, challenged on empirical grounds by the Singer–Prebisch thesis (Brecher and Choudhri, 1982) which states that terms of trade between primary producers and manufactured goods deteriorate over time. Ghemawat (2001) follows this in essence by providing examples where economic distance decreases trade and where conversely economic distance increases trade, as shown in the table below. The goods where wealth differences decrease trade are mainly primary, perishable or high weight per volume, while the good where wealth differences increase trade are manufactured, non-perishable or low-weight per volume.

Table 3.4 - Wealth Differences and Trade

Economic distance decreases trade	Economic distance increases trade
<ul style="list-style-type: none"> • nonferrous metals • manufactured fertilizers • meat and meat preparations • iron and steel • pulp and waste paper 	<ul style="list-style-type: none"> • coffee, tea, cocoa, spices • animal oils and fats • office machines and automatic data-processing equipment • power-generating machinery and equipment • photographic apparatuses, optical goods, watches

Source: Ghemawat (2001).

Trade risks in this category arise from perceptions about Africa as a provider of commodities based on natural resources. Manufactured goods and agricultural products originating in Africa are viewed with suspicion by Africa itself and the world (ARIA IV, 2010). As an example, the researcher the other day at a well known food store was confronted by a new product line of fresh vegetables originating in Kenya and experienced an immediate feeling of suspicion, although, as it turned out, this was completely unjustified. As long as this negative attitude persists cross-border transactions between countries with significant differences in 'wealth' and resources will be risky.

The remaining sub-attributes considered by Ghemawat (2001) under the heading 'differences in costs and quality of resources' are infrastructure, intermediate inputs and information or knowledge. Risk arising from these attributes has already been considered earlier in this review. In the context of cross-border trade the important components of infrastructure are transport and communication. There is a growing trend to group information or knowledge resources with communication, as is reflected in the change in terminology from information technology (IT) to information and communication technology (ICT). Infrastructure distance attributes and risk have, then, been dealt with under the heading Geographic Risks. It must, however, be remembered that these attributes could also be the cause of economic risk factors, for example in the home appliance industry, where local responsiveness is important and knowledge resources will often be the key to generate this agility (Ghemawat, 2001).

Lastly, risks arising from differences in the cost and quality of intermediate inputs need to be considered. For the purposes of this study, it is assumed that trade is concerned with the exchange of goods or services, without having to distinguish between raw materials, intermediate inputs and finished products, or, for this matter, between goods and services. Any specific risk related to the trade in intermediate inputs will, therefore, already have been covered earlier.

3.4. Trade Risk Category Scheme

From the study of the CAGE model (Ghemawat, 2001) and the other contributing theoretical frameworks, together with what has been gleaned from the review of concomitant literature, a preliminary category scheme emerges. It is based on the work of Srnka and Koeszegi (2007) who describe methods of transforming qualitative

data into quantitative results. The table below depicts a category scheme which uses Ghemawat's (2001) distance dimensions as super-categories, the distance attributes of each dimension as main categories and specific risks uncovered in the literature review as sub-categories, where these exist. This scheme proved to be useful for the categorisation of the data for this study and was eventually adopted with only minor changes as shown in section 4.4.

Table 3.5 - Category Scheme

Super-category	Main categories	Sub-categories
Cultural	different languages	
	different ethnicities; lack of connective ethnic or social networks	
	different religions	
	different social norms	
Administrative	absence of colonial ties	
	absence of shared monetary or political association	
	political hostility	
	government policies	
	institutional weakness	corruption Grease money
Geographic	physical remoteness	
	lack of a common border	
	lack of sea or river access	landlocked
	size of country	
	weak transportation links	Road
		Rail
		Air
		Water
Weak communication links	Fixed line	
	Mobile	
differences in climates		
Economic	differences in consumer incomes	
	differences in costs and quality of resources	natural
		financial
		human
		infrastructure
		intermediate inputs
	information or knowledge	

Source: Structure adapted from Srnka and Koeszegi (2007).

3.5. Summary

In this chapter the theoretical models and conceptual frameworks, introduced in Chapter 2: above, were expanded and contextualised through the review of pertinent literature. Particular attention was given to the CAGE Distance Framework (Ghemawat, 2001), which was also used to derive the category scheme for the classification of data which was used for the study.

In the next chapter the research design and methodology are described, with particular emphasis on

- the research paradigm employed,
- the data collection methods and
- the techniques used for data analysis.

Limitations of design and methodology and ethical issues are also addressed.

Chapter 4: Research Design and Methodology

In order to facilitate the compilation of the risk-checklist, which is the final deliverable of this study, the risks identified and assessed by means of the assignments in 2009 were extracted from the assignment scripts, classified and coded into an Excel spreadsheet. The coding is based on the category scheme which was developed from the various theoretical models described above and the insight gained from the literature review. Once coded the data was analysed using simple techniques, for example frequency tables. The results of the analysis have been compiled into the final checklist.

4.1. Research Paradigm Employed

Yin (1989) asserts that “case studies are the preferred strategy when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context.” This is corroborated by Watkins (2008) who states that “a case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context.”

This study is investigating the contemporary phenomenon of ‘operational cross-border risk’ in the real-life context of ‘intra-African trade’. The study is an empirical enquiry as it is based on the discoveries and experiences of business leadership students verified by international business managers. The researcher had no control over the content of the assignment scripts, the topic arose post facto. The base question which initiated the study is ‘Why is there not more trade within Africa?’ Given that risk is one of the major factors influencing international trade and having identified these risks the question is then asked ‘How can these risks be mitigated?’

On the other hand, the study is not attempting to test theory and prove or even verify any causal relationships. The results remain entirely empirical and are only of relevance in their specific context. The research process is, therefore, inductive rather than deductive (Saunders, Lewis & Thornhill, 2009).

The chosen case study approach appears, therefore, to be a suitable research paradigm. In fact, each group’s answers to the assignment question can in themselves be considered a mini case study. The study, then, can be seen as a collection of case studies which verify and cross-check each other.

4.2. Population and Sample

Although the study is not primarily quantitative in nature, it is worth noting that the population under consideration consists of all available scripts for question 4 of group assignment 1 for the subject MBL923-P (International Business) in 2009. The whole population was analysed, no sampling was employed.

4.3. Data Collection and Methods

The data to be analysed was extracted from the Electronic Delivery System (EDS) of the Unisa Graduate School of Business Leadership in one of several electronic document formats, for example, Microsoft Word or Portable Document Format (PDF). This process had been authorised by the executive management of the SBL and was previously tested.

4.4. Data Analysis and Techniques

Each answer to the assignment question should contain a list of 10 operational cross-border risks, which have been verified by an international business manager. This was found not to be the case for a number of scripts. In some instances there were less than 10 risks, in others more. This fact does not influence the study in any way as each risk is treated as a separate case.

The researcher has extracted the list of risks from each of the scripts and captured the data in a Microsoft Excel spreadsheet. As much as possible of the original descriptive information was retained in order to guard against loss of data during the transfer from script to spreadsheet. Often the risk data in the assignment scripts was presented as continuous text rather than some kind of list or table. In this situation risk data was extracted by reading the text and capturing the data as and when it was encountered.

The data was captured also taking into account the validation by the international business (IB) managers. Not all the groups had their list of risks verified by an IB manager. Where this was done, the risks identified by the group and the IB manager were both captured where they did not overlap. Risks which were rejected by the IB manager were ignored.

As the topic covered by the assignment question is complex, it has not been feasible to use a research assistant to capture the data. The judgement of the researcher was necessary and required to correctly transcribe the data into a format suitable for

subsequent analysis. This introduced a certain degree of bias, but this is regarded to be acceptable in the context of qualitative analysis.

Once transcribed, the risk entries were classified according to some of the theoretical models described earlier. Most importantly the CAGE model (Ghemawat, 2001) was used to create the super-categories and the subordinate main categories for the preliminary category scheme as shown below.

Table 4.1 - Two-level Intermediate Category Scheme

Super-category	Main categories	Code
Cultural	different languages	language
	different ethnicities; lack of connective ethnic or social networks	ethnicity
	different religions	religion
	different social norms	social norms
Administrative & Political	absence of colonial ties	colonial ties
	absence of shared monetary or political association	association
	political hostility	hostility
	government policies	gov policy
	institutional weakness	weak institutions
Geographic	physical remoteness	remoteness
	lack of a common border	common border
	lack of sea or river access	sea/river access
	size of country	size
	weak transportation links	transport
	Weak communication links	communication
	differences in climates	climate
Economic	differences in consumer incomes	income
	differences in costs and quality of resources	resources

Source: Researcher's Compilation.

As capturing and coding of the data proceeded, it was felt necessary to adjust the scheme to correctly reflect the data.

For the super-category 'Cultural', the main categories 'different values', 'protecting reputation', and 'cultural alignment' were added. In line with Hill (2007), cultural values underlie social norms and were identified as a separate main category. The protection of personal and group reputation, including brand reputation, was mentioned as a cultural risk factor by Coetzee (2009b) and this was reflected in the data. The same applies to 'cultural alignment', where Coetzee (2009b) draws all the cultural attributes of the CAGE model (Ghemawat, 2001) together, and puts forward that differences in this set constitute a significant risk.

The super-categories 'Administrative and Political' and 'Geographic' did not need amendment as result of data capture and coding.

However, it soon became evident that the super-category 'Economic' needed restructuring. The sub-categories 'infrastructure' and 'information and knowledge' were elevated to main categories, while sub-category 'intermediate inputs' was dropped altogether, never having been mentioned. An additional main category 'commercial' was defined in the category scheme to allow for general business risks, not covered anywhere else. The sub-categories here include risks related to currency, inflation and business process, for example supply chain risks.

Risks which were only mentioned once were not classified but will be considered in a separate section of the next chapter. It is these risks that reflect the innovative mindset of the class.

The final category scheme used for the analysis is shown below.

Table 4.2 - Final Category Scheme

Super-category	Main categories	Code
Cultural	different languages	language
	different ethnicities; lack of connective ethnic or social networks	ethnicity
	different religions	religion
	protecting reputation	reputation
	different values	values
	different social norms	social norms
	cultural alignment	alignment
Administrative & Political	absence of colonial ties	colonial ties
	absence of shared monetary or political association	association
	political hostility	hostility
	government policies	gov policy
	institutional weakness	weak institutions
Geographic	physical remoteness	remoteness
	lack of a common border	common border
	lack of sea or river access	sea/river access
	size of country	size
	weak transportation links	transport
	Weak communication links	communication
	differences in climates	climate
Economic	differences in consumer incomes	income
	differences in costs and quality of resources	resources
	differences in infrastructure	infrastructure
	differences in availability and quality of information & knowledge	information
	stability of commercial environment	commercial

Source: Researcher's Compilation.

Referring to the definitions in section 2.1 above, all the categories in the scheme above describe events or conditions which are likely to cause uncertainty in cross-border trade within Africa. This was also detailed earlier in section 3.3, where the context of the CAGE framework was discussed.

At the sub-category level there were too many additions, deletions and changes to list them here. The fully detailed category scheme will be introduced when the research results are discussed in Chapter 5.

Where possible, the mitigation actions from the assignment answers were matched to the risk entries. Full response coverage of risks could not be achieved as there was only one response plan for every 10 risks (see assignment question in section 1.6 above).

Descriptive statistics based on the completed table of risks are shown in the next chapter, mainly in the form of frequency counts. The pivot table tool of Microsoft Excel was used extensively to create the cross-tabulations with the frequency counts. The risk table, which is the primary deliverable of the study, has been prioritised in terms of frequency of occurrence of a particular risk. Where one of the top 10 risks does not have an associated mitigation action, the researcher has referred to the relevant literature.

4.5. Reliability and Validity

As this is a case study nothing can be said about reliability and validity, except that each group's data has been verified by an international business manager.

It was planned initially to seek clarification from the group leaders where doubt existed about the meaning of particular portions of an answer script. This was found not to be necessary as all scripts could be classified successfully.

Although it was envisaged that the researcher would contact some of the international business managers to discuss and verify the preliminary results of the study, this has not been necessary as the descriptive material supporting the analysis has been unambiguous and convincing.

4.6. Limitations

It was expected that coverage in terms of 'intra-African' would be rather sparse. Most of the study groups with the exception of the EDS groups hail from Southern Africa and Ethiopia and, in the context of the study, it is likely that 'intra-African' will mean 'intra-Southern African' or even 'South Africa to the rest of Africa'.

ARIA IV (2010), however, appears to indicate that the challenges of 'intra-African trade' are universally African and not limited to particular countries or regions.

The results flowing from this case study cannot and should not be generalised. While based on verification (or otherwise) of IB managers, they reflect little more than the considered opinions of selected groups comprising of MBL students. Only the careful placement of the results in the context of the theoretical frameworks and the empirical ARIA IV (2010) report can provide a degree of trustworthiness and value to the results.

4.7. Ethical Issues

Permission to conduct this study and to use the assignment scripts has been obtained from Prof Okharedia, the Academic Director of the SBL, at the request of Prof Neuland, Area Head (Strategy, Governance and Marketing) at the SBL.

Care has been taken to code data items so that no identification of groups or individuals is possible from the results. In order to be reasonably certain that the identity of groups and individuals is protected, study group data and other items which could identify the source of the data have been removed from the spreadsheet which was used for the analysis.

4.8. Summary

The design of the research fits the characteristics of a case study. In line with this approach a category scheme based on the CAGE framework was used to categorise the data. The categories have been validated to represent sources of uncertainty according to the definition of risk in section 2.1.1 above. Data collection for the study was fully authorised. Although the initial categorisation spreadsheet contained the group codes, these have been removed so that the identity of the study groups cannot be deduced from this report.

In the following chapter the results and findings are presented in the context of intra-African trade.

Chapter 5: Research Results and Findings

In order to fully appreciate the results of the study, which are described below, the most relevant statistics, as they pertain to and describe intra-African trade, are briefly discussed below. The figures are taken from ARIA IV (2010) unless otherwise stated.

5.1. Intra-African Trade

The physical size of the African continent is often not understood. Second only to Asia, the continent has a larger surface area than Argentina, China, India, Western Europe, and the U.S.A. (minus Alaska and Hawaii) together. The map below demonstrates this.

Figure 5.1 - Africa in Perspective

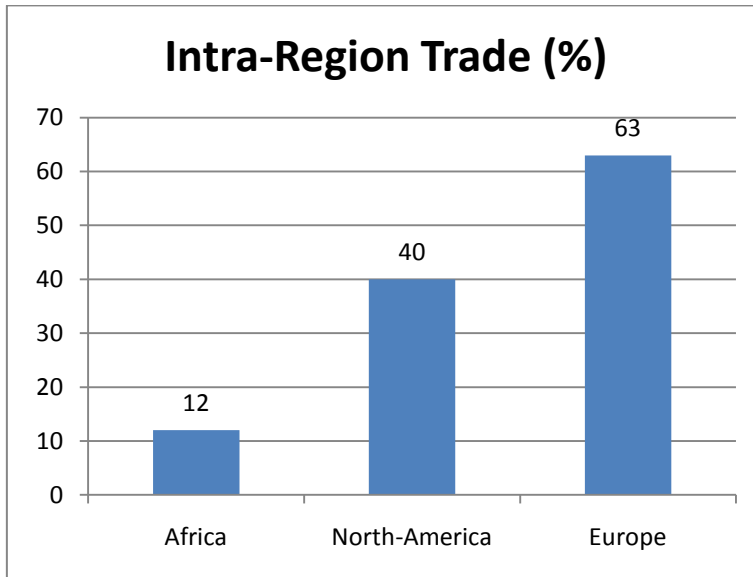


Source: Jacobs (2006).

Yet Africa contributes only about 2 percent to world trade. If South Africa is excluded this figure drops to less than 1 percent. Only 10 to 12 percent of African trade takes place within Africa, the remainder is conducted with the world outside Africa, with Europe and the U.S.A. accounting for the lion's share, more than 50 percent. The situation is very different with respect to the major trading partners of Africa. For

example, about 40 percent of North-American trade occurs within North-America, the figure for the European Union is even higher with 63 percent, as the figure below depicts. (ARIA IV, 2010)

Figure 5.2 - Intra-Region Trade



Source: Researcher's Compilation.

The narrative data found in the assignment scripts supports the stance that at least part of this significant shortfall in intra-African trade is due to the high level of risk encountered when trading in Africa.

As expected the study has yielded a prioritised list of operational cross-border risks, which match the risks arising from the theoretical frameworks and risks uncovered in the literature review. The list confirms the overall situation sketched in ARIA IV (2010). The report concludes that Africa's share of the global trade markets is very small and that this could be boosted by an increase in intra-African trade, which is underdeveloped at present. Although Africa has the potential to supply some of its import needs, for example, fuels and minerals and even food, the continent shows a lack of capacity to be self-sufficient. This expresses itself in the many and varied risks which, in needing a response, increase the cost, delay the schedule and lower quality of trade in Africa.

Each risk described below has been associated with a recommended response action, which could guide business in taking decisions in the context of intra-African trade.

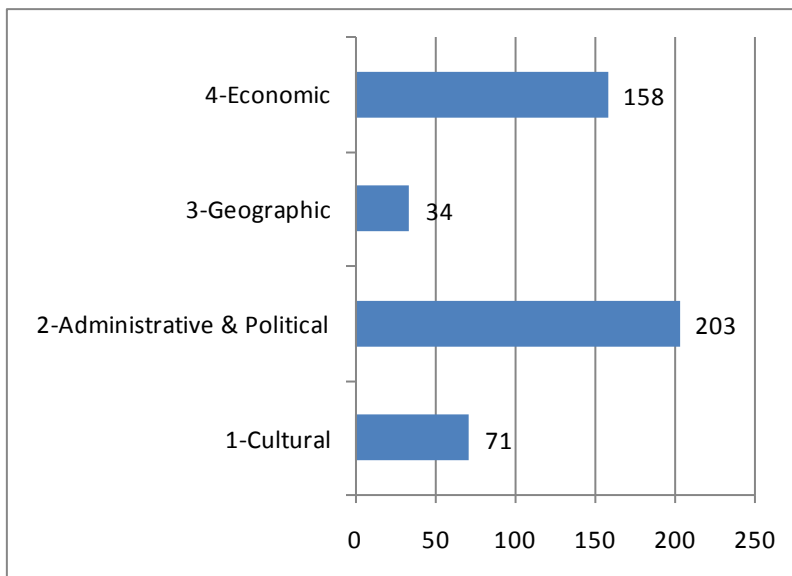
5.2. Results of the Study

Data has been extracted from 45 group assignment scripts. This yielded 466 risk descriptions, just a little above the expected 450 (based on 10 per assignment).

The full list of risks, including all three category levels, is shown in Appendix F . This list also reflects the final category scheme.

The diagram below shows the risk frequency counts in relation to the distance dimensions of the CAGE model (Ghemawat, 2001). Over 43 percent of the risks were allocated to the administrative and political dimension, still over a third (34 percent) to the economic dimension. The cultural and geographical dimensions were largely neglected with only 15 and seven percent respectively.

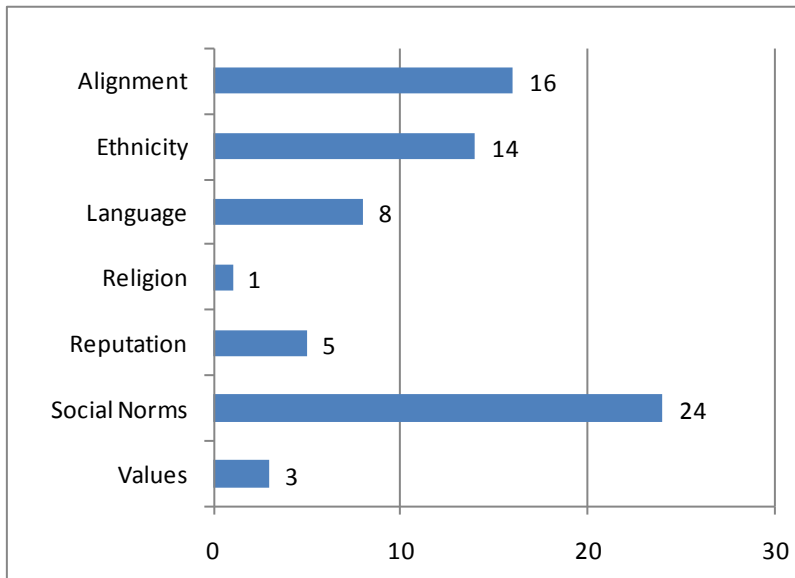
Figure 5.3 - Count of Risks by Distance Dimension



Source: Researcher's Compilation.

Drilling down into each of the dimensions reveals the following:

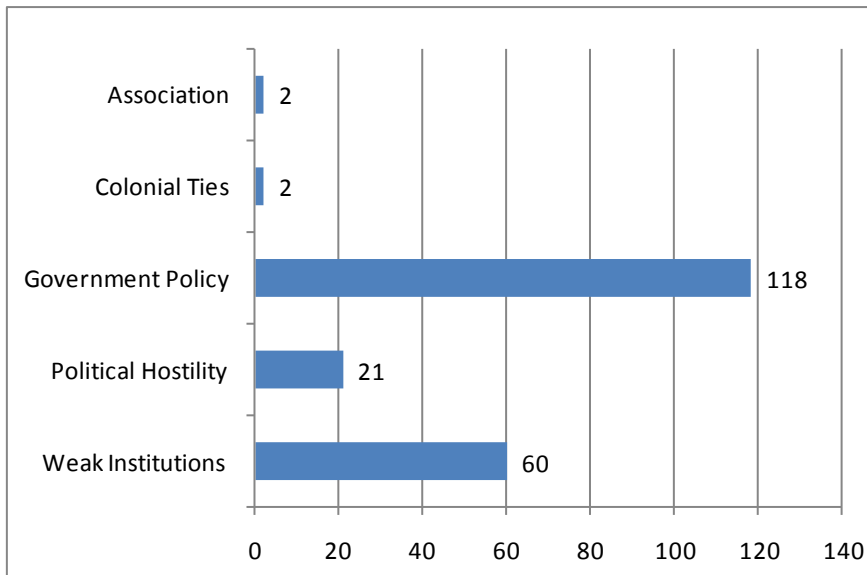
Figure 5.4 - Cultural Risks



Source: Researcher's Compilation.

In this dimension risk arising from differences in social norms lead the field, while risks arising from differences in language and religion are classified as less important.

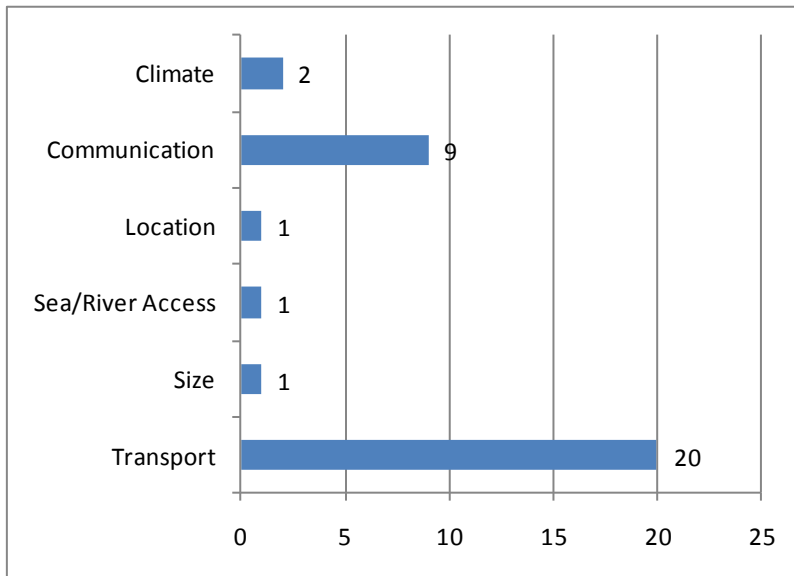
Figure 5.5 - Administrative and Political Risks



Source: Researcher's Compilation.

Risks arising as the result of government policies and weak institutions constitute nearly 90 percent of the risks identified in this dimension.

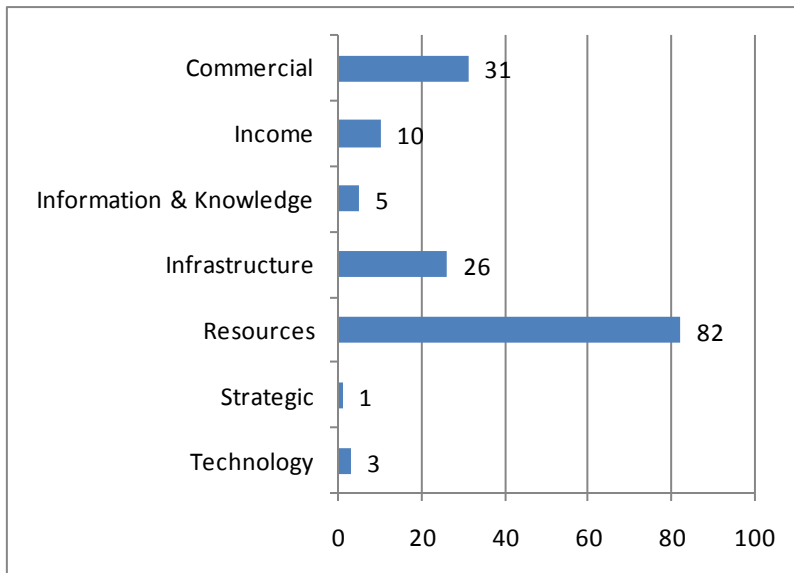
Figure 5.6 - Geographic Risks



Source: Researcher's Compilation.

Here, as could be expected, transport and communications infrastructure risks make up the largest categories. Together, they account for 85 percent of risks identified in this dimension.

Figure 5.7 - Economic Risks



Source: Researcher's Compilation.

This category appears more balanced, with only 54 percent of the risks in the largest category, namely resource risks.

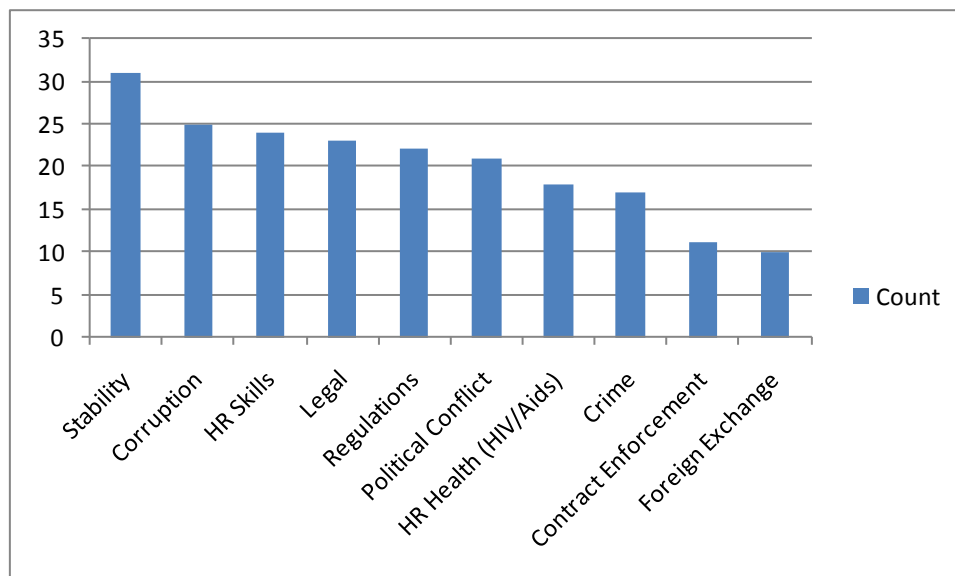
From the sub-category list the ten risks which were mentioned most frequently were extracted. The result is shown below.

Table 5.1 - Top 10 Risks

Risk	Count
Stability	31
Corruption	25
HR Skills	24
Legal	23
Regulations	22
Political Conflict	21
HR Health (HIV/Aids)	18
Crime	17
Contract Enforcement	11
Foreign Exchange	10

Source: Researcher's Compilation.

Figure 5.8 - Top-Ten Risk Frequencies



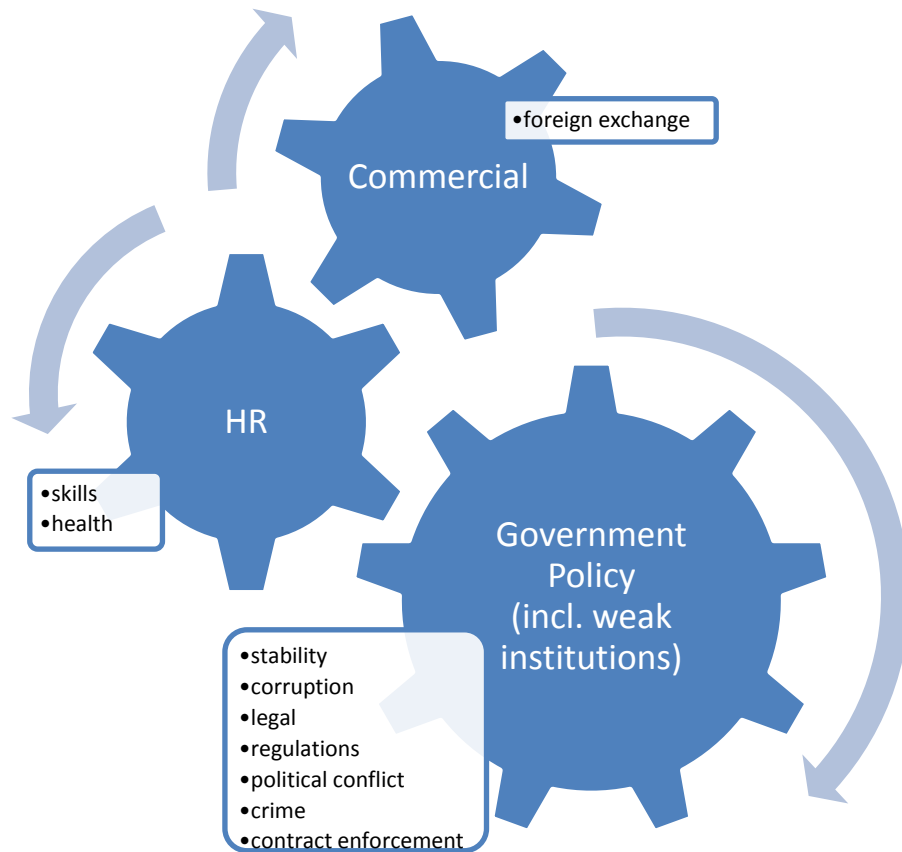
Source: Researcher's compilation.

The top-ten risks account for 202 out of a total of 466, over 43% of the risks captured. The top risk 'Stability' was mentioned 31 times, while the bottom risk of the top-ten 'Foreign Exchange' was still mentioned ten times.

All the risks above belong to the administrative and political or the economic dimensions of the CAGE model. The other two dimensions, cultural and geographical are not represented at all.

Clustering the top ten risks according to their main categories reduces the list to three interlinking sets.

Figure 5.9 - Top Risk Areas



Source: Researcher's Compilation.

At the other end of the scale, there were a number of risks which were only mentioned once. These are listed below.

Table 5.2 - Risks Only Mentioned Once

Basic Services	Distribution	Taxes
Government Commitments	Variable Cost	Emerging Markets
Consumer Demand Shift	Natural	Int Trade Standards
Leadership Influence	Landlocked	Porter's Five-Forces
Innovation	Natural Disasters	Travel
Learning	Gender	Effectiveness
Lack Of Harmonisation	Famine	Judicial Independence
Etiquette	ICT	Process
Related Industries	Opinion	Work Culture
Event Intervention	Dilution Of Values	Foreign Exchange Control
HDI	X-Culture Project Team	Radical Greening
Mindset	Supply Chain	FDI
Telephone	Perspective	

Source: Researcher's Compilation.

Most of these could probably be re-classified by referring back to the original assignment scripts, for example, it is likely that Government Commitments fits into the category Stability of Government Policy. Others, however, are unique indeed, for example Porter's Five-Forces, where the script indicates that not having done a thorough analysis of the forces would constitute a trade risk.

From the above it can be observed that none of the top ten risks are specific to operating across borders in Africa, but all can also be listed as country risks when embarking on an international business venture. As country risks they are not specific to Africa either. It is thought, however, that the top-ten list would look different if the data had been collected on another continent, for example, government policy would not have as strong an influence on trade in Western Europe, but the geographic attributes like physical distance, country size and access to sea or rivers may have carried more weight.

5.3. Summary

In March 2005, at its first review of the Millennium Development Goals, the Commission for Africa (2005) reported: "But all is not gloom. For 2005 is also the year in which it is becoming clear to the outside world that things are changing on the continent – with African governments showing a new vision, both individually and working together through the African Union and its New Partnership for Africa's Development (NEPAD) programme. Africa, at last, looks set to deliver."

Five years later it is surprising that this study finds that African governments still have not demonstrated their ability to deliver sufficiently. Government policy, coupled with weak institutions, is by far the largest source of trade risk.

The findings above are discussed in the following chapter. Conclusions will be drawn from the findings and recommendations made on short, medium and long term responses to the operational cross-border risk encountered in intra-African trade.

Chapter 6: Discussion, Conclusions and Recommendations

Based on the results and the analysis in the previous chapter, some particular risk areas, namely five risks which were only mentioned once and the list of top ten risks, are discussed in more detail. Conclusions are drawn from the analysis and the discussion, followed by a set of recommendations.

6.1. Discussion of Five 'Single' Risks

The list of risks which were only mentioned once uncovered some valid distance attributes, which, at the same time, were informative and revealing. The researcher has chosen five of these for a more detailed discussion, loosely based on the description in the assignment scripts.

Etiquette	Cultural differences, expressed in attributes of ethnicity, language, values and social norms brings about differences in socially accepted behaviours, which as a collection can be called 'etiquette'. This is an important factor in cross-cultural, and, therefore, cross-border relationships, so much so that, for example, IBM has published an online country dictionary of etiquette.
International trade standards	These standards have emerged as a critical risk factor in international trade, particularly in the guise of rules of origin which can restrict rather than promote trade within a partnership of countries governed by a trade agreement.
Porter's Five Forces	<p>The five forces, as described by Porter (2008),</p> <ul style="list-style-type: none">• the threat of the entry of new competitors,• the intensity of competitive rivalry,• the threat of substitute products or services,• the bargaining power of customers (buyers) and• the bargaining power of suppliers, <p>although primarily applicable to assessing market attractiveness, can be applied to cross-border trade and then</p>

become risk factors.

Radical Greening Laws and regulations to comply with and enforce global environmental agreements, can add cost and risk to cross-border transactions. This would be particularly relevant, when the radical greening edicts have not been adapted to the trading countries situation, for example, to force Eskom, the South African power utility, to switch from using fossil fuels for generation to renewable energy sources in the short-term would raise the price of electricity beyond what 'normal' people can afford and indirectly to an increase in poverty, rather than alleviate poverty. This, in turn, would have effects on the economy as a whole as well as trade.

Supply chain Like Porter's Five Forces (Porter, 2008), the elements of the supply chain and the links between them carry risk. Should elements of the chain be situated across borders, cross-border risk is the consequence of supply chain risk. Supply chain risk management is a recognised discipline of risk management.

Source: Researcher's Compilation.

6.2. Discussion of the Top-Ten Risks

The top ten risks are discussed below. Each risk is described in the context of the study, based on an understanding derived from the assignment scripts and a specific, short-term response is suggested. The response action put forward cannot be more than a suggestion as each case will be different, depending on factors like location, environment and industry.

6.2.1. The Risk Checklist for Business

Note: The counts in parentheses indicate the frequency of the risk as shown in Table 5.1 - Top 10 Risks above.

Stability (31) Lack of government stability is perceived by the writers as a risk factor caused by government policy. Lack of stability is a consequence of frequent change, lack of communication between government and its

stakeholders, lack of consistency within government and between its departments and discrepancies in the application of policy in different locations and circumstances. The consequent uncertainty has a significant effect on doing business in the unstable environment and specifically on trade. This effect is boosted by the involvement by more than one government in cross-border trade.

Only a small minority of the writers interpreted lack of government stability as being the consequence of frequent change of governments. However, this understanding also leads to an increase in uncertainty and, therefore, risk.

The suggested short-term response action for this risk is to carefully investigate the effects of government policies along the trade route on both sides of the border and use the capabilities of the organisation to find bypasses for each of the obstacles. The route needs to be investigated at regular intervals to pre-empt the situation that lack of stability will inevitably lead to frequent change.

Corruption

(25) It was expected that this risk would be raised among the top ten. It has already been described in the literature review above. Suffice it to say that this risk arises primarily as the result of institutional weakness. Responses, therefore, should address the institutions involved rather than individuals.

The suggested short-term response, then, entails three lines of attack. Firstly, never bow to pressures to take part in corruption. This risk can only be controlled from the outside as a non-participant. Secondly, work through whatever channels may exist to uncover and publicise instances of corruption. Often these channels exist, for

example hotlines, ombudsmen and whistle-blowing support organisations. Thirdly, ensure that operational processes encourage and reward the reporting of any incidents of corruption inside and outside the organisation. There will always be a cost to avoiding corruption. If that cost becomes too high, it may be necessary to cease operations in a country or region.

HR Skills (24) The lack of skilled labour constitutes a risk to business everywhere and in any industry. Africa, however, suffers from a severe lack of skilled labour. This constitutes a risk to doing business in general, not excluding trade across borders.

In response organisations need to invest in their human capital through education and training to build capability, particularly in the core competencies. If trading across borders is not part of the enterprises core competencies, it may be better to outsource all or part of the trade route.

Legal (23) The body of law in a country is perceived by the writers as an outflow of government policy. Country laws, however, often do not reflect reality in a rapidly changing environment. This leads to confusion and uncertainty and, therefore, risk.

The suggested response would be similar to that given to the stability risk above. Careful investigation of the legal environment and the application of law will go a long way to reducing the uncertainty. The same applies to the regulations risk below.

Regulations (22) Regulations interpret and expand law. There often is a vast body of regulations, which sometimes conflict with each other. Cross-border trade is to a great degree dependent on the regulations concerning trade, customs, border security, transport, to name but a few areas.

There are differences from country to country which exacerbates uncertainty.

In Africa with its many and overlapping RECs, each REC zone has its own body of trade regulations. These have at times not been coordinated and discrepancies are known to exist.

In responding to the risks arising from regulations the same techniques can be used as for the legal risk. It should be borne in mind that the substance matter of regulations is even more complex than the statute of law.

**Political
Conflict**

(21) As discussed in the review of pertinent literature above, conflict has long been the scourge of Africa. The situation has somewhat improved recently, but there are still a number of politically motivated civil conflicts in Africa, for example the clashes in the Democratic Republic of the Congo and in Somalia. Inevitably these countries' neighbours are also affected and cross-border trade becomes difficult if not impossible. There can be no stable government in a civil conflict situation which worsens the uncertainty inherent in the situation.

The recommended response to this risk is simple: Unless the organisation is willing to operate under extreme risk, the condition of political conflict should be avoided altogether.

**HR Health
(HIV/Aids)**

(18) Human resource health risk as the result of the HIV/Aids pandemic leads to lower availability and productivity of human capital. These are critical facets of the labour factor of production. SSA has the worst HIV rate of infection in the world and this risk cannot be ignored, as many organisations do. The effect is not only on trade but on all aspects of doing business in Africa.

It is difficult to respond to this risk, especially when and

where the 'wall of silence' still exists. Mitigation actions fall within the human resource management ambit and might include functional cross-training and succession planning.

- Crime** (17) Crime reflects the institutional weakness of the law enforcing bodies of government. In that crime is similar to corruption and should be treated likewise by business:
- never take part,
 - work to uncover and report and
 - use internal processes to encourage and reward reporting.

- Contract Enforcement** (11) Most students see the enforceability of contracts as a legal issue, but this risk also has deep cultural roots. In some cultures a handshake between parties who have established a close relationship, has more power than a 100 page written contract. As any trade transaction has some kind of contractual basis, this risk is of high importance in the context of trade in general but even more so in Africa, with its high degree of cultural diversity. The trading parties need to be fully informed as to the different types of contractual methods and their implied enforceability, for example a handshake will often not be enforceable by law but may be fulfilled by the support of the community.

- Foreign Exchange** (10) Differences and fluctuations of currency exchange rates are one of the most common risks encountered in cross-border trade, unless trade is within a common currency zone. In parts of Africa this risk is aggravated by high inflation with its knock-on effect on exchange rates. The normal response to fluctuating exchange rates would be to hedge with foreign exchange forward contracts, in other words to transfer the risk by insuring it. This,

however, may not always be possible in the African context, where currency fluctuation could be vast and insuring against the risk too expensive.

Source: Researcher's Compilation.

6.3. Conclusions

From the above discussions two major conclusions can be drawn:

1. There is a significant overlap between operational cross-border trade risk and country risk.
2. The most significant source of risk is government policy including weak institutions.

6.3.1. Operational Cross-border Risk and Country Risk

In compiling the risk descriptions and responses above, it became apparent that the groups had, in a high number of cases, listed country risks and applied them to trade and more specifically cross-border trade. When this became evident in reading the assignment scripts, the researcher performed a superficial reasonability test, by attempting to find an example where a country risk could be applied to cross-border trade in Africa. In many cases it was found that the groups had already supplied relevant examples. Some are listed below, relevant to the top five risks, which are all primarily country risks:

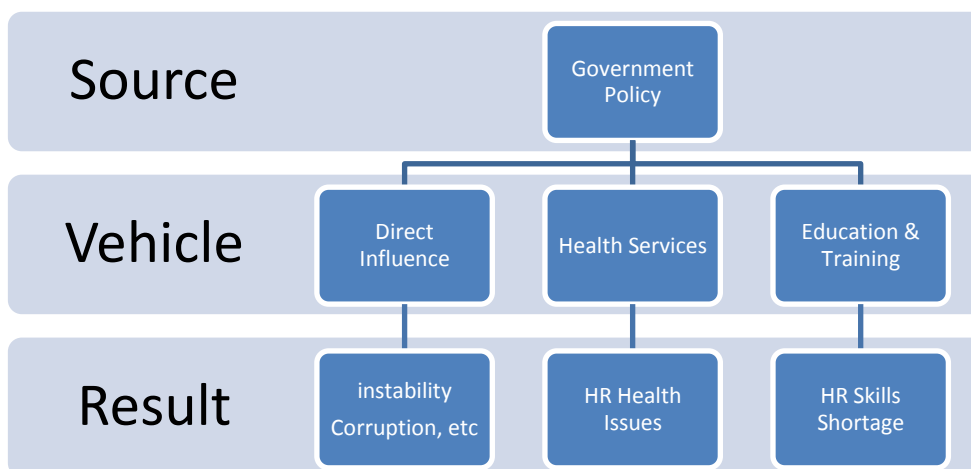
- Stability of government policy is clearly a country risk as the contributing factors differ from country to country. However, it can also be applied as a cross-border trade risk, for example inconsistent stakeholder communication on one or both sides of the border can quickly and easily lead to decreasing trade volumes across the border and finally breakdown of the trade link.
- Corruption can be seen on one hand to be part of the state of a country, but can also be seen to occur along the trade route.
- Suitable HR skills are a necessary prerequisite to do business in a country but are also required all along the cross-border trade route, from the sending depot via transport logistics, border formalities and customs to the receiving depot.

- Legal and regulatory risks are equally relevant to in-country as cross-border operations. Whether it is registering a business in a foreign county or completing customs declarations, the law will affect both.

6.3.2. Common Risk Sources

The major source of risk revealed by this study has been the policy of government, including institutional weakness. This resulted in the majority of the top ten risks as listed in Figure 5.9. Considering the other two top ten main categories, namely human resources and commercial, it appears that there is another source which has an influence on the three remaining risks, lack of HR skills, HR health and foreign exchange. All of these are influenced by government policy. HR skills are impacted by the education and training policies of government, HR health is affected by the health services provided by government as part of policy and foreign exchange rates are driven by political and consequent economic stability, which are steered by government policy. The diagram below attempts to sketch these relationships.

Figure 6.1 - Government Policy: Indirect Source of Risk



Source: Researcher's Compilation

The overwhelming emphasis on government policy (and, therefore, the administrative and political dimension of the CAGE model) has been surprising. The phenomenon could possibly be explained by a combination of factors, for example the political and economical mood in 2009, only six months after the height of the world-wide financial crisis, the probable lack of familiarity with cross-border trade in Africa, which is reflected in the tendency to concentrate on in-country risks and a probable lack of awareness that things are changing for the better in Africa, as witnessed by the latest

reports, ARIA IV (2010) and the Economic Report for Africa (UNECA, 2010b), both published in 2010. Much remains to be done, however, and in that respect governments should be held accountable in taking the lead to make Africa a better place.

6.4. Recommendations

In finding solutions which would decrease the probability and lower the impact of the cross-border trade risks described above, care must be taken to recommend actions which benefit all concerned stakeholders; a win-win scenario should be created. One of the routes to take would be along the time line and to recommend short-, medium- and long-term actions to respond to or even eliminate the risks. Taking into account the great influence which lack of governance has on the effective and efficient implementation of government policy, risk responses based on the recommendations of the King Commission (King III, 2009b) will be considered. Finally, another inspection of some of the conceptual frameworks will reveal additional recommendations for responses to risks which are caused by government policy and weak institutions.

6.4.1. Term-based Responses

In the *short term* risk response could continue to use bypass techniques, as described above, for example reporting corruption and crime with the aim of exposing and eliminating the sources, complying intelligently with regulations and take at least partial responsibility for employee skills and health. This will increase the cost of trading but also holds promise for longer term benefits. When deciding on a risk response, the goal should be to grow rather than restrict intra African trade.

In the *medium term* the emphasis is likely to shift from trade growth to GDP growth, from immediate bypass responses to a mode of working towards lasting change. Some actions here could be the strengthening of public-private partnerships, to establish the reasons for failure of the RECs and to make them function better. Another suggestion, which is already being considered, is to work towards entrenching democracy and its companion, social capitalism, in every country of Africa and in every sphere of business and life (ARIA IV, 2010).

In the *long term* it would benefit all stakeholders if business would support and underpin government policy. This policy would be developed in consultation with all

stakeholders, benefit stakeholders and carry the support of the large majority of Africa's people.

6.4.2. Governance Responses

King III (2009b) applies to all types of organisational entities, including government departments and state-owned companies. It asserts "All entities should apply the principles in the Code and consider the best practice recommendations in the Report. All entities should by way of explanation make a positive statement about how the principles have been applied or have not been applied. This level of disclosure will allow stakeholders to comment on and challenge the board on the quality of its governance. The application will differ for each entity and is likely to change as the aspirational nature of the Code should drive entities to continuously improve governance practices."

The adoption of the mindset manifested in the code, to 'apply' the principles and recommended practices or 'explain' why this could not be done, would go a long way to alleviate many of the top-ten risks above, for example corruption, crime and contract enforcement which are all consequences of lack of governance. Both the public and private sectors should live by the principles of good governance and act in accordance with the recommended practices. This would lead to a mutually beneficial interplay between all stakeholders, with the roles of watchdog and those being watched frequently interchanging.

In particular, King III (2009b) expands on the principles and practices of

- the governance of risk and
- integrated reporting and disclosure.

In the latter the emphasis on disclosing how an entity plans to sustain itself into the future will contribute to the mitigation of the top risk 'Stability' by encouraging formulation, disclosure, implementation and review of long-term strategies. This should lead to a higher degree of stability and should also reduce the volatility of legal and regulatory requirements when applied to government policies.

King III (2009b) currently only applies in South Africa. The code is, however, recognised as being at the forefront of governance internationally and could be adapted to many countries and regions of Africa.

6.4.3. Framework-based Responses

Revisiting the theoretical models and conceptual frameworks in Chapter 2: yields a number of recommendations for risk responses which can be applied to the top-ten risks.

Verdin and van Heck (2001) in their *Conelearn Framework* (see section 2.3.2 above) hold that international business leads to greater opportunities for learning. Taking advantage of these favourable circumstances can lead to enhanced innovation, more benefits from diversity and improved adaptability to different environments. All these can lead an organisation to better respond to the risks facing it. It appears that the concept of 'lifelong learning' as proposed by, for example, Walters (1999), does not only apply to individuals but also to organisations.

Learning to combine innovation with diversity and adaptability in order to gain competitive advantage and strength will allow the organisation to concentrate more on its core business, rather than continually dealing with unexpected risk events. Governments can focus on governing, businesses on creating stakeholder value.

Again IBM can be cited as an example. Innovation is part of the organisation's values, diversity is policy and adaptability is an operational imperative. (International Business Machines, 2010) These dimensions combine to be part of the company's recipe for success.

In order to fully benefit from learning a process of recording and communicating the lessons learned should be put in place. Otherwise learning which has taken place will quickly be lost in the sands of time. This is advocated by, for example, Bolles (2002).

Collier (2006), in his *Development Traps* model described in section 2.3.4 above, puts forward four non-traditional policy instruments which would enable African nations to escape from the traps. These are repeated below and their application as risk responses is briefly discussed.

1. External security guarantees, which are set up to foster national and regional stability with the specific aim to reduce civil conflict. This would be a response to the 'Political Conflict' risk and trap
2. Templates of good governance would, if applied, assist in mitigating the 'Corruption' risk and trap. The role of good governance has already been discussed in section 6.4.2 above.

3. Temporary trade preferences to create opportunities for trade and overall economic growth and to help individual countries and the region to escape from the 'Primary Commodity' trap. As the economy grows, poverty will be alleviated and most of the top-ten risks, from 'Stability' to 'Foreign Exchange' will be reduced in probability and impact.
4. Conditioning of aid on processes of governance rather than on policies (for development aid organisations). This would be a powerful tool to bring about a shift towards better governance in both governments and non-government organisations. Again, good governance, as discussed in section 6.4.2 above, appears to be the key to effective risk response.

6.5. Areas for Further Research

Risk as defined for this study is a vast and significant field of research. Vast because the African continent supports one billion people, but is the poorest of all the continents. Significant because the development of intra-African trade is seen as one of the vital factors to achieve economic growth and poverty alleviation, but risk constrains trade and the responses to risk are costly in themselves, diverting much needed resources.

Some areas have emerged which deserve further attention, but which were not included in the scope of this study.

The current study could be expanded and increased in significance by seeking the cooperation of other business schools and universities in Africa, as well as South African and foreign multi-national companies operating in Africa. A similar assignment could be set for a much larger number of students and/or groups, while data could be obtained from corporations using surveys. Appropriately designed the extended study may lend itself to quantitative or mixed methodologies. Another benefit would be that a more balanced African view could be obtained, instead of the Southern African bias which is thought to exist in the current study.

Another area for further investigation would be to change the approach from a snapshot case study to a longitudinal study. The same assignment could be set for a number of consecutive periods and the results compared to reveal trends.

Along the same lines, international business managers could be asked to rank the risks in their environment and repeat this exercise for a number of periods. Results

could then be compared and contrasted with commonly used indexes, for example the Business Confidence Index of the South African Chamber of Commerce and Industry, to name but one.

Cross-border trade facilitation, with the main aim of reducing the complexity and cost of transactions (Khumalo, 2005), has not been considered in this study. It may be worthwhile to investigate the relationship, if any, between facilitation and risk.

In conclusion, may it be allowed to quote from the Bible: "Where there is no vision, the people perish" (Proverbs 29:18, King James Version). Unless a visionary approach is taken to respond to the many risks which hold back the African continent, little can be achieved. There needs to be a definite shift from short-term bypass thinking to long-term, visionary engineering of the future of the African continent.

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7.2. Journals

The journals below provide the majority of references for the foregoing study. They have been classified by the researcher according to

- whether they are peer-reviewed or not,
- their primary audience and
- their publishers.

African Affairs	<ul style="list-style-type: none"> • Peer-reviewed, scholarly • Political, social, economic • Royal African Society
African Analyst	<ul style="list-style-type: none"> • Opinion • mining specific
African Development Review	<ul style="list-style-type: none"> • Peer-reviewed • Professional • African Development Bank
African Review of Business and Technology	<ul style="list-style-type: none"> • Business and trade • Industry specific • Entrepreneur
Development Southern Africa	<ul style="list-style-type: none"> • Peer-reviewed • Professional • Development Bank of Southern Africa
International Business Review	<ul style="list-style-type: none"> • Peer-reviewed • The journal provides a forum for academics and professionals to share the latest developments and advances in knowledge and practice of international business. It aims to foster the exchange of ideas on a range of important international subjects and to provide stimulus for research

International Review of Education	<ul style="list-style-type: none"> • Peer-reviewed • The International Review of Education is edited by the UNESCO Institute for Lifelong Learning, Hamburg, with the advice of an independent Editorial Board and the assistance of consulting editors and academic reviewers. Serving as an international forum for lifetime education and learning, the journal provides scholarly information on policy issues, educational trends, and learning innovations. It serves educational institutes, teacher-training organizations, and ministries as well as non-governmental organizations and individuals in all countries. • Springer Science+Business Media
Journal of African Business	<ul style="list-style-type: none"> • Peer-reviewed • Advancement of business development in African nations • International Academy of African Business and Development
Journal of African Economies	<ul style="list-style-type: none"> • Peer-reviewed • rigorous economic analysis, focused entirely on Africa • The Centre for the Study of African Economies, Oxford University
Journal of Economic Literature	<ul style="list-style-type: none"> • Peer-reviewed • The Journal of Economic Literature (JEL) began publication in 1969 under the auspices of the American Economic Association. JEL contains survey and review articles, book reviews, an annotated bibliography of newly published books, and a list of current dissertations in North American universities • American Economic Association
Harvard Business Review	<ul style="list-style-type: none"> • Refereed and edited • Written for upper level management. Presents analysis of management problems and helpful commentary on advanced thinking and practice in all fields of management and administration. • Harvard Business School
Quarterly Journal of Economics	<ul style="list-style-type: none"> • Peer-reviewed • Refereed articles shaping today's economic theory from microtheory to empirical and theoretical macroeconomics. • Harvard University

Review of African Political Economy	<ul style="list-style-type: none">• Peer-reviewed• radical analysis of trends, issues and social processes in Africa• UK universities
Risk Management	<ul style="list-style-type: none">• Peer-reviewed• Multi-disciplinary• Practitioner-orientated

Appendix B Glossary

African Development Bank (ADB)	A regional multilateral development bank, engaged in promoting the economic development and social progress of its Regional Member Countries in Africa. Its shareholders are 53 countries in Africa as well as 24 countries in the Americas, Europe, and Asia. It was established in 1964 with headquarters in Abidjan, Cote d'Ivoire, although it currently operates out of Tunis due to instability in Cote d'Ivoire.
African Development Fund (ADF)	The African Development Fund provides development finance on concessional terms to low-income Regional Member Countries of the African Development Bank. Its sources of funds are mainly contributions and periodic replenishments by State Participants. The Fund finances projects, technical assistance and studies, with the aim of promoting poverty reduction.
African Peer Review Mechanism (APRM)	A voluntary system launched in 2002 and open to all members of the African Union (see below), designed to promote the adoption of agreed governance standards. To accede to the APRM, a state must sign the 2002 NEPAD (see below) Declaration on Democracy, Political, Economic and Corporate Governance, and undertake to submit to periodic peer reviews. The first four reviews are underway.
African Union (AU)	The successor organisation to the Organisation for African Unity (OAU), the AU was established in 2002. The AU works to promote African economic, social and political integration as well as peace and security. Its headquarters are in Addis Ababa, Ethiopia. When fully realised, the AU will have a General Assembly, Executive Council, Pan-African Parliament (established in 2004), African Central Bank (and eventual common currency), African Monetary Fund, and other organs and agencies.
Capacity	The ability of individuals, organisations and societies to perform functions, solve problems and set and achieve their own objectives. In a development context, 'capacity development' refers to investment in people, institutions, and practices that will, together, enable that country to achieve its development objectives (World Bank, 1997).
CfA	Commission for Africa
CFA	Communauté Financière Africaine. The monetary union of West African countries, previously French colonies.
Civil society	All those social organisations outside the state, the family and the market: business associations, employers' associations, trades unions, charities, community groups, professional associations, women's organisations, advocacy groups, church and faith groups, trade associations, self-help groups, recreational groups, media, academia and so

	on.
Comparative advantage	The ability to produce a good at lower cost, relative to other goods, compared to another country.
Credit risk	is the risk of loss due to a debtor's non-payment of a loan or other line of credit (either the principal or interest (coupon) or both). The default events include a delay in repayments, restructuring of borrower repayments, and bankruptcy. en.wikipedia.org/wiki/Credit_risk
Culture	is a system of values and the consequent rules and behaviours which are shared among a group of people.
Economic Commission for Africa (ECA)	Established in 1958, one of five regional commissions under the administrative direction of United Nations (UN) headquarters, mandated to support the economic and social development of its 53 member States, foster regional integration, and promote international cooperation for Africa's development.
Economic growth	The annual increase in a nation's total output of goods and services or the annual increase in the nation's total income.
European Union (EU)	The European Union is made up of 25 member states. Common institutions, including the Council of the European Union, the European Parliament and the European Commission, take decisions on and manage specific matters of joint interest at European level.
Everything But Arms (EBA)	A 2001 EU initiative to grant least developed countries duty- and quota-free access for their exports.
Exclusion	Denial of entitlements or access to decision-making processes and services, including the justice system for certain groups. Exclusion is often on the basis of a person's identity, for example, as a woman or as a part of an ethnic group.
Foreign direct investment (FDI)	A corporation's acquisition abroad of physical assets, such as plants and equipment, with operating control residing in the parent corporation outside the country where the acquisition occurs. Also includes mergers and acquisitions of corporations in one country with or by those in another country.
General Agreement on Tariffs and Trade (GATT)	The GATT is the founding basis of the WTO and covers regulation related to trade in goods. The GATT is the overriding framework within which other agreements – such as agriculture and SPS etc. – fit. GATT came into being in 1947.
Gross Domestic Product (GDP)	Total value of new goods and services produced in a given year within the borders of a country, regardless of by whom.
Gross National Income (GNI)	Total income earned by domestic citizens, regardless of the country in which they operate. GNI is the monetary equivalent of GDP plus income earned by domestic

residents through foreign investments minus the income earned by foreign investors in the domestic market.

Human security	People-centred “human security becomes an all-encompassing condition in which individual citizens live in freedom, peace and safety and participate fully in the process of governance. They enjoy the protection of fundamental rights, have access to resources and the basic necessities of life, including health and education, and inhabit an environment that is not injurious to their health and well-being.”
Humanitarian assistance	Temporary assistance designed to rapidly reduce human suffering, including ‘objects indispensable to the survival of the civilian population (including food supplies, crops, livestock, water, water installations and irrigation works, medicine, objects necessary for religious worship, clothing, beddings, and shelter)’.
ICT	Information and Communications Technology
Informal economy	Conceptually, the informal economy stands in opposition to the ‘formal’ economy, i.e. that part of the economy whose activities are recorded in national accounts and operate under rules and regulations imposed by the government. By contrast, economic activities in the informal sector are not recorded in national accounts (hence often called ‘invisible’) and are not subject to formal rules of contract, licensing, labour laws, reporting and taxation (ILO, 1984). The quality of information about the size, magnitude and composition of the informal economy in Africa is generally very poor.
Infrastructure	Economic infrastructure including energy, transport, information and communication technology, water supply and sanitation and other water resource infrastructure and social infrastructure, such as schools and health centres.
International Bank for Reconstruction and Development	See ‘World Bank (Group)’.
International Monetary Fund (IMF)	The IMF has 184 members and works to foster global monetary co-operation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.
Investment Climate	The investment climate consists of the local factors that shape the opportunities and incentives for firms to invest productively, create jobs and expand. Government policies and behaviours play a critical role by affecting the costs, risk and barriers to competition faced by firms. Important issues identified in studies and business surveys include: policy predictability; macroeconomic stability; good provision of health, education and infrastructure services; the quality and accountability of public financial management systems; the predictability and transparency of taxation; the nature of

	business regulation; the level of corruption; an effective and fair judiciary; well-implemented competition laws; efficient financial markets; and political instability, conflict and crime.
Least Developed Countries (LDCs)	Countries which have been designated as such by the United Nations based on three criteria including low income, economic vulnerability and a human resource weakness criterion (based on indicators on nutrition, education and adult literacy). At 31 March 2004, the total number of LDCs was 50 (of which 33 are in sub-Saharan Africa).
Market risk	is the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors. The four standard market risk factors are stock prices, interest rates, foreign exchange rates, and commodity prices. ... en.wikipedia.org/wiki/Market_risk
Millennium Development Goals (MDGs)	At the UN General Assembly in 2000, governments committed to achieving the following goals by 2015: eradicating extreme poverty and hunger, achieving primary education, promoting gender equality and empowering women, reducing child mortality, improving maternal health, combating HIV and AIDS, malaria, and other disease, ensuring environmental sustainability, and developing a global partnership for development.
New Partnership for Africa's Development (NEPAD)	NEPAD is a programme of the AU and was adopted at the 37th session of the Assembly of Heads of State and Government in July 2001. It seeks to strengthen peace, security, economic and political governance, and regional integration.
Non-governmental organisation (NGO)	An organisation that is not part of a government. NGOs are usually not-for-profit organisations. See also 'civil society'.
Non-tariff barrier	Non-tariff barriers to trade (NTBs) are trade barriers that restrict imports but are not in the usual form of a tariff. Some common examples of NTB's are anti-dumping measures and countervailing duties, which, although they are called "non-tariff" barriers, have the effect of tariffs once they are enacted.
Organisation for African Unity (OAU)	The Organisation of African Unity (OAU) was established in May 1963. It aimed to promote the unity and solidarity of the African States and act as a collective voice for the continent. It was succeeded in July 2002 by the African Union.
Organisation for Economic Co-operation and Development (OECD)	A group of major industrial countries promoting growth and high employment among its members, fostering international trade and contributing to global economic development.
PPP	Private-Public Sector Partnerships
Purchasing Power	A rate of exchange that accounts for price differences across

Parity (PPP)	countries, allowing international comparisons of real output and incomes. At the PPP US\$ rate, PPP US\$1 has the same purchasing power in the domestic economy as in the United States.
RECs	Regional Economic Communities
Regional Economic Communities (RECs)	Multilateral African organisations which each serve one or more of Africa's regions: North Africa, East Africa, West Africa, Central Africa and Southern Africa.
Remittances	Money transfers by migrants who are employed or intend to remain employed in another economy in which they consider themselves residents.
Tariff	A tax imposed on imports by a government. A tariff may be either a fixed charge per unit of product imported (specific tariff) or a fixed percentage of value (ad valorem tariff).
Trade liberalisation	Reduction of tariffs and removal or relaxation of non-tariff barriers.
UNECA	United Nations Economic Commission for Africa
World Bank (Group)	Frequently used shorthand for the International Bank for Reconstruction and Development (IBRD), one of the original Bretton Woods institutions. The World Bank group consists of the IBRD, as well as the International Development Association (IDA); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for the Settlement of Investment Disputes (ICSID).
World Trade Organization (WTO)	Established on 1 January 1995, as a result of the Uruguay Round, the WTO replaced GATT as the legal and institutional foundation of the multilateral trading system of member countries. It sets forth the principal contractual obligations determining how governments frame and implement domestic trade legislation and regulations. It is also the platform on which trade relations among countries evolve through collective debate and negotiation.

Appendix C Tariff and Non-tariff Barriers

Tariffs

Specific country

- customs duties / import tariffs
- export duties / export tariffs
- dumping
- countervailing

Purpose of the tariff

- protective (developmental)
- revenue generation

Types of tariff rates

- ad valorem
- specific
- formula / rated (combined)

Time length

- surcharge
- dumping
- countervailing
- safeguards

Levels of tariffs

- applied rates
- bound rates
- nominal rates
- effective rates

Activity specific (manufacture)

- excise duties
- ad valorem excise duties (luxury taxes)
- specific excise duties (sin taxes)
- surcharge
- environmental levies
- fuel levies
- ordinary levies
- manufacture for export
- import for re-exportation and export

Non-tariff Barriers

Government intervention

- import licences
- export licences
- prohibited goods
- restricted goods
- embargoes
- sanctions

Customs and clearance procedures

- product classification
- product valuation
- documentation

Product requirements

- product standards (quality and health)
- packing, labeling and marking
- product testing
- product specifications

Time length

- surcharge
- dumping
- countervailing
- safeguards

Quotas

- export quotas
- import quotas

Types of quotas

- absolute
- tariff
- voluntary

Financial control

- exchange control
- multiple exchange rates
- prior import deposits
- credit restrictions
- profit remittance restrictions

Other policies and requirements

- environmental trade barriers
- infrastructural trade barriers

Source; Adapted from Onkvisit, S. and Shaw, J.J. 1988. 'Marketing barriers in international trade'. *Business Horizons*, 31(3): 67-72.

Appendix D Countries of Africa

1. Political Map



Source: National Education Statistical Information System
<http://nesis.intoweb.co.za/en/images/pagemaster/africatrans.gif> .

2. Alphabetical List

1. Algeria (People's Democratic Republic of Algeria)
2. Angola (Republic of Angola)
3. Benin (Republic of Benin)
4. Botswana (Republic of Botswana)
5. Burkina Faso
6. Burundi (Republic of Burundi)
7. Cameroon (Republic of Cameroon)
8. Cape Verde (Republic of Cape Verde)
9. Central African Republic (Central African Republic)
10. Chad (Republic of Chad)
11. Comoros (Union of the Comoros)
12. Côte d'Ivoire (Republic of Côte d'Ivoire)
13. Democratic Republic of the Congo
14. Djibouti (Republic of Djibouti)
15. Egypt (Arab Republic of Egypt)
16. Equatorial Guinea (Republic of Equatorial Guinea)
17. Eritrea (State of Eritrea)

18. Ethiopia (Federal Democratic Republic of Ethiopia)
19. Gabon (Gabonese Republic)
20. Gambia (Republic of The Gambia)
21. Ghana (Republic of Ghana)
22. Guinea (Republic of Guinea)
23. Guinea-Bissau (Republic of Guinea-Bissau)
24. Kenya (Republic of Kenya)
25. Lesotho (Kingdom of Lesotho)
26. Liberia (Republic of Liberia)
27. Libya (Great Socialist People's Libyan Arab Jamahiriya)
28. Madagascar (Republic of Madagascar)
29. Malawi (Republic of Malawi)
30. Mali (Republic of Mali)
31. Mauritania (Islamic Republic of Mauritania)
32. Mauritius (Republic of Mauritius)
33. Morocco (Kingdom of Morocco)
34. Mozambique (Republic of Mozambique)
35. Namibia (Republic of Namibia)
36. Niger (Republic of Niger)
37. Nigeria (Federal Republic of Nigeria)
38. Republic of the Congo (Republic of the Congo)
39. Rwanda (Republic of Rwanda)
40. Sao Tome and Principe
41. Senegal (Republic of Senegal)
42. Seychelles (Republic of Seychelles)
43. Sierra Leone (Republic of Sierra Leone)
44. Somalia (Somali Republic)
45. South Africa (Republic of South Africa)
46. Sudan (Republic of Sudan)
47. Swaziland (Kingdom of Swaziland)
48. Tanzania (United Republic of Tanzania)
49. Togo (Togolese Republic)
50. Tunisia (Tunisian Republic)
51. Uganda (Republic of Uganda)
52. Western Sahara (Sahrawi Arab Democratic Republic)
53. Zambia (Republic of Zambia)
54. Zimbabwe (Republic of Zimbabwe)

Source:

The World Factbook, 2010. [internet]. Washington, DC: Central Intelligence Agency.
Available at: <https://www.cia.gov/library/publications/the-world-factbook/index.html>.
Accessed on 14 July 2010.

Appendix E Vector Model for Global Venture Creation

The risk vectors are aligned to two key performance areas (KPA). Within each area three models from international business theory and practice are used to derive the vectors, as shown below:

KPA 1 – Optimise the firm’s positioning in host country

CAGE model (Ghemawat, 2001)

1. Culture
2. Administration
3. Geographic
4. Economic

Capability and opportunity space model (Dagninio, 2003)

5. Crafting your own luck

Global opportunity selection 3-D model (Coetzee, 2006)

6. Intrinsic quality of venture
7. Country attractiveness
8. Company ability

KPA2 – Optimise a specific venture in that host country

Conceptual framework of entry mode selection (Shi, Sin & Ho, 2001)

9. Strategic variables (Export orientation, market-seeking)
10. Location-specific variables (Market potential, production costs, host government policy, location of investment)
11. Transaction-specific variables (contractual risk, asset specificity)
12. Firm specific variables (firm size, international experience, host country experience, relationship)

Evolution of entry modes (Wild, Wild & Han, 2003)

13. Experience
14. Risk
15. Control

Hierarchical model of entry modes (Pan and Tse, 2000)

16. Increasing financial commitment

Appendix F Full List of Risks and Frequencies (CAGE)

1-Cultural	71	2-Administrative & Political	203	3-Geographic	34	4-Economic	158
Alignment	16	Association	2	Climate	2	Commercial	31
Not classified	11	Not classified	1	Not classified	2	Not classified	1
Cultural IQ	2	Travel	1	Communication	9	Currency Instability	5
Diversity	1	Colonial Ties	2	Not classified	8	Foreign Exchange	10
Mindset	1	Not classified	1	Telephone	1	Inflation	8
X-Culture Project Team	1	Lack Of Harmonisation	1	Location	1	Process	1
Ethnicity	14	Government Policy	118	Sea/River Access	1	Stability	5
Not classified	1	Contract Enforcement	11	Landlocked	1	Supply Chain	1
Diversity	1	Documentation	1	Size	1	Income	10
Leadership Influence	1	Effectiveness	1	Not classified	1	Consumer Demand Shift	1
Negotiation	3	Event Intervention	1	Transport	20	Emerging Markets	1
Relationship	5	FDI	1	Not classified	15	HDI	1
Time-Orientation	2	Foreign Exchange Control	1	Road	4	Poverty	7
Way Of Life	1	Government Commitments	1	Water	1	Information & Knowledge	5
Language	8	Int Trade Standards	1			Not classified	3
Not classified	8	Interference	4			Innovation	1
Religion	1	Judicial Independence	1			Learning	1
Not classified	1	Legal	23			Infrastructure	26
Reputation	5	Macro-Economic	4			Not classified	12
Not classified	5	Opinion	1			Basic Services	1
Social Norms	24	Payment Guarantees	9			Distribution	1
Not classified	5	Property Rights	9			Energy	7
Ethics	6	Regulations	22			Related Industries	1
Etiquette	1	Stability	26			System Failure	2
Expatriate Mngmt	5	Taxes	1			Variable Cost	1
Gender	1	Political Hostility	21			Water	1
Negotiation	3	Political Conflict	21			Resources	82
Perspective	1	Weak Institutions	60			Environmental	6
Way Of Life	1	Not classified	1			Famine	1
Work Culture	1	Corruption	25			Financial	4
Values	3	Crime	17			HR Availability	2
Not classified	2	Documentation	1			HR Health	3
Dilution Of Values	1	Fraud	3			HR Health (HIV/Aids)	18
		Governance	2			HR Health (Malaria)	3
		Mismanagement	4			HR Productivity	9
		Red Tape	4			HR Safety	4
		Security	3			HR Skills	24
						Mismanagement	2
						Natural	1
						Natural Disasters	1
						Radical Greening	1
						Trade-Off	3
						Strategic	1
						Porter'S 5 Forces	1
						Technology	3
						Not classified	2
						ICT	1

Appendix G Article for Publication