

## Assessment 2: Unique assessment number 884546

Assignment 2 is a case-based assignment. The questions based on the below cases cover chapters 1 to 9 of the prescribed book.

Please note that scanned documents and handwritten text will **NOT** be accepted, only typed submissions are acceptable.

### TECHNICAL REQUIREMENTS FOR THIS ASSESSMENT:

- Table of contents and correct headings (**2 marks will be awarded**)
- Introduction included (**2 marks will be awarded**)
- Sources are acknowledged and correct referencing technique (in text referencing) is used (**2 marks will be awarded**)
- A complete reference list (**2 marks will be awarded**)
- Conclusion included (**2 marks will be awarded**)

**(10 marks)**

### Government Intervention in China

China is using its economic might to invest in Africa. China's ability to focus on dominating key industries inspires both fear and awe throughout the world. A closer look at the solar industry in China illustrates the government's ability to create new industries and companies based on its objectives. With its huge population, China is in constant need of energy to meet the needs of its people and businesses.

As a result, the government has placed a priority on energy related technologies, including solar energy. China's expanding solar-energy industry is dependent on polycrystalline silicon, the main raw material for solar panels. Facing a shortage in 2007, growing domestic demand, and high prices from foreign companies that dominated production, China declared the development of domestic polycrystalline silicon supplies a priority. Domestic Chinese manufacturers received quick loans with favourable terms as well as speedy approvals from the government. One entrepreneur, Zhu Gongshan, received \$1 billion in funding, including a sizeable investment from China's sovereign wealth fund, in record time, enabling his firm, GCL-Poly Energy Holdings, to become one of the world's biggest in less than three years. The company now has a 25 percent market share of polysilicon and almost 50 percent of the global market for solar-power equipment.

How did this happen so fast? Many observers note that it was the direct result of Chinese government intervention in what was deemed a key industry. Central to China's approach are policies that champion state-owned firms and other so-called national champions, seek aggressively to obtain advanced technology, and manage its exchange rate to benefit exporters. It leverages state control of the financial system to channel low-cost capital to domestic industries—and to resource-rich foreign nations whose oil and minerals China needs to maintain rapid growth.

Understanding the balance between China's government structure and its ideology is essential to doing business in this complex country. China is both an emerging market and a rising superpower. Its leaders see the economy as a tool to preserve the state's power, which in turn is essential to maintaining stability and growth and ensuring the long-term viability of the ruling Communist Party. Contrary to the approach of much of the world, which is moving more control to the private sector, China has steadfastly maintained its state control. For example, the Chinese government owns almost all the major banks, the three largest oil companies, the three telecommunications carriers, and almost all the media.

China's Communist Party outlines its goals in five-year plans. The most recent one emphasizes the government's goal for China to become a technology powerhouse by 2023 and highlights key areas such as green technology, hence the solar industry expansion. Free trade advocates perceive this government-directed intervention as an unfair tilt against the global private sector. Nevertheless, global companies continue to seek the Chinese market, which offers much needed-growth and opportunity.

Sources:

Adapted from: "International Business by Carpenter, MA & Dunung, SP, Open Textbook Library, University of Minnesota is licensed under CC BY 4.0 Saylor URL: <https://resources.saylor.org/wwwresources/archived/site/textbooks/International%20Business>.

Please read the above case study and answer the following questions:

Question 1:

- 1.1 Explain the political system followed in China? In your answer, provide statements from the case to substantiate your answer. (4)
- 1.2 Explain the influence of the political system in China, as identified in question 1.1, on conducting business in the solar industry of China? In your answer, provide three statements from the case to substantiate your answer. (6)
- 1.3 Identify and explain a modern trade theory as covered in this module. Then apply the role of the Chinese government in the growth of the solar industry in China and substantiate your answer with four statements from the case. (8)

**Total marks: (18)**

## Walmart in Japan

Japan has been a tough market for foreign firms to enter. The level of foreign direct investment (FDI) in Japan is a fraction of that found in many other developed nations. In 2011, for example, the stock of FDI as a percentage of gross domestic product (GDP) was 3.9 per cent in Japan. In the United States, the comparable figure was 23.5 per cent, in Germany 23.4 per cent, in France 39 per cent and in the United Kingdom 48.4 per cent. Until the 1990s government regulations made it difficult for companies to establish a direct presence in the nation. In the retail sector, for example, the Larger Scale Retail Store Law, which was designed to protect politically powerful small retailers, made it all but possible for foreign retailers to open large-volume stores in the country (the law was revoked in 1994).

Despite deregulation during the 1990s, FDI in Japan remained at low levels. Some cite cultural factors in explaining this. Many Japanese companies have resisted acquisitions by foreign enterprises (acquisitions are a major vehicle for FDI). They did so because of fears that new owners would restructure too harshly, cutting jobs and breaking long-standing commitments with suppliers. Foreign investors also state that it is difficult to find managerial talent in Japan. Most managers tend to stay with a single employer for their entire career, leaving very few managers in the labour market for foreign firms to hire. Furthermore, a combination of slow economic growth, sluggish consumer spending, and an aging population makes the Japanese economy less attractive than it once was, particularly when compared to the dynamic and rapidly growing economies of India, China, the United States, and the United Kingdom.

The Japanese government, however, realised that the country needs more foreign investment. Foreign firms can bring competition to Japan where local ones may not because the foreign firms do not feel bound to existing business practices or relationships. They can be a source of new management ideas, business policies and technology - all of which boost productivity. A study by the Organization for Economic Cooperation and Development (OECD) suggests that labour productivity at the Japanese affiliates of foreign firms is as much as 60 percent higher than at domestic firms, and in-service firms it is as much as 80 percent higher.

The opportunity to help restructure Japan's retail sector-boosting productivity, gaining market share, and profiting in the process attracted the world's largest retailer, Walmart to Japan. Walmart entered Japan in 2002 by acquiring a stake in Seiyu, which was then the fifth-largest retailer in Japan. Under the terms of the deal, Walmart increased its ownership stake over the next five years, becoming a majority owner by 2006. In 2008, it acquired all the remaining stock in Seiyu. Seiyu was, by all accounts, an inefficient retailer. According to one top officer, "Seiyu is bogged down in old customs that are wasteful. Walmart brings proven skills in managing big supermarkets, which is what we would like to learn to do".

Walmart's goal was to transfer best practices from its stores in the United States and use them to improve the performance of Seiyu. This meant implementing Walmart's cutting-edge information systems, adopting tight inventory control, leveraging its global supply chain to bring low-cost goods into Japan, introducing everyday low prices, retraining employees to

improve customer service, extending opening hours, renovating stores, and investing in the new ones.

When Walmart acquired a majority stake in Seiyu, it hired 150 employees at the retailer's headquarters and sent an expat manager who had to learn the language beforehand. Walmart's entry also prompted local rivals to change their strategies. They began to make acquisitions and started to cut their prices to match Walmart's discounting strategy. Many Japanese suppliers were eager to work closely with Walmart due to their belief that Walmart would bring in current practices. Walmart decided to offer local suppliers an opportunity.

Walmart has been adjusting to the Japanese market. For example, it has created special products to cater to the aging Japanese population. One of its most popular products is a '298-Yen bento, a single-serve, freshly prepared meal that sells for about \$4 and is tailored to 'someone on a pension with limited funds'. Walmart has also drawn on its global supply chain to introduce products into Japan that have been popular with local consumers, such as Reese's Pieces peanut butter candies from Hershey Co. The company has also found that by bypassing Japan's traditional multitiered distribution system, and importing food directly from other countries, it can undercut local competitors. For example, grapes imported straight from California can be 20 percent cheaper than those sold by competitors. Due to actions like these, Walmart may ultimately become profitable in Japan. The company is certainly betting on this. In 2012, after a four-year hiatus, Walmart announced that it would open 22 new stores in Japan over the next two years.

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Please read the above case study and answer the following questions:

Question 2:

- 2.1 Explain the factors to consider by a Walmart expatriate manager, when preparing for cultural differences before managing operations in Japan? Substantiate your answer with three examples from the case. (3 marks will be awarded for examples – each example should be linked to a factor) (6)
- 2.2 Explain the advantages that Walmart will need to consider, which will enable them to compete before they make the decision to directly invest in Japan. Substantiate your answer with three examples from the case. (5)
- 2.3 Explain the effects of institutions of Japan as a host country on the level of FDI in the country. Substantiate your answer with three examples from the case. (6)
- 2.4 Discuss the benefits of FDI to Japan. Substantiate your answer with one example from the case for each benefit. (5 marks will be awarded for examples – each example should be linked to a benefit) (10)

**Total marks:**

**(27)**

**TOTAL MARKS FOR ASSESSMENT:**

**Question 1: 18 marks**

**Question 2: 27 marks**

**Adhering to technical requirements: 10 marks**

**Total [55 MARKS]**