Entrepreneurial Business Opportunities that stem from the Current Trade Imbalance between South Africa and Finland

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Signature

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This study suggests that there will be entrepreneurial business opportunities that will stem from the current trade imbalance between South Africa and Finland and that South African entrepreneurs can benefit economically from this trade imbalance. The objective was to determine these opportunities. Results indicate that a trade imbalance per se does not attest that opportunities for entrepreneurs exist, but rather the economic and political support because of the size of the trade imbalance. This study's conclusions indicate that coal, optical fibre, processed food, and wine are growing exports (from South Africa) and that aluminium, cereal, flour, logs poles, medicaments in dosage, nickel mats, organic chemicals, and unwrought nickel are growing imports from the world (into Finland) that the entrepreneur could possibly supply:

Further studies could be done on why the Swedish imports larger quantities from South Africa than the other Scandinavian countries as well as, the types of medication that the Finnish demands from the international community and which South Africa can supply in particular.
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CHAPTER 1 - INTRODUCTION

1.1 Introduction

Since 1999 the Finnish South African Trade Guild (FSATG) has attempted to address the trade imbalance between South Africa and Finland. In December 2001 the Finnish Embassy in South Africa has agreed to assist in addressing this imbalance. The author identified that there might be some opportunities for the South African entrepreneur to benefit from this imbalance in trade, hence this report.

This research report will focus on the broader opportunities that might be available specifically to the entrepreneur. The author acknowledges that most of the foreign trade with Finland will be allocated to existing enterprises that have established relationships with Finnish enterprise and government. There will however be opportunities (according to this study) that entrepreneurs in South Africa can benefit from.

This report will start by identifying the problem and outlining the context of this study in this chapter. In Chapter two the author will focus on the literature that has been consulted that made this study possible from a scientific point of view. Chapter two will firstly define according to the literature what a trade imbalance and deficit is, secondly have a look at the international supply chain, thirdly define entrepreneurship, and lastly define export.

Chapter three will focus on the research methodology and chapter four will have a critical look at the data that were mined to identify current trade between South Africa and Finland. Chapter four will also focus on the trade barriers as well as the growth prospects of the Finnish economy. Furthermore in chapter four there will be a focus on the
information read and studied during this research report that validates the findings that will follow in Chapters five and six.

The international supply chain is critical to this report and will be broken up into parts in Chapter five. The international supply chain will be used to define the entrepreneurial opportunities that will be uncovered in this report.

The research report is concluded in chapter six and supplies some recommendations for the entrepreneur and also identifies possible areas for future research.

1.2 Definition of problem

Broad Question: What are the entrepreneurial business opportunities related to the current trade imbalance between South Africa and Finland?

South Africa is currently buying to the value of +/- R2.7 billion¹ from Finland and selling only to the value of +/- R 250 million to Finland. Why this trade gap² exists is not the focus of this study but rather how this trade imbalance can be shrunk via entrepreneurial intervention or how the entrepreneur can benefit from exploiting the opportunities that may exist because of this trade imbalance.

¹ According to the DTI source used
² Academic reasoning on why trade balances exists are supplied in Chapter 2
1.3 Study Rationale

- This study has not been done in the South African Context and the researcher has not found identical studies done on other countries.
- Studies about entrepreneurship and studies pertaining to trade imbalances have been concluded.
- This study will benefit entrepreneurs to advance their understanding of the opportunities that arise from trade imbalances in general and in particular the trade imbalance between South Africa and Finland.
- This study will attempt to be thorough and complete, and will be relevant to the recent opportunities and will even attempt to highlight some of the physical products that can be exported.
- Primary sources that will form part of the entrepreneurial opportunities will be identified at the end of this study.

1.4 Research Objectives

This research is of a quantitative, qualitative and descriptive nature and will enable the South African entrepreneur to visualise the opportunities that are arising from this trade imbalance. The study is divided into two parts namely the theory-based part of the study and the practical evaluation of opportunities part of the study.

The key study elements and their possible interrelationships:

- Entrepreneurship
- Trade Imbalances
- International trade
- Services
- Products
1.5 Hypotheses

This study suggests a hypothesis that there will be entrepreneurial business opportunities that will stem from the current trade imbalance between South Africa and Finland. The study predicts that South African entrepreneurs can benefit economically from this trade imbalance.

1.6 Functions of the study

- The research will have an in-depth look at the international trade between South Africa and Finland. Furthermore this study will identify the entrepreneurial opportunities that will arise from the current trade imbalance. Throughout the study it will become clear which areas in the international value chain the entrepreneur can focus their attention to create wealth.

- In this study the author will study the current trade between South Africa and Finland.

1.7 Significance of the Study

South Africa, as a country needs an economy that can on a sustainable basis meet the needs of all our economic participants. This means access to enterprise opportunities, and access to the capacities and skills to make use of these opportunities. We have to build on a platform of infrastructure and logistics, competitive input prices, skills, technology and innovation, partnerships, efficient regulation and effective government offerings. In paragraph 1.1 an outline on this report can be found which indicated that the entrepreneur might be able to benefit from the opportunities that might arise from this research.
The entrepreneur is only a part of the significance of this study. Other significant issues are that the South African economy can essentially grow by R2.5 billion because of this study and a study that will be completed by January 2003 that were commissioned by the Finnish Embassy in South Africa on how the trade imbalance can be rectified.

![Figure 1.1 South African ratio of consumption to GDP](image)

**Source:** Dr Roelof Botha – Presentation made to GIBS MBA group 2001

Figure 1.1 indicates the rate at which the South African consumption is growing which depicts that the GDP is growing faster than the consumption. A clear indication that South Africa has goods and services that can be exported because of the excesses. This does not mean that that these products or services can be exported to Finland (they might already be spoken for) or even required by Finland. This study will attempt to see if Finnish consumer requires them then identify whether South African entrepreneurs can benefit from these opportunities.
South Africa’s trade to GDP ratio indicates that South Africa is reliant on foreign trade, which has been significant and since 1992 and have not decreased to below 37% (see Figure 1.2). The implication is that South Africa can be considered as an exporting nation and in this research we will attempt to identify which part of the international supply chain which the entrepreneur can benefit from.

Figure 1.2  South African ratio of trade to GDP

Source: Dr Roelof Botha – Presentation made to GIBS MBA group 2001

1.8  Limitations of the Study

This study is limited by the assumptions that there are entrepreneurial opportunities that will arise from the current trade imbalance between South Africa and Finland. The author will therefor not pay attention to large corporate opportunities that entrepreneurs cannot have access. The inverse however will be that entrepreneurs can act as service providers to these larger corporations in their quest to benefit from this trade imbalance.
1.9 **Review of Literature**

The theory base that will form an integral part of this study is defining and explaining the entrepreneur as well as what a trade imbalance is and the forms of international trade. This will be described and applied to the research problem.

The theory will be applied to define and identify the opportunities in the current trade imbalance between South Africa and Finland. A full literature review is presented in the Bibliography and key references are described throughout when used. Theory will therefor not be evaluated critically but rather applied to describe the opportunity in terms of the research problem. Due to the myriad of information that is available on international trade, the author has listed in the bibliography all sources consulted and made reference to sources quoted in the text.

1.10 **Proposed Research Methods**

This research will be of a quantitative, qualitative and descriptive nature. The study will further be divided into two parts namely the theory-based part of the study and the practical evaluation of opportunities that arise from the trade imbalance between South Africa and Finland.

The researcher will interview the main players of South African trade policies as well as incorporate remarks and conclusions that will be presented to the researcher during interviews with major economic role players in South Africa. Together with this the researcher will also attempt to conduct a demand study from the Finnish economy together with an overlay of supply opportunities that might resolve from this research.
1.11 The Individual departments that will be approached for input:

1.11.1 The Department of Trade and Industry's (DTI) overseas Economic Representatives for preliminary market. These surveys include information about the economy, foreign trade data, import restrictions and import duties, potential importers, suitable exhibitions, and similar information.

1.11.2 Local Chambers of Commerce and Industry
Local Chambers of Commerce and Industry have special international trade sections that maintain a library of data and information on foreign markets. Also, through their association with other Chambers overseas, the Local Chambers can obtain specific information that the exporter may require.

1.11.3 SAFTO
The South African Foreign Trade Organisation offers comprehensive market research services, as well as a useful library of international magazines, economic profiles, statistical surveys and a variety of other international market information.

1.11.4 Associations and federations
Local industry associations and federations often maintain industry-specific information and data on overseas countries.

1.11.5 Foreign trade representatives
Foreign trade representatives at Finnish diplomatic missions in South Africa can also represent an alternative source of market information.
1.11.6 Central Statistical Services

In South Africa, the Central Statistical Services maintain general statistical data on South Africa's foreign trade. These statistics can be used for a very general evaluation of potential markets abroad.

1.11.7 Customs and Excise

For more detailed information on South Africa's foreign trade, the Commissioner for Customs and Excise keeps fairly detailed statistics on South Africa's exports and imports according to specific product categories and trading partners.

1.11.8 Intergovernmental organisations

Intergovernmental organisations publish a wealth of market information. Most of these organisations put out catalogues or lists of their publications. However, many special reports and other information generated by them are not published and never appear in these lists, but they can often be obtained by corresponding directly with the responsible divisions within the organisations. These organisations include the following:

1.11.9 Organisation for Economic Co-operation and Development (OECD)

The OECD produces studies and a statistical series on foreign trade, industry, science, technology, food, transport, and other similar subjects.

1.11.10 The United Nations Conference on Trade and Development (UNCTAD)

UNCTAD is a source of conference papers and special studies related to many aspects of international trade.
1.11.11 The International Trade Centre (ITC)

The function of the ITC is to promote international and local trade. To this end, the ITC produces market studies for specific products and market profiles on selected countries. Apart from its published studies, the ITC has a trade enquiry answering service, and supplies computerised trade data for specific products.

1.11.12 UN Economic Commissions

The United Nations maintains Economic Commissions in most of its member states (including in South Africa) and these Commissions produce statistics and special studies related to their respective geographic areas. As an exporter, you may want to approach your local UN Economic Commissioner to see what information they have available on the country that you are interested in.

1.11.13 Trade and Industry Strategy Policies (TIPS)

TIPS have been instrumental in assisting the Finnish embassy in South Africa to evaluate the probability of shrinking the current trade imbalance between South Africa and Finland.

1.12 Assumptions

Broadly speaking, the domestic assumptions that can impact on this research include the following:

- No major political upheavals are foreseen.
- Agricultural production will continue to increase at its historical average rate.
- The Reserve Bank will maintain a sound monetary policy stance.
• It is also assumed that the brain drain might persist or even intensify. This situation could significantly increase the cost of labour relative to the cost of capital.

• Because of higher economic growth, increased income per capita growth and higher levels of employment, the probability of labour conflict and disputes will be greater.

• It is further assumed that entrepreneurial input into the South African economy will increase.

• Government spending will target the SMME entrepreneur as the secondary beneficiary of the flows of government spending. Larger contracts will reside with current large corporations.
CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

There is a popular and pervasive statement made about international trade. Simply translated means that trade deficits are bad and trade surpluses are good. Due to the nature of this study, the author will neither attempt to prove or disprove this statement but deal with this in the context of that entrepreneurial opportunities arise because of the trade imbalance.

This chapter will focus on literature dealing with trade imbalances internationally, as well as literature on the entrepreneur in general and the role of the entrepreneur in international trade in particular. Lastly, this chapter will focus on the literature found that deals with the international trade supply chain. At the end of this chapter the author has included some literature information of exporting because that is essentially what this research report is alluding to.

2.2 Literature review

In this section the author will give a broad overview of the literature that has been consulted as well as supply an overview of the findings during the literature research.

The presence of a trade deficit or an increase in the trade deficit in a previous month or quarter is commonly reported as a sign of economic weakness. Similarly, a decrease in a trade deficit, or the presence or increase in a trade surplus is commonly viewed as a sign of strength in an economy.
The truth about trade deficits is that sometimes they are good, sometimes they are bad, but, most times they are immaterial (i.e., they don't matter). In some situations trade deficits could be interpreted as a sign of a strong thriving economy, and deficits should be interpreted as a signal of economic problems in other situations. In most situations, however, trade deficits are not large enough to warrant a positive or negative interpretation (Shelburne, 1996:81).

In South Africa’s case, the statistics show that South Africa has an overall international trade surplus with the exception of a few countries. Finland being one of these countries where, South Africa have a trade balance against Finland to the value of roughly 10:1 in the favour of Finland. This particular trade deficit is large enough to warrant a opportunistic interpretation, and will be the major focus of this study, as stated the assumption is that there will be entrepreneurial business opportunities from this trade imbalance.

2.2 Globalisation

Globalisation is not new, but the present era has distinctive features. Shrinking space, shrinking time and disappearing borders are linking people’s lives more intensely, more immediately than ever before. That is, people everywhere are becoming connected – affected by events in far corners of the world. Everywhere, we have new markets (Foreign Exchange and Capital Markets linked globally, operating 24 hours a day, with dealings at a distance in real time); new tools (Internet links, Cellular phones, Media networks); and new actors (the world trade organisation with authority over national governments, the multinational corporations with more economic power than many states, the global networks of non-governmental organisations and other groups that transcend national
boundaries); and new rules (multilateral agreements on trade, services and intellectual property, backed by strong enforcement mechanisms and more binding for national governments, reducing the scope for national policy).

In short “The challenge of globalisation in the new century is not to stop the expansion of global markets but to find the rules and institutions for stronger governance–local, national, regional and global–to preserve the advantages of global markets and competitions; and to provide enough space for human, community and environmental resources to ensure that globalisation works for people” (UNDP, 1999).

In this sense, globalisation is shaping a new era of interaction among nations, economies and people. It is increasing the contacts between people across national boundaries – in economy, in technology, in culture and in governance. However, it is also fragmenting production processes, labour markets, political entities and societies. Therefore, while globalisation has positive, innovative, dynamic aspects - it also has negative, disruptive, marginalising aspects (Greider 1997). Today’s interactions between nations and people are deeper than ever as shown by global trends and links. Driving integration even faster are the recent innovations in information and communications technology. However, global integration is still very partial since the flow of labour is restricted, with borders closed to the unskilled (Suranovic 1999).

However, the world today has more opportunities for people than hundred years ago. Despite the tremendous progress in the 20th century, the world today faces huge backlogs of deprivation and inequality that leave huge disparities within counties and regions (Perreault 1999).
Globalisation has its winners and its losers. With the expansion of trade and foreign investment, developing countries have seen the gaps among themselves widen. Meanwhile, in many industrial countries, unemployment has soared to levels not seen since 1930s, and income inequality to levels not recorded since the last century. In-fact, uneven globalisation will bring not only integration but also fragmentation – dividing communities, nations and regions into those that are integrated and those that are excluded (Porter 1998). Again, Social tensions and conflicts are ignited when there are extremes of inequality between the marginal and the powerful. Research on complex humanitarian emergencies have revealed that “horizontal inequalities” between groups - whether ethnic, religions or social groups are the major cause of the current wave of civil conflicts. In most countries, dislocations from economic and corporate restructuring and dismantled social protection have meant heavy job losses and worsening employment conditions. Jobs and incomes have become more precarious. Again, the pressures of global competition have led countries and employers to adopt more flexible labour policies, and work arrangements with no long-term commitment between employer and employee are on the rise (Shelburne 1996).

Globalisation is in essence the best possible opportunity for the entrepreneur to establish him/herself in the international economy. Previously the larger corporations entertained a monopolistic enterprise and enjoyed some protection from their governing bodies. Such protectionist benefits are on the decline in the global economy and barriers to entry into foreign markets are easier to break down with the use of e-commerce (Venkataraman 1997). Entrepreneurs are known to be mavericks when it comes to breaking down barriers, and the current globalising economy is witnessing the manoeuvres of entrepreneurs into their previously controlled territory. Globalisation is therefore one of the opportunities that South African entrepreneurs can utilise to their advantage to secure a
share of the international economic pie. The trade imbalance between South Africa and Finland is an ideal opportunity for South African entrepreneurs to leverage the looming trade strain between these respective governments for the benefit of the South African economy in general and their own economic advantage in particular.

2.3 Trade imbalances/deficits

The purpose of this section is to explain that, one should realise that merely knowing that a country has a trade deficit or surplus is not enough information to say anything of a country or its economic prospects.

The trade deficit has been at the heart of one of the oldest debates in economics. The mercantilist approach to trade that dominated thinking in the 17th and 18th centuries stressed the need for nations to accumulate gold. By exporting more than they imported, nations could hoard the excess money, almost always gold or silver, generated by the trade surplus. A treasury bulging with precious metals was considered the true sign of a nation's wealth and might. The more metallic money a state possessed, the more able it would be to wage war if necessary.

Predictably, the obsession with running a positive "balance of trade" led to all sorts of protectionist measures and export subsidies. High tariffs and outright import bans were the rule among European nations before 1800.

Quick reading of business and financial newspapers and magazines often can reveal a number of misunderstandings about economic relationships. One of the most notable is the widespread conviction that trade deficits are a troubling economic condition which
indicates weakness in an economy while trade surpluses are a sign of strength and rising prominence for an economy. Although these beliefs are well founded in some circumstances, they are not valid as a general principle. A careful look at the implications of trade imbalances reveals that trade deficits can, at times, be an indicator of rising economic strength, while trade surpluses can be a sign of economic disaster. In many other cases, perhaps most, trade imbalances are benign (Obstfeld 1982). That is, they do not represent a serious threat or indicate rising prominence.

There are several reasons why misunderstandings about trade imbalances persist. The first problem relates to the terminology. A deficit, regardless of what context applied, sounds bad. To say that a business' books are in deficit, that a government's budget is in deficit, or that a country's trade balance is in deficit, simply sounds bad. A surplus, in contrast, sounds good. For a business, clearly, we would prefer a surplus ... to be in the black, ... to make a profit. Likewise a budget surplus or a trade surplus must be good as well. Balance seems either neutral or perhaps even the ideal condition. From an accountant's perspective, balance is often the goal. Debits must equal credits therefor the books must balance. Surely this terminology must contribute to the confusion, at least in a small way.

A second reason for misunderstandings, especially concerning deficits, may be a sense of injustice or inequity that foreigners are unwilling to buy as many of our goods as we buy of theirs (Morici 1997). Fairness would seem to require reciprocity in international exchanges and therefore balanced trade. This misunderstanding could be easily corrected if we were aware that a country's balance of payments, which includes trade in goods, services and assets, is always in balance. A third reason for the misunderstanding is that trade deficits are indeed bad for some countries in some situations while surpluses have been beneficial for some countries. One need only note the many international debt crises
experienced by countries after they had run persistent, and very large trade deficits (Greenberger 1996). One could also look at the very high growth rates of Japan in the 1980s and China in the 1990s for examples of countries with large trade surpluses that have seemingly fared very well.

However, despite these examples, one should not conclude that any country that has a trade deficit or whose trade deficit is rising, is necessarily in a potentially dangerous situation. Nor, should we think that just because a country has a trade surplus, that it is necessarily economically healthy. To see why, we must recognise that trade imbalances represent more than just an imbalance in goods and services trade.

Any imbalance in goods and services trade implies an equal and opposite imbalance in asset trade. When a country runs a trade deficit (more properly labelled a current account deficit), it is also running a capital account surplus; similarly, a trade surplus corresponds to a capital account deficit. Imbalances on the capital account mean that a country is a net seller of international assets (if a capital account surplus) or a net buyer of international assets (if a capital account deficit). Assets come in two forms: debt and equity. The portion of a country's capital account imbalance in the form of debt represents international borrowing (surplus) or lending (deficit). The portion of the imbalance in the form of equity represents either the purchase (deficit) or sale (surplus) of ownership shares in foreign and domestic businesses or properties.

One way to distinguish between good, bad or benign trade imbalances is to recognise the circumstances in which it is good, bad or benign to be an net international borrower or lender, or a net purchaser or seller of ownership shares in businesses and properties.
2.3.1 What a Trade Imbalance Means

We define a variable called domestic spending as the sum of all domestic resident spending on consumption, investment, and government goods and services regardless of whether those products originated domestically or abroad. Simply stated, domestic spending is the value of the products that domestic households, businesses, and governments purchase during the year regardless of country of origin.

When a country runs a trade deficit, it implies that domestic spending exceeds GDP. Thus, when a country runs a trade deficit, total expenditures on consumption, investment and government goods and services is greater than the total value of domestic production. More simply, the nation spends (and "consumes") more than it produces. Alternatively, the nation's total spending exceeds its income (Obstfeld 1982). To spend more than one's income requires either that the country borrows money, or, that it sells productive assets to finance the additional purchases. Thus, a trade deficit means that a country has borrowed more from foreigners than foreigners have borrowed from the country, and/or, that a country has sold more productive assets to foreigners than foreigners have sold to the country.

When a country runs a trade surplus, it implies that GDP exceeds domestic spending. This means that when a country runs a trade surplus, the total value of domestic production is greater than total expenditures on consumption, investment and government goods and services (Obstfeld 1982). More simply, the nation produces more than it spends. That is, the nation's income exceeds its total spending. When a country's income exceeds its spending either the country is lending the excess, or, it is purchasing productive assets from the rest of the world. Thus, a trade surplus may imply that a country has lent more to
foreigners than foreigners have lent to the country, or, that a country has purchased more productive assets from foreigners than foreigners have purchased from the country.

In any case, a trade imbalance, whether a surplus or a deficit, corresponds to a net purchase or a net sale of foreign assets only during the year in question. The trade imbalance does not indicate whether the country has a net stock of external debt to the rest of the world or whether it has net external credits and thus is owed money by the rest of the world. It also does not indicate whether the country's net stock of foreign equities is positive or negative. As such the trade imbalance does not indicate the true "state" or condition of the economy.

2.3.2 Evaluation of Trade Imbalances

In general, there are four possible situations that a country might face in any particular year. It may be 1) a debtor nation with a trade deficit, 2) a debtor nation with a trade surplus, 3) a creditor nation with a trade deficit, or, 4) a creditor nation with a trade surplus. The pros and cons of a national trade imbalance will in general depend upon which of the four situations describes the current condition the country.

Both South Africa and Finland are debtor nations with a trade surplus. This alone does not say much, it does however indicate that the variables that will predict their stance towards international trade will be fairly similar. It will therefore be fair to assume that the political ethos will be that of sustaining the trade between these two countries, especially when considering that:

- the trade between these two countries is fairly insignificant in their greater respective trade volume,
• trade reciprocity for both is important regarding their future trade imperatives (South Africa is regarded as the infrastructural portal into Africa and Finland’s technological competence is important for South Africa), and

• Finland being part of the EU has a free trade agreement with South Africa which are governed by the EU trade policy.

### 2.3.3 Free Trade Agreements

In arguing for free trade, the 18th-century classical liberals David Hume and Adam Smith attacked what Hume (1777) reprinted (1987) called “a strong Jealousy with regard to the balance of trade.” Hume reasoned that a nation's supply of gold was ultimately determined by its capacity to produce wealth, not the other way around. A nation that attempted to accumulate gold through a trade surplus, by either blocking imports or subsidising exports, would soon find that its gold stocks were rising in relation to the total goods available for sale. That excess of money would cause a general rise in the price of domestic goods (i.e., inflation), making them less appealing to foreign buyers. As long as prices kept rising, demand for exports would fall until the inward flow of gold ceased. As Hume understood two centuries ago, any attempt to manufacture a trade surplus through trade policy was doomed to fail because the flow of money would be self-correcting.

Hume's dismissed worries about a trade deficit. “Nothing can be more absurd than this whole doctrine of the balance of trade,” he wrote. What mattered to Smith (1776) reprinted (1937) was not the difference between exports and imports but the gains from specialisation that trade allow. Those productivity gains allow a nation's residents to produce goods and services of a higher total value - the only true measure of a nation's economic wealth. Any interference in the freedom to trade, no matter what its effect on the trade balance, diminishes that wealth. “A trade which is forced by means of bounties
[subsidies] and [protected] monopolies may be, and commonly is, disadvantageous to the country in whose favour it is meant to be established. But that trade which, without force or constraint, is naturally and regularly carried on between any two places, is always advantageous, though not always equally so, to both.” Smith and Hume's critique of the balance of trade doctrine remains valid nearly two and a half centuries later.

2.3.4 Investment Flows Drive the Deficit

An understanding of the trade deficit begins with the balance of payments, the broadest accounting of a nation's international transactions. By definition, the balance of payments always equals zero - that is, what a country buys or gives away in the global market must equal what it sells or receives - because of the exchange nature of trade (Roubini 1997). People, whether trading across a street or across an ocean, will generally not give up something without receiving something of comparable value in return. The double-entry nature of international bookkeeping means that, for a nation as a whole, the value of what it gives to the rest of the world will be matched by the value of what it receives.

The balance of payments accounts capture two sides of an equation: the current account and the capital account. The current account side of the ledger covers the flow of goods, services, investment income, and uncompensated transfers such as foreign aid and remittances across borders by private citizens. Within the current account, the trade balance includes goods and services only, and the merchandise trade balance reflects goods only. On the other side, the capital account includes the buying and selling of investment assets such as real estate, stocks, bonds, and government securities.

If a country runs a capital account surplus of $100 billion, it will run a current account deficit of $100 billion to balance its payments. As economist Douglas Irwin explains, “If
a country is buying more goods and services from the rest of the world than it is selling, the country must also be selling more assets to the rest of the world than it is buying.” (17).

The necessary balance between the current account and the capital account implies a direct connection between the trade balance on the one hand and the savings and investment balance on the other. Thus, a nation that saves more than it invests, such as Japan, will export its excess savings in the form of net foreign investment. In other words, it must run a capital account deficit. The money sent abroad, as investment will return to the country to purchase exports in excess of what the country imports, creating a corresponding trade surplus. A nation that invests more than it saves - the United States, for example - must import capital from abroad. In other words, it must run a capital account surplus. The imported capital allows the nation's citizens to consume more goods and services than they produce, importing the difference through a trade deficit.

2.3.5 Conclusion
Misunderstanding of the trade deficit threatens to undermine the freedom to trade by encouraging faulty and damaging “solutions” to a problem that does not exist. Any attempt to fix the trade deficit through protectionism, export subsidies, or currency manipulation is bound to fail because none of those tools of intervention addresses the underlying causes of the trade deficit. The trade deficit will respond only to changes in a nation's net flow of foreign investment, which in turn is determined by its underlying rates of savings and investment.

Nations do not trade with each other; people do. Every international transaction that South Africans engage in will, by definition, leave both parties to the transaction believing they
are better off than before - otherwise the transaction would not occur. By this measure, the “balance of trade” is always positive, benefiting the nation as a whole.

In conclusion to this section dedicated to defining trade imbalances/deficits it is worth mentioning that the trade deficit that South Africa is experiencing in our trade with Finland can from a trade deficit - point of view - not be considered as an opportunity per se. This should be clear from reading paragraphs 2.3.1 – 2.3.5. The trade imbalance alone does not predict an opportunity – what does predict an opportunity is the Finnish government’s willingness to bring the trade ratio to a more sustainable figure (see paragraph 1.7).

### 2.4 International Trade and Trade Reciprocity

In this section the author will dedicate his attention to the process of international purchasing, reflect on the actors within the international trade supply chain, and indicate the areas where the entrepreneur can benefit within the international supply chain.

#### 2.4.1 International purchasing

The procedures for international purchasing and supply are often cumbersome, time consuming and inefficient. This can affect a country's economic viability as well as introduce unnecessary cost to the consumer and poor service to customers.

The international supply chain involves a potentially large number of activities performed by a number of different parties. An activity may be carried out by different parties depending on the terms of business, type of product, country and market etc. as well as on
the methods of operation of the buyer and seller. If a supply chain is to operate effectively and efficiently then the relationships and activities have to be clearly identified and managed.

International purchasing, especially when we consider the distance between South Africa and most developed countries, is a daunting task. The challenges are numerous but the author will highlight a few of significant importance in relation to Finnish purchasing in particular:

- Finnish consumers are high quality consumers with perceptions that African products are not in that class
- The distance to Finland is a particular long distance especially when considering sea-transport (not to mention the costs involved in transporting sea-freight in European winters)
- Finnish consumers are very close to the European markets and would much rather purchase from there.
- Finland being part of the EU would give first consideration to fellow EU members when considering any import
- The Finnish market on occasion entertain the question of whether African supplies will be sustained (i.e., whether political stability will be affected by neighbouring countries or whether the currency will turn significantly against them as was the early in 2002).

2.5 International Supply Chain

The international supply chain is arguably a topic as a thesis on its own, together with all the thinkable (and unthinkable) subsections that can form part of individual supply chains. The purpose of this section is simply to identify those areas of the international supply
chain of which the entrepreneur can benefit from. This immediately precludes those areas, which has traditionally been dominated by the larger corporates such as the banking and insurance sectors. Although the author will make mention of the authorities that form part of the international supply chain, it stands to perfect logic that they will be excluded for the purposes of this study.

All the participants of the international supply chain are referred to as actors within this chain.

2.5.1 Actors

There are potentially some 40 or more actors involved in international trade. These may be categorised as **Customer, Supplier, Authority, and Intermediary**.

**Customer** A party who acquires, by way of trade, goods or services. (Although the entrepreneur can been viewed as a customer, the author are excluding them from this category. The author argues that the entrepreneur, for the purposes of this study will be seen as somebody wanting to profit from a transaction and will therefor only address this issue under the category of the supplier or intermediary.)

**Supplier** A party who provides, by way of trade, goods or services. The entrepreneur forms an integral part of this category.

**Authority** A statutory body existing within a jurisdiction and a specific area of responsibility that administers legislation to regulate trade and/or monitors compliance with existing legislation. (For all practical and moral purposes the entrepreneur are excluded from this category.)

**Intermediary** A commercial party who provides services to Customers, Suppliers or Authorities within the international supply chain. In this category the entrepreneur again plays an integral role.
The implied intent of each actor within each category can be described as follows:

**Customer** - Knowledge of sources of supply, Best products/services at the best prices, simpler procedures, reduced restrictions, minimum costs of operation.

**Supplier** - Increased market share, optimum profit, reduced restrictions to market, simpler procedures, reduced documentation, and guaranteed payment.

**Authority** - Ensure regulations are enforceable easily/effectively to protect consumer from risk or protect economy.

**Intermediary** - Efficient procedures with minimum of imposed restrictions/delays

<table>
<thead>
<tr>
<th>Entrepreneurial Actor</th>
<th>Possible Roles</th>
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<tbody>
<tr>
<td>Supplier</td>
<td>Consignor</td>
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<td></td>
<td>Payee</td>
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<td>Seller</td>
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<td></td>
<td>Manufacturer</td>
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<td>Exporter</td>
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<td>Intermediary</td>
<td>Broker</td>
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<td>Carrier</td>
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<td>Credit Checking Company</td>
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<td>Commission Agent</td>
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<td>Freight forwarder</td>
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<td>Import Agent</td>
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<td></td>
<td>Insurer</td>
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<tr>
<td></td>
<td>Inspection company</td>
</tr>
</tbody>
</table>
2.6 Entrepreneurship

2.6.1 Introduction:

The growing interest in entrepreneurship has focused on business creation in terms of education, policy, local planning, and fiscal and regulatory frameworks. Scholars make a considerable contribution from management departments and business schools. However, Kent survey (1989) on the coverage of entrepreneurship in economics principle textbooks in the 1980s, concludes that, entrepreneurship is neglected, improperly presented or partially covered. A more up to date study (Kent and Rushing, 1999) confirms these conclusions.

The ability of economics models to understand the entrepreneurial behaviour has been questioned by researches such as Gartner (1990); Teece (1990); Venkataraman (1997) and Alvarez and Barney (2000). Baumol (1995:17) goes on to view entrepreneurship as the “spectre, which haunts economic models”.

The French economist Jean-Baptiste Say is widely considered as the first economist to present a systematic functional role for the entrepreneur (Blaug, 1978). His starting point was the critique of the dominant hypothesis that land is the unique source of wealth, instead putting forward a view that the main source of wealth is industry including commerce and manufacturing where the essential motivation was entrepreneur’s profit. On the other hand, economists such as Adam Smith and David Ricardo did not give entrepreneurship much thought although they linked the expansion in land cultivation to the increased demand for new manufacturing industries from cities (Staum, 1987).
Other economic historians such as Higgs (1991) and Blaug (1997) argue, that the word entrepreneur was first introduced to economics literature by Richard Cantillon (1755), another French classical economist, who refers to the entrepreneur as a speculator. Cantillon studied the French traders who took the risk of buying at a certain price and selling at an uncertain price. Therefore he considered an entrepreneur as that individual who undertakes a business activity under an uncertain situation where expenditure is known, but income is uncertain. In such perspective, entrepreneurship depends essentially on the willingness of taking the risk of bankruptcy as a prime mover of market exchange (Binks and Vale, 1990).

### 2.6.2 Entrepreneurial Exporters

The increasing globalisation of commerce has presented incalculable challenges as well as opportunities for small- and medium sized enterprises, particularly exporting firms. This part of the research report focuses on the relationship between entrepreneurship and successful export marketing performance, suggesting that entrepreneurship is positively related to such performance. Haar’s research reveals that entrepreneurial behaviour is positively correlated with export marketing behaviour, suggesting both firm and government actions to boost competitiveness.

The past decade has witnessed a proliferation of regional, sub-regional, multilateral, and sectoral trade agreements. These accords encompass - and confirm - the rapidly growing trend towards global economic integration. Recognisably and as suggested in paragraph 2.5, large multinational corporations and large financial institutions are best positioned to

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3 See number 55 in the Bibliography
capitalise on the possibilities that market liberalisation brings. However, many small- and medium-sized enterprises SME’s, whether they are linked as suppliers to multinationals or not, have also seized upon these international business opportunities. In further expansion on paragraph 2.2 (dealing with globalisation), entrepreneurial export firms have been able to broaden their market coverage, expand product lines, and fortify the financial strength of their firms via sales to overseas markets. In the past, the research on the export behaviour of the firm has focused on the motivations that move the firm to exporting and the process of internationalisation as the firm initiates its international activities. Studies have addressed more specific aspects of export behaviour, expanding on previous studies that conceptualised export activities as a “stage” process. These efforts developed a descriptive profile of the characteristics of exporting firms with respect to marketing activities, level of technological involvement, and unique product advantages. These studies primarily focused on small- and medium-sized firms and their activities in exporting from one country to another.

2.6.3 Entrepreneurial Behaviour and Export Activities

While the literature on entrepreneurial behaviour is abundant, that dealing with the nexus between entrepreneurship and export behaviour is sparse, consisting for the most part of isolated articles of an empirically or case-based nature. The literature on the subject, however, does recognise that exporting firms need to match or align their strategic orientation with their external environment and export channel structure to achieve superior export performance (Haar 1999).

The common focus of most of the studies in the literature is the role of government in stimulating small- and medium-size businesses to export. Alvarez (2000), using plant
level data provided econometric evidence that government policies can generate a positive impact on firm performance.

Findings in Haar’s research reveal that entrepreneurial behaviour is positively correlated with export marketing behaviour. Consequently, managers who possess entrepreneurial skills are more likely to initiate the changes necessary for a firm to become involved in export marketing activities. The globalisation of markets, trade liberalisation, and the rapid expansion of new products, technologies, and services have brought about increased competitiveness among businesses - not just multinational enterprises. Exporters, especially active ones, presently operate in an environment characterised by higher levels of uncertainty, due to increased business risks as well as political and economic ones (e.g., regime stability, currency volatility, macroeconomic adjustments). The convergence of many sources and forces of competitiveness (local companies; small, medium, and large exporting companies; joint ventures and consortia) stimulates higher levels of risk taking in responding to customer mix; product mix; production; sales and promotion; and overall international business tactics and strategies.

Entrepreneurs seek to create value by recognising business opportunity (Kao and Stevenson, 1983). In this sense, the opportunities driven by policy to address the trade imbalance and supported by a pregnable demand for South African products should be an inviting prospect for the South African entrepreneur.

2.7 Export

In this section the author highlights the processes of exporting as researched in the text consulted. The purpose is mainly to identify the opportunities (if any) that may exist
principally due to the trade imbalance between South Africa and Finland. Exporting and domestic selling are akin in many ways:

- You have a product or service to sell, either your own or a client's if you're an intermediary.
- Your customers vary in their racial, religious, ethnic, cultural and linguistic orientations.
- Your marketing territory includes areas with differing seasons and physical environments.
- You do market research to pinpoint, size-up, and assess your customer base.
- You develop a market plan to plot your distribution, pricing and promotion strategy.
- You market and promote through flyers, mail, phone, press releases, the ad media, trade shows, etc.
- You set up sales and distribution networks to cultivate and service customers.
- You respond to inquiries and issue price quotes on request.
- You invoice purchasers and get paid.

Translated the above would imply that the entrepreneur in South Africa that are currently involved in the South African market, should theoretically be capable of supplying the international market. Obviously there will have to be some prerequisites that such an entrepreneur will have to comply with prior to entertaining the probability of extracting the marrow from this opportunity.

2.7.1 Export Prerequisites

An “ideal” exporter has four basic attributes—a committed management, a competitive product, adequate resources, and sound marketing methodology.
Management Commitment: A motivated management is the primary key to export success. If the will exists, ways can be found to make a product more saleable (especially true for the active entrepreneur); overcome or adjust to tight budgets; or endeavour a better practice to market a product. Exporting takes time and perseverance to pay off. To be more than an occasional or incidental exporter, management must be willing to commit and see it through. Effective export management is essential if the entrepreneur has any intention to maintain and sustain an export enterprise that can effectively compete on the open market. This is also true when considering the opportunities in the Finnish market.

Product Competitiveness: Products will sell anywhere if they compete. To compete, a product must match or exceed the appeal of others - in meeting needs, quality, and price.

Export Resources: Experienced staff, premises and equipment are essential elements for any export firm. Without the proper resources the enterprise will probably not be sustainable.

Marketing Methodology: How the entrepreneur enters and develops a foreign market is essential for the success. Marketing and distribution practices vary by country, often regulated by law, custom and/or necessity. Some countries may require or prefer particular marketing or distribution methods, such as direct sales or use of local agents, where others may control or prohibit them. Some may have excellent mass media and high receptivity to advertising, trade shows and mail order mechanisms in place. Others may shun these approaches, or not have the modern communications to support them. Finland is exceptional when it comes to technology application and the adoption of the community to utilise technology as a consumer tool.
This will undoubtedly act in favour of the entrepreneur for the method of addressing the buyer in Finland will be cost efficient and faster than previous conventional methods. This, in the least sense, should assist the entrepreneur to gain exposure in Finnish market and the buyers in that region.

2.8 Summary

This chapter focussed on literature dealing with trade imbalances internationally, as well as literature on the entrepreneur in general and the role of the entrepreneur in international trade in particular. Lastly, this chapter has focussed on the literature found that deals with the international trade supply chain.

In the overview of the literature that has been consulted the author found that the mere fact that a trade deficit exists does not indicate that an opportunity are assured. When a country runs a trade surplus, it merely implies that GDP exceeds domestic spending and that a trade imbalance does not indicate the true "state" or condition of the economy. In South Africa’s case, the statistics show that South Africa has an overall international trade surplus with the exception of a few countries. Finland being one of these countries where, South Africa have a trade balance against Finland to the value of roughly 10:1 in the favour of Finland. This particular trade deficit is large enough to warrant an opportunistic interpretation.

The trade imbalance between South Africa and Finland is an ideal opportunity for South African entrepreneurs to leverage the looming trade strain between these respective
governments for the benefit of the South African economy in general and their own economic advantage in particular.

Both South Africa and Finland are debtor nations with a trade surplus. This alone does not say much, it does however indicate that the variables that will predict their stance towards international trade will be fairly similar. It will therefore be fair to assume that the political ethos guiding international trade will be that of sustaining the trade between South Africa and Finland. The trade imbalance between South Africa and Finland alone therefore does not predict an opportunity – what does predict an opportunity is the Finnish government’s willingness to bring the trade ratio to a more sustainable figure.

The international supply chain involves a potentially large number of activities performed by some 40 or more actors involved. These may be categorised as Customer, Supplier, Authority, and Intermediary. The entrepreneur can essentially contribute and benefit from being a supplier or intermediary. If a supply chain is to operate effectively and efficiently then the relationships and activities have to be clearly identified and managed.

The growing interest in entrepreneurship has focused on business creation in terms of education, policy, local planning, and fiscal and regulatory frameworks. The ability of economics models to understand the entrepreneurial behaviour has been questioned by researches with Baumol that view entrepreneurship as the “spectre, which haunts economic models”. Haar’s research reveals that entrepreneurial behaviour is positively correlated with export marketing behaviour, suggesting both firm and government actions are needed to boost competitiveness. In this particular case the Finnish government has provided the support, it is now open to the firm (or entrepreneur) to contribute to boost the competitiveness of both nations.
CHAPTER 3 – RESEARCH METHODOLOGY

3.1 Introduction

In this chapter the author will indicate the methodologies that will be employed in this research. Secondly, there will be reference to some of the theory (see chapter 2) that underpins this research. Thirdly a discussion will follow to the methods that were used during this research (i.e., whether it has been quantitative or qualitative) and lastly focus will be placed on the procedures used in gathering the information as well as the processes in analysing the data.

The research question that the author will attempt to answer is what are the entrepreneurial opportunities that stem from the current trade imbalance between South Africa and Finland.

3.2 Background

The imbalance of trade between South Africa and Finland is significant. In the past five years export from South Africa to Finland has been around EUR 25 million p.a. On the other hand, export from Finland to South Africa has increased from EUR 100 million in 1997 to EUR 270 million in 2001.

3.3 Research methodology

The information for the thesis will be collected at first by gathering & analysing secondary information from books, statistics and the Internet and then by interviews of particular organisations (see paragraph 1.11). All the main statistical information, which will also be
used for explaining the importation structure in Finland, will be gathered from the National Board of Customs of Finland, and UNCTAD’s international trade database. Assistance were requested from the Department of Trade and Investment (DTI) and from Trade and Investment South Africa (TISA) in South Africa to also provide some input into the entrepreneurial possibilities. The basis for the information search for finding answers to the research question will gravitate around the information on the best export oriented industries and the best performing manufacturing sub-sectors in South Africa gathered with the assistance from TISA. The purpose is, at first, to find statistical information on importation of these particular product groups and to find the countries where these products are mainly imported if not from South Africa. Then to determine what South Africa exports to the international community at large but not to Finland.

The author will start with an overview of the two countries’ economic structure. This is followed by a discussion of various aspects of trade between the two countries. Finally, there will be a focus on what may be a reasonable medium term growth prospect for South Africa’s exports to Finland. A conclusion with a summary of the observations made will conclude this research paper.

3.4 Method

This research is of a quantitative, qualitative and descriptive nature and will enable the South African entrepreneur to visualise the opportunities that are arising from this trade imbalance.
3.4.1 Quantitative Research

In the first phase of the research the author will do a data analysis of current trade between South Africa and Finland. This data will be used to illustrate the extent of trade between these two countries and in particular identify specific commodities that demanded from Finland and supplied by South Africa. Quantitative analysis will also identify some of the trade barriers (being it tariff or otherwise) in trading with Finland.

3.4.2 Qualitative Research

Through qualitative research the author will interview some of the key players identified in paragraph 1.11 for input into this research and note these comments where appropriate.

3.4.3 Observations through a Literature Review

In this phase the author studies the available literature to indicate research that has been done in the area of international trade, trade imbalances, and entrepreneurship (see chapter two).

3.5 Procedure and Data Analysis Process

The research will have an in-depth look at the international trade between South Africa and Finland. In this research the author will study the current trade between South Africa and Finland. The literature review section of the research forms the core of the opportunities identified in general. The literature review will then be joined with the quantitative research to narrow down the opportunities with reference to particular commodities and final input will then be integrated as derived from the qualitative interviews.
CHAPTER 4 – DATA

4.1 Introduction to Trade between Finland and South Africa

In this chapter the researcher will attempt to identify some of the products and services that Finland demands from the international community. A discussion will then follow, on the demanded (from Finland) commodities (by export code) in relation to South African capacity (supply). There will also be an attempt to identify some of the trade- and tariff barriers in Finland will be launched, because it will directly impact on the entrepreneurial business opportunities that could be identified.

4.1.1 Finland

As Finland is a small country with relatively limited resources of raw materials and small domestic market, many kinds of imports are needed. The Finnish industry is especially dependent on imports of raw materials, machines and components that it needs for manufacturing products for both domestic and export markets. In addition, the high standard of living in Finland causes demand for imports in consumer goods sector (Fintra, 1999). The development of imports and exports of Finland can be seen in figure 4.1.

![Exports and Imports in 1995-1995](image)

*Figure 4.1 International Exports and Imports in 1995-1995 in Finland*

(National board of Customs - Finland, 2002).
About 0.6% of Finland’s exports (€0.27 billion) were directed to South Africa and 0.2% of imports (€62.6 million) originated from South Africa in 2001. (National Board of Customs in Finland, 2002.) The development of the trade between the two countries can be seen in the figure 4.2. The imbalance of the trade can be clearly seen as amount of exports to South Africa Considerably bigger than the amount of South African imports to Finland.

**Figure 4.2 Trade between Finland and South Africa**

Figure 4.2 & 4.3 from Source: National Board of Customs - Finland, 2002

**Figure 4.3 South African Exports to Finland in 2001**

(10 biggest groups by SITC classification)

0 3 6 9 12 15 18 21

EUR million

- 25 pulp and waste paper
- 68 non-ferrous metals
- 05 fruits and vegetables
- 67 iron and steel
- 11 beverages
- 28 metalliferous ores and metal scrap
- 72 machinery for specialised industries
- 22 oil seeds, oleaginous fruits
- 05 textile yarn, fabrics, made up articles, etc.
- 53 dyeing, tanning and colouring material

Figure 4.3 South African Exports to Finland in 2001
Analysis has shown that the trade gap is to a large degree the results of a small number of commodities, notably electronic equipment for communication. The reason for this gap is the success of Finland’s exports in these commodities, not only to South Africa but presumably also to other countries.

4.1.2 South African Exports to Finland

South Africa’s exports to Finland have not grown as fast as its total exports. A further examination of Finland’s neighbouring countries reveals that South Africa’s exports to Denmark and Norway have experienced lower growth at 3% and –2% respectively but that exports to Sweden have grown by as much as 50% per annum over the last 5 years (up to 2001, measured in nominal Rand terms). This suggests that distance may not necessarily be an inhibiting factor and that perhaps a further examination of South African trade with Sweden should be considered as a guideline for improvement in exports to Finland.

The highest exports to Finland in Rand value terms is in the broad categories of paper products, processed food, minerals products, followed by machinery and basic metals. Drilling deeper into the top two products reveals that in terms of paper products the main export item to Finland is Chemical wood pulp and in particular HS470200: Chemical wood pulp, dissolving grades. The data also reveals that this is a declining market in Finland but that the market of a closely related product group HS470329: Chemical wood pulp, soda/sulphate, non-coniferous, semi-bl/bleached, nes, is growing rapidly and that South Africa, although exporting this product to the rest of the world is not exporting it to Finland.

4 Source: UN Comtrade and DTI trade statistics

5 Note: Future research on the Swedish market may further enhance the findings in this research
In the case of exports of beverages the main item is HS22041: wine\(^6\) which has been growing at about 40% in current US$ prices, while the market in Finland is growing at a rate of 12%. It was shown that South Africa currently only captures about 3% of the market and that it sells only 1% of its exports of this product to Finland, although total exports have been growing at around 8% per annum over the last 5 years. This suggests that better marketing may benefit the position of wine in the Finnish market. The other commodity in these groups that Finland imports in large value is HS220820: Spirits obtained by distilling grape wine or grape marc. This appears to be a large, albeit stagnant market in Finland in which South African exports has been declining.

The product groups that still offers the third largest exports in terms value, on average over the last 5 years, is mineral products and coal in particular. However, in the last two years exports have collapsed completely. While there is a considerable market for coal in Finland, the competition has a main advantage in terms of transportation distance, which may well, outweigh the fact that South African coal is about 50% cheaper. The coal cannot be considered as a true entrepreneurial opportunity because of a monopoly that a South African cartel has over this industry in Cape Town.

Finally, of the current exports to Finland that have caught the attention is that of HS900110: Optical fibs, optical fib bundles & cables, oth than those of heading 85.44 with exports of US$1,660 million in 2000. This is a rather unusual and non-traditional South African export and Finland appears to be one of the most important markets of this product, but South Africa is by no means the only supplier to Finland.

\(^6\) According to a source interviewed at the WineX 2002 – wine export agencies are available for future export to non-represented countries world-wide
4.1.3 Finnish Imports from the World

What is perhaps more important to discover rather than competition to existing South African exports to the Finnish market is to evaluate Finnish imports from the rest of the world that are currently not covered by South Africa exports. Based on the average annual growth in value of Finnish imports from the world over the period 1996-2000, four clusters can be highlighted given their relatively high growth rates in this regard. Of these four, however, for only one South African exports recorded a positive rate of growth over the period, namely HS44: Wood and articles of wood, wood charcoal. Finnish imports of a few other clusters are also growing, albeit at a slower pace of 3%. These include, HS30: Pharmaceutical products, HS29: Organic chemicals and HS76: Aluminium and articles thereof. South African exports in these commodity groups are all growing quite healthily. This suggests the need for further investigation in terms of the potential to grow such exports to Finland. A number of detailed commodities were identified including

- HS440399: Logs, non-coniferous nes
- HS440320 Logs, poles, coniferous nes - although South African exports is currently very small
- HS750110: Nickel mattes - currently almost no South African exports
- HS750210: Nickel unwrought, not alloyed - high value but Finnish import have declined
- HS19: Cereal, flour, starch, milk preparations and products – including a number of detailed products

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7 The paper and pulp industry in South Africa is well represented by Finland. South Africa on the other hand is not well represented in Finland with regards to this industry.
- HS300490: Medicaments\(^8\) - South Africa is exporting this commodity at a rapidly increasing rate, but not to Finland
- HS29: Organic chemicals\(^9\) - including a number of detailed products
- HS76: Aluminium and articles\(^10\) - including a number of detailed products
- HS30410: Fish fillets and other fish\(^11\) meat, minced or not, fresh or chilled grew on average in value terms over the period 1996-2000 with regards to both Finnish imports, as well as South African exports thereof.

### 4.2 Growth Prospects of the Finnish Economy\(^12\)

In order to formulate a view on the overall export potential of South African exports to Finland we conclude our analysis with a note on the growth prospects of the Finnish economy. According to the Economist Intelligence Unit (EIU) Country Forecast for Finland, the country’s strong economic expansion, which had been largely due to the booming information communication and technologies (ICT) sector, ended in 2001. This slowdown was largely due to the faltering global economy and what the EIU Country Report for Finland identifies as declining Gross Domestic Fixed Investment. Both falling exports and imports further exacerbated this scenario; however, the volume of exports had declined less than that of imports.

In terms of sectoral trends, the EIU Country Report for Finland notes that the economic slowdown had been felt in all spheres of the economy, particularly in manufacturing,

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\(^8\) South Africa can indeed spend more attention to this high value-add commodity

\(^9\) These detailed products can be found under the HS 29… export code

\(^10\) These detailed products can be found under the HS 76… export code

\(^11\) Exporting fish to the Scandinavian countries might be carrying coal to Newcastle and would warrant further research
where all sub-sectors recorded negative growth in 2001 as compared to the previous period.

However, the EIU reports remain upbeat that the worst is over, although it is not likely that there will be a return to the stellar economic performance that characterised the latter half of the 1990s. The report suggests that industrial production has begun to pick up in most sub-sectors, with the exception of textiles, wearing apparel and printing and publishing. This means that South Africa’s export potential in the relevant commodities may be limited.

The EIU Country Forecast predicts that external demand for the Finnish economy should strengthen during 2002 and beyond, buoyed by the gradual recovery of US and European economies, with overall export volumes rising by 7% between 2002-2006, and ultimately increasing Gross Domestic Fixed Investment by 4% in this period. The continued increase in exports allows for import demand to increase at a forecasted rate of about 8% per annum over the next 5 years or so. In spite of the higher import demand growth rates, net exports are expected to remain very healthy at around 13% of GDP.

Table 4.1 Breakdown of real expenditure on GDP (€ constant 1995 prices)

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<td>GDP</td>
<td>4.3%</td>
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<td>2.9%</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>3.3%</td>
<td>48.7%</td>
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</tr>
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<td>Govt Consumption</td>
<td>1.2%</td>
<td>19.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>GDI</td>
<td>4.8%</td>
<td>18.8%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Exports</td>
<td>9.1%</td>
<td>50.5%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Imports</td>
<td>7.5%</td>
<td>37.3%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Net Exports</td>
<td></td>
<td>13.2%</td>
<td></td>
</tr>
</tbody>
</table>

Source: EIU Finland Country Forecast, 2002

12 This section draws on the Economist Intelligence Unit Country Report (August 2002) and Country Forecast (July 2002) for Finland.
In short, the EIU Country Report shows the robust growth rates of the past 5 years are driven by exports and that although these phenomenal growth rates will subside to some degree, the buffer in terms of net exports that has been build up over the past 5 years is expected to remain very high at about 13% of GDP (compared to about 3% in South Africa). This allows for a very high import demand growth rates over the medium term, which will benefit, amongst others, South African exports.

While South African exports to Finland have increased in the last 5 years in nominal terms by about 16% per annum (in nominal terms,) the buoyant growth in import demand in Finland, expected over the next 5 years suggests that growth in South African exports to this country can be expected on the upside of those achieved over the last 5 years.

Finally, it may be worth noting that in terms of an assessment of reasonable growth prospects of South Africa’s exports to Finland over the next few years, that there is some complimentarily items in terms of South African exports and Finnish imports. This is shown in the following table.

Table 4.2 Comparison in SA Exports and Finland Imports, 1997-2001 (constant 1995 local currency)

<table>
<thead>
<tr>
<th></th>
<th>% contribution to South African manufacturing exports (period average)</th>
<th>% contribution to Finland manufacturing imports (period average)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% change in South African Exports</td>
<td>% change in Finland imports</td>
</tr>
<tr>
<td>Tobacco</td>
<td>0.4%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Television, radio and communication eqpt</td>
<td>1.6%</td>
<td>25.2%</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>1.3%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Electrical machinery and apparatus</td>
<td>2.0%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>6.1%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Chemical products</td>
<td>12.9%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Printing and publishing</td>
<td>0.3%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Motor vehicles, parts and accessories</td>
<td>8.8%</td>
<td>29.0%</td>
</tr>
<tr>
<td>Professional and scientific eqpt</td>
<td>1.1%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>
The table suggests that of the industrial sub-sectors where Finnish imports have significantly grown over the past five years, there has been notable growth in South Africa’s exports too, such as tobacco, television, radio and communication equipment and electrical machinery and apparatus. However, these commodities only comprise a small portion of South Africa’s export basket, and hence their growth has been off a low base.

On the other hand, the table shows that significant imports into Finland are taking place in sub-sectors that do not account for much of South Africa’s export basket, such as wood and wood products, other manufacturing, and professional and scientific equipment. Similarly, South Africa’s exports are concentrated in sectors that do not appear to be of much interest to the Finnish economy, such as motor vehicles, parts and accessories, wearing apparel, and machinery and equipment. This implies that there is not much scope for boosting South Africa’s exports to Finland, especially for high value-added products, except possibly in chemical products, and coke and refined petroleum products.

4.3 Revealed trade barriers of South African exports to Finland

In examining South African exports to Finland, the question is often raised as to what degree the share of imports of a particular product from South Africa in Finland’s total import basket from South Africa is larger or smaller than the share of total Finnish imports...
of that product in its overall import basket (i.e., summed over all products). In other words, are the imports of a particular commodity from South Africa more or less important compared to total Finnish imports of that commodity from all sources? If so, and the revealed trade barrier ratio is less than 1 (See Table 4.1), we may conclude that South Africa is exporting a commodity relatively more to the rest of the world than it is to Finland, possibly due to trade barriers in Finland. Trade barriers can be in the form of tariffs or other trade barriers such as transportation costs and other impediments to trade. We used UN Comtrade Data as published by Statistics Canada’s World Trade Analyser system. Results are presented for South African exports to Finland only, and divided into two periods, i.e., 1990-94 and 1995-99.

Table 4.3 Revealed trade barriers (RTB) for South African exports to Finland for selected SITC2 Commodities, 1991 – 1995

<table>
<thead>
<tr>
<th>SITC2</th>
<th>Description</th>
<th>Average Total SA Exports (US$m)</th>
<th>Average SA Exports to Finland (US$m)</th>
<th>Average RTB of SA Exports in Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25 Pulp and waste paper</td>
<td>376</td>
<td>9.42</td>
<td>78.66</td>
</tr>
<tr>
<td>2</td>
<td>63 Cork and wood manufactures (excl. furniture)</td>
<td>89</td>
<td>2.26</td>
<td>23.77</td>
</tr>
<tr>
<td>3</td>
<td>05 Vegetables and fruit</td>
<td>883</td>
<td>5.32</td>
<td>18.82</td>
</tr>
<tr>
<td>4</td>
<td>32 Coal, coke and briquettes</td>
<td>1,541</td>
<td>2.55</td>
<td>6.07</td>
</tr>
<tr>
<td>5</td>
<td>29 Crude animal and vegetable materials, n.e.s.</td>
<td>52</td>
<td>0.49</td>
<td>5.61</td>
</tr>
<tr>
<td>6</td>
<td>11 Beverages</td>
<td>122</td>
<td>0.46</td>
<td>3.55</td>
</tr>
<tr>
<td>7</td>
<td>21 Hides, skins and fur skins, raw</td>
<td>82</td>
<td>0.18</td>
<td>2.27</td>
</tr>
<tr>
<td>8</td>
<td>67 Iron and steel</td>
<td>1,922</td>
<td>1.19</td>
<td>1.23</td>
</tr>
<tr>
<td>9</td>
<td>73 Metalworking machinery</td>
<td>15</td>
<td>0.21</td>
<td>1.04</td>
</tr>
<tr>
<td>10</td>
<td>61 Leather, leather manuf., n.e.s. and dressed fur skins</td>
<td>104</td>
<td>0.04</td>
<td>0.94</td>
</tr>
<tr>
<td>11</td>
<td>52 Inorganic chemicals</td>
<td>614</td>
<td>0.31</td>
<td>0.88</td>
</tr>
<tr>
<td>12</td>
<td>72 Machinery specialised for particular industries</td>
<td>285</td>
<td>0.44</td>
<td>0.47</td>
</tr>
<tr>
<td>13</td>
<td>74 General industrial machinery &amp; equipment, and parts</td>
<td>234</td>
<td>0.37</td>
<td>0.26</td>
</tr>
<tr>
<td>14</td>
<td>82 Furniture and parts thereof</td>
<td>174</td>
<td>0.05</td>
<td>0.24</td>
</tr>
<tr>
<td>15</td>
<td>22 Oil seeds and oleaginous fruit</td>
<td>21</td>
<td>0.01</td>
<td>0.23</td>
</tr>
</tbody>
</table>
Commodities with large total South African exports that were relatively well represented in the Finnish market from 1991 to 1995 are not only *Iron and steel* (SITC 67: row 8) and *Cork and wood manufactures* (excl. furniture) (SITC 63: row 2) but also *vegetables and fruit* (SITC 05: row 3) and coal (SITC 32: row 4) and commodities with low exports such as *beverages* (SITC 11: row 6).

The commodities that were under-traded over the period of observation included *Inorganic chemicals*, (SITC 52: row 11) as well as *organic chemicals* (SITC 51: row 20 and *crude fertiliser* (SITC 27: row 19), *Machinery specialised for particular industries* (SITC 72: row 12), *General industrial machinery & equipment, and parts* (SITC 74: row 13), Road vehicles (SITC 78: row 17).

Table 4.4 Revealed trade barriers (RTB) for South African exports to Finland for selected SITC2 Commodities, annual averages for the period 1996 – 2000 in US$ million

<table>
<thead>
<tr>
<th>SITC2</th>
<th>Description</th>
<th>Average Total SA Exports (US$m)</th>
<th>Average SA Exports to Finland (US$m)</th>
<th>Average RTB of SA Exports in Finland (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Articles of apparel and clothing accessories</td>
<td>162</td>
<td>0.10</td>
<td>0.23</td>
</tr>
<tr>
<td>17</td>
<td>Road vehicles (incl. air cushion vehicles)</td>
<td>577</td>
<td>0.26</td>
<td>0.17</td>
</tr>
<tr>
<td>18</td>
<td>Manufactures of metal, n.e.s.</td>
<td>234</td>
<td>0.09</td>
<td>0.14</td>
</tr>
<tr>
<td>19</td>
<td>Crude fertilisers and crude materials (excl. coal)</td>
<td>870</td>
<td>0.02</td>
<td>0.08</td>
</tr>
<tr>
<td>20</td>
<td>Organic chemicals</td>
<td>192</td>
<td>0.04</td>
<td>0.07</td>
</tr>
<tr>
<td>21</td>
<td>Telecommunications &amp; sound recording apparatus</td>
<td>60</td>
<td>0.08</td>
<td>0.07</td>
</tr>
<tr>
<td>22</td>
<td>Textile yarn, fabrics, made-upart., related products</td>
<td>242</td>
<td>0.04</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Source: TIPS calculations commissioned by the author

13 South Africa might have a basic trade barrier in terms of left-hand vehicles a to South African right-hand vehicles

14 The AGOA trade agreement favours this specific industry
<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Quantity</th>
<th>Value</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pulp and waste paper</td>
<td>401</td>
<td>8.08</td>
<td>111.54</td>
</tr>
<tr>
<td>2</td>
<td>Coal, coke and briquettes</td>
<td>1,519</td>
<td>4.24</td>
<td>19.87</td>
</tr>
<tr>
<td>3</td>
<td>Vegetables and fruit</td>
<td>941</td>
<td>2.53</td>
<td>17.71</td>
</tr>
<tr>
<td>4</td>
<td>Beverages</td>
<td>292</td>
<td>1.53</td>
<td>7.77</td>
</tr>
<tr>
<td>5</td>
<td>Crude animal and vegetable materials, n.e.s.</td>
<td>68</td>
<td>0.34</td>
<td>6.86</td>
</tr>
<tr>
<td>6</td>
<td>Oil seeds and oleaginous fruit</td>
<td>33</td>
<td>0.42</td>
<td>5.31</td>
</tr>
<tr>
<td>7</td>
<td>Sugar, sugar preparations and honey</td>
<td>325</td>
<td>0.31</td>
<td>5.14</td>
</tr>
<tr>
<td>8</td>
<td>Hides, skins and furskins, raw</td>
<td>80</td>
<td>0.25</td>
<td>3.85</td>
</tr>
<tr>
<td>9</td>
<td>Non-ferrous metals</td>
<td>1,235</td>
<td>1.09</td>
<td>2.63</td>
</tr>
<tr>
<td>10</td>
<td>Iron and steel</td>
<td>2,009</td>
<td>2.40</td>
<td>4.77</td>
</tr>
<tr>
<td>11</td>
<td>Metalliferous ores and metal scrap</td>
<td>1,350</td>
<td>0.80</td>
<td>1.22</td>
</tr>
<tr>
<td>12</td>
<td>Coffee, tea, cocoa, spices, manufactures thereof</td>
<td>62</td>
<td>0.30</td>
<td>1.80</td>
</tr>
<tr>
<td>13</td>
<td>Fertilizers, manufactured</td>
<td>153</td>
<td>0.04</td>
<td>0.61</td>
</tr>
<tr>
<td>14</td>
<td>Professional, scientific &amp; controlling instruments</td>
<td>123</td>
<td>0.55</td>
<td>68.65</td>
</tr>
<tr>
<td>15</td>
<td>Rubber manufactures, n.e.s.</td>
<td>182</td>
<td>0.31</td>
<td>58.02</td>
</tr>
<tr>
<td>16</td>
<td>Textile yarn, fabrics, made-upart., related products</td>
<td>323</td>
<td>0.63</td>
<td>207.09</td>
</tr>
<tr>
<td>17</td>
<td>Miscel. edible products and preparations</td>
<td>48</td>
<td>0.09</td>
<td>4.33</td>
</tr>
<tr>
<td>18</td>
<td>Machinery specialized for particular industries</td>
<td>768</td>
<td>0.75</td>
<td>576.00</td>
</tr>
<tr>
<td>19</td>
<td>Manufactures of metal, n.e.s.</td>
<td>445</td>
<td>0.29</td>
<td>129.95</td>
</tr>
<tr>
<td>20</td>
<td>Road vehicles (incl. air cushion vehicles)</td>
<td>1,363</td>
<td>0.84</td>
<td>1.14</td>
</tr>
<tr>
<td>21</td>
<td>General industrial machinery &amp; equipment, and parts</td>
<td>392</td>
<td>0.49</td>
<td>192.08</td>
</tr>
<tr>
<td>22</td>
<td>Inorganic chemicals</td>
<td>711</td>
<td>0.05</td>
<td>35.55</td>
</tr>
<tr>
<td>23</td>
<td>Articles of apparel and clothing accessories</td>
<td>185</td>
<td>0.01</td>
<td>18.54</td>
</tr>
</tbody>
</table>

Source: Own calculations assisted by TIPS

From the table above, it can be seen that on average over the period 1996 to 2000 South African export of groups such as *Pulp and waste paper* (SITC 25, row 1), *Coal, coke and briquettes* (SITC 32, row 2), *Vegetables and fruit* (SITC 5, row 3), *Beverages* (SITC 11, row 4) as well as *Basic Metals* (SITC 67-68, rows 9-10) and *Metalliferous ores and metal scrap* (SITC 28, row 56) have a higher than average presence in Finland. *Machinery, vehicles and inorganic chemicals* (SITC 72, 78 and 52 in rows 18, 20 and 22 respectively) are product groups that can be considered to be under-traded in Finland, which may point to further potential to export into this market. As was noted earlier, since we are using period averages here, the sudden collapse of exports, such as *coal* is somewhat hidden. A
A snapshot of the last year (2000) would probably reveal that coal\textsuperscript{15} is by now an under-traded commodity with a considerable potential to export to the Finnish market.

4.2 Summary and conclusions

The analysis has shown that the trade gap is to a large degree the results of a small number of commodities, notably electronic equipment for communication. The reason for this gap is the success of Finland’s exports in these commodities, not only to South Africa but presumably also to other countries. The sectoral analysis showed that over the last 5 years (ending in 2001) the contribution of net exports, i.e., total exports less imports, to GDP has been exceptionally high by any standards, at more than 10%. Indeed, export is, as noted by the EIU, the main driving force of Finland’s economic success. However, if Finland had not been successful in exporting these commodities, South Africa would have sourced them from somewhere else.

On the other hand it should be acknowledged that South Africa’s exports to Finland have not grown as fast as its total exports. Distance may not necessarily be an inhibiting factor.

The highest exports to Finland in Rand value terms are in the broad categories of paper products, processed food, minerals products, followed by machinery and basic metals. Drilling deeper into the top two products reveals that in terms of paper products the main export item to Finland is Chemical woodpulp and in particular HS470200: Chemical wood pulp, dissolving grades. The data also reveals that this is a declining market in Finland but that the market of a closely related product group HS470329: Chemical wood pulp, soda/sulphate, non-coniferous, semi-bl/bleachd, nes, is growing rapidly.

\textsuperscript{15} Only if inroads can be made into the cartel monopolising this industry
In the case of exports of beverages the main item is *HS22041: wine* which has been growing at about 40% in current US$ prices, while the market in Finland is growing at a rate of 12%. It was shown that South Africa currently only captures about 3% of the market and that it sells only 1% of its exports of this product to Finland, although total exports have been growing at around 8% per annum over the last 5 years. This suggests that better marketing may benefit the position of wine in the Finnish market.

The product groups that still offers the third largest exports in terms value, on average over the last 5 years, is mineral products and coal in particular. While there is a considerable market for coal in Finland, the competition has a main advantage in terms of transportation distance, which may well, outweigh the fact that South African coal is about 50% cheaper.

Finally, of the current exports to Finland that have caught the attention is that of *HS900110: Optical fibs, optical fib bundles & cables, other than those of headg 85.44* with exports of US$1,660 million in 2000. This is a rather unusual and non-traditional South African export and Finland appears to be one of the most important markets of this product.

What were also important to investigate were Finnish imports from the rest of the world that are currently not covered by South Africa exports. Based on the average annual growth in value of Finnish imports from the world over the period 1996-2000, four clusters can be highlighted given their relatively high growth rates in this regard. Namely:

- *HS44: Wood and articles of wood, wood charcoal.*
- *HS30: Pharmaceutical products,*
- *HS29: Organic chemicals and*
- *HS76: Aluminium and articles thereof.*
A number of detailed commodities were identified including:

- HS440399: Logs, non-coniferous nes
- HS440320 Logs, poles, coniferous nes
- HS750110: Nickel mattes
- HS750210: Nickel unwrought, not alloyed
- HS19: Cereal, flour, starch, milk preparations and products –
- HS300490: Medicaments nes, in dosage
- HS29: Organic chemicals
- HS76: Aluminium and articles
- HS30410: Fish fillets and other fish meat, minced or not, fresh or chilled

The analysis of revealed trade barriers showed that on average over the period 1996 to 2000 South African export of groups including Pulp and waste paper, Coal, coke and briquettes, Vegetables and fruit, Beverages as well as Basic Metals and Metalliferous ores and metal scrap have a higher than average presence in Finland. Machinery, vehicles and inorganic chemicals are product groups that can be considered to be under-traded in Finland, which may point to trade barriers\(^6\) (due to tariffs or otherwise) or perhaps also lack of marketing efforts.

Tariff barriers on both sides were investigated using the most recent tariff schedules and relevant phase down in the context of the EU – SAFTA. The analysis pointed to some very high EU tariffs on based on ad valorem equivalent conversions conducted by the IDC. However, the largest Finnish imports from South Africa in value terms, in the Chemical wood pulp complex entered at a zero rate. Relatively high tariffs of more than

\[^6\] There could also be supply constraints but this is less likely as the products are exported but to a lesser degree in Finland.
20% were found in the *citrus fruit* and *fruit and nut* commodity groups. All other HS4 commodity lines in the top 40 are faced with tariffs below 10%.

Tariffs as high as 147% and 110% are recording for *bovine* and there are no exports to Finland in these HS4 commodities, although there is some exports to the Rest of the World and also to the rest of the EU, in spite of the high tariff. The same applies to some other agricultural and process food products such as *fruit juice*, *apples and pears*, *jams*, *nuts*, *citrus fruit*, *vegetables* and *cut flowers*. In terms of exports of all these products a substantial proportion is exported to the EU, in spite of relatively high tariffs but no exports to the Finland are recorded. This suggests that for these products the tariff can not be regarded as a significant trade barrier to the Finish market. Exports may therefore be constrained by lack of marketing, as these products do seem to find their way into other EU markets faced with the same tariff.

The EIU Country Report shows the robust growth rates of the past 5 years are driven by exports and that although these phenomenal growth rates will subside to some degree, the buffer in terms of net exports that has been build up over the past 5 years is expected to remain very high at about 13% of GDP (compared to about 3% in South Africa). This allows for a very high import demand growth rates over the medium term, which will benefit, amongst others, South African exports.

In conclusion to the commodity range in which entrepreneurs can direct their attention to Table 4.3 that shows the nexus between the share and growth dimensions for selected cut-off points. There are not many products that South Africa imports from Finland that have both a high share: > R100 million) and high growth rate: >12%. The majority of the imports from Finland are low share high growth products.
### Table 4.3  Growth-share nexus of South African imports from Finland for 22 Chapters

<table>
<thead>
<tr>
<th></th>
<th>high growth &gt; 12%</th>
<th>medium growth</th>
<th>low growth &lt; 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>medium share</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Customs & Excise and own calculation, annual averages calculated over the 5 years ending 2001

With regard to South Africa’s exports to Finland (Table 4.4), the majority of the exports have a low share with high growth rates or low growth rates over the period 1997 to 2001.

There is not one product of note with a high share as well as a high growth rate.

### Table 4.4  Growth-share nexus of South Africa’s exports to Finland for 22 Chapters

<table>
<thead>
<tr>
<th></th>
<th>high growth &gt; 12%</th>
<th>medium growth</th>
<th>low growth &lt; 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>high share &gt; Rm100</td>
<td>C22: Oth unclass: 99)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>medium share</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Customs & Excise and own calculation, annual averages calculated over the 5 years ending 2001
CHAPTER 5 – ENTREPRENEURIAL BUSINESS OPPORTUNITIES

5.1 Introduction

As far as markets are concerned the entrepreneurial endeavour can be expressed very simply: the entrepreneur perceives the opportunity to buy at a lower price and sell at a higher price, and the difference is pure profit (see paragraph 2.6.3). At the level of simple arbitrage, it is buying and selling in different markets at the same time. In judicious speculation, where resources are purchased for their anticipated appreciation over time, such resources are brought in one market today and sold in another market. Finally, this bridging of markets manifests in the creative activities of entrepreneurs who are able to assemble a group of everyday resources and somehow transform them into new products that others have not dreamed of and that consumers value highly. That too involves bridging markets, where the resources are bought in one market and the new product is to be sold in another market.

The entrepreneurial role is of paramount social significance in ensuring the fullest utilisation of existing resources in terms of existing knowledge. It is no less significant in fuelling economic growth and development into a limitless future because the entrepreneur, after all, exists to transcend the limits of what has gone before.

5.2 Risks and Opportunities for South Africa in Engaging with the Global Economy

The current global economy is inherently risky, and South Africa’s engagements with this system are not immune to these risks. Global investment and production dynamics tend to favour geographic areas that are already developed with a high potential to entrench and heighten existing spatial inequalities and underdevelopment. Further economic
marginalisation is a very real threat. The changing basis of competitiveness away from SA’s traditional competitive advantages poses a huge challenge, especially if we continue to fall behind with regard to ICTs. The potential for a slowdown in global growth rates might limit trade growth, as could a rise in protectionism. The size of the South African economy, particularly if it experiences a relative decline in share of global trade will reduce our bargaining power and our capacity to implement policy.

The risks of not engaging are however far greater. Deciding not to engage will not prevent our economy and our citizens from being affected by these processes; it will rather mean that these forces will not be mediated by our attempts to redirect them towards achieving our national objectives. The opportunities presented by effective integration into global systems are essential to our ability to achieve the necessary levels of growth and equity, but benefits will not flow automatically.

South Africa therefore needs to strategically engage with these processes in order to mitigate the negative effects while at the same time seeking to maximise advantages gained for our domestic economy. This requires that we understand the operation of global economic systems, strive to locate ourselves strategically within those systems, and develop strategic alliances with developing countries in order to reshape the system of global governance to achieve more equitable outcomes. Simultaneously, it requires that we equip our economy as a whole, our sectors and our enterprises to meet the challenge we face in becoming sustainably competitive in this environment.

A partial foundation for this strategic engagement has been laid. We have an economy that has experienced a significant degree of restructuring. The economy is more open and less protected than before 1994, with significantly expanded market access and particular
opportunities within the SADC region and New Partnership for Africa's Development (Nepad). There has been a shift towards manufacturing and services rather than primary production. The economy has become more competitive as manufacturing exports have increased, productivity levels have risen, and domestic enterprises have been exposed to global competition. The economy has become more attractive for direct investment and the number of viable investment opportunities has increased. Significant progress has been made in regulatory reform and the development of Standardisation, Quality Assurance, Accreditation and Metrology (SQAM) systems and preparation for sustainable production, which create a platform for long-term competitiveness. Sector-level strategies such as that in the auto and components sector have significantly transformed the trajectory of those sectors, with benefits for associated industries.

However, it is evident that our current industrial policies are not having the desired impacts in particular areas, most notably on the growth rate, employment creation, small business development, income distribution and equity. In addition, the economic restructuring that has taken place has uncovered specific underlying constraints to successful integration into global production systems and drawing the full potential of our economic citizens into the development of the economy.

5.2.1 Some facts about Africa and South Africa:

- Africa’s contribution to global production is less than 1% of world trade
- Africa’s share in the exports of manufactured goods is nearly 0%
- 9% of Africa’s GDP is generated in Gauteng
- Since 1998 the value of the Rand has dropped 90%\footnote{Subsequently it has strengthened remarkably but has still lost a significant part of its inherent value}
• South Africa has labour legislation that works against FDI i.e. see the following table:

Table 5.1 South African inflation against the average wage increase

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation</th>
<th>Average wage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>7.4%</td>
<td>11.2%</td>
</tr>
<tr>
<td>1997</td>
<td>8.6%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Source: DTI

The implication of the above table is that South Africa employment is absorbing FDI faster than it can get absorbed into the economy.

5.3 The Entrepreneurial Opportunities

The opportunities for the entrepreneur are visible in terms of what South Africa can supply Finland as seen in chapter 4. In this chapter the researcher will elaborate on these opportunities. Stating that there is a demand for wine in Finland simply does not satisfy the research question in terms of entrepreneurial business opportunities. The opportunities are within the international supply chain and not the product. The reader’s attention will therefor be directed to the sub-sectors within the international supply chain that are applicable to the entrepreneur. These will be described in detail in the paragraphs to follow and are as follows:

• Manufacturing

• Services
  • Insurance brokerage
  • Transport
  • Warehousing

• Foreign Trade Agency

• Tourism
5.3.1 Manufacturing

The South African economy has always been integrated into the global economy in various ways. South Africa has a long history of manufacturing, which from the outset has also been integrated into global systems of production and exposed to global forces. Government has played a key role throughout this history in shaping the development and orientation of our industrial sector.

5.3.1.1 Goods manufacturing

Many experienced business people will tell you that whatever you do in business, stay away from manufacturing. The risks are too great. It may often be good advice, but entrepreneurs who have great ideas are going to ignore it and get on with the business of manufacturing. Not only that - manufacturing has been seen to be the way that developing nations establish themselves. All the national economic success stories of the twentieth century were built on manufacturing.

Since the Rand became undervalued\(^\text{18}\), the price of capital goods has gone up sharply and the set-up manufacturing business has gone up with it. It is true that there has been a substantial recovery during this year, but not enough to bring the cost of capital equipment into a reasonable cost range. Some companies have taken to importing used equipment from developed countries because the price of new equipment is simply no longer feasible. The other side of this is that our manufactured goods get onto the world market at highly

\(^{18}\) The Rand has subsequently strengthened remarkably in 2002 but is still considered to be undervalued
competitive prices. In addition to this, international competitors in our market come in at very high prices, shielding the local manufacturer to some extent. When all the sums are calculated, it is certain that the current value of the Rand favours the local manufacturer, despite the high cost of capital goods.

The smaller (entrepreneurial) manufacturer is simply going to pay more for everything until the business is buying in the same quantities the big competitor. This may lead to small companies concentrating on a single line, a practice that has its own dangers. If that line fails there is nothing to fall back on.

5.3.1.2 Growth and Competitiveness through Manufacturing

The manufacturing sector has grown relatively slowly over the last 5 years - on average output has increased by 1.8% per annum. While slow, this growth represents a significant success in avoiding the very real threat of de-industrialisation. Three groups of sectors have experienced particularly slow growth impacting upon the growth for the entire sector, namely basic wage-goods sectors such as clothing\(^\text{19}\), food and footwear, resource intensive sectors such as metal products\(^\text{20}\), and capital goods and equipment.

However, some sub-sectors have performed significantly better than the average. These include the autos, chemicals and radio, television and communications equipment\(^\text{21}\). The expansion of the auto assembly industry particularly has also had a significant impact on a number of local industries in its supply chain such as leather, glass, rubber and platinum

\(^{19}\) Identified as a possible sector for export to Finland

\(^{20}\) Also identified as a possible sector for export to Finland

\(^{21}\) Another sector identified for export to Finland
The Motor Industry Development Plan has been a key intervention to effect this transformation.

### 5.3.1.3 Integration into the Global Economy

Much of the growth of these sectors has resulted from increased exports. Indeed manufacturing’s share of total SA exports is growing rapidly as traditional exports (mining in particular) decline in importance, expanding from 39% of all exports in the first half of the 1990s, expanding to 51% in 2000. Manufacturing exports have been rising far faster than overall sales. The growing export orientation of South African manufacturing industry is true of every single sector of manufacturing. Indeed, there are a number of sectors, which have experienced stagnant or even falling output levels, but have experienced increasing exports – clothing, textiles and fabricated metal products. This trend is likely to continue – more particularly in the short term on the back of the depreciated exchange rate and also as a consequence of the market access that SA manufacturers enjoy in the markets of the developed world (notably the EU and the US) and the region (SADC). Many of the manufacturing sub-sectors that experienced a rapid increase in their exports have benefited from substantial tariff reductions.

Despite progress in growth in exports, it is of concern that South Africa’s share of global trade is declining in part due to high export growth rates in some large economies. Reduced tariffs constitute a necessary, but not sufficient condition for increased exports. South Africa need to intensify our analysis of the continued constraints to significant export growth, both in terms of other barriers to trade - such as Non-Tariff Barriers.

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22 Based on a report done by the DTI

23 Due to the Free trade agreement with the EU

24 Another area for future research
(NTBs) – and the factors inhibiting South African enterprises taking up the challenge, particularly new exports, small businesses and black-owned enterprises.

Imports have also been increasing significantly, albeit at a lower rate than our manufactured exports. Between 1996-2001, imports grew at 6% per annum – a little over half the rate of growth of exports.

5.3.1.4 Manufacturing Investment and Technology

Investment rates have been generally low in manufacturing. Moreover, they have shown a tendency to decline and manufacturing investment has grown more slowly than for most other sectors. There are a number of sectors that are experiencing robust growth in investment – plastic products, leather, television radio and communications equipment, motor vehicles and parts, paper and paper products and basic chemicals. However, these sectors constitute a relatively small share of manufacturing. As these sectors increase in importance, we can expect this to impact on aggregate investment.

There is a significant correlation\(^\text{25}\) of those industries with a high and growing export orientation and those industries with a high rate of investment, with some evidence that enterprises are investing primarily in capital equipment and capital- and skill-intensive technologies as they gear up for greater involvement in export markets.

\(^{25}\) Based on the report from DTI
5.3.1.5 Securing Future Competitiveness through Manufacturing

In a context where the global trends that have been outlined are accelerating and becoming more pervasive, South Africa cannot afford to ignore global shifts in the changing basis of competitiveness. Traditional modes of securing competitive advantage employed by manufacturing firms are becoming increasingly less significant. First, raw materials are increasingly traded internationally, with duties and other trade barriers coming down and transport costs declining. Manufacturers, wherever they are situated, will therefore face similar prices and delivery conditions for most raw material inputs, with material commodity prices being at historically low levels. Further, materials are a declining share by weight in many manufactured articles and of little or any significance in most rapidly growing service activities, giving rise to notions of “the weightless economy.”

Second, cheap labour is no longer a sustainable advantage. Increasingly selective and demanding consumers and the emphasis on technology limit unskilled and semi-skilled labour creation and require skilled and adaptive labour and effective management capacity. In addition, as the large population countries, notably India and China, increasingly integrate into the global economy, the supply of unskilled and semi-skilled labour has risen dramatically.

Third, as production knowledge diffuses ever more quickly while the market for technology is increasing rapidly, it is far less likely that firms will retain a clearly superior proprietary production technology for any lengthy period. If firms have to acquire much of their technology from abroad the costs are high and competitiveness reduced. It is essential to develop a domestic capacity for science, technology development and advanced skill development. This requires institutional reform and development.
Fourth, privileged access to markets is diminishing. The opening up of markets is the consequence of liberalisation of trade and investment and, in many countries, stronger legal prohibitions on monopoly powers and market restrictive practices.

5.3.1.6 New Manufacturing Sources of Competitiveness

As the more traditional mechanisms of securing a competitive position decline, so the ability of firms to compete will depend on their capacity to adapt and to take advantage of the new manufacturing environment.

The development of Information and Communication Technologies (ICTs) has revolutionised the transmission and manipulation of information throughout manufacturing and related processes. It has also enabled the increasing disaggregation of production processes, although it should be noted that good physical infrastructure is still important to link the stages of production together.

The combined impact of these global trends is that the ways in which value is added and where employment is generated in production processes is changing. Increasingly, extraction of raw materials, product design, production, distribution, sales and marketing are integrated into a coherent supply or value chains, in many cases transnational and strongly influenced by the operations of multinational corporations (MNCs). The challenge for emerging economies and countries such as South Africa which have a resource-oriented legacy, is to ensure that opportunities within the domestic economy are developed and integrated advantageously into both domestic and transnational value chains, in order to meet national socio-economic objectives.
It is important to stress this link between development and equity in the domestic economy and our competitiveness in the global economy. An economy where the human and economic resources are underdeveloped will not sustain its growth and competitiveness. As an Integrated Manufacturing Strategy is implemented it has to be done so in conjunction with programmes for black economic empowerment, gender participation and spatial development.

The manufacturing opportunities in South Africa are a fairly complex and daunting consideration for any entrepreneur. The bottom line is that if an entrepreneur is going to manufacture goods for export to the Finnish market – the other international markets are theoretically accessible for trade. This, together with the support from the Finnish government to assist in getting the trade imbalance shrunk should at the very least be a draw card for entrepreneurs to consider manufacturing in the South African market.

5.3.2 Services

The South African Services hub – currently situated in Sandton Johannesburg is a fair example of the opportunities that are current in the South African economy. To establish a service related business that is linked to exporting is particularly risky. This industry has been known to compete rigorously and take on the competition on various business fields i.e. on pricing, service quality, networking, position, credibility and cost cutting. In the following section the researcher will attempt to point out the industries that might fit the entrepreneur’s profile and provide and entry-level opportunity linked to the current trade imbalance between South Africa and Finland in chapter 6.
5.3.3 Foreign Trade Agency

A trade facilitation Agency typically presents manufacturers in the their home country the opportunity to export their products or services. In fact such an agency is almost your one-stop export shop. This is true in the value-chain from market research up to the physical delivery of the product or service to the destination country. This will include services such as freight clearing, trade insurance, warehousing, and even might include freight forwarding and transport. Acting as a broker between the supplier and the buyer this type of agency is a highly profitable type of venture save that you as the entrepreneur are aware of the pitfalls in such an agency.

In the case of trading with Finland the expense of getting a full-blown agency established is probably too great. The answer might lie in establishing a brokerage agency that will simply market and sell South African manufactured goods to the Finnish market trough establishing relationships with the buying houses in Finland. To grow a brokerage trade enterprise to Finland to also service other countries is an opportunity that could possibly be looked into but falls short of this study.

5.3.4 Tourism Agency

Setting up a tourism agency with a particular interest in the Scandinavian Countries and in particular Finland is an opportunity that has long since been overdue. The Finnish experience harsh winters and since early 2001 are part of the European Union (EU) and are therefor earning in Euro. Currently the Euro are trading at roughly 10:1 against the South African Rand which makes South Africa a destination with value attached to the numerous tourist attractions we can offer. Sadly the South African government does not have sufficient budget to market South Africa as a tourist attraction to the Scandinavian countries because of their low population totals. It is the researcher’s experience as the
Commercial Attaché of Finland that once any Finnish delegate has made a business visit to South Africa, a follow-on visit is generally scheduled for recreation purposes within 24 months of the first visit.

The previous views that were entertained of South Africa being a dangerous country are been transformed to the contrary. South Africa is now being viewed as a destination to share with the family.

To transform this into an industry will however burn some of the entrepreneur’s capital and further research will need to be invested into to determine the extent of the current change in perception of South Africa as a tourist destination.

5.3.5 Packaging and Printing

The packaging industry in South Africa is very well establish and arguably one of the most advanced in the world. The entrepreneurial opportunity however will reside in the fact that the Finnish government stipulates certain packaging requirements for any products entering their market. This implies that an entrepreneur that want to specialise in the Finnish packaging market on goods that are sourced from South Africa would need to find a niche market and then stay with that industry until it is established prior to employing an exit-strategy. The additional benefit for such an entrepreneur is that this industry in Finland is expensive relative to the South African packaging market. A Finnish entrepreneur that is currently printing and packaging saw this opportunity in South Africa and are handling vast amounts of packaging employing Finnish technology in South Africa.

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26 Huhtamaki van Leer in Johannesburg
The opportunities that will arise from this industry will grow as the trade imbalance between South Africa and Finland are addressed and more products manufactured in South Africa are exported to Finland. Ideally the entrepreneur will have to establish some relationship with some of the buying hoses in Finland or the suppliers in South Africa to ensure that a sustainable venture can be established. The challenges will be to ensure that all translations are correct i.e. some access to an interpreter/translator of the Finnish language as well as finding suppliers that will be willing to trade with yourself because of your understanding of the Finnish packaging and printing requirements.

5.3.6 Marketing

Marketing services and products are mainly culturally based and employ the spoken language of that country. Marketing in Finland will require serious effort from the marketer to understand the consumer ethos of Finland as well as the symbolism that underpins their behaviour. Another skill that will be required is to sell South African products as quality products at reasonable prices. Finland is known to be an expensive country, even in European terms, but inferior products are not easily purchased. Research on how South African products are perceived will need to be done as well as research on the willingness of the Finnish markets to consume South African products.

Earlier in this research, the researcher highlighted some of the products that are imported into Finland from other countries and not from South Africa of which South Africa can also become a supplier. Comparative research has to be done to determine the pricing and quality differences in products from other counties and the products that exported from South Africa.
5.4 Summary

As far as markets are concerned the entrepreneurial endeavour can be expressed very simply: the entrepreneur perceives the opportunity to buy at a lower price and sell at a higher price, and the difference is pure profit. The entrepreneurial role is of paramount social significance in ensuring the fullest utilisation of existing resources in terms of existing knowledge.

The economy is more open and less protected than before 1994, with significantly expanded market access and particular opportunities within the SADC region and New Partnership for Africa's Development (Nepad). There has been a shift towards manufacturing and services rather than primary production. The economy has become more competitive as manufacturing exports have increased, productivity levels have risen, and domestic enterprises have been exposed to global competition.

As the more traditional mechanisms of securing a competitive position decline, so the ability of firms to compete will depend on their capacity to adapt and to take advantage of the new manufacturing environment. Entrepreneurs have this inherent ability to adapt to changing environments and profit from it and there are therefore (theoretically) an opportunity for entrepreneurs to benefit from manufacturing for the Finnish market. This and the fact that there is a need in Finland for some manufactured goods such as machinery as well as textile, compounds on the opportunity and possibly makes it more viable to explore further.

A foreign trade agency that is going to focus in particular on the Finnish market is yet another possibility that the entrepreneur can focus on. There is after all an opportunity worth in excess of RM 2000 that needs to be mined. Chapter six will highlight the
products that can form part of the services or products that a foreign trade agency can deliver to Finland.

To establish a tourism agency between South Africa and Finland can be profitable for a small entrepreneurial enterprise. Their population of 5.2 million people together with the Rand/Euro exchange can make this venture viable from an opportunity point of view. Marketing South Africa to Finland (and the other Scandinavian countries) might have to be a topic for future research.

Packaging and printing for an enterprise that needs to export to Finland should theoretically be an opportunity that the entrepreneur can explore. Competition aside, the Finnish market is very particular in how the products are packaged as well as all consumer goods (except wine) has to printed with both Finnish and Swedish languages displaying the ingredients of the product.

Marketing in the Finnish market is the least probable opportunity because of the distinct cultural differences and language barriers that exist. However this does not mean that a South African entrepreneur cannot put such a service together. A viability study will indicate the practical opportunity in terms of marketing South African products in the Finnish market. The author is of the view that the Finnish marketers in Finland can manage such a task more proficiently, but then again South Africa has been known for its developed ability to produce foreign advertising and marketing material.

From this chapter it became clear that there is definite opportunities for the South African entrepreneur to profit from some of the products or services that can be delivered to the Finnish market. These findings will be elaborated on in the following chapter.
CHAPTER 6 - CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion

Entrepreneurs are men and women who search for and exploit new business opportunities. Because such opportunities are untried, entrepreneurs must take risks. Successful entrepreneurs direct resources into ventures that turn out to satisfy consumers, generating benefits that exceed costs. There is no doubt that the preceding chapters highlighted some of the risks in mining the current opportunities with Finland. Global trading is neither for the fainthearted nor for the unimaginative individual.

This paper attempted to identify some of the entrepreneurial business opportunities that might stem from the current trade imbalance between South Africa and Finland. The author illustrated that a trade imbalance alone does not identify an opportunity for the entrepreneur or that a trade imbalance in any way describes the state of a nation’s economy. What does define the opportunity is the fact that the trade imbalance is at an unhealthy ratio with Finland. As well as the Finnish government is supporting the notion of shrinking the trade imbalance by purchasing more from the South African enterprise rather than selling less from Finland.

The author then had an in-depth look at the current trade between South Africa and Finland. Here the reader will find some goods and services identified, that Finland purchases from the rest of the world but not from South Africa and what South Africa is exporting to the rest of the world but not to Finland. This allowed the author to identify the demand from Finland and the capacity (supply) from South Africa. The following are growing exports (from South Africa) that the entrepreneur could possibly supply (alphabetically):
• Coal
• Optical Fibre HS900110
• Processed food
• Wine HS220 (41) & (820)

The following are growing imports from the world (into Finland) that the entrepreneur could possibly supply (alphabetically):

• Aluminium HS76
• Cereal HS19
• Flour HS19
• Logs poles HS 440320
• Medicaments in dosage HS300490
• Nickel mats HS750110
• Organic chemicals HS29
• Unwrought nickel HS750210

I will discuss each one of these items (see Table 6.1) listed above again in terms of the international supply chain to further refine the opportunities open to the entrepreneur. It is also worth noting that the author will not conclude on current manufacturing opportunities to Finland because those opportunities can (and should) be grown by the current suppliers to Finland.

The trade barriers that were uncovered did not reveal conclusive evidence that they are indeed trade barriers. This is mainly due to the fact that the Swedish market imports larger quantities from South Africa than the other Scandinavian countries and will warrant future
research to indicate why this in particular is the case. Entrepreneurs interested in improving exports to Finland from South Africa to Finland might learn from the Swedish on what is done better in their case that in the other three Scandinavian countries (Denmark, Finland, and Norway).

6.2 International Trade Supply Chain Recommendations

SA Government has a vision of an economy that can sustainably meet the needs of all our economic citizens by 2014. The realisation of this vision requires that South Africans accelerate the growth of their economy and make concerted collective efforts to remove obstacles and place the economy on a path that is characterised by competitiveness, employment and equity.

There are numerous uncovered opportunities for entrepreneurs within the manufacturing sector to produce products for Finland (see Table 6.1). These opportunities will each have to be researched on an individual basis to determine the extent of the opportunity (i.e., to what extent does the right relationship with the buyers, or price, or quality, influence market competitiveness?).

Marketing- and transporting of goods manufactured for the Finnish market opens opportunities for the entrepreneur that wants to either link up with a current concern that is manufacturing or a start-up that wants to fulfil the needs of the Finnish market. A foreign trade agency can also fulfil in the above needs of marketing and transporting items 1 – 12 listed in table 6.1.
Printing and packaging of products aimed at the Finnish markets displays fewer opportunities (see Table 6.1) but are still an opportunity that could be explored by an entrepreneur. After all it will be the value added to products that will deliver the profits to the South African economy and the pocket of the entrepreneur. Derived from Table 6.1 it should theoretically be possible to have an enterprise that basically does the printing and/or packaging of just one of the products listed such as number 2: Cereal HS19.

<table>
<thead>
<tr>
<th>Products and services</th>
<th>Manufacturing</th>
<th>Foreign trade agency</th>
<th>Printing and packaging</th>
<th>Marketing</th>
<th>Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aluminium HS76</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>2. Cereal HS19</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>3. Coal</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>4. Communication Equipment</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>5. Flour HS19</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>6. Logs poles HS 440320</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>7. Medicaments in dosage HS300490</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>8. Nickel mats HS750110</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>9. Optical Fibre HS900110</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>10. Organic chemicals HS29</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>11. Processed food</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>12. Unwrought nickel HS750210</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>13. Wine HS220 (41) &amp; (820)</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
</tbody>
</table>

### Table 6.1 Possible entrepreneurial opportunities concluded upon relating to the international supply chain

#### 6.2.1 Tourism Agency

The conclusion on establishing a tourism agency that will aim at the Finnish market in particular will have to receive individual research pertaining to the viability of such an
entrepreneurial venture. We found no conclusive evidence that could indicate either for or against such an opportunity. The author’s take on this opportunity is that an entrepreneur could argumentatively link up with a current Finnish tourism agency and focus on marketing South Africa through those means. In doing so the entrepreneur will be keeping costs down and secondly exploring the opportunity through physically marketing South Africa.

6.3 Recommendations for Further Research

In the course of this research report the author uncovered some areas that could lead to future research. A list is presented in no particular order, as most of them should be self explanatory, which will be left open to the interpretation of the future researcher. The author is not including into this list the viability research on each of the opportunities listed in Table 6.1. It is accepted that a viability study will naturally form part of an entrepreneurial inquest into any opportunity.

1. Research in why South Africa as a net exporter is experiencing a trade deficit with three of the four Scandinavian countries can be explored.

2. The Swedish imports larger quantities from South Africa than the other Scandinavian countries and will warrant research to indicate why this in particular is the case. Entrepreneurs interested in improving exports to Finland from South Africa to Finland might learn from the Swedish on what is done better in their case that in the other three Scandinavian countries (Denmark, Finland, and Norway).

3. Research on establishing a South African presence on Finnish ground with regards to establishing a marketing and tourism link between these two countries could be explored.
4. The types of medication that the Finnish demands from the international community and which South Africa can supply in particular.

5. Exporting fish and fish products into Finland/Scandinavian countries.


64. IISD., 1994. Trade and Sustainable Development Principles. (Winnipeg: IISD)


## Definition of Export Terms

<table>
<thead>
<tr>
<th>Name</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authority</td>
<td>A statutory body existing within a jurisdiction and a specific area of responsibility that administers legislation to regulate trade and/or monitors compliance with existing legislation.</td>
</tr>
<tr>
<td>Contract</td>
<td>A legally binding agreement between two parties in which the specific titles, rights, commitments, and obligations of both parties are defined.</td>
</tr>
<tr>
<td>Delivery Terms</td>
<td>Terms agreed between supplier and customer under which the supplier undertakes to deliver goods or services to the customer.</td>
</tr>
<tr>
<td>Delivery Time</td>
<td>The day/time at which the supplier contracts to deliver the goods or service at the location specified in the delivery term.</td>
</tr>
<tr>
<td>Framework Contract</td>
<td>A contract agreed between a customer and a supplier setting out the conditions of trade and technical details under which a customer may place orders with the supplier for products over a specified period.</td>
</tr>
<tr>
<td>Intermediary</td>
<td>A party who provides commercial or transport services to Customers, Suppliers or Authorities within the international supply chain.</td>
</tr>
<tr>
<td>Invoice</td>
<td>A document claiming payment for goods or services supplied under conditions agreed by seller and buyer.</td>
</tr>
<tr>
<td>Line Item</td>
<td>The identification of one individual product or service and its specific conditions for purchase.</td>
</tr>
<tr>
<td>Location</td>
<td>A place at which a transaction takes place.</td>
</tr>
<tr>
<td>Order</td>
<td>A document by means of which a customer initiates a</td>
</tr>
</tbody>
</table>
transaction with a supplier involving the supply of goods or services as specified, according to conditions set out in an offer, or otherwise known to the customer.

Order of Acceptance  
A document issued by the seller confirming to the customer that the order will be met in accordance to the agreed terms of business.

Order Cancellation  
A document issued by the seller to cancel the order previously placed with the supplier.

Order Change  
A document proposing changes to an order previously issued.

Order-Call Off  
A simplified order for supply of specified goods or services under the conditions set out in a framework agreement.

Payment  
A transfer of money in exchange for goods or services received

Payment Term  
Terms agreed between customer and supplier under which the customer agrees to pay the supplier for goods or services.

Product  
Goods or services that can be purchased and sold

Quote  
A document issued by the supplier setting out terms for the supply of goods or services in response to a customer's request for a quotation.

Regulation  
Legal conditions governing how trade must be conducted

RFI  
A request for information on products or services sent from a customer to potential suppliers.

RFQ  
A request to suppliers sent from a customer specifying goods or services required and the conditions for supply and inviting quotations.

Supplier  
A party who provides, by way of trade, goods or services
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANC</td>
<td>African National Congress</td>
</tr>
<tr>
<td>BEE</td>
<td>Black Economic Empowerment</td>
</tr>
<tr>
<td>CITA</td>
<td>Commission for International Trade Administration</td>
</tr>
<tr>
<td>Cosatu</td>
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<tr>
<td>DACST</td>
<td>Department of Arts, Culture, Science and Technology</td>
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<td>DBSA</td>
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<tr>
<td>DPLG</td>
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<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
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<tr>
<td>Eskom</td>
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<tr>
<td>Fridge</td>
<td>Fund for Research into Industrial Development, Growth and Equity</td>
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<td>International Labour Organisation</td>
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<td>Motor Industry Development Programme</td>
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