**II. Analysis of the international business situation**

1. **Economic, political and legal analysis of the trading country**
   1. **Describe the trading country’s economic system, economic information important to your proposed business/ product/ service, the level of foreign investment in that country:**

The economic system of South Africa is characterized as a regular mixed market capitalistic economy system and South Africa is the economic powerhouse of Africa. South Africa has a gross domestic product (GDP) four times that of its southern African neighbors and it comprises about around 25% of the entire continent's GDP. South Africa’s economy system is a capitalistic system. The capitalistic system in South Africa means that the government does not have involvement in the affairs of the economy. Even though there’s limited involvement by the government on the economy, monopolistic companies are still not allowed and two or more companies must strive in the marketplace for a topic. South Africa leads the continent in industrial output (40% of total output) and this is crucial for our product because creating the item can be done with ease. Another benefit of this is that since the export count is higher, the import count is lower so less competition will be prevalent. Though this can be a beneficial for a country, the negative aspects of a mixed market economy are still quite prevalent. The negative aspects of a mixed market economy are the facts that private enterprises face lots of difficulty when attempting to proper, decreased mobility for capital, and free market economies are the most efficient so steering away from a free market economy causes less efficiency.

As of 2013, the GDP of South Africa was 350.6 billion USD placing them at the second highest GDP for countries in Africa behind Nigeria. Though the GDP of Nigeria is superior in comparison to South Africa, South Africa strives in their export numbers. Botswana and South Africa are two biggest exporting countries in Africa. South Africa is the world’s biggest producer of gold and diamonds making it one of the most important countries of the world. The GDP per capita for South Africa in 2014 was 6086.45 US dollars whereas the United States’ GDP per capita is 46405.26 US dollars. The significant difference between each country’s GDP per capita proves sheer contrast in economic prosperity even though South Africa is one of the most prosperous in its continent.

Foreign Direct Investment or FDI is defined as a controlling ownership in a business enterprise in one country by an entity based in another country. Due to South

Africa being mostly a free market, South Africa encourages foreign investment in both public and private sectors of their businesses. In order to have a strong FDI, a country must have a large population, access to raw materials, and a regulatory framework with political stability. The FDI in South Africa flourished in 2013 but had a slight decrease in 2014 due to the aftermath of the 2008-2009 financial crises. Although South Africa’s FDI has slightly decreased, the country is still the third largest FDI recipient, after Nigeria and Mozambique, and remains the largest FDI provider.

* 1. **Describe the trading country’s governmental structure and stability, how the government controls trade and private business:**

The government of South Africa is a constitutional democracy with a three-tier system of government and an independent judiciary. One of the most significant people in South Africa is Jacob Gedleyihlekisa Zuma who is the President of South Africa. Zuma was elected by the parliament of South Africa after his party's victory in the 2009 general election and then reelected in the 2014 election. The political party that has the main rule in South Africa is the African National Congress. The present leader of t he African National Congress is Mmusi Maimane.

Due to the impact of European influences on Africa as a whole, the legal system of South Africa is rather westernized. The legal system of South Africa is classified as a mixed legal system of Roman-Dutch civil law that also incorporates English common law and customary law. The South African corruption score is a 4.5/10 points. The corruption rank of South Africa is the 54th country out of the 178 that the transparency website dictates. In 2011 the political risk score of South Africa was a 69 and kept at a slight increase or decrease of 1 up or down for the following 5 years. The factor that the PRI uses to measure the risk is it uses all 17 risk components from the PRS methodology including turmoil, financial transfer, direct investment, and export markets. One of the most significant changes that have occurred in the past 50 years of South Africa has been the elimination of Apartheid. This act was rather significant since this was a somewhat of a slavery imposed on the citizens of the country. Although South Africa’s political stability has not always remained constant, the country still remains to be a relatively stable country with continued foreign involvement with other countries.

The amount of international organizations that South Africa is involved in is a stupendous number due to the fact of it being one of the most important countries in the continent. The involvement of the government in the economy is quite minimized yet since the economic system involves socialistic aspects, it is somewhat controlled by the government. Private businesses tend to lack the ability to prosper quickly since the mixed market economy hinders them from doing so quickly.

The Trade Freedom score for the country of South Africa was a 62.6 dictating that they are moderately free. South Africa is ranked 72nd in the world under “moderately free” whereas the United States is ranked 12th in the country under “mostly free.” South Africa is ranked 6th out of 46 countries in the Sub-Saharan Africa region, and its overall score is higher than the world and regional averages. South Africa is a great candidate for future freedom in a country due to its large domestic market and natural resource base making it a promising candidate for prosperity. In 2014, privatization made its way back on the South African government’s agenda for the first time in more than a decade. By this significant change occurring in 2014, the future for small business companies is beyond what one can imagine.

* 1. **Describe laws and/or government agencies that affect your business /**

**product / service:**

Some of the few important agencies involved in South African companies are Eskom -Energy sector (national electricity utility), South African Airways – Transport sector (international airline), SA Express – Transport sector (regional and feeder airline.) All of these agencies cater to the prosperity of a product being sold in South Africa.

The labor laws and acts that are prevalent in South Africa are the Labour Relations Act, Basic Conditions of Employment Act, Compensation for Occupational Injuries and Disease, Employment Equity Act, Occupational Health and Safety, Skills Development, Skills Development Levies Act, Unemployment Insurance Fund (UIF), Unemployment Insurance Contributions Act, Unemployment Insurance Act, and Manpower Training Act.

The trade laws and agreements that impact South Africa as a whole are AGOA, TIFA, and TIDCA. As of 2015, South Africa is eligible for AGOA. The U.S. and South Africa signed a Trade and Investment Framework Agreement (TIFA) in 2012, which amends the United States-South Africa TIFA, originally signed in 1999. The TIDCA establishes a conversation for cooperate work and agreements on a wide range of trade issues, with a special focus on customs and trade facilitation, technical barriers to trade, sanitary and phytosanitary (SPS) measures, and trade and investment promotion between the United States and South Africa.

**B. Trade area and cultural analysis**

1. **Geographic and demographic information, important customs and traditions, other pertinent cultural information, competitive advantages and disadvantages of the proposed product and/or service.**

The climate of South Africa varies throughout the entire country. The range of the climate stretches from Mediterranean in the southwestern corner of South Africa to temperate in the interior plateau, and subtropical in the northeast. A portion of the northwest corner of South Africa has a desert climate. Majority of South Africa has warm, sunny days and cool nights proving a refutation to the belief that the entirety of Africa is warm at all times. The terrain of South Africa consists of a vast interior plateau rimmed by rugged hills and a narrow coastal plain. The location of South Africa proves to be very beneficial to the country’s economy due to its close proximity to the ocean for transport etc. Africa has a large quantity of natural resources including diamonds, salt, gold, iron, cobalt, uranium, copper, bauxite, silver, petroleum and cocoa beans but majority of the resources in the country are yet to be located. South Africa as a whole is a very resource filled country and that in turn makes it one of the most prosperous African countries. All of these aspects come together to prove as an impact on companies as a whole and how they can do their business in the country. South Africa has a modern and well-developed transport system. The air and rail networks of South Africa are the largest in Africa. The country's ports on the east of the country provide a natural stopover for shipping to and from Europe, the Americas, Asia, Australasia and both coasts of Africa. “Approximately 96% of the country's exports are conveyed by sea, and the eight commercial ports are the conduits for trade between South Africa and its southern African partners as well as hubs for traffic to and from Europe, Asia, the Americas and the east and west coasts of Africa.”

South Africa is a developing country. The population pyramid of South Africa depicts a country with high population numbers of both women and men in the birth ages and 15-25 year old section. The target age for our product is the teenage to early 20’s and the population spread of South Africa is perfect for the spread of our product. The median age of South Africa is 26 years old proves to be perfect for the spread of our product since we can attract the middle of the population. Unlike many other countries in Africa, South Africa has a relatively low infant mortality rate of only 34 deaths per 1,000 live births. South Africa has a high birth rate of 2.41 births per woman making the population cluster highly around the birth numbers. The population growth rate of South Africa is a 1.3% annual change contrasting with any other African countries that have 3% or more annual change. The racial categories of South Africa place Black African at 76.4%, White at 9.1%, Coloured at 8.9%, Indian or Asian at 2.5%, and Other/Unspecified at 0.5%. These categories then come together and create the various ethnic groups of South Africa. The major ethnic groups include the Zulu, Xhosa, Basotho (South Sotho), Bapedi (North Sotho), Venda, Tswana, Tsonga, Swazi and Ndebele, all of which speak Bantu languages. In South Africa, primary schooling is compulsory for children aged 7 to 15, which leads to more of the population in the future being educated. UNICEF has created a program known as “a No-Fee Schools policy” which has abolished school fees in the poorest primary schools across the country, helping to attract poor, orphaned, disabled and vulnerable children to school. Due to majority of South African citizens being in the upper financial level of the social classes, the middle class has a rather average income but a little less than the median. In 2010, 20% of South Africa’s population fell below the poverty line and this number increased to 21.5% in 2014. In 2010 it cost an average South African R321 a month to buy food with the recommended energy requirements and in 2014 it increased to R355.

The country of South Africa has many important customs and conditions that influence culture within the country. One high aspect of the country’s culture is very high communication, both verbal and non verbal. Most verbal and non verbal communications that has a high effect in society and is also used the most is communication during greetings. There are several greeting styles in South Africa depending upon the ethnic heritage of the person you are meeting. When dealing with foreigners, most South Africans shake hands while maintaining eye contact and smiling. For women in the business culture, it is best to wait for the male’s first move to see how to best react to the situation. In a more friendly and casual environment, people may greet with a friendly kiss on the cheek to symbolize kindness and friendship. When dealing with gift giving, it is most appropriate to give gifts for birthdays and special holidays, while it is inappropriate to send gifts during a business negotiation, for this may appear or mistaken as a bribe. During business negotiations, it is appropriate to appear in business attire to appear to have a professional manner. In the South African culture, elders are highly respected as a culture. Due to the high respect for elders, a person’s ancestry is looked on as highly valued throughout society. Elders are to be treated with respect while past religions are to be highly practiced. The religions that are practiced in South Africa consist of 68% Christian, 2 % Muslims, 1.5%, and 28.5% Hindu Indigenous beliefs and animist. This causes many religions and customs to be intermixed to form the customs and traditions that are practiced in South Africa today.

The Hofstede model consists of six different dimensions that represent a specific country compared to other cultures of similar countries. A country is placed abnormally high if their score reaches above 65, or abnormally low if their score reaches below 40. South Africa strikes unusual number for the categories of individualism, masculinity, long term orientation, and indulgence. With a score of 65 in individualism, South Africa is an Individualist society meaning there is a high preference for individuals and is expected to take care of themselves and their immediate families only. When dealing with masculinity, with a score of 63 South Africans live in order to work meaning managers are expected to be decisive and assertive, the emphasis is on equity, competition and performance and conflicts are resolved by fighting them out. South Africa has a low score for Long Term Orientation, meaning that in South Africa people in such societies have strong concerns with establishing the absolute Truth while exhibiting great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results. With a score of 63 in Indulgence, South African people generally exhibit a willingness to realize their impulses and desires with regard to enjoying life and having fun with a positive attitude. Using the Hofstede Model, South Africa can be labeled as a low-context country due to the focus on individualism, and indulgence with little attention to emotions and empathy of others.

When attempting to do business in South Africa, there are many competitive advantages and disadvantages to take note of before investing a business. A specific competitive advantage is Durban Harbor. Durban Harbor is one of the top ten largest in the world which allows for more importing and exporting to be done within the country. South Africa’s World Bank has also increased 29 positions to the top, due to new government policies that has allowed imports and exports to be done at a faster rate for a cheaper cost. This has allowed red tape companies to be more of an influence in international markets allowing South Africa’s business market to become more active and open. A competitive disadvantage would include higher taxes when dealing with the different imports and exports. These tariffs may limit the amount of imports that are allowed within the country while export tariffs limit the goods that are allowed out. Although higher taxes do put South Africa at a disadvantage, the multiple competitive advantages that the country holds still allow the country to thrive in international markets.

**2. Market segment analysis target market (age, income level, population estimate, other specific demographic and economic information) customer buying behavior related to the proposed product and or service.**

1. **Analysis of the potential location—importance and requirements of each trade document required by the U.S.A. and/or Canada and the country of choice**

When analyzing the potential of location for conducting business in South Africa, it is shown to have a substantial environment for business success. When deciding a specific region to distribute our product, we have looked at the wealthier regions of South Africa and have decided that it would be best to place our product in the city of Johannesburg. Johannesburg is the best fit for our product due to the publicity of the South African soccer team that is located in that area. Due to the fact that we are promoting a sports drink, it would be the most effective way to promote the product when promoting the famous African team. This is a clear using proven economy ranking. Economy ranking is ranked from 1-189, with the higher number meaning a more conducive business environment. South Africa’s ease of doing business is ranked at a 73. This number shows that South Africa would be an effective area to start a starting business or corporation. South Africa is also has a ranking for starting a business and a score of 120 with getting electricity at 168. With this data, it shows that the ease of starting a business is most likely due to the availability of natural resources needed to effectively start a business. For trading across borders, South Africa scores a high 130 making trade in South Africa between other countries efficient and beneficial to starting a new cooperation.

Since Propels headquarters is based out of California, we have to ship our product’s resources to a bottling factory for Pepsi in South Africa. Due to the disproportionate distribution of wealth we decided to distribute our product in the two largest sectors of South Africa: Cape Town and Johannesburg. To do this shipping, we must have the appropriate documents. The necessary documents for Propel to come to South Africa are the Airway Bill, Bill of Lading, and Electronic Export Information. The Airway Bill is necessary since shipments by air require this bill if we wish to use UPS or FedEx as a form of transportation. The Bill of Lading is required for our business since it is a contract between the owner of the goods and the carrier to transport the good into the other location. Lastly the Electronic Export Information is a crucial document for Propel to do business since it is required for shipments above $2,500 and for shipments of any value requiring an export license and we must go through AES directs online system. If our company follows all of the rules and regulations and we do the necessary paperwork then we will have a profitable future in South Africa.