International Management

Multinationals and Their Challenges

By

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List of Acronyms

- AFTA: ASEAN Free Trade Area
- BEPS: Base Erosion Profit Shifting
- CEO: Chief Executive Officer
- CSI: Consumer Satisfaction Index
- CSR: Corporate Social Responsibility
- GSC: Global Supply Chain
- E.U: European Union
- HCN: Host Country National
- HRM: Human Resource Management
- IHRM: International Human Resource Management
- IJV: International Joint-Venture
- KPI: Key Performance Indicators
- MBA: Master of Business Administration
- MNC: Multinational Corporation
- PCN: Parent Country National
- ROI: Return on Investment
- SAFTA: South Asian Free Trade Area
- SDGs: Sustainable Development Goals
- TCN: Third Country National
- UNAC: United Nations Convention against Corruption
- WBG: World Bank Group

Chapter 1
Globalization of Business

1.1 General

International management differs from domestic management. Managing a multinational enterprise requires a different set of conceptual tools than in the case of purely domestic firms. In particular, it is important to understand the fundamental economic, strategic, organizational, and sociopolitical issues that have an impact on the process of international expansion of the firm, on the linkages between foreign subsidiaries and corporate headquarters in the home country, and on the relationship between the multinational firm and interest groups in the foreign countries, including the government, labor unions, and suppliers[1]. Managing a multinational firm requires not only realizing its economic advantages and adopting an appropriate strategy-structure configuration, but also understanding the role that its foreign subsidiaries play in the foreign countries in which it operates. Local actors such as the government, labor unions, suppliers and the community have tended to keep a critical eye on foreign multinationals because of their unrivalled ability to develop technology, reap economies of scale, avoid high wages, reduce transaction costs, shift from saturated to emerging markets, exploit tax loopholes, and leverage

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[1] Mauro F. Guillén (2013): Understanding and Managing the Multinational Firm, Wharton University of Pennsylvania, The Wharton School of the University of Pennsylvania, pp.1-20.

their power in negotiations with governments, labor unions, local communities, suppliers, and customers.[2]

1.2 The Concept of Globalization

Globalization is a term used to describe how trade and technology have made the world into a more connected and interdependent place. In the most general sense, globalization refers to the increasing integration of economies around the world[3]. Globalization provides opportunities for revenue growth by expanding operations into new geographical areas, and opportunities to reduce costs and increase profitability through economies of scale and scope[4] . The origins of the history of globalization can be traced back to ancient civilizations. The Silk Road, an ancient network of trade routes across China, Central Asia, and the Mediterranean used between 50 B.C.E. and 250 C.E. is perhaps the most well-known early example. The Silk Road, a trade route between China and the Mediterranean, promoted the exchange of ideas and knowledge, along with trade goods and foods such as silk, spices, porcelain, and other treasures from the East. Long after that, there were numerous instances where trade links were established among various countries like India, Egypt, Greece, and Roman Empire and so on. There were regular business links between the Parthian Empire, the Roman Empire and the Han Dynasty. Globalization was accelerated in the nineteenth century with the Industrial Revolution, as mechanical mills and factories became more common. Many companies used raw materials from distant lands.

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[2] Mauro F. Guillén (2013): Understanding and Managing the Multinational Firm, Wharton University of Pennsylvania, The Wharton School of the University of Pennsylvania, pp.1-20.

[3] Katelyn Peters (2021): When Did Globalization Start? Investopedia.

[4] Boudreau M-C, Loch KD, Robey D, Straub D. 1998. Going global: Using information technology to advance the competitiveness of the virtual transnational organization. Acad Manage Executive 12(4):120–128.

They also sold their goods in other countries. Globalization sped up dramatically in the twentieth century with the proliferation of air travel, the expansion of free trade, and the dawn of the Information Age. Miles of fiber-optic cable now connects the continents, allowing people around the world to communicate instantly through the borderless World Wide Web. There is no evidence for globalization, that is, of a system of free trade with fully integrated world markets. Instead, the evidence on the performance and activities of multinational enterprises demonstrates that international business is triad-based and triad-related . . . European, North American and Asian manufacturing and service companies compete viciously for market share, lobbying their governments for shelter and subsidies.

1.2.1 Several Economic Integrated Regions

To increase trade, many countries have created free trade agreements with other countries. Under free trade agreements, countries agree to remove trade barriers, such as tariffs, taxes, and import duties. The world economy is organized around several economic integrated regions, such the EU, the USMCA and others. The World Trade Organization (WTO) permits the existence of trading blocs, provided they result in lower protection against outside countries than existed before the creation of the trading bloc. Regional trade in South Asia accounts for less than 6% of the total external trade of the region at present. This compares poorly with 22% within the Asean free trade area, or 65% within the EU.

1.2.1.1 The European Union

The European Union is a unified trade and monetary body of 27 member countries. As an economic block, it eliminates all border controls between members. That allows the free flow of goods and people, and services. What began as a purely economic union has evolved into an organization spanning policy areas, from climate, environment and health to external relations and security, justice and migration. More than 340 million EU citizens in 19 countries now use the Euro as their currency and enjoy its benefits. The European Union is the largest trade block in the world. It is the world's biggest exporter of manufactured goods and services, and the biggest import market for over 100 countries. Free trade among its members was one of the EU's founding principles. This has been made through to the single market. Beyond its borders, the EU is also committed to liberalizing world trade. It is worthy to note that as of January 31, 2020, the UK stopped being a member of the European Union. This is often referred to as the UK Brexit. Indeed, the UK joined in 1973 (when it was known as the European Economic Community) and it will be the first member state to withdraw. In 2013, Prime Minister David Cameron promised a national referendum on European Union membership with the idea of settling the question once and for all. The options offered to voters were broad and vague — Remain or Leave as Mr. Cameron was convinced that the majority would choose to stay put within the EU. That turned out to be a serious miscalculation. Rather, 52 percent of voters chose to depart from the EU. The transition period and other aspects of the UK's departure were agreed in a separate deal called the withdrawal agreement.

1.2.1.2 The US-Mexico and Canada Trade Bloc

On November 30, 2018, Canada, the United States and Mexico signed the new Canada-United States-Mexico Agreement (CUSMA), on the margins of the G20 Leaders' Summit in Buenos Aires. Building on NAFTA, the United States, Mexico, and Canada agreed to work together in other fora on agriculture matters, improve transparency and consultations on matters affecting trade among the countries. Some of the major improvements in the USMCA as compared to NAFTA are the inclusion of chapters to address advancements in technology and other issues of increased importance to economic development[5]. The United States, Mexico, and Canada agreed to several provisions to reduce the use of trade distorting policies, including[6]:

- To not use export subsidies or World Trade Organization (WTO) special agricultural safeguards for products exported to each other's market.
- Improved commitments to increase transparency and consultation regarding the use of export restrictions for food security purposes.
- If supporting producers, to consider using domestic support measures that have minimal or no trade distorting or production effects and ensure transparency of domestic support programs.

Canada and the United States also agreed to strong rules to ensure tariff-rate quotas are administered fairly and transparently to ensure the ability of traders to fully use them. The USMCA takes effect in 2020; with the commitment to being reviewed every six years and could expire in 2036, or be extended to 2052. The new trade agreement stiffened intellectual property rules**.** For first time, law enforcement officials can stop suspected counterfeit or pirated goods in any of the three countries. Harsher punishments were added for pirated movies online and civil/criminal penalties for satellite/cable signal theft. In 2025, the USMCA trade agreement is rejected by the second Trump

[5] Office of the U.S. Trade Rep., Exec. Office of the President, United-States-Mexico-Canada Agreement Text ch. 19 (2018), available at https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/united-states-mexico.

[6] https://ustr.gov/trade-agreements/free-trade-agreements.

administration seeking to impose a 25% tariff on goods and services from both Mexico and Canada.

1.2.1.3 The Mercosur

Mercosur, the "Southern Common Market", is a South American trade bloc established by the Treaty of Asunción in 1991 and Protocol of Ouro Preto in 1994. Its full members are Argentina, Brazil, Paraguay and Uruguay. Mercosur's main objective is to increase the efficiency and competitiveness of the all-member economies by opening markets, promoting economic development in the framework of a globalized world, improving infrastructures and communications, making better use of available resources, preserving the environment, generating industrial complementation and coordinating macroeconomic policies. Achieving a common external tariff is one of the main goals of the block. Mercosur citizens have the right to free movement, residence and employment throughout the bloc and in the five associated countries. Citizens still have free transport of goods, services and money, as well as equality of rights, harmonization of social security systems and labor laws. The five member countries hold a population of 265 million (Brazil 188M; Argentina 40M; Paraguay 6.5M; Uruguay 3.4M and Venezuela, 28M); a total area of 12,708,970 square kilometres and a combined GDP of 930 billion US dollars (at official prices). Mercosur is ruled by the Common Market Council (CMC, *Consejo del Mercado Común*), which is responsible for the political decisions of the integration process. Sitting members are the members' Presidents and their cabinets, who regularly meet twice a year (rotating the host country). In October 2021, Argentina and

Brazil agreed to a 10 percent reduction in the bloc's tariff to help bolster further economic growth among member countries[7].

1.2.1.4 The AFTA

The greatest achievement of ASEAN's intra-regional economic cooperation since its inception in 1976 is the realization of the ASEAN Free Trade Area (AFTA), which started with tariff cuts in 1993[8]. The ASEAN Free Trade Area (AFTA) is a trade bloc agreement by the Association of Southeast Asian Nations supporting local trade and manufacturing in all ASEAN countries, and facilitating economic integration with regional and international allies. It stands as one of the largest and most important free trade areas (FTA) in the world, and together with its network of dialogue partners, drove some of the world's largest multilateral forums and blocs, including Asia-Pacific Economic Cooperation, East Asia Summit and Regional Comprehensive Economic Partnerships. The AFTA agreement was signed on 28 January 1992 in Singapore. When the AFTA agreement was originally signed, ASEAN members, namely, Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Vietnam joined in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. AFTA now comprises the ten countries of ASEAN. All the four latecomers were required to sign the AFTA agreement to join ASEAN, but were given longer time frames in which to meet AFTA's tariff reduction obligations. The primary goals of AFTA aim to:

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[7] CFR.org (2021): Mercosur: South America's Fractious Trade Bloc, https://www.cfr.org/backgrounder/mercosur-south-americas-fractious-trade-bloc.

[8] Seiya Sukegawa (2021): ASEAN's initiatives for free trade in East Asia under AEC, Journal of Contemporary East Asia Studies, Volume 10, 2021 - Issue 1, https://doi.org/10.1080/24761028.2021.1902068.

- Increase ASEAN's competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barriers; and
- Attract more foreign direct investment to ASEAN.

Across all nations of ASEAN, there is a population of over 622 million people. The region has one of the largest economies in the world, and it is believed that by 2050, it will have the 4th-largest economy in the world. According to the latest International Monetary Fund World Economic Outlook figures, ASEAN countries' gross domestic products reached $3.8 trillion in 2023, putting the group ahead of the United Kingdom's 2.63 trillion and India's $2.61 trillion. The leading economic sector in ASEAN is the tertiary sector, accounting for 50.5% of the bloc's GDP in 2022.

1.2.1.5 The South Asian Free Trade Area (SAFTA)

The South Asian Free Trade Area (SAFTA) is an agreement reached on January 6, 2004, at the 12th SAARC summit in Islamabad, Pakistan. The agreement came into force in 2006, succeeding the 1993 SAARC Preferential Trading Arrangement. SAFTA required the developing countries in South Asia (India, Pakistan and Sri Lanka) to bring their duties down to 20 percent in the first phase of the two-year period ending in 2007. It aims of promoting and enhancing mutual trade and economic cooperation by eliminating barriers in trade, promoting conditions of fair competition in the free trade area, ensuring equitable benefits to all and establishing a framework for further regional cooperation to expand the mutual benefits of the agreement. While the region's GDP reached 6.0% in 2024, the forecasts for 2025 have been downgraded for most countries, due, in part, to rising US tariffs and a highly global imbalance.

1.2.1.6 Africa Regional Blocs

A regional trading bloc is a group of countries within a geographical region that protect themselves from imports from non-members. There are eight regional economic communities (RECs) recognized by the African Union, each established under a separate regional treaty. While the share of African exports to the rest of the world ranged from 80% to 90% between 2000 and 2017, the share of intra-African exports was a meagre 16.6% in 2017. Regional political tensions and diverging trade policies offer clues as to why efforts have had mixed results[9].

- Arab Maghreb Union (AMU)

  The Arab Maghreb Union is a trade agreement aiming for economic and future political unity among Arab countries of the Maghreb in North Africa. The AMU has one of the lowest levels of intra-regional trade in Africa[10]. Its members include Algeria, Libya, Mauritania, Morocco and Tunisia. The main objectives of the AMU Treaty are to strengthen all forms of ties among member states, as well as to introduce gradually free circulation of goods, services, and factors of production among them (Article 2). Article 3 of the Treaty highlights a broader economic strategy to be followed, namely the development of agriculture, industry, commerce, food security, and the setting up of joint projects and general economic cooperation programs[11]. In 2022, the GDP of all Maghreb countries amounted to approximately $455.89. billion, with an estimated population of 102,877,547. The

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[9] Asmita Parshotam (2020): Regional Integration for the Arab Maghreb Union: Looking Beyond the Horizon, Konrad AdenauerStiftung, pp. 1-13.
[10] Idem, p.3.
[11]Paul Chabrier, Finaish Mohamed, and Bell Eric (1994): The Arab Maghreb Union, IMF eLibrary.

AMU countries do not form an economically homogeneous bloc, yet. There are sizable differences in per capita income, factor endowments, and market size among them. GDP per capita ranges from US$ 1,672.92 USD (2020) in Mauritania, US$ 3,310.39 USD (2020) in Algeria to more than US$ 3,699.23 USD (2020) in Libya. The strengthening of economic relations, particularly the development of trade, within the AMU has faced a number of difficulties of both a political and an economic nature. The underlying cause for this limited progress, however, has to be sought mainly in persistent differences in development strategies and economic policies in the five countries over the period. The five countries have also pursued different policies in the social sector. Exchange rate policy has differed significantly across AMU countries. Trade policies also differed widely among the AMU members and, consequently, a considerable amount of illegal border trade has developed in recent years. Significant differences in the area of domestic taxes and incentives have also indirectly affected the momentum for integration.

- Community of Sahel-Saharan States (CEN-SAD)

The Community of Sahel-Saharan States CEN-SAD became a Regional Economic Community during the 36th Ordinary Session of the Conference of Heads of State and Government of the Organization of African Unity, held in Lomé, on 4-12 July 2000, revised in 2016. Its total GDP is about $1,350.7 billion, with a total population of 553 million. CEN-SAD is made up of 28 countries: Benin, Burkina Faso, Chad, Libya, Mali, Niger, Sudan, Central African Republic, Eritrea, Djibouti, The Gambia, Senegal, Egypt, Morocco, Nigeria, Somalia, Tunisia, Togo, Côte d’Ivoire, Guinea-Bissau, Liberia, Ghana, Sierra Leone, Comoros, Mauritania, Guinea, Kenya, Sao Tomé and Principe, Equatorial Guinea. Article 1 of the Treaty establishing the Community provides that the aims and objectives of CEN–SAD are to[12]:

- Establish a comprehensive economic union with a particular focus in the agricultural, industrial, social, cultural and energy fields
- Adopt measures to promote free movement of individuals and capital
- Promote measures to encourage foreign trade, transportation and telecommunications among Member States
- Promote measures to coordinate educational systems
- Promote cooperation in cultural, scientific and technical fields.

The Community is facing some hard challenges including (i) free movement of goods and persons very challenging in light of some CEN-SAD states being poles of attraction for emigration to Europe, (ii) almost all member states were in arrears and some had never paid their dues since joining the community. Major achievements of CEN-SAD include the establishment of the "Banque Sahélo-saharienne pour l'Investissement et le Commerce" (BSIC), which has expanded to 11 countries with the potential capacity of mobilizing domestic resources for implementation of programmes.

- Economic Community of Central African States (ECCAS)

[12] Treaty Establishing the African Economic Community.

In December 1981, the leaders of the Customs and Economic Union of Central African States (UDEAC) agreed to form a wider economic community of Central African States. The Economic Community of Central African States was established in October 1983 by members of UDEAC, Sao Tome and Principe and members of the Economic Community of the Great Lakes Countries, the DR Congo, Burundi and Rwanda. ECCAS was however inactive for several years due to financial constraints, conflicts in the Great Lakes area as well as the war in Democratic Republic of Congo where member States (Rwanda and Angola) were fighting on different sides. Nevertheless, in October 1999, ECCAS was formally designated into the African Economic Community as one of the eight pillars of the African Union[13]. ECCAS aims to develop capacities to maintain peace, security, and stability as essential prerequisites for economic and social development; to develop physical, economic, and monetary integration; to develop a culture of human integration and to establish an autonomous financing mechanism for ECCAS. Its overall GDP totaled US$ 235.6 billion in 2023, with a population of 158.3 million, spread over 6.5 million square kilometers. On average, member States reduced only 34 percent of tariff lines on intra-ECCAS tariffs to zero, making ECCAS the region to have the lowest share of intra-regional trade in terms of gross domestic product compared to Africa's five sub-regions. To meet the integration challenges, ECCAS Member States adopted in 2007 a strategic integration plan and a vision called the ECCAS Strategic Vision at the Horizon 2025 that aims at

[13] Pan African Chamber of Commerce and Industry.

building a competitive regional environment to attract private investments in growth areas[14].

- Common Market for Eastern and Southern Africa (COMESA)

The Common Market for Eastern and Southern Africa (COMESA) is the largest regional economic community in Africa. The history of COMESA began in December 1994 when it was formed to replace the former Preferential Trade Area (PTA), which had existed from the earlier days of 1981. COMESA was established 'as an organization of free independent sovereign states which have agreed to co-operate in developing their natural and human resources for the good of all their people' and as such it has a wide-ranging series of objectives which necessarily include in its priorities the promotion of peace and security in the region. COMESA is a free trade area of 583 million People from 21 Member States: Burundi, Comoros, Djibouti, D.R. Congo, Egypt, Eritrea, Ethiopia, Eswatini, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Somalia, Tunisia, Uganda, Zambia, and Zimbabwe. COMESA's focus is the formation of a large economic and trading unit that is capable of overcoming some of the barriers that are faced by individual states. Its Combined GDP, in 2024, reached $1.13 trillion. The United States and COMESA signed a Trade and Investment Framework Agreement (TIFA) in 2001 and have held six TIFA Council meetings, the most recent of which was held in Lusaka, Zambia in November 2009. U.S. trade capacity-building assistance to COMESA, delivered mainly through USAID's East Africa regional mission and its East and Central Africa Global Competitiveness Hub in Kenya, has

[14] Pan African Chamber of Commerce and Industry.

helped COMESA to advance its internal free trade area, to harmonize members' policies in telecommunications, services, and investment, and to increase trade linkages with the United States under AGOA. Fourteen COMESA members are AGOA-eligible, and nine qualify for textile and apparel benefits. In 2024, the value of Intra-COMESA total exports remains stable at $14 billion, which represents an increase of 40% from $10 billion in 2020. COMESA has recognized infrastructure development as a priority and strategic focus area that requires special attention.

- East African Community (EAC)

The East African Community (EAC) is a regional intergovernmental organization of seven Partner States, comprising Burundi, Kenya, Rwanda, South Sudan, Tanzania, Uganda, and the Democratic Republic of Congo. The EAC is headquartered in Arusha, Tanzania. The Treaty for the Establishment of the East African Community was signed in Arusha on 30 November 1999. The Treaty entered into force on 7 July 2000 following the conclusion of the process of its ratification and deposit of the Instruments of Ratification with the Secretary-General by all the three Partner States. The mission of the Community is to widen and deepen economic, political, social and cultural integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investments. The geographical region encompassed by the EAC covers an area of 4,810,363 square kilometres (1,857,292 sq mi), with a combined population of about 281,050,447. In 2024, the East African Community’s combined GDP was $305.3 billion. The EAC’s economic growth in 2024 was 5.1%, and it is forecasted to rise to 5.7% in 2025.

- Economic Community of West African States (ECOWAS)

The Treaty of Lagos in Lagos, Nigeria, created the Economic Community of West African States (ECOWAS) on May 28, 1975. It had its roots in earlier attempts at a West African economic community in the 1960s and was spearheaded by Yakuba Gowon of Nigeria and Gnassigbe Eyadema of Togo. The Economic Community of West African States is a regional political and economic union of fifteen countries located in West Africa. Collectively, these countries comprise an area of 5,114,162 km^2, with an estimated population of about 424.34 million. ECOWAS 15 member states are: Benin, Burkina Faso, Cape Verde, Côte d’ Ivoire, the Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal and Togo. ECOWAS was set up to foster the ideal of collective self- sufficiency for its member states. As a trading union, it is also meant to create a single, large trading bloc through economic cooperation. In 2024, ECOWAS had a GDP growth of around 4.0%. The disparity in the size of the economies is enormous. For instance, Nigeria, the continent’s largest economy, accounts for about 67 percent of the ECOWAS GDP, while the five smallest members together total less than 2 percent[15]. All infrastructure sectors are included in ECOWAS’ integrated economic activities. Expectations of economic integration have always been high and the regional group has accomplished a lot.

[15] Eswar Prasad and Vera Songwe (2021): A Currency Union Encompassing All of West Africa promises benefits but faces a multitude of obstacles, Fianc e and Development, pp. 1-4, https://www.imf.org/external/pubs/ft/fandd/2021/06/pdf/future-of-west-africa-currency-union-prasad-songwe.pdf.

- Intergovernmental Authority for Development (IGAD)

The Intergovernmental Authority for Development (IGAD) was created in 1996 to supersede the Intergovernmental Authority on Drought and Development (IGADD), which was founded in 1986. The recurring and severe droughts and other natural disasters between 1974 and 1984 caused widespread famine, ecological degradation and economic hardship in the Eastern Africa region. The IGAD region stretches over an area of 5.2 million km2, with a total population of over 281,7 million people characterized by high natural population growth rates. The IGAD Region comprises the countries of Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda. The IGAD region is located in a strategic place in the Horn of Africa with a good climate, rich hinterland, a long coastline with deep natural ports and situated on major air traffic routes for tourism and commodity markets in Africa, the Far East, Middle East, and Europe[16]. In 2024, IGAD's economy reached $1,332.2 billion, a significant increase from its $274 billion in 2019. The mission of IGAD is to assist and complement the efforts of the member States to achieve, through increased cooperation: food security and environmental protection, peace and security, and economic cooperation and integration in the region[17]. However, the objectives of IGAD are to[18]:

[16] www.IGAD.int.
[17] European Commission (2020): Intergovernmental Authority on Development, Knowledge for Policy.
[18] European Commission (2020): Intergovernmental Authority on Development, Knowledge for Policy.

- Promote joint development strategies and gradually harmonize macroeconomic policies and programmes in the social, technological and scientific fields.
- Harmonize policies with regard to trade, customs, transport, communications, agriculture, and natural resources, and promote free movement of goods, services and people within the region.
- Create an enabling environment for foreign, cross-border and domestic trade and investments.
- Achieve regional food security, encourage, and assist efforts of member States to collectively combat drought and other natural and manufactured disasters and their natural consequences.
- Initiate and promote programmes and projects for sustainable development of natural resources and environment protection.
- Develop and improve a coordinated and complementary infrastructure, in the areas of transport, telecommunications and energy in the region.
- Promote peace and stability in the region and create mechanisms within the region for the prevention, management and resolution of inter-State and intra-State conflicts through dialogue.
- Mobilize resources for the implementation of emergency, short-term, medium-term and long-term programmes within the framework of regional cooperation.
- Promote and realize the objectives of the Common Market for Eastern and Southern Africa (COMESA) and the African Economic Community.

- Facilitate, promote and strengthen cooperation in research development and application in science and technology.

IGAD's focus for regional economic cooperation and integration is to create an open, unified, regional economic space for the business community – a single market opened to competitive entry and well-integrated into the continental and global economies. Its total GDW in 2020 was US$ $337.82 billion. IGAD focuses more on both regional infrastructure as well as the gradual harmonization of policies for the removal of barriers to inter-state communications[19]. IGAD infrastructure interventions are based on the Horn of Africa Initiative (HOAI). The HOAI was designed to provide the IGAD Region with badly needed connectivity but guided by a broad regional policy that calls for a safe, secure and efficient integrated infrastructure system responsive to the needs of the people and the economy and to strengthening of regional integration by unlocking small scattered markets along the region and creating a bigger regional market space that will enhance IGAD's economic competitiveness. The main thrust for the IGAD regional infrastructure is in line with the AU PIDA strategic framework for 2040. The IGAD Free Trade Area (FTA) aims to reduce travel restrictions persisting in the region and to facilitate movement, the right of establishment of business and employment, residence, the acquisition of work permits, and pastoral mobility.

- Southern African Development Community (SADC)

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[19] www.IGAD.int.

The Southern African Development Community (SADC) has been in existence since 1980, when it was formed as a loose alliance of nine majority-ruled States in Southern Africa known as the Southern African Development Coordination Conference (SADCC), with the main aim of coordinating development projects in order to lessen economic dependence on the then apartheid South Africa. The founding Member States are: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe. SADCC was formed in Lusaka, Zambia on April 1, 1980, following the adoption of the Lusaka Declaration - Southern Africa: Towards Economic Liberation. The transformation of the organization from a Coordinating Conference into a Development Community (SADC) took place on August 17, 1992 in Windhoek, Namibia when the Declaration and Treaty was signed at the Summit of Heads of State and Government thereby giving the organization a legal character[20]. The Southern African Development Community is an intergovernmental organization headquartered in Gaborone, Botswana. Its goal is to further regional socio-economic cooperation and integration as well as political and security cooperation among 16 countries in southern Africa. SADC Member States are: Angola, Botswana, Comoros, DRC, Eswanati, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania and Zimbabwe. It is committed to regional integration and poverty eradication within Southern Africa through economic development and ensuring peace and security. In 2024, the SADC experienced an average growth of 3.8%, a slight increase from its 3.4% growth in 2023. The SADC goal is to

[20] http://www.sadc.int.

promote sustainable and equitable economic growth and socio- economic development through efficient productive systems, deeper cooperation and integration, good governance and durable peace and security among its member states. SADC stretches over 556 781 km^2 of land area, with a total population over 345 million, in 2018. South Africa has the largest GDP within SADC. It has the largest economy, with many well-developed sectors. SADC includes large countries with large economies, small, isolated economies and island states, and a mix of low- and middle-income countries. Regional infrastructure development creates a larger market and greater economic opportunities, and the development of infrastructure is critical for promoting and sustaining regional economic development, trade and investment, and will contribute to poverty eradication and improved social conditions. However, the SADC region recognizes that it faces a number of challenges, including:

- Insufficient energy supplies to serve increased production and to extend access;
- Highly priced, unpredictable transport and logistics services, especially for landlocked states;
- Lack of low-cost access to information and communications technologies;
- Inadequate meteorological services for effective and efficient planning and management of water resources, energy production, transport services and other climate-sensitive sectors;
- An Unacceptable high number of citizens without access to safe drinking water, adequate sanitation and water for