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Report: expanding the manufacturing facilities of *Big Brother '84* into new international markets

Introduction

Big Brother '84 is a manufacturing company based in Wales, UK that specialises in security systems. They serve domestic, as well as commercial and industrial clientele.

Their products include home security cameras, body temperature scanners, and facial scanners with a development plan to introduce retinal scanners.

Big Brother '84 will be retaining their main headquarters at their existing site in Wales but would like to now expand their manufacturing facilities into 3 international locations.

Initial investigation has provided a shortlist of locations for further consideration:

South America: Chihuahua; Mexico, Montevideo; Uruguay, and Sao Paulo; Brazil

Asia: Shenzhen; China, Visakhapatnam; India, and Taipei; Taiwan

Africa: Durban; South Africa, Bulawayo; Zimbabwe, and Tunis; Tunisia

The follow report provides recommendations for the locations of expansion into each of the major regions.

South America

Recommendation: Montevideo; Uruguay

Uruguay has eleven free trade zones, including WTC Montevideo Free Zone. These zones enable businesses to operate with freedom for the entry and exit of goods, fixed or capital assets, with tax and customs exemptions (Biz Latin Hub, 2019).

According to the UK government's publication (Foreign & Commonwealth Office, 2021) covering business risk in Uruguay; it is an ideal location for investors to access a market of 400 million people in South America due to the region's strategic location, logistical infrastructure, and excellent telecommunications technology.

Uruguay offers investors access to free ports and airports regimes that includes the circulation of goods without requiring any authorisation, as well as exemptions to customs duties, taxes, or fees. Thereby making logistics and transportation easier and more profitable.

Ease of logistics is further enhanced with their temporary admission regime, also duty free. This allows imports of raw material, parts, equipment, or materials that will be used to manufacture goods. They can either be exported later in the condition that they arrived or after the manufacturing process.

Additionally, within these free trade zones, Uruguay have bonded warehouses. This allows goods to be held in a space under private management without payment of taxes for up to 24 months. These good can be used later, or simply stored in transit free of any imports or exports taxes and any domestic tax.

Information from Biz Latin hub, states that Uruguay allows 100% foreign ownership of local companies and companies can be formed with only one shareholder. Therefore, control of the company will remain within *Big Brother* '84.

Intellectual property will be protected as Uruguay is a member of the World Intellectual Property Organization (WIPO), they have local regulation covering industrial property and copyright matters, and IP rights have protection under local criminal law. (Foreign & Commonwealth Office, 2021)

Uruguay is an ethical country, with laws that provide freedom of peaceful assembly and association, freedom of speech and press, freedom of religion, academic freedom, freedom of movement, emigration and repatriation, and the protection of refugees.

In 2015 they became a member of the Organisation for Economic Co-operation and Development (OECD), and as reported by UK Gov included:

“the signing of several tax information exchange agreements, the modification of the bearer shares system (Law 18,930 from 2012) and the relaxation of banking secrecy provisions through the recently sanctioned Law of International Tax Transparency, Prevention of Money Laundering and Financing of Terrorism, sanctioned in 2016 and in force in 2017.”

Also stated in the reports is the fact that no corruption has been identified as an obstacle and Uruguay rank highly, second best in the Americas just behind Canada, in the Transparency International's corruption perception index (CPI).

From an environmental aspect, the government has been investing in renewable energies since 2010, with its wind farms contributing to almost 50% of its renewable energy production by 2018.

Mexico may be a consideration for future expansion, once the bribery, corruption and human rights issues are addressed.

According to separate publications from IVEMSA and New European Economy, Mexico is the 6th largest electronics industry globally, and offers cost-effective manufacturing with highly skilled and talented employees. The relatively low price of energy sources, similar to that of the United States, makes Mexico more competitive.

They are a member of USMCA (United States-Mexico-Canada Agreement) which recently added a law to enforce the right to unions, with the aim to empower employees to have a greater representation.

The USMCA replaces the North American Free Trade Agreement (trade.gov) whilst maintaining key features that allow for easy exporting between the countries, with many products remaining at zero tariff.

However, bribery and corruption are a significant problem in Mexico, with currently 15 former Governors under investigation, one in jail, and other former high-level public servants being prosecuted. (Department for International Trade, 2021).

Security is a challenge in Mexico due to violence between organised crime groups, militarisation of public security, and high levels of homicide, kidnapping, and extortion.

The UK government report raises additional concerns over human rights. Torture, enforced disappearances, and extrajudicial executions continue to exist. Mexico ranked 60 out of 69 on a Global Impunity Index 2020, and 43.3% of their prison population have not been sentenced.

Brazil, although the largest economy in South America, has been removed from consideration due to the concerning issues raised in UK government report (Department for International Trade, 2017).

Within this report, it is highlighted that the UK does not have a free trade agreement with Brazil. Additionally, their regulation for imports is complex requiring multiple government agency involvement for the control, quality, safety, labelling, and packaging of goods, which will put strain on moving products in and out of the country.

In a separate report specific to exporting (Department for International Trade, 2017), the UK government list out many challenges faced by companies, including:

- complex regulatory system
- complex tax system with high taxes. High duties may make an export too expensive for the Brazilian market
- local content laws in certain sectors
- long journeys between cities and states, where cultures can vary significantly
- high importance on personal contact so need to visit several times before securing a deal – increased expenses to the company
- ranked 76 in the Transparency International's corruption perception index (CPI)
- organised crime is a significant problem in some parts of Brazil

From a political and social aspect, the political leaders have historically been involved in corruption allegations. Brazil continues to face challenges such as deteriorating goods, labour, and financial markets.

Working conditions and slavery remain a concern, whilst corruption (reportedly due to their complex tax system) and bribery (by public officials and tax collectors) are still serious obstacles to doing business in Brazil.

Asia

Recommendation: Taipei, Taiwan

Taiwan is a stable democracy with a free press and independent judiciary – as described in the UK government report on business risks in Taiwan (GOV.UK, 2021). The current governing body, Democratic Progressive Party (DDP), are continuing to push a domestic reform agenda that includes improving the labour system, reducing barriers to investment, restructuring of industry, tax and pension reform, judicial reform, and moving to new sources of cleaner energy. Their Labour Standards Law (LSL) includes aspects such as minimum working age, working conditions, and health and safety laws. These are all aspects that complement the ethical ethos and core values within *Big Brother '84*.

Taiwan are increasing development into six industries, including biotech, cybersecurity, and defence – strong markets for *Big Brother '84* main product lines.

They are well known for their high-tech manufacturing and exports, are the world's 21st largest market, and they are home to one of the global leaders for semi-conductor manufacturing within Hsinchu Science Park, only 1 hour drive from Taipei (Google maps). Which will allow for easy access to a key component part for *Big Brother '84* products.

In 2002, Taiwan joined the world trade organisation (WTO) which increased both foreign market access as well as exports – this has helped to strengthen internal and foreign investment.

Some challenges to be made aware of, as provided in UK government report, are an aging population, a deficiency of skilled labour, stagnated wage levels, the overdependence on key export sectors, and the problem of energy security. However, Taiwan has introduced an industrial innovation programme aimed at promoting key industries as stated above.

An additional challenge is that the People's Republic of China continue to claim sovereignty over Taiwan with a threat of invasion should Taiwan declare independence. However, trade and investment between the countries is stable, with direct flights and shipping links across the Strait, and China are not opposed to commercial links with Taiwan from other countries. This challenge can be seen as an opportunity for easier access to the Chinese market without setting up manufacturing in China, which is further discussed below.

In terms of protection of the company's intellectual property, Taiwan established a dedicated court in 2008. They have a developed framework and measures that are carried out by local authorities, and there are regular constructive dialogues on IP issues between the UK and Taiwan. The government report states that:

“According to the World Economic Forum's 2019 Global Competitiveness Report, Taiwan was ranked 28 out of 141 economies for intellectual property protection.”

Also

“On 1 December 2017 the UK Intellectual Property Office signed a Memorandum of Understanding to make it easier for UK and Taiwanese businesses in biotechnology and pharmaceutical fields to protect their intellectual property.”

In 2020, UK investment in Taiwan reached £450 million and there are 28 UK companies now with operations in Taiwan including GSK, AstraZeneca, HSBS, Oxford instruments and Bechtel. With this, there is now substantial infrastructure for high-value manufacturing supply chain, consultancy, financial services, amongst others. In the World Bank's Ease of Doing Business Rankings (2019) Taiwan is 15th (above the regional average). This provides an opportunity for establishing a manufacturing business with relative ease and support avenues.

India has been removed from consideration due to the high level of risk from bribery and corruption, as well as terrorist threats (GOV.UK, India, 2021).

In the Transparency International's Corruption Perceptions Index 2021, India was ranked 86 out of 180 countries. This report found that:

“India has the highest bribery rate in Asia (39%) and the highest number of people who had to use personal connections to access public services (46%).”

Of those included in the survey 63% said that they would not report corruption for fear of retaliation, and 89% believe that there is a significant problem with corruption within government.

There are laws in place to address corruption, such as the Prevention of Corruption Act and the Right to Information Act. However, it is thought that these laws are strong in theory but weak in practice.

As such, corruption poses a significant risk and barrier to business development.

In addition to this, according to the Global Terrorism Index 2020, India is ranked 8th with risk of attacks from groups such as Lashkar-e-Tayyiba (LET) and Jaish-e-Mohammed (JEM).

China could be a lucrative sales region, with the utilisation of the correct channel partners, but has been removed from further considering in terms of setting up a manufacturing site for several reasons.

In the Foreign Commonwealth Development Office 2020 report into human rights and democracy, China is currently listed as a country of concern. There are numerous and growing evidence, from leaks of classified and internal documents, of human rights violations such as forced labour, extra-judicial detention, and child labour problems.

In addition to human rights, the Chinese authorities continue to suppress freedom of speech and media, within the report it states:

“There were believed to be at least 47 journalists in detention in China in 2020. We continued to raise media freedom with the Chinese authorities, urging them to allow journalists to practise their profession without fear of arrest, harassment or reprisal, and to end extensive censorship and control over the media and wider means of expression.”

Working conditions and practises are far from the UK standard in many industries. The UK government report on overseas business risks in China asserts that there are widespread unsafe working environments, such as exposure to hazardous materials and inadequate safety management training, as well as workplace abuse, such as excessive forced overtime, withholding of wages, or not paying the minimum wage.

As a company *Big Brother '84* would be able to offer substantially better working conditions, however local culture may put pressure on staff to conform to the “norm”. This would require careful and strict management.

Before businesses invest in China, they should consult two negative lists that describe restricted and prohibited activities; Foreign Investment Negative List (FINL) and the Market Access Negative List (MANL).

A search within Briefing, 2021, cms.law, 2020, and english.www.gov.cn suggests that *Big Brother '84* products do not sit within these negative lists. Further research and advise is recommended.

The practicalities of doing business in China can be challenging. Foreign companies face restrictions on how they can operate in large sectors of the economy, however personal relationship networks (once established) can provide influence and ease some restrictions.

Businesses are required to set up Chops; red stamps that are used as an official signature and are legally binding. These are required for activities such as signing contracts, paying wages, or withdrawing fund – therefore if they are lost or stolen this will cause severe disruption and potential damage to the business. A common risk associated with chops is that of someone using the chop to take control of the company without the knowledge of the owner, a particular risk for those owners based outside of China.

Intellectual Property infringement is widely known to occur in China, to the extent that it costs British businesses hundreds of millions each year. China operate a “first to file” instead of the “first to use” registering system, therefore protecting the IP of the business once in China could potentially be a significant challenge.

Strict laws around requirements to register and report activities mean that if a business is found in breach, according to Foreign & Commonwealth Office (2021): *will not be able to legally operate in mainland China or transfer funds to locally-established NGOs (non-governmental organization)*

Individual foreign nationals involved in any kind of legal or business dispute may be prohibited from leaving China but the Chinese government, until the dispute is resolved. This can take years, with the travel ban

remaining in place for an indefinite period. Those individuals may not be informed of the travel ban until such time as they try to leave.

Any business choosing to set-up in China are highly recommended to seek advice from a lawyer who specialises in the laws of the People's Republic of China, this adds to the cost of establishing a business.

On the other hand, China is the world's second largest economy, therefore setting up a trade route into China would be beneficial. This could be established via Taiwan.

Africa

Recommendation: Tunis, Tunisia, with caution

Tunisia, Tunisia is a young democracy, to which the UK is providing support to its democratic transition. The Foreign & Commonwealth Office (2021) on Tunisia cites that there is positive potential for increased bilateral trade opportunities.

However, it should be noted that protests and violent riots, such as those in January 2021 in cities across the country, including **Tunis**, Sousse, and Bizerte, continue due to factors such as frustrations over the high levels of unemployment and shortages of basic supplies like bottled gas for heating and cooking. Additionally, terrorist attacks and threats against the local security forces and Western interests persist as a major risk to the country's stability, as well as concerns from internal extremism.

Corruption, although still present, has improved with Tunisia rising by three points (less corrupt) to rank 69 out of 180 in the 2020 Corruption Perceptions Index.

Socially, the FCO have not identified Tunisia as a "Human Rights Priority Country" since 2018. They have made many advances, however more reforms are still required as there are ongoing concerns. Including torture, mistreatment, prolonged detention, poor prison conditions, and impunity of security forces.

Trade between the countries is strengthening. And to overcome some of the difficulties still present, the UK Export Finance has set aside £2.5 billion for the Tunisian market. This money is to provide guarantees to banks offering loans to overseas buyers of UK goods and services and insurance to exporters against the risk of not getting paid.

In regard to Intellectual property, as reported in the Foreign & Commonwealth Office (2021):

"Tunisia belongs to the World Intellectual Property Organisation (WIPO) and is a signatory to the Bern Convention for the Protection of Literary and Artistic Works (copyright) and the Paris Convention for the Protection of Industrial Property (patent, trademark and related industrial property).

As a member of the World Intellectual Property Organisation (WIPO) and a signatory to the UNCTAD agreement on the protection of patents and trademarks, Tunisia undertakes to protect foreign property rights."

South African economy is not in a strong position, especially after COVID. According to the Foreign & Commonwealth Office (2021) report on business risks in Africa, in 2018 they saw economic growth of 0.8% and in 2019 just 0.2%. This included two recessions in 2019 and several power cuts that directly affected economic activity.

The unreliable power supplies are substantial enough to have been cited as a particular challenge to investors, along with shortages in skilled workers and uncertainty over future government policies.

With regards to Intellectual Property, although South Africa do provide protection, infringement is common and the State often do not have sufficient capacity for enforcement.

Once the economy is growing and a reliable power supply infrastructure is in place, South Africa could be a potential for future investment.

As of January 2021, the African Continental Free Trade Agreement (AfCFTA) came into effect.

As stated in AfCFTA, the general objective are to:

- *Create a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent and in accordance with the Pan African Vision of “An integrated, prosperous and peaceful Africa” enshrined in Agenda 2063;*
- *Create a liberalised market for goods and services through successive rounds of negotiations;*
- *Contribute to the movement of capital and natural persons and facilitate investments building on the initiatives and developments in the State Parties and RECs;*
- *Lay the foundation for the establishment of a Continental Customs Union at a later stage;*
- *Promote and attain sustainable and inclusive socio-economic development, gender equality and structural transformation of the State Parties;*
- *Enhance the competitiveness of the economies of State Parties within the continent and the global market;*
- *Promote industrial development through diversification and regional value chain development, agricultural development and food security; and*
- *Resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.*

This agreement, along with the fact that South Africa is the most developed economy in Africa means there is potential in the future.

Zimbabwe, as reported in the 2020 World Bank Ease of Doing Business ranks 140 out of 190 economies assessed. Volatile inflation rates which tend to be on the high side creates uncertainty with doing business, whilst repatriating profits and paying overseas suppliers is also stated as a challenge due to the slow and unreliable processes in place – according to Gov, 2021, overseas business risk: Zimbabwe.

Additional business challenged cited include: *“prohibitive and volatile foreign exchange controls, high inflation, fragile property rights, and pervasive corruption.”*

Zimbabwe has widespread corruption and a poor record on human rights. Large state contracts are often awarded to politically connected individuals. Human rights abuses, including those by security chiefs, have resulted in the placement of sanctions such as travel bans and asset freezes.

These directly go against the ethos and core values within *Big Brother '84*.

To summarise, from the locations shortlisted, I recommend exploring setting up manufacturing facilities in:

- Montevideo, Uruguay
- Taipei, Taiwan
- Tunis, Tunisia

To help ensure *Big Brother '84* approach their growth into these new regions in a sustainable and prosperous manor, they should consider consulting the innovation management standards in the ISO 56000 series.

These standards set out guidance to allow businesses to inform their staff of best practices and understand the breadth of innovation. It is not just about a business creating new products but as stated in ISO 56000:2020, it is a business who:

“seek to continuously realize value by introducing new or changed products, services, processes, models, methods or any other kinds of innovations.”

The standard will also provide a common language by which all sectors of the business will know the correct terms used in the correct context – thereby avoiding frustrations with messaging being lost in translation.

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