How would interregional/ intraregional trade & investment affect the choice of a bridgehead strategy?

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Bridgehead strategy – origin of the term, definition

The term 'bridgehead strategy' first occurred in the year 2000 when China asserted its ambition to strengthen its relations to its neighbours in South- and West Asia (within the scope of the 'Association of Southeast Asian Nations' ASEAN) by supporting the region Yunnan. With the fast expansion of the Chinese economy and its trade with Southeast Asia, Yunnan – especially because of its geographical position - became an important strategic region where more open borders and the flow of goods and people were promoted. The Chinese government describes Yunnan as a 'bridgehead' within the campaign to 'Open Up the West' that was officially initiated in 2000; since then the Western region receives more support, especially for the building of infrastructure and to attract companies through investment-friendly policies.

In conclusion, the term 'Bridgehead Strategy' has its origins in governmental strategic thinking. 'Bridgehead', in terms of economic, describes a "strategic forward position on a political or economic frontline." It is a "key concept that acts as a port and facilitates the ease of transportation." In this context, a bridgehead can be regarded as an international centre of shipping, finance and information. Transferred onto business sciences, 'creating a bridgehead' according to 'Sales Embassy in Germany' means that the company has "a number of customers in the new territory willing to support further market penetration". Concerning this, 'Bridgehead Strategy' can be defined as a 'strategic concept to choose the right starting point in order to enter markets in a new region'. This definition includes not only the aspect that a company needs reference customers in the markets, but also takes into consideration that the company in the new region must be capable of establishing well-working logistic flows in the region.

How statistical data about intra- (and interregional) trade and investment may help to find the right starting point (bridgehead) in a new region

Information on intra- and interregional trade can help us identify the logistical structure within a region. From a country that trades much with its neighbours we can assume that between these countries there is already an established and working infrastructure and processes that promote the exchange of goods within these countries (intraregional trade). Analogously, data about interregional flow can help us identify a country that has a strong relationship to the home country of the company. From this country we can expect that there are advanced possibilities to export in the company's home country.

Having a look at the intraregional trade flows, you will recognize that there are countries that are strongly involved in the intraregional import / export and that there are countries that are almost excluded from intraregional trade. Both can be advantageous.

The following graph shows import/export as a percentage of GDP of each of the 17 ECOWAS member states.

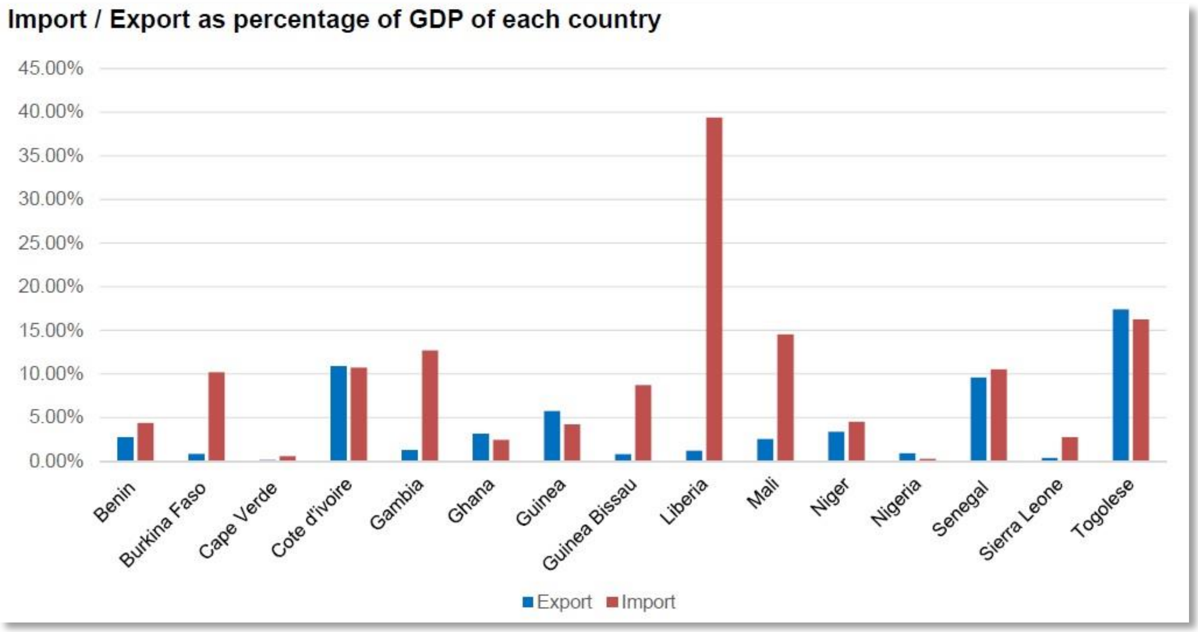

Illustration 1: Import / Export as a percentage of GDP of each country

A high blue bar indicates that intraregional export is an important part of the economy of the regarded country. You can assume that those countries have an advanced infrastructure and that they are well connected to their neighbours in the region. From this point of view Cote d'Ivoire, Senegal and Togo are the most suitable countries for the bridgehead strategy for companies who are going to offer their product within the ECOWAS region. Also Nigeria must be considered; although the percentage of intraregional trade from the GDP (Nigeria has by far the highest GDP in the region) is low, the total number is one of the highest as you can see in the following graph.

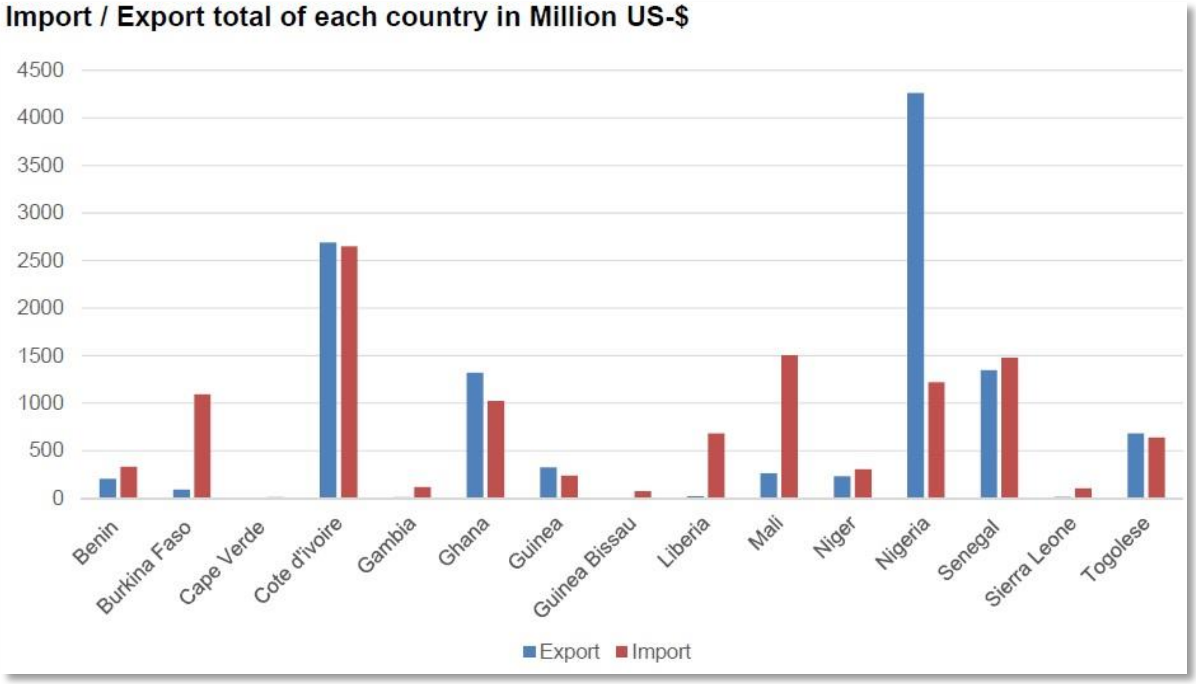

Illustration 2: Import / Export of each country in Million US-$

The graph shows the total volume of intraregional trade of each ECOWAS member country. From the perspective of intraregional trade, Nigeria is the most suitable country.

Furthermore, having a look at the interregional trade will make you recognize that Nigeria, among ECOWAS countries, has remarkably high import and export around the world as well, of which European countries are the most important partner at present. Again, we could assume that there are already established processes and infrastructures for this kind of trade since the trade flows are relatively higher over there. In return, other followers from Germany, if they want to enter this market, will easily build up a new relationship with local suppliers or customers or even government in the future.

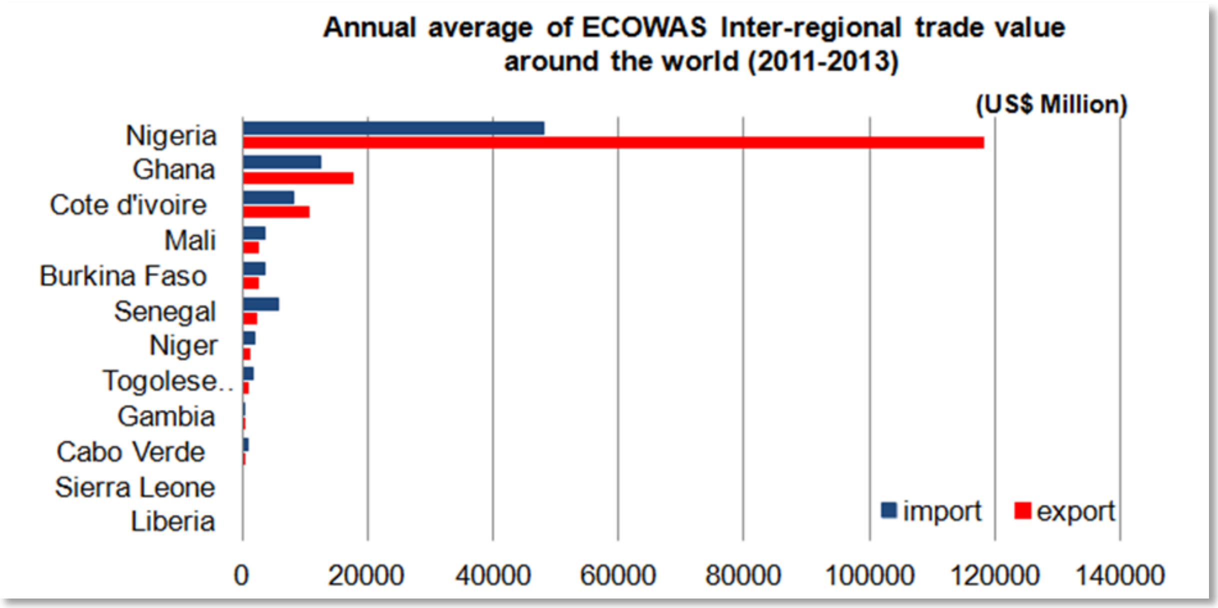

Illustration 3: Annual average of ECOWAS Inter-regional trade value in Million US-$

Concerning investment, the entrepreneur also should take FDI figures into consideration when planning business in a less developed region. According to the definition of the World Bank, foreign direct investments (FDI) are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. But FDI itself only shows how interesting a country is for investors on an aggregate level. For the individual entrepreneur, the FDI numbers should always be combined with other facts.

First of all, FDI is generally considered as the major capital resource, and capitals are the motor of economic growth. A country with high FDI volume tends to be more prosperous, like having a high market growth rate or a larger market size. These are key factors for market attractiveness. Otherwise, FDI can bring technology and know-how to developing countries. These advanced technologies are transferred in the form of training, technical assistance and other information provided in order to improve production quality and quantity of products that the multinationals purchase. What happens very often is that the lack of qualified suppliers restricts multinationals from entering the local market. As a result, multinationals usually offer additional services like training local workers or updating infrastructure in host countries to get their technologies to be implemented.

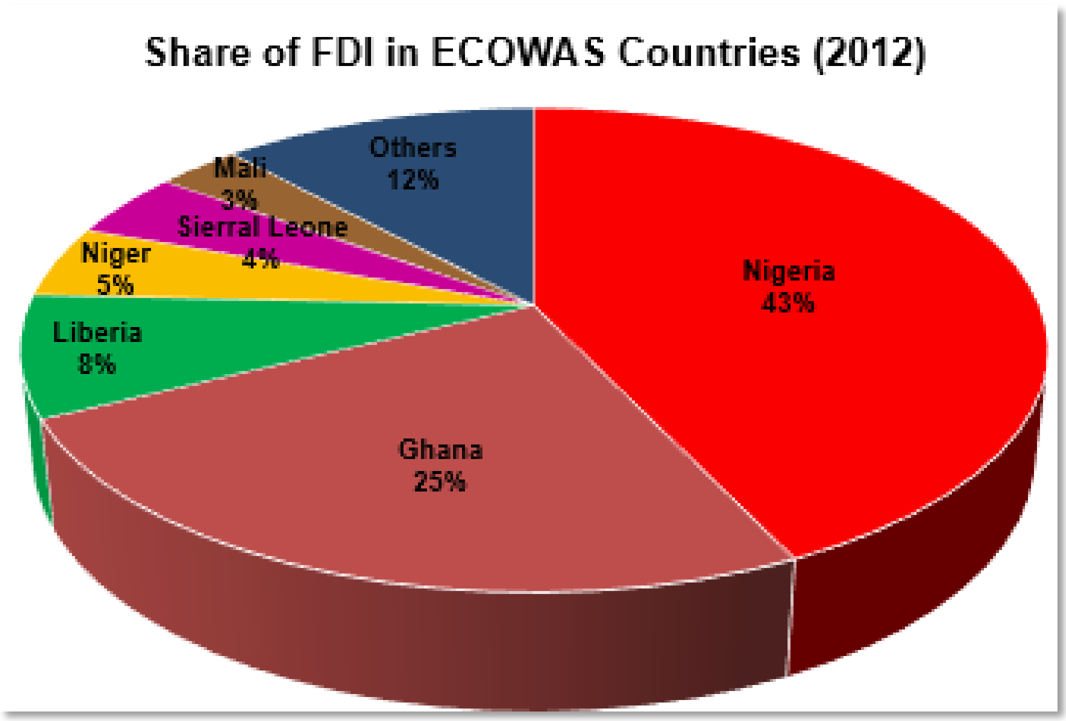

Illustration 4: Share of FDI in ECOWAS Countries, %

If we build a scoring model taking all factors into account, without a doubt high FDI must have a positive influence on the final note. In the pie-chart we can see clearly that Nigeria has the largest FDI in the ECOWAS region, so it seems to be more suitable to be regarded as a bridgehead country than others.

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Further Literature

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