

Factors which affect international trade operation in africa



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“ The International Day of peace which was established by a U. N resolution in 1982, and is marked every year on September 21, is a global even whose activities are significant in highlighting the worldwide efforts towards conflict resolution and peace building.”[Diaspora 2008]

This day is more concern with African continent which most of place conflict have taken place. That there are troubles in Africa for quite decades even after several countries in the continent went through change from colonialism to self-government, is not a deniable reality.

2. 0 Political Stability in Africa

As described in the first essay, country with political stability, donors will trust that country and they will invest a lot. The larger company can transfer they investment to that country, also investor can return their profit back to the communities, and will boost the sectors which it almost died of is in bad shape.

Country with political stability economy will grow; this is due to investor will invest more as long as they feel secure on their investment. People of the respect country will be benefited by get knowledge which transferred from the investors.

Countries that can produce a product at the lowest possible coast will be able to gain a larger share in the market. Therefore an incentive to produce efficiently arises. This will help standards of the product to increase and consumers will have a good quality product to consume.

More employment could be generated as the market for the countries goods widens through trade. International trade helps generate more employment through the establishment of newer industries to cater to the demands of various countries. This will help countries bring down their unemployment rates.

However it could lead to a more rapid depletion of exhaustible natural resources. As countries begin to up their production levels, natural resources tend to get less.

2. 1 Assessment of political stability on international trade in Africa

2. 1. 1 Peace and Stability

Tanzania is one example of the country among sub Saharan Africa which economic and political stability is stable. Multi party democracy adopted in 1992 has not disturbed the peaceful political climate of the country. This is why FDI are very interested with country situation and invest a lot on different sectors, such as Mining Industries, beverage industries, telecommunications companies, NGO's and so on.

2. 1. 2 Labour skills and availability

International Trade is doing well; this is because of access to skilled labour which is a key priority for companies competing in African economies.

Tanzania has a long term commitment to make sure development on training and educated specialists is going well. The government put more budget of education sector in order to improve education and improve human capabilities and encourage technology transfer as a precondition for

enhancing productivity of investment and attaining the desired level of competitiveness. [<http://www.tic.co.tz/>]

2. 1. 3 Private sector development

Tanzania has notable itself among of few African countries that have thoroughly transformed their economies. Achievement of these reforms is imitated in the country's strong macroeconomic fundamentals every time increasing growth rates, consistent falling inflation and increasing inflow of FDI. One of the factors that contributed to this achievement is the country's unwavering commitment to build a strong private sector. [<http://www.tic.co.tz/>]

2. 1. 4 Infrastructure Facilities

Tanzania put infrastructure as one of the key investment drivers of country is trying very hard to improve.

2. 1. 5 Stable Macroeconomic performance

Tanzania had been caring out successful economic and structural reforms, which have improved economic performance and sustained growth. These achievements are based on solid foundations of political and economic reform undertaken by the government since 1986, placing Tanzania in a position where a prolonged period of high GDP growth rates is expected. In additional, Tanzania has a stable fiscal regime with sustainable level of inflation. [<http://www.tic.co.tz/>]

3. 0 Political Instability in Africa overview

Regarding political instability in African Country, it is also undeniable that African continent has gone thru some tough situation during fifty years past. But the fact is almost African cases regarding political instability the major cause of problem is leadership. And because of this African freedom heroes come to dictators, while African natural resources, politics of elimination and scarcity to slope the balance of authority continues to control the public globe. Moreover, these difficulties have been pointed out due to ordinary Africans leaders who already edged and they don't want to retire.

Political instability in Africa may be obliged much of its reason to internal factors, though the interpenetration of internal and external aspect especially geo-political and economic comfort of the international community always play a major role in undermining the vey procedure and society that are expected to care for democracy and to inspire a sense of stability for community development in Africa. In combination to such issues as unequal development, poverty, disease, violence and the scheming tendencies of the local best, political and economic stability in Africa is continually under threat is though not emanating from inside the continent but as of external interests whose dryness for African resources, continue to figure the dynamics in areas connected to governance. Resources in Africa if fine managed are able of providing for its entered population, therefore the potentials for an extra stable environment, nevertheless, it is well recognized that stolen riches from African frequently end up in banks abroad. [African Focus Bulletin, 2006], exist it money stolen by the political selected (case of Mobutu of Zaire, Abacha of Nigeria, and Moi of Kenya, just to state a few or

the current Kibaki regime Anglo-leasing scandals in Kenya), they still end up in banks in the western capitals.

3. 1 African's leadership problem and political instability

The African political instability and former related problems is basically an outcome of its leadership trouble. African governments are run in ways that have been staring as far from the modern western state structure [Osei Tutu, 2004]

Domestic issues play a major role in the changeover. These domestic issues frequently variety as of corrupt rulers, repressions, a majestic legacy, distended states, and inadequate political structures and an obliteration of democracy [diamond, Linz, and Lipset 1989; Diamond and Plattner 1999]. However, the international framework often plays a vital role in both the changeover in general and the attendance of violence in exacting [Lupo, 2004]

3. 2 African's economy and political instability

Despite the miserable predictions, most African economies are exploiting well even though a few country cases are still experiencing hard times in terms of political stability, economic growth and challenges posed by poverty and diseases, trade quantity and foreign investments have enlarged over time. However the political instability in Africa, which as well underpins the economic development frequently, has strong associates to internal and external distinctive interests time and again. Africa's resource in this case has never been its approval, but a nuisance. These is no justification for the

under development of the continent even as it sits on huge natural resources. [Rodney, W. (1981)]

3. 3 Africa Political violence and political instability

As an effect, the legitimate frameworks and state institutions have been meddle with, in order to generate an uneven play field alongside the opposition. Some of these procedures have seen irregular violence during electioneering era, leading to political instability. However the level of violence and the mode in which they are perpetrated differ from country as the recent elections in Uganda, Nigeria, Kenya and Zimbabwe can illustrate. [Mahamoud, 2006: 15]

With a lot of countries holding their third or fourth multi-party elections, internal power struggles have engaged a cruel dimension, thereby intimidating the very existence a lot of countries. Since the beginning of multi-party democracy in mainly African countries electoral procedures have been go together with political violence, as part of the democratisation process [Lupo, 2004; Huntington, 1991]. Most violence in such cases are often state supported, to the advantage of the incumbent, while a variety of groups that hike for state power also intensely hired violence, in the form of informal groups, militias and gangs. In the circumstance of all the violence, it is the normal people who loose out in terms of lives and property. The calamity is that the political conflict is not about substitute political programmes that could address the main problems such as poverty, disease and illiteracy, but only a fight over who has right to use the state resources. [http://www. country-details. com/africa/zimbabwe-economy. php]

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4. 0 Analysis

4. 1 International Trade within Political Instability in Africa

Country with political instability will be hard for investor to invest. This is due to situation is not good for them. However other investors are attracted with situation and take advantage for the situation by starting to make business. The International companies who are suppliers of guns and weapon will their time to sell and pray to God situation remain the same for sack of the business. People killed each other but investors they don't care as longer they doing business.

In other part they may support that conflict by provide some money for other part to make them be able to fight other side and war continue. So as we can see one side they will be in trouble due to the investments been destroyed in the war because of political instability, and other side they will be benefited.

Some of countries remain poor because of political instability. This could be ethnic tension, tribalism or all out war. Country such as Zimbabwe, Somalia, Rwanda and others they involved with long-term conflicts, they have a little chance of developing. Some countries also crash ethnic divides that are a constant distraction de-stabilizing the region and end up of discouraging investment, one example is Sir Lanka.

4. 2 Assessment of political instability on international trade in Africa

There are often political factors involved in why some of African country such as Zimbabwe, Somalia Sudan, Ethiopia, and Burundi and other suffers. This is due to bad government. Governments need to do a lot of things to

encourage development, they need to build and maintain infrastructure and raise and spend finance wisely on the right projects. When governments are inept at managing infrastructure, development is impossible. Nobody wants to build a factory in a city where the power could go out at any time.

Zimbabwe and other mentioned country should do the same and also needs to set up their laws and business practices in a way that encourages investment.

Some of the Factors which affect international trade operation in Africa

Corruption

International Trade

Trade Laws

Political Instability

Corruption

Corruption is something which frustrating, disheartening and fundamentally disempowering investors. When government become loose on the simple process such as customs officials which everyone knows about, it end up of make life difficult to investors and business in general. In African countries this is common and is needs to be stopped and my country tried very hard to make it happened. [makewealthhistory n. d]

Trade Laws

Trade Laws it is largely a political matter. “ Sir Walter Raleigh famously said ‘ whosoever commands the trade of the world commands the riches of the world and hence the world itself’

Political instability

Political instability plays a role in why some countries like Somalia and others remain poor. This could be ethnic tension, tribalism, or all out war. Needless to say, countries with long-term conflicts such as the ones in Somalia or Afghanistan have little chance of developing unless otherwise.

[makewealthhistory n. d]

I tried to make research for some of the African countries as follow

SOMALIA

Somalia involved with war since of Siad Barre's regime in 1991. A lot of people in Somalia suffered due of conflict which causes long-term impact of disturbed peace, security and stability also development. This conflict cause a lot of problem and continued loss of life which end up of intermittent fighting, famine, displacement of persons and the resultant flow of refugees. The conflicts affect also neighbor's countries such as Kenya, Ethiopia and Djibouti, due to proliferation of small arms, huge influx of refugees many of whom are ex-soldiers its criminal target.

Overall Somalia politically is unstable. After the collapse of the Somali government various factions decided to vie for control of Somalia, which resulted in chaos, clan warfare, and interplant fighting. Although Somalia is not as lawless as it was at the time when Barre as ousted Somali factions still continue to fight for control of the territory.

Somalia is a much divided national that lacks any sense of cohesive government and therefore there is no real overall ideology of the country.

Somalia is attempting to stabilize many of the internal conflicts that continue to prevail in the country along with attempting to create a political ideology and a foreign policy.

Political uncertainty it's like nightmare to investors. It does disturb FDI (foreign Direct Investment) flow of their investment plan together with private sector and economic growth because government owned those public sector units as well. If happened that country faced unstable political, many this goes wrong.

In situation like this no investor will be interested to invest in Somalia Land. This is due to political instability which put FDI in hard situation to invest. This conflicts cost the horn Africa countries deeply in terms of security due to increase of groups of arms, due to influx of refugees and lost trade.

However international and regional organizations such as the UN (United National) and IGAD (Intergovernmental Authority for Development) have come between for the aim of bring peace in the war torn country. According to [BBC conversation 29th December 2010 thru radio] American tried to make peace there but they failed due to Somalia arm group come together and fight American.

Somalia is one of the nations that has struggled and still does today in order to function well. It is one of these are rare places where there is ongoing civil war and it has no central government. Somalia is in a state of anarchy because it had problems after their president got assassinated in 1969, it has many economic problems, and native clans in Somalia are constantly

fighting with their foes. If Somalia can solve these problems, it will be able to function very well and gain a government that will suite them well.

UGANDA

Another example is Uganda country. Iddi Amin President by then ruled the Government to manage all of Asian investor's properties and commanded them to leave the country in short notice. This was applied to all whites' investors, and even rich black. This was real bad to investors. Due to dictatorship mode of government the country came down economically and eventually to poor position.

After war he decided to attack neighbor country which is Tanzania and caused a war. Situation become worse, Tanzania and Uganda war rendered Tanzania economy to fall drastically. It takes time for Tanzania to recover due to many country resource used on that war. Frankly it will be difficult for investors to withstand in violence countries. Economic growth needs political stability which will attract investors to invest in a particular country.

BURUNDI

Another example is Rwanda and Burundi. People killed and neighbor countries also affected due to the guns and other dangerous tools goes to them and used for robbed and so on. Rwanda war was so bad because it was tribe war (within Rwanda's people). It was very difficult for investor to invest there or do international business there. They so cruel killed themselves, kill religion leaders and so on.

Let's look at Zimbabwe; Mugabe makes things worse thereby take away the investors investments which most of them was farm. Those investors were doing very well on that sector. Mugabe was trying to divide the land to the Zimbabwe farmers without knowing that they don't have money to invest there and at the end they fail to run the business. Look at Zimbabwe now is terrible. There was violence which has badly hurt the commercial agricultural sector " the traditional cause of exports and foreign exchange and the provider of 400, 000 jobs, revolving Zimbabwe into a net importer of food products. The EU and the US give food aid on humanitarian foundation. Badly needed bear from the IMF has been suspended as of the government's arrears on long-ago loans and the government's unwillingness to ratify reforms that would become stable the economy. The Reserve Bank of Zimbabwe normally prints money to fund the budget deficit, causing the official annual inflation rate to rise from 32% in 1998, to 133% in 2004, 585% in 2005, passed 1000% in 2006, and 26000% in November 2007, and to 11. 2 million percent in 2008. In the meantime, the official exchange rate chop from approximately 1(revalued) Zimbabwean dollar per US dollar in 2003 to 30, 000 per US dollar in September 2007"[country-details n. d]

Many people in Zimbabwe they don't have jobbed, currency is in bad shape due to inflation. Before Mugabe took land from investor, people were employed on that industry, the difference from now there is no job due to those who given that land they don't have money to run the business.

Zimbabwe is other country which has political problem. Zimbabwe is the second highest HIV infection fate, per capita, in the world. Zimbabwe has experienced the breakdown of law and order, unemployment of 65%, <https://assignbuster.com/factors-which-affect-international-trade-operation-in-africa/>

inflation 104%, the collapse of the economy and the health delivery system. Human rights abuses in the form of violence and rape have continued unabated and are carried out with impunity by the ruling party activists. Voices against basic human rights abuses speak at great personal risk. It has been established that the effects of the current situation have impacted negatively on the health and well being of the people through increased stress, little or no access to primary health care facilities, unemployment, hyper-inflation and a general sense of helplessness and hopelessness. All this is due of political instability. [gateway n. d]

Zimbabwe there are group of people have good life, but majority are not enjoying anything. They have very difficult life. Most of people they live in poverty and cause of anger among them towards government. These anger cause political instability and end up of forming crime revolutions and so on. [wiki. answers n. d]

INFLATION-ZIMBABWE

Zimbabwean inflation rates (official) since independence

Date

Rate

Date

Rate

Date

Rate

Date

Rate

Date

Rate

Date

Rate

1980

7%

1981

14%

1982

15%

1983

19%

1984

10%

1985

10%

1986

15%

1987

10%

1988

8%

1989

14%

1990

17%

1991

48%

1992

40%

1993

20%

1994

25%

1995

28%

1996

16%

1997

20%

1998

48%

1999

56.9%

2000

55.22%

2001

112.1%

2002

198.93%

2003

598.75%

2004

132.75%

2005

585.84%

2006

1,281.11%

2007

66,212.3%

2008

231, 150, 888. 87% (July)

http://en.wikipedia.org/wiki/Zimbabwean_dollar

Hyperinflation

http://en.wikipedia.org/wiki/Zimbabwean_dollar

Zimbabwe Economic Overview

The government of Zimbabwe faces a wide variety of difficult economic problems as it struggles with an unsustainable fiscal deficit, an overvalued official exchange rate, hyperinflation, and bare store shelves.

GDP -real growth rate -6. 2% estimated in 2008.

GDP (official exchange rate): \$4, 397 billion

Note: In 2009 the Zimbabwean dollar was taken out of circulation, making Zimbabwe's GDP at the official exchange rate a highly inaccurate statistic.

[Source: C/A World Factbook]

<http://www.country-details.com/africa/zimbabwe-economy.php>

EXTERNAL INFLUENCES

PHYSICAL AND SOCIAL FACTORS

Political policies and legal practices

Culture factors

Economic forces

Geographic influences

OPERATIONS

OBJECTIVES

STRATEGY

MEANS

Economy analysis

Economic indicators

Economy system

Economic freedom

Transition to a market economy

Before Investor decide to invest to any country especial African country

always they tried to check of follow

Gross National Income (GNP)

GNP helps to measure income generated together by total domestic production towards as the international trade production activities of local companies.

Gross Domestic Product (GDP)

GDP is the broadest measure of economic activity for a country. GDP helps investor to assessing countries in which the output of the multinational sector is a significant share of activity.

Improving the Power of GNI

GNI is a robust estimator of an economy's absolute performance. Here international manager has to be careful because GNI can mislead when he/she tried to compare countries. For example, manager to compare economic power of USA and Tanzania will not give manager a good result.

So in order for manager to get good view should adjust it for taken the number of people in that country, their growth rate, and their cost of living also economic sustainability.

Per Capital conversion

Manager will use this indicator to which helps to explain an economy's performance according of number of people who lives in such country.

Purchasing Power Parity

Purchasing Power Parity (PPP) is the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market that one unit of income would buy in the other country. [Daniel, Sullivan et. al 2009pp186-202]

5. 0 Effect of Political Instability – Opportunities could be caused by political instability

5. 1 Conflict resolution and peace building initiatives

In terms of conflicts in Africa, many hot spots are recovering, and making big leaps towards peaceful coexistence. Even though there are some pockets of unresolved cases like Somalia, Darfur, Congo and Northern Uganda among others, there are encouraging examples such as Sierra Leone, Rwanda, and Southern Sudan. In this context Africa is undergoing a complex process of multiple transformations. Solution to some of these cases has been found from within, coupled with external support. For this reason, it can be argued that part solution to the conflict situation and political instability in Africa lies in the west. More specifically is for the western governments to address the issue of arms manufacture and sale of arms, weapons to Africa and to address the conduct of their multinational involved in extractive activities at the expense of African lives. On the same breath, we cannot talk of health problems in Africa when countries in the west have not seen the sense and subsequent implications of dumping hazardous technologies and products in Africa

5. 2 International Trade in Africa

Some of the country they take advantage of the political instability situation to make money by doing international business in that such country. In both situations, political change creates systemic risks that impact all firms whose activities are affected by the political system. System changes don't necessarily create political risks that reduce potential profits. Elections and policy shifts can create opportunities for foreign investors. For example in 1990's a newly elected government in Argentina initiated a radical program to deregulate and privatize the country's state-centered economy. Investors who accepted the risk and pursued the resulting opportunities prospered as Argentina became more democratic. There is one case in our International Business model talk about china. That case trace about the development of China, where political change has created opportunities in several areas, including market potential and performance. This of course, that taking advantage of such attractive opportunities entails taking risks in a country where political and legal complications still pose roadblocks to profitability. [Daniel, Sullivan et al (2009) pg155]

When other countries suffer of political instability, other countries enjoy that situation very much. Let's say country faced political instability and happened there is a war, some of international companies from other country they start to do business by selling guns, and other things which needed in situation like that. The neighbour countries get advantage of when refugee run to them, they get support from international support programme. The people of such neighbour country they will be benefited by get food, clothes, and other human needs thru refugee.

However those neighbour countries may suffer due to refugee may transfer the conflict in that country.

Unemployment

When country faced political instability unemployment rate will be high, and country will not be able to offer job to the people. So when investors who they ready to take risk move to that country will be easy for them gets cheap labor. People they don't have job and they need money means they will do any kind of job to get money. However countries that are unable to create jobs for their citizens create a risky business environment. So investors whose will take risk to invest in such country must take precaution for robbery and thief due to people are desperate to get money. Generally, people out of work and unable to find jobs depress economic growth, create social pressures, and provoke political uncertainty.

Inflation

Inflation cause rise in prices measured against a standard level of purchasing power. Country in political instability inflation will be high and the investor who doing there they have power to set their price (high) and consumer they don't have choice. Life will be expensive and investor who doing business there are benefited with high price of commodities. People they work to them and get salary and at the end of day they give back that money to them. This is to say foreign will be able to transfer resources to home country indirect.

Debt

The debt for the country which faced political instability growing because government don't have money, and end up of borrows money from the financial institution. This will be benefit to those countries which hold those financial institutions such as IFM and so on.

Income distribution

GNI or PPP (Purchasing Power Parity) will be low due is calculate with which income the average person earns. Country with political instability not everyone is average, neither indicator tells us what share of income goes to what segments of the population. So the big share will go to foreigner whose they have big share of money, and this will be benefit to them.[Daniel, Sullivan et. al pp196-203]

Production factors move

Capital especially short-term capital is the most internationally mobile production factor. In country with political instability companies and private individuals primarily transfer capital because of differences in expected return. This situation cause of transfer capital back home or to another country and will be benefit to foreigners due to some of country when foreigner came to invest, government allow them to make business for the first three years without of paying tax. The countries with political instability foreigner advantage of this situation and invest for only three years without tax and move to another country. This happened because they not secure with political situation.

Analyzing Risk

In between political instability, one country risk may be another opportunity to other country. For example companies which provide security services such as guard services, alarm systems, insurances and guns may get the big opportunities of sales where the victim country suffer in war.[Daniel, Sullivan et. al (2009)p 502]

6. 0 RECOMMENDETION

An African countries leader has to make sure political in their country is stable so that FDI can transfer they technology, skill and knowledge to the local people thru International Business.