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The Impact of Globalization and Trade on Africa

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ABSTRACT: The phrase globalization grasps the attention of everyone and especially economic development researchers. However, in spite of the prior prosperity promises of globalization, trade and the benefits of an information accessing society, the subsequently benefits arguably have not been said to universal and global inequality has increased. Some studies reveal that globalization has widened the gap between rich and poor countries in its persistent progression while others are uncertain about its effect. Although the idea of globalization had steadily been developed since the Second World War, its impact gained energy in the early 1990s; Africa has not been spared from the implication of this experience. The purpose of this article is to examine the impact and salient issues concerning globalisation and trade on African countries. Despite liberalisation of trade which has many negative issues as well as the positive ones. This paper is of the opinion that and controlled liberalisation must be seen as the only way forward.

KEYWORDS: African countries, globalization, Trade

Introduction

When we consider globalisation, we would see that many trading arrangements have had the aim of increasing trade by reducing barriers and making the flow of goods simpler. This is usually accompanied by an increased awareness and practice of capitalistic policies, such as the liberalisation of the markets. However, when we look at how this may be seen as effecting the less dominant economies, we can argue that the effects are not all advantageous. In nations where there are strong consumer pressures and the way business is perceived can be seen as a market force, good practices may be followed. However, in the ever continuing need to cut costs, find new suppliers and change markets, originations have been entering third world countries, such as those in Africa, taking advantage of their need of hard currencies, and trading in manners that would not be acceptable in other countries. We can argue that this is a direct effect of liberalisation of markets, both in foreign countries and in the African nations, as well as the phenomenon of globalisation. This changes the social structure of the countries that are developing, reducing the rural populations and concentrating them where the development is taking place, somewhat akin to the developments of the industrial revolution in the west, where the landscape of the country was completely changed. The aim of this paper is to critically look at the globalization and trade from African perspective, This paper looks at both the positive and negative part of the story.

Liberalisation of markets

The liberalisation of the markets is generally seen as a good move, opening up to competition so that consumer may benefit from the increased pressure on businesses to provide good services at a lower price or to a higher level of service or quality. The impact often creates differentiation and a better environment for the consumer (Porter, 1980). This may also be seen as increasing the pressures on the natural environments whilst improving the commercial environment. The liberalising of markets means that there are fewer rules and regulation constraining the way the companies undertake there trade. Despite this negative tendency, liberalising liberalisation of the markets also has a positive impact for many African countries, both those developing and those not. The aspect of the need for protectionism can be seen if we look at two basic models of business and place them in the context of a liberalised economy.

In an economy where liberalisation is not yet achieved then it is likely there will be protectionism policies in place. Often these will be manifest in the way monopolies exist, especially for utilities. These are also likely to be more rural economies, with less in terms of pollution and industrialised buildings. However, there will also be the ability for the company to behave as it wants to, including creating higher levels of waste, with no comparison locally it will be hard for consumers and local resident to complain by making a comparison. In a pure monopoly, there is only one company in the sector, there is no competition and therefore the service or product is unique. Also differentiation standardisation won't be an issue as there is only one product or service available (Thompson 1998). This single company control means that market forces will mean very little as the monopoly is often in an industry where there is elasticity of a company is below 1 and as such is an essential service, therefore there is a large amount of power with the supplier and as such there are many problems with a monopoly.

If a competitor wishes to enter that market they may not be able to as their entrance will be blocked (Thompson 1998). The competitive environment here is nonexistent, and the commercial environment leaves the consumer as having little choice on tier choice of supplier. This type of market is becoming less popular due to the problematic nature of the market where no competition leads to high prices, low investment levels and little if any progress, therefore it is not in the interests of either supplier or competition to have a monopoly. The commercial environment is increasing popular as an operational framework for a strong economy. To appreciate the difference in an economy where there is complete liberalisation then we need to consider the opposite model; pure competition.

Pure Competition

Pure competition is seen as a state of many industries as it often results in the lowest prices for the consumer. It is also worth noting that the model of pure competition is unlikely due to the way in which it operates. In a situation of pure competition the only determining feature is that the setting of price and supply will be the basic model of supply and demand (Thompson 1998). There will be no barrier to entry or exist as a limiting factor of the industry, therefore there are no external influences such as regulation or price controls (Thompson 1998). Here there may also be additional pressures brought to bear, such as the need to cut costs. In areas such as Asia and Africa, where many companies have moved their operations, this may mean practices that will create more waste in the environment, effecting the water table and the quality of food and development. This is allowable due to the lower levels of legislation. There will also be the phenomenon of the move from rural to urban areas to find work.

One of the best examples of this may be seen in an agricultural market where there are many stalls selling the same goods, if one stall is selling carrots at a price below the others then it will be the stall that sells the most the rest of the stalls will have to reduce their prices to compete if they want to sell any products. This is also determined by supply and demand, where the demand for carrots is greater than the supply the suppliers can out up their prices until an equilibrium is reached, if the supply outstrips the demand then they will have to reduce the price of the carrots. By the same measure, where there is little demand for cabbage, then there may not be a wish to grow cabbage. Then the farmers may stop growing the cabbage, and intensively farm the carrots. Therefore, agricultural diversity may be reduced, and the land could suffer from a lack of rotation. In turn this will mean that there will need to be the use of fertilisers and other chemicals to safeguard the crop. This may also effect the local ecosystem, creating an environment very different from the past, meaning that some insects may lose their natural predators, whilst others become more endangered. The balances will shift, and if a keystone in the ecosystem is affected then the entire chain may collapse. There can also be a problem where market forces are not strong enough to attract competitors, such as in areas where a profit may not be forthcoming or as great in other areas. The continent of Africa has many sectors where there are needs, but since there are not potential profits as large in other continents the sectors are not served. The market forces may also not need the farmers to protect their land, consumer indifference may result in over farmed land.

One example of this may be seen as the drug industry, where even with discounts governments often argue that they cannot afford to buy the drugs that individuals need. Had there been a state set up system and drugs manufactured by state controlled companies, then this would not be such as issue. Indeed, on many cases there have been problems over the manufacture of generic drugs and claims of TRIPP's agreement's being broken and licensing agreements ignored.

Discussion

However, in other aspects we can argue that the liberalising of the markets has enabled countries to develop at a much faster rate than would otherwise have been possible and also vice versa. The continent of Africa can be seen as one of the areas where there is a huge potential for the future expansion of the computer industry. In Nigeria, Ghana and Cameroon there is a liberalised industry, and there is wide access to the internet compared to other African countries. Access to the Internet was launched in 1992 it was officially launched in 1998. For Cameroon, coverage is over the whole country, but in reality there is only a good coverage of six of the countries ten provinces (Nyeck 2001). The two biggest cities of Douala and Yaounde have 90% coverage but in the provinces it is at a lower rate, with some areas only have one or two people connected (Nyeck 2001).This has resulted in a lack of development and investment, also demand not seeing a positive influence for the sale of computers as the Internet and the uses of computers are not yet as the same level of perceived needs as seen in other countries.

The demand may therefore be seen as proportionally higher in terms of institutions as compared to individuals, but severely limited in overall terms compared to the total number of the countries citizenry. The current and future economic conditions are likely to have an extreme influence. The ownership of computers can be seen as correlated strongly with economic conditions. It is unlikely that those on a low income will choose to buy a piece of technology when they are still seeking to provide a subsistence level for their families. As the economic condition improve so will the marketplace.

The strongest parts of the market are in government organisations as mostly commercial interests in the country where there is internal investment. In terms of geographical locations these have already been stated with the internet figures as Douala and Yaounde (Nyeck 2001). In an attempt to increase the imports of computers and make them more popular in this price sensitive market the Cameroonian President has reduced import taxes on computers. This can be seen as a move that increases liberalisation, and as a result the liberalisation is allowing the country to benefit from the technical advances of other nations, buying it, rather than having to develop it. The learning curve may be stepper, but it is undertaken more quickly. The way in which the market is driven may also be seen as very fragmented. Like most areas there is a dominance of Microsoft products. This is especially true in the Internet market on the PC, where internet explorer is free. Here we see the effect that liberalising is having globally, with the dominance of a single company extending into many countries, and able to compete in ways the local companies do not have a chance to. This may also be seen as unfair creating an uneven environment.

In many African nations, the import of all of these goods may be seen as limiting their own development. Importing as a result of the lower barriers, they are not manufacturing or creating, they may also be seen to create a scenario that will mean that internal investment is shunned in favour of the import of goods to the country. This will also have an adverse effect on the nation’s balance of payments. It also means that the technology is not being learned by the nation, and as a result they are not really advancing. However, some nations may also benefit by finding a niche market that would not otherwise be available.

In terms of market growth the potential is still focuses on the cosmopolitan cities. Those who are most likely to buy are still those with a higher disposable income. This is increase as the economy condition in the country increase, with more 'middle class' targets. This also shows how liberalisation may induce the negligence of some areas of a market where a product or facilities are required, but not seen as profitable enough.

However, as a sector develops more initiatives will be followed and it will usually increase in its' efficiency as more competition enters and the market matures. This can be seen in the formation of multiple channels of distribution. The development of these may be able to realise reductions in costs as well as increases in the economies of scale as the market increases. The channels if developed, may also increase the amount of computer that can be brought into the country and the accessibility to the more rural areas. There may also be a more efficient operation of the market, reducing the amount of capital that needs to be tied up in terms of proportionality. If we look at the liberalisation of the telecom industry in these countries we can also see how it helps the free flow of information and have helped stimulate other markets. When we look more deeply we can see that liberalisation does bring benefits, even where it is initially thought to be only bringing imports and having a negative effect on the balance of payments. In the case of this industry, these Nigeria, Ghana and Cameroon may never be a major supplier to its' own people of computers, but their availability has stimulated other sectors of the economy, creating more jobs and more economic growth as well as bettering social conditions. In other industries we can argue there is a need for some control, however here we may also consider the case for controlled liberalisation. In this there may be seen a degree of protection, and markets may be prepared before being opened. In countries where there are harsh conditions, there are also some very strong reasons for government controls to remain in place.

If we wish to see one area where there has been liberalisation in a controlled manner we can look at the aviation industry. The global 'Open Skies' agreement is relevant to Africa. The continent does not have great resources in many of the sub Saharan nations (McLymont, 1999). Therefore, the increasing number of carriers that are allowed to operate in a controlled manner can be seen as facilitating trade in other areas as well as bringing in the needed aid (McLymont, 1999).

There are also some favourable side effects, as international trade increases there is often an increased understanding between the nations government. When we consider Europe, the European Union was brought about in order to bring peace to a continent where there had been two major wars in a single century (Weixler 1994). The ties of economic commerce are greater than those of political diplomacy as they create interdependence, and as such may help the political stability of the area and create new alliances between different governments (Nellis and Parker 2000).

The liberalisation operate in this way intercontinental as well as within the single continent, with greater levels of global integration being achieved (Adler and Webster, 1999). However, governments need to be careful of the pace at which liberalisation is introduced (Kaplinsky and Morris, 1999). Where this occurs the result can be the reduction of jobs and harm to the economy with the pressures of change forcing local competitors out of the market (Kaplinsky and Morris 1999). There may also need to be some polices that may be seen as favouritism to the local companies, such as grants and aids to help the companies compete in the new market. This may be to gain more information due to an asymmetry, or to upgrade facilities to compete more effectively (Kaplinsky and Morris 1999). In the short term this may pace a greater economic pressure on the government, but will safeguard an industry in the long term. The cost may be partly mitigated, or reduced by the control of the liberalisation, to allow time for the change, or to increase the costs to the new entrants to protect the market. Although often seen as a negative way of trading, under these circumstances we can appreciate whey it is a suitable transitory policy. This may also help to reduce potential poverty that could be seen to occur due to increased competition in an industry (Kaseke 1998).

Conclusion

In considering the above discussion, it appears that controlled mostly this has been a positive aspect of liberalisation. However, there are some parting thoughts that can be considered by the reader. In some countries where there is hunger and poverty, there are agriculture facilities growing grains, not for their own use, but for export. If liberalising did not exist then we may argue the production may not be as effective, but it is more likely the grain would be used in the country where it was grown. The transportation of this may also be seen as damaging the environment, a result of liberalisation of the international markets. Therefore, when considering this, it needs to be recognised that there are many negative issues as well as the positive ones that have been considered, and controlled liberalisation must be seen as the only way forward, if there is a need for liberalisation, and the benefits of some barriers should be understood and always remembered!

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