Business Studies
form 4

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Chapter 1

Trade

1.1 Roles of Government in Promoting Trade

Governments play an important role in promoting trade through various ways and for different reasons. These roles can be discussed in two contexts:

1. **Local Government**
2. **Central Government**

1.2 Local Government

The local government operates at a smaller, regional level within a country. It governs cities, towns, districts, or villages. Examples of local governments include *District Councils*, *Town Assemblies*, and *Village Committees*.

1.2.1 Roles of Local Government in Promoting Trade

1. Providing public utilities such as local roads, markets, and bridges that facilitate trade.
2. Ensuring security within their areas of jurisdiction.
3. Issuing business licenses and permits.
4. Supplying investment information to local entrepreneurs.
5. Offering training and information facilities to traders.

1.3 Central Government

The central government is the political authority that governs the entire nation. It is the highest level of government in a country, with power and authority over all regions.

1.3.1 Roles of the Central Government in Promoting Trade

1. Establishing ministries and departments that promote both domestic and foreign trade.
2. Constructing and improving national infrastructure such as highways, railways, telecommunication systems, schools, hospitals, and energy sources.
3. Licensing and regulating businesses at the national level.
4. Providing financial assistance and incentives to traders and investors.
5. Protecting local businesses from unfair international competition.

1.4 Trade Liberalisation

Trade liberalisation refers to the process of reducing or removing trade barriers such as tariffs, import quotas, and restrictions, in order to allow goods and services to move more freely across borders. Its aim is to encourage open competition and wider markets.

1.4.1 Advantages of Trade Liberalisation

1. Promotes competition, which improves efficiency and quality of goods and services.
2. Encourages foreign investment and inflow of capital.
3. Provides consumers with a wider variety of goods at lower prices.
4. Enhances international cooperation and relations among countries.
5. Allows countries to specialize in the production of goods where they have a comparative advantage.

1.4.2 Disadvantages of Trade Liberalisation

1. Local industries may collapse due to competition from stronger foreign companies.
2. Can lead to over-dependence on foreign products.
3. May result in loss of government revenue from reduced tariffs and import duties.
4. Risk of exploitation of developing countries by developed nations.
5. Can increase unemployment if local firms shut down due to competition.

1.5 Economic Integration

Economic integration refers to the process in which countries come together to form groups or unions, with the aim of promoting trade, investment, and cooperation by reducing or eliminating barriers among themselves.

1.5.1 Forms of Economic Integration

1. **Free Trade Area** – Countries remove tariffs and quotas on trade among themselves but maintain their own trade policies with non-members.
2. **Customs Union** – Member countries adopt a common external tariff on goods from non-member countries.
3. **Common Market** – In addition to a customs union, member states allow free movement of labor, capital, and services.
4. **Economic Union** – Countries integrate their economies further by harmonizing fiscal and monetary policies.
5. **Political Union** – The highest level of integration where countries merge certain political structures alongside economic cooperation.

1.6 Trade Protocols

Trade protocols are formal agreements between countries or groups of countries that set out the rules, procedures, and conditions for conducting trade. They are designed to simplify, harmonize, and promote fair trading practices.

1.6.1 Outline of Trade Protocols

1. **SADC Trade Protocol** – Promotes free trade among Southern African Development Community member states.
2. **COMESA Trade Protocol** – Aims at creating a larger market through free trade among Common Market for Eastern and Southern Africa member states.
3. **AfCFTA (African Continental Free Trade Area)** – Promotes intra-African trade by reducing tariffs and barriers across the continent.
4. **WTO Agreements** – Provide guidelines for international trade practices among member countries of the World Trade Organization.

1.7 Globalisation

Globalisation refers to the process by which countries of the world become more interconnected and interdependent through trade, investment, communication, technology, and cultural exchange.

1.7.1 Advantages of Globalisation

1. Expands markets for goods and services across borders.
2. Facilitates transfer of technology and innovation.
3. Encourages foreign investment and employment opportunities.
4. Promotes cultural exchange and international understanding.
5. Improves access to a wide variety of goods and services globally.

1.7.2 Disadvantages of Globalisation

1. Can erode local cultures and traditions due to foreign influences.
2. Increases competition, leading to closure of local industries.
3. May widen the gap between developed and developing countries.
4. Can lead to economic dependence on foreign countries.
5. Increases vulnerability to global economic crises.

1.8 Institutions that Promote Trade in Malawi

Several institutions in Malawi have been established to promote and regulate trade, ensuring that both local and international business activities run smoothly. Examples include:

1. Malawi Confederation of Chambers of Commerce and Industry (MCCCI).
2. Malawi Investment and Trade Centre (MITC).
3. Ministry of Trade and Industry.
4. Reserve Bank of Malawi.
5. Malawi Revenue Authority (MRA).

1.8.1 Roles of Institutions that Promote Trade in Malawi

1. **MCCCI** – Represents the interests of the private sector and provides a platform for networking and trade promotion.
2. **MITC** – Promotes investment and export trade opportunities for Malawi.
3. **Ministry of Trade and Industry** – Formulates trade policies, regulations, and oversees implementation.
4. **Reserve Bank of Malawi** – Regulates foreign exchange and ensures a stable financial environment for trade.
5. **MRA** – Collects customs duties, enforces tariffs, and prevents smuggling to protect local industries.

Summary / Revision Points

- Government promotes trade through both **local** and **central** institutions.
- Local governments handle community-level trade support such as markets, licenses, and security.
- Central government manages nationwide policies, infrastructure, and protection of industries.
- **Trade liberalisation** reduces barriers and promotes open competition.

- It has advantages (variety, lower prices, efficiency) and disadvantages (collapse of local industries, loss of revenue).
- **Economic integration** takes forms: Free Trade Area, Customs Union, Common Market, Economic Union, and Political Union.
- **Trade protocols** (SADC, COMESA, AfCFTA, WTO) set rules for regional and global trade.
- **Globalisation** connects the world but has both opportunities and challenges.
- In Malawi, key trade institutions include MCCCI, MITC, Ministry of Trade and Industry, RBM, and MRA.

Bibliography

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