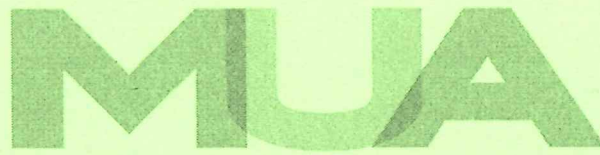


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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BMT 400 : INTERNATIONAL BUSINESS TRADE AND FINANCE

DATE: 8TH APRIL 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

TRADE IN TUNISIA

According to the U.S. International Trade Commission, in 2021 Tunisia was the United States' 96th largest goods export market and 86th largest goods import market. Bilateral trade in goods totalled \$1.2 billion, with U.S. exports to Tunisia totalling \$454.1 million. Top U.S. export categories were agricultural products, chemicals, fabricated metal products, machinery, and transportation equipment. Major imports from Tunisia included apparel, food products (mainly olive oil and dates), electronics, and electrical components.

Tunisia has a diverse market economy. In 2021, Tunisia's economy continued to be heavily impacted by the COVID-19 pandemic. Despite a loosening of containment measures implemented in 2020, Tunisia's GDP grew by 3.1% in 2021 after a record contraction of 8.8% in 2020, according to the National Institute of Statistics (INS). Economic challenges continued in 2022 in which real GDP in the first quarter (Q1) increased by 2.1% compared to Q1 2021. In May 2022, the European Bank for Reconstruction and Development (EBRD) forecasted Tunisia's economy to grow by only 2% in 2022. Unemployment, which reached 14.9% prior to the pandemic, rose to 16.1% in Q1 2022, with even higher rates among youth, women, and recent college graduates. Tunisia may struggle with a shortages of staple food products (Black Sea grains) and low tourism revenues (drop in Russian visitors) in 2022 and 2023 due to Russia's invasion of Ukraine. The GOT is focused on bolstering the country's export sectors, attracting foreign investment, and increasing tourism. In 2021, about 70% of Tunisian exports went to the European Union.

According to the INS, total exports in 2021 increased 20.5% compared to 2020, mainly because of increases in exports of mining products and phosphate derivatives (+83.2%), energy (+39%), mechanical and electrical components (+21.9%), and textiles and apparel (+14.4%). In general, energy and mineral exports, mainly crude oil and phosphate, have exhibited high year-to-year variance, depending on production levels and international market conditions. However, exports of agricultural and food products decreased by 3.9% in 2021 compared to 2020 due to

the decrease of olive oil exports. Tunisia's overall imports increased by 22.2% in 2021 compared to 2020, with notable increases of raw materials and semi-products (+29.7%), energy (+29.3%), and production equipment (+16%).

In September 2016, to encourage good governance of investment, the Tunisian Parliament passed Investment Law (#2016-71), which went into force April 1, 2017. The law provided for the creation of three major institutions: The High Investment Council; the Tunisian Investment Authority; and the Tunisian Investment Fund. These institutions were launched in February 2018. In May 2018, the government adopted decree #2018-417, which listed sectors that need prior government authorization for investment, also known as "the negative list." In June 2021, the government announced the elimination of **government authorization** requirements for 27 business activities in various sectors, about 10% of the total authorization categories. The change allows foreign and local investors to open businesses under conditions detailed in books of specifications without waiting for a government license. The action is meant to revive an economy heavily impacted by the COVID-19 pandemic and boost investment in sectors such as tourism, transportation, finance, and renewable energy. For example, government authorizations are no longer required for business ventures such as the opening of shopping malls and supermarkets, operation of certain aircraft for tourism and leisure activities, management of financial portfolios by non-resident companies, organization of sporting events, cement manufacturing, self-production of electricity from renewable energies under one megawatt, import and marketing of films, sale and distribution of tobacco and alcohol, and import of used clothes. The elimination of authorization categories would help improve Tunisia's investment climate. In May 2019, the Tunisian Parliament passed law 2019-47, which contains 38 amendments to address shortcomings in existing laws and regulations that impeded investment. The bill aimed to bring the business climate to "international standards."

In May 2020, the government adopted decree #2020-316, establishing simplified conditions and procedures for granting project concessions and their monitoring based on a new public-private partnership (PPP) approach. The decree aims to

further promote investment by young entrepreneurs (under the age of 35) and projects of all sizes, including those less than \$5.5 million.

According to the GOT's Foreign Investment Promotion Agency (FIPA), overall foreign investment flows for 2021 totaled \$671 million, primarily in the form of foreign direct investment (FDI), with only \$1.7 million in portfolio investment. This represented a 0.5% decrease compared to 2020. The industrial sector received approximately 51.6% of all FDI inflows, while energy (29.3%) and services (18.7%) ranked second and third. Foreign investment in agriculture was insignificant. According to FIPA, these capital inflows (excluding the energy sector) generated 11,300 new jobs in 2021. France was the largest foreign investor in Tunisia in 2021, at \$155 million. Italy came in second at \$60 million, followed by Spain at \$28 million, Jordan at \$26 million, and the United States at \$18.5 million.

Due to the COVID-19 pandemic and associated travel restrictions, only 2.1 million tourists visited Tunisia in 2021, a 16% increase compared to 2020, but significantly lower than the record high of 9.4 million in 2019. 2021 overall tourist bed nights increased by 36.9% compared to 2020. According to Ministry of Tourism figures, tourism revenues were \$750 million in 2021, a 7.7% increase over 2020. According to the ministry's most recent data, one million tourists visited Tunisia through April 2022, an increase of 128% compared to 2021. Consumer prices rose by 5.7% in 2021, higher than 2020 (5.6%). Year-on-year inflation was 8.1% in June 2022 and is expected to remain high, hovering around 7.5% for the remainder of the year.

Tunisia registered a \$2.86 billion current account deficit in 2021 compared to \$2.67 billion the previous year. Net foreign currency assets at the end of 2021 amounted to \$8.34 billion, corresponding to 133 days of imports. Tunisia's 2021 trade deficit was \$5.8 billion, 27% higher than in 2020.

Required;

- a) Explore five strategies that Tunisia can adopt to increase international trade
(10 Marks)
- b) Describe various poverty eradication measures that Tunisia can implement in order to reduce its poverty index
(10 Marks)

- c) Assess five elements of economic environment that can spur economic growth in Tunisia (5 Marks)

QUESTION TWO

- a) Describe five key elements of organizational culture (10 Marks)
b) Describe five barriers of international trade (5 Marks)

QUESTION THREE

- a) Explain five factors that affect foreign investment in Kenya (10 Marks)
b) Assess five benefits that Kenya may derive from the East African Community (EAC) (5 Marks)

QUESTION FOUR

- a) Discuss five business implications of foreign exchange rates (10 Marks)
b) Analyse five marketing strategies for international businesses (5 Marks)

QUESTION FIVE

- a) Evaluate five documents required for importation of goods in Kenya (10 Marks)
b) Describe five ways that international organization can invest in a host country (5 Marks)

QUESTION SIX

- a) Examine five capital budgeting techniques (10 Marks)
b) Explain key assumptions of the theory of absolute advantage (5 Marks)

