German SMEs And Affect By The Trade Intervention Methods Of The Ethiopian Government

The success of exporting depends heavily on the availability of adequate and functional logistical infrastructure which includes roads, railways and shipping vessels. The natural openness which comes along with an easy access to coastal lines is also very important but as a landlocked country with a sparsely large populated area, Ethiopia usually faces diffi-culties and high costs in importing (Aschenaki, 2004, p. 9). The port of Djibouti, which is about 700km away from the capital Addis-Ababa, handles 95% of Ethiopia's imports and exports (Cannon & Rossiter, 2018). The movement of goods between the capital and the port of Djibouti relies heavily on road transport (UNIDO, 2016, p. 8).

The greater use of technology regarding customs and clearance can help improve upon effi-ciency in logistic processes. The investment regulations in Ethiopia however, raise costs and limit the entrance of suppliers with modern logistic technology and has resulted in the cor-porate inefficiency of the ESLSE and increase in prices of logistic services. As of 2008, the import rates charged by the ESLSE were about 70% higher than average shipping costs of other freight companies (Kassahun, 2014, p. 171). The processes involved in the clearing of goods also come with high costs and long processing times (World Bank, 2017, p. 6). Pre-senting of documents for clearance alone takes on average 8 days – whereas in Sub-Saharan Africa, it takes only half as long. In total, it takes about 15days to clear goods from the port and costs $1488 without freight and domestic transport costs (Appendix 1). Importers also usually incur extra costs in payment of demurrage fees as the ESLSE only provides a storage grace period of only 8 days from the day cargo is offloaded at the port (World Bank, 2011, p. 442). Domestic transport from the Djibouti-Ethiopia border at Galafi costs about $500 and takes 2 days alone (World Bank, 2018).

The ESLSE calls from ports in Hamburg and Bremen in Germany so GSMEs exporting to Ethiopia have no other choice but to use the ESLSE. The costs and delays involved would make it difficult for the products of GSMEs to be imported at competitive costs since the logistics sector is inefficient and dysfunctional (Gani, 2007, p. 282). The high costs in-curred from the import of products would lead to an increase in their market prices since importers would have to make profits on their sales. The higher prices of the products make them less competitive as customers would preferably resort to other cheaper alternatives on the market, decreasing the market size of GSMEs products.

Even though the greater part of these difficulties would be experienced by the customers or distributors/local partners/agents importing products of GSMEs into Ethiopia, GSMEs ex-porting into Ethiopia become the collateral victims as they would also have to incur some costs in shipping, clearance and transportation. This, however, depends on the incoterms agreed on between exporting and importing parties. For example if GSMEs sell their goods on Delivery Duty Paid (DDP), they would have to bear all costs from their warehouse to the warehouse of their partner/agent in Ethiopia. If the goods are sold on Free Carrier (FCA), only cost until clearance at the leaving port must be bared. In the case where GSMEs export to their own sales offices, they would have to bare all transactional costs since they serve as both the importer and exporter.

(Export) Finance and Sales

Export financing is the process of obtaining short term loans to fulfil an export sale. SMEs which receive large orders particularly need financing to be able to fulfil the shipment of an order. Exporters gain financing from commercial banks and other government bod-ies/programs – however, the successful obtainment of export financing depends on some factors which include the creditworthiness of the exporter and importer. In trading with developing countries for example, exporters might find it difficult to obtain export financ-ing as risks of payments can arise when an importer fails to pay his debt or when exchange control regulations are imposed. These restrictions inhibit the importer from acquiring for-eign exchange which results in payment difficulties (Cavusgil et. al, 2017, p. 222, Root, p. 98, 1994). Given the current foreign exchange restrictions, GSMEs would be presented with difficulties in financing their export sales to Ethiopia since their importing partners are faced with challenges in receiving foreign exchange for trade payments.

Importers are required to apply for an import permit before obtaining a LoC for the total value of the goods before an order can be placed. In some cases, the import permits are not always granted (Lighthizer, 2018, p. 157). Bureaucratic delays here could mean that import permits could take a month or several to be obtained before finally granting the importer the right to import. GSMEs exporting to Ethiopia might miss out on key strategic windows in which they could respond to the market demand as a result of the lateness in order re-ceiving and processing due to the delays present on the path of their importing partners – meaning less sales and therefore less income.

Not all GSMEs exporting into Ethiopia would be negatively affected by government inter-vention however. Importers of machinery that are needed for the finishing and secondary production of raw materials in sectors which the GoE deems important under its GTP II (leather, textiles and agro-processing) find it easier in obtaining foreign currency (Lighthiz-er, 2018, p. 149). GSMEs that manufacture equipment that are necessary for the further production and other value-adding services of the above stated raw materials will have it easier in financing their export sales to Ethiopia with less delays. Also, the cash subsidies or tax breaks provided by the GoE in the textile industry would favour GSMEs - the demand for their products would increase since both local and foreign investors in the textile indus-try have more money at their disposal to spend on machinery which translates into more sales and a bigger market for the GSMEs in that particular sector. Export subsidies in the textile industry would reduce the price of Ethiopian textile exports on the world market, making them cheaper than other alternatives and raising their demand. Ethiopian textile producers would in turn like to take advantage of the high demand and produce more, meaning that machinery might have to be imported in order to make extra production pos-sible, thus increasing the demand for products of GSMEs in the sector.

Foreign Direct Investment (FDI)

Human Resource Management

Local labour regulations play an important role in FDI entry modes. Irrespective of whether a new subsidiary is built from the ground up or another company is acquired, it will have to be staffed in order to begin running operations. Given the regulations regarding the em-ployment of

expatriates, GSMEs would be forced to train and use locals in their operations. First of all, training is associated with costs and there is no guarantee that locals would per-form the job as home country nationals would have due to differences in the levels of edu-cation. Differences in working cultures of foreigners and locals could result in conflicts as locals may not understand the values and common working practices of GSMEs. GSMEs also risk losing intellectual property that could be easily dissipated should it come into con-tact with locals as the country is currently experiencing problems in trademark misuse and infringement (Lighthizer, 2018, p. 150). The current foreign exchange regulations also make it difficult to compensate expatriates in top positions with Euros, which would reduce the attractiveness of working in Ethiopia to German nationals especially when the local curren-cy is of less value and remittance of earnings are restricted.

Profit repatriation and purchasing of raw materials

Profit repatriation is the return of foreign earned profits or financial assets back to a foreign firm's home country and plays a decisive role in whether FDI is actually worth it to the parent company. Firms which are not able to get money out of the country see very little sense in investing there (World Bank, 1997, p. 35). The ability to repatriate profits grants foreign firms the option of choosing where to reinvest profits. In order for profit repatria-tion to be a success, the home country's earnings must be easily convertible into the foreign currency accepted in the home country of the parent firm. However, given the available currency restrictions of the Ethiopian government, GSMEs would have difficulties in con-verting earned Birrs into Euros since the private and commercial sectors have the least pri-ority in receiving foreign currency, also taking away the option of choosing where to invest, and in turn force them to reinvest in the country. GSMEs that are active in the manufactur-ing/production sector may also not be able to acquire foreign exchange for the purchasing of raw materials which are only available abroad for further production – this however de-pends on the industry in which they are active. As seen from the example under Export, GSMEs that are active in the transformation of natural resources which are important under the GTP II would face less or no difficulties in obtaining foreign exchange for importing raw materials needed for production.

Bureaucracy and Corruption in doing business

Irrespective of whether GSMEs acquire already existing local companies or build up their own subsidiary, the regulations that are present in the local business environment would serve as barriers and could present GSMEs with costs and delays that may arise from the bureaucratic and administrative procedures. It takes for example, on average 33 days to register/start a business, excluding the time required to gather information about needed documents and inquire about processes. In other Sub-Saharan nations, it takes 24 days (Appendix 2). GSMEs that acquire local companies would be free from the bureaucracy and administrative procedures at this stage but will have to deal with other complications later on that may arise in registering property and paying taxes (World Bank, 2018). As foreign organisations operating in Ethiopia, GSMEs need to interact with host-country in-stitutions including the government and the bureaucracy of its institutions (Johnson, 2004, p.5). These complicated and bureaucratic administrative procedures provide government officials with the opportunity to bend or break rules and regulations (Johnson, 2004, p. 5) and create an environment for corruption to induce the payment of bribes for personal gains. Given that Ethiopia ranked 107th out of 180 countries on the Corruption Perfor-mance Index (CPI) , it can be said that Ethiopia is quite corrupt and

GSMEs might have to pay bribe in order to obtain certain documents needed for conducting business as they may face risks of being oppressed by officials if they do not adhere to their request by facing even longer and costly procedures. Bureaucratic corruption also brings about uncertainty which in turn further increases costs of doing business as the payment of bribes is no con-firmation that the services needed would be granted (Johnson, 2004, p. 5).

Management of Government Intervention

Given the above detailed effects on the market entry modes, how could these effects be managed by GSMEs? Traditional methods of managing government intervention suggest the complete avoidance of countries with government intervention. However, GSMEs can-not simply ignore countries like Ethiopia because they possess multitude of emerging fields along with new activities and are closely located to Europe making them prime sources of growth (Khalil, 2017, p. 4). Some scholars like (Jimenez et al, 2014) also argue that gov-ernment intervention does not necessarily deter investment. Firms can manage government intervention and turn it into opportunities (Holburn & Zelner, 2010).

GSMEs which are keen on investing in Ethiopia could create Joint Ventures with local partners. With Joint Ventures, GSMEs would enjoy the advantages that come with work-ing with local partners who fully understand the local business environment with the ability to navigate through complex business administrative procedures. Local partners possess knowledge of local language and culture and may have useful connections with the host-country government. This could be important as government might not uniformly intervene. Local partners would be able to identify any loopholes in the intervention methods and take advantage of them. By creating joint ventures, GSMEs could also gain immediate ac-cess to the already established distribution systems and customers of their local partners. Caution must be taken here however - GSMEs should only enter into joint ventures which local partners which they fully trust. Innovative ideas, trademarks and patents are at risks of being imitated by local partners who might end the joint venture and start up their own businesses, eventually creating competition to GSMEs.

Cooperative exporting could also reduce the severe costs incurred as a result of the monop-oly of the ESLSE by teaming up with other SMEs for the joint exporting and promotion of their products. The costs of export would then be spread among all members making it easy to overcome financial strains. They could also partner with larger companies exporting into Ethiopia with an already established distribution network and pay commission for the use of services.

Problems of repatriation could be solved by buying products in Ethiopia and exporting them to Germany for sale. In this case, a good example might be buying Ethiopian coffee, as it is one of the most traded good between Germany and Ethiopia, and exporting it to Germany where it could be sold to realize royalty earnings.

Limitations and Conclusion

This paper discusses ways by which German SMEs could be affected by the trade interven-tion methods of the Ethiopian government depending on the market entry mode used. This however, does not mean that they would only be affected in the above stated areas. Due to the limited

scope of this paper, not all government intervention methods were discussed. Besides, exact information could not be found on all intervention methods used by the GoE. The results from the paper and suggestions have limited applicability and may be country specific. It is also important to note that GSMEs may experience intervention dif-ferently, even in Ethiopia, as governments do not intervene uniformly especially in differ-ent industries as seen by the example of the textile industry.

German SMEs planning to invest in Ethiopia should inform themselves beforehand on the trade environment in the country in order to select the most appropriate entry modes with-out causing much adverse effects on their operations.

Looking forward, it would be quite interesting to see how the far the current projects under the GTP II help improve on the investment environment in the country. The country also recently opened up investment and selling of minority rights in sectors including telecom-munication, air and sea transport etc. which were only reserved for government and local participation, to foreign and private investors. This would definitely boost efficiency and reduce costs and delays associated with international trade for example, as foreign inves-tors will be equipped with technology to bring efficiency to these industries. By finally settling its 20 year dispute with Eritrea, the country can regain access to the ports of Adulis and Zeyila, which might take off the strain and heavy dependency on the port in Djibouti for example and reduce costs involved in importing and exporting.

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