POLICY BRIEF

Determinants of Imports in Guinea

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Abstract

The objective of this paper is to examine the factors that influence Guinea's overall import demand using annual data covering the period 1980-2015. Through the Error Correction Model (ECM), we estimated the short- and long-term relationships to measure the effect of real investment expenditure, real effective exchange rate, real final consumption demand and trade policy on import demand, after testing the existence of a cointegration relationship between the different variables of the model. The results showed that in the short term as in the long term, the demand for real investment, the real demand for final

consumption and the trade policy based on the adoption of the new tariff system from 2005 are the main determinants of the import request in Guinea. These results allowed us to draw some implications for economic policy.

Introduction

International trade is widely recognized as an essential element in expanding opportunities for economic growth. As such, international trade has been characterized as an economic growth engine. It fosters domestic efficiency, international specialization, and competitiveness, ultimately leading to increased levels of aggregate production. In addition, to sustain economic growth countries need high growth in demand for capital and consumer goods as well as raw materials to support this expansion. Therefore, economic growth requires the provision of additional resources to production. However, the provision of these additional resources cannot be supported by domestic supply alone, which implies that imports of external resources are needed to bridge the gap between the increasing domestic overall demand and the limited supply. Consequently, imports are regarded as an essential component of international trade and economic development.

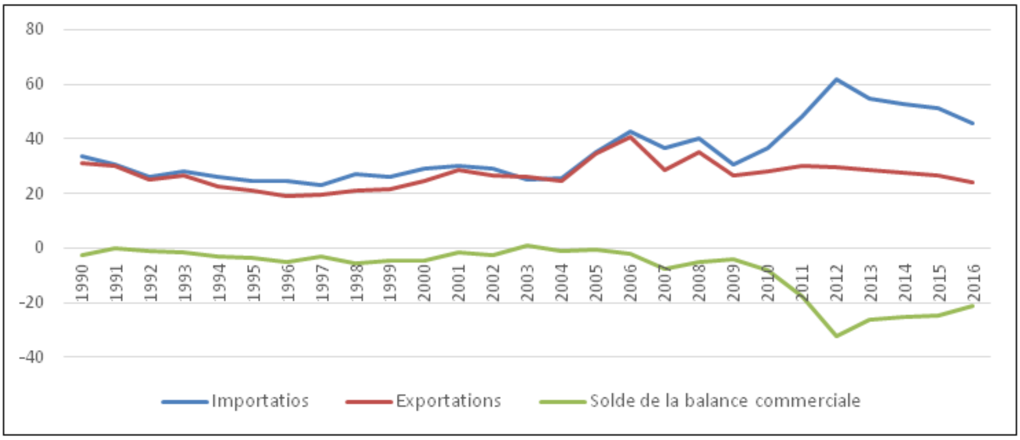
Guinea, like other developing countries, is open to foreign trade, mainly supported by trade in raw materials. The country is endowed with an abundance of raw materials (bauxite, gold, and diamonds). Foreign trade accounts for more than 78%[1] of Guinea's gross domestic product (GDP). With low domestic agricultural production, characterized by a relatively steady decline in the share of the agricultural sector in GDP, from over 90% before independence to 62% in 1971, 46% in 1988, 24.16% in 2005, 22.04% in 2010 and 20.11% in 2014, Guinea imports a large part of the consumption demand of households and businesses. This high level of imports has led to a persistent deficit in the balance of trade for several years. Indeed, over the period 1990 to 2015, exports increased by 23% while imports almost tripled in value (Figure 1). In 2011 the deficit on the balance of payments reached US$1.28 billion, or about 25.6% of GDP.

It should also be noted that Guinea is the 143rd importer, and the 124th country in terms of exports in the world. The country's trade balance has always been in deficit with a widening trend of the deficit in recent years (Table 1). This structural deficit in trade balance is primarily the result of the poor performance of the agriculture sector in terms of exports. In 2015 Guinea exported US$2.5 billion worth of goods and imported US$3.32 billion worth of goods leading to a trade balance deficit of US$706 million. The main imports are refined oil (9.8% of total imports) followed by rice, which accounts for 7%. Recently, the main export has been gold, accounting for 38.2% of

1 The World Bank, World Development Indicators (2018).

total exports followed by aluminium ore, which accounts for 29.5%. Currently, the Guinean market is flooded with foreign products, particularly from China, Japan, the Netherlands, India, Belgium, France, and the United Arab Emirates. In short, products from all continents are available in Guinea (World Bank, 2018).

Figure 1: Evolution of foreign trade between 1990 and 2015 (% of GDP)



Source: Author, based on World Bank data, 2018.

Table 1: Evolution of the trade deficit between 2012 and 2016

External trade indicators	2012	2013	2014	2015	2016
Imports of goods (millions USD)	2.254	2.230	2.242	1.971	2.151
Trade balance (excluding services) (millions USD)	-316	-253	-306	-411	-2.015

Source: World Bank (2018)

The constant growth in imports and their diversity raises the question of why Guinea imports so many products. Therefore, it is important to determine the factors that explain the country's import demand. It is against this background that we ask the question: What are the factors that influence import demand in Guinea? The general objective of this paper is to understand the behaviour of overall import demand and its role in the country's economy. Specifically, this study aimed to identify and analyse the determinants of Guinea's import demand over the period 1980 to 2015.

Conclusion and policy recommendations

The purpose of this study was to examine the determinants of Guinea's aggregate import demand function over the period 1980 to 2015. The demand function was based on the traditional import demand function developed by Hemphill (1974) and later modified by Moran (1989) and Egwaikhide (1999). The model was adjusted by adding real investment demand, real final consumption demand, real exchange rate and trade policy as explanatory variables in the aggregate import demand function. First, the results revealed that real final consumption demand, real investment demand, trade policy, and the exchange rate are cointegrated.

Second, in both the short and long term, the results revealed that real investment demand, real final consumption demand and trade policy are statistically significant in Guinea's aggregate import demand function. These results show that Guinea is highly dependent on final consumption demand, which partly justifies the large increase in import demand. The results also underscore the positive impact that the country's adoption of the new WAEMU tariff system has had on its import demand through the sub-region's integration policy.

With this in mind, we recommend that the Guinean authorities promote and encourage national production to achieve self-sufficiency in terms of responding to the needs of the country's population, implement a local consumption strategy and create a business environment conducive to national enterprises through a return to political stability and the establishment of a legal and institutional framework for the implementation of policies conducive to development.

We also recommend that the national authorities, in the framework of trade policy, continue their modernization policies for the practice of the commercial sector to reduce the weight of the informal sector and establish a climate of healthy and fair competition, as well as the promotion of national exports, especially in the non-mining sectors, to make trade a real engine of growth.

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