EXTERNAL TRADE AND ITS IMPACT ON ECONOMIC GROWTH IN SIERRA LEONE SINCE 2010 CASE STUDY KENEMA CITY.

MOHAMED KOROMA
EASTERN POLYTECHNIC
KENEMA
PRIVATE MAIL BAG.

ABSTRACT

The study examines external trade and its impact on economic development in Sierra Leone. The study uses qualitative analysis to look at the country's trade statistics over periods -2013, 2016 and 2017. Looking at these three periods, it was clearly evidenced that the economy is still recovery from the shock in 2014, when the Ebola epidemic broke out, and as a result mining companies ceased their operations in the country. The literature looked at economic theory and international trade In 2017, Sierra Leone exported $839M, making it's the 152nd largest exporter in the world. During the last five years the exports of Sierra Leone have increased at an annualized rate of 1.6 % from $770M in 2012 to $839M in 2017. On the other hand, Sierra Leone imported $1.3B, making it the 165th largest importer in the world.

Background Information

Sierra Leone has an open economy in which trade accounts for around 74% of the country's GDP (World Bank, 2017). The country's trade policy is a part of global strategy to reduce poverty and is in compliance with its commitment to ECOWAS (Economic Community of West African States). Customs duties are relatively high in Sierra Leone. Despite having few trade barriers, the country has very few bilateral investment agreements. The factors that encourage foreign trade are the rapid expansion of the telecommunications sector, the non-restriction of converting or transferring foreign investment funds and the absence of legal restrictions in obtaining foreign

n exchange. Sierra Leone exports mainly cocoa (22.7% of total exports), vehicles (18%), machinery, wood, sea products and other foodstuff, and minerals and gems (gold, diamonds, iron ore). The bulk of the country's imports are cereals (18% of total imports) and other foodstuff, machinery (11.7%) and vehicles (10.8%) (ITC, 2017).

Sierra Leone's main trading partners are the European Union, Senegal, United Arab Emirates, China and Benin. The country is still experiencing a period of recovery after Ebola epidemic that led to a decrease of gold export of 297% and of diamonds exports of 24% in 2015; the drop of in the prices of iron ore, as well as the shutdown of the country's largest iron mine, the Tonkolili facility. In September 2016, the Ministry of Commerce launched the Sierra Leone Export Competitiveness, a project aimed at improving the country's exports. Innovations will focus on improving the packaging of exported products. Construction on a road between Liberia and Sierra Leone began in May 2016. It is funded by the European Union (EUR 105 million) and should improve the transportation of goods.

Sierra Leone's trade balance is structurally in deficit and this trend is expected to continue considering the country's fledgling industry and lack of agricultural productivity. In 2017, the country imported USD 1.09 billion of goods and exported USD 779 million.

Problem Statement

Sierra Leone is extremely poor and nearly half of the working-age population engages in subsistence agriculture. The country possesses substantial mineral, agricultural, and fishery resources, but it is still recovering from a civil war that destroyed most institutions before ending in the early 2000s.

In recent years, economic growth has been driven by mining - particularly iron ore. The country's principal exports are iron ore, diamonds, and rutile, and the economy is vulnerable to fluctuations in international prices. Until 2014, the government had relied on external assistance to support its budget, but it was gradually becoming more independent. The Ebola outbreak of 2014 and 2015, combined with falling global commodities prices, caused a significant contraction of economic activity in all areas. While the World Health Organization declared an end to the Ebola outbreak in Sierra Leone in November 2015, low commodity prices in 2015-2016 contributed to the country's biggest fiscal shortfall since 2001. In 2017, increased iron ore exports, together with the end of the Ebola epidemic, supported a resumption of economic growth.

Continued economic growth will depend on rising commodities prices and increased efforts to diversify the sources of growth. Non-mining activities will remain constrained by inadequate infrastructure, such as power and roads, even though power sector projects may provide some additional electricity capacity in the near term. Pervasive corruption and undeveloped human capital will continue to deter foreign investors. Sustained international donor support in the near future will partially offset these fiscal constraints.

Research objectives

The main aim of this study is to investigate international trade and its impact on economic growth. The following objectives will be used in this article:

- To Discuss the external trade and its impact on economic growth in Sierra Leone since 2010?
- To identify relevant variables which play a role on international trade and economic growth in Sierra Leone? ™
- To determine if international trade affect economic growth of Sierra Leone positively or negatively.

Economic growth theory

Economic growth, as was already mentioned, began with the industrialization process and is much faster and persistent than the one registered before that period. Such growth started in the Western European countries and spread to the periphery mostly through trade (Baines, 2003).

Economic growth theory as we currently know evolved from the exogenous growth models to the endogenous ones. Solow (1956) introduced an exogenous growth model that was based on a production function, with constant population growth and constant returns to scale, relating output with three main production factors, capital, labor and knowledge. Solow's theory implies that the economy converges to a balanced growth path where the output per capita growth rate is determined by the rate of technological progress. Once the balanced growth path is reached technological progress enables capital to grow without decreasing its marginal productivity, allowing for sustained positive output growth. Despite Solow's breakthrough the theory provides a considerable fragility, the explanatory variable of the output growth rate is not determined by the model2 representing everything that is not explained by capital and labor, which can include potential payoffs arising from international trade.

With this line of thought new models appeared including technological progress as an explanatory variable of economic growth and tried to explain what Solow's model could not, such models are the endogenous growth models pioneered by Romer (1990), Grossman & Helpman (1991) and Aghion & Howitt (1992), among others3. Romer (1990) introduced in his model profit-seeking R&D efforts and imperfect competition in the capital goods sector4. In this case output is also a function of capital, labor and technology, but; there are two sectors, one that produces goods and other that focus on R&D; capital and labor are used by the two sectors; and both sectors use the full stock of technology available. The conclusions on Romer's model5 are identical to those on Solow's, for this reason the marginal productivity of capital is held constant allowing technological progress to overcome the diminishing returns of capital fostering output growth. The difference between the two stands on how the growth rate of technological progress is determined, in Romer's case it is endogenously determined and depends on how many people decide to work on the R&D sector.

Grossman & Helpman (1991) developed a model where growth is obtained by combining two conditions, production of differentiated goods and deliberate accumulation of knowledge. The authors presented a North-South trade model where the developed North engages in innovative R&D activities and then exports the goods produced to the less developed South, later on innovation from the North transforms into imitation from the South, enabling the northern manufacturers to move onto new production standards and new innovative goods. Hence, international trade is a fundamental factor for knowledge accumulation and economic growth. Because, as demonstrated in the model, when a country engages in world trade it gains access to a more advanced source of knowledge, and then uses that knowledge to accumulate new inputs and make productivity gains, which in turn leads to an increasing production of goods and services, thus becoming a stronger competitor. Dinopoulos & Segerstrom(2006) also developed a North-South trade model, their conclusions are similar to the ones found on the former, but these authors go a step further by analyzing the welfare implications of three aspects of globalization; increases in the size of the South, stronger intellectual property protection and lower trade costs.

Trade and Growth

International trade plays a crucial role in the growth process as was first stressed by the classics, Adam Smith and David Ricardo. Adam Smith (1776) defended that broader markets would lead to higher accumulation of capital and higher technological progress, thereby improving the division of labor and productivity, thus fostering economic growth. As for David Ricardo (1817), foreign markets could not only delay the eventual falls in the profit rates brought by higher wages and land limitations, but also countries would specialize on goods that had lowest opportunity costs and a stronger comparative advantage that would lead to larger welfare gains.

More presently international trade became one of the main subjects of study to explain economic growth, whether through trade liberalization and openness or through the export-led growth hypothesis. It is a fact that with the crescent globalization that occurred in recent decades both developed and developing countries increased their openness and lowered their barriers to trade, but they may have not benefited equally. Gries & Redlin (2012) study the short-run and long-run dynamics for 158 developed and developing economies, and find evidence of a positive relation between trade openness and economic growth in the long-run, meaning that in a longer term openness is a favorable strategy to promote growth. In the short-run, such relation is negative on low income countries and positive on high income countries, which could mean that low income countries may not reap benefits from international integration while in a short-run adjustment process. Other study that follows the same line of thought is Yanikkaya's (2003) paper, who studies the growth effects of several measures of trade openness for 100 developed and developing countries and comes to the conclusion that not only trade volumes affect growth positively but trade restrictions also have a significant and positive effect on growth. This is more likely to be true in developing countries that use trade restrictions to cause a reallocation of productive resources to sectors where the country has a comparative advantage. Attention is needed though to the measures of openness used, because as Rodriguez & Rodrick (2001) stressed, in their critique to several papers, there is a tendency to overstate the effects that trade openness has on economic growth, especially when the measures used are poor measures of trade barriers that lack robustness, which in Yanikkaya's case the use of a range array of openness measures may prove that his findings are sound. On a more theoretical approach Thirlwall (2000) realizes that generalized trade liberalization thus indeed improve growth performance and exports serve as a catalyst to that growth6, he also points out that the highest the technological intensity of the goods produced and traded in a country the more powerful is this catalyzer, in other words countries that produce and export primary goods grow at smaller rates than others that produce and trade manufactured products. Nonetheless Thirlwall also acknowledges that some forms of trade liberalization, like Customs Unions, may be welfare-reducing, if trade diversion supplants trade creation, so he leaves room for the implementation of some protection barriers, especially by African economies, that may help countries being more liberalized but at a more moderate pace.

It is an established fact that exports promote economic through several channels; exports enhance productivity due to greater economies of scale; exports allow the importation of key intermediate inputs that can lead to better productivity; exports can bring incentives to pursue technological advancements that can lead to spillover effects and improve overall economic performance and; exports promote a better allocation of resources through specialization on goods that have a better comparative advantage (Baharumshah & Rashid, 1999; Shirazi & Manap, 2005; AbuQuarn & Abu-Bader, 2001; Afonso, 2001). These effects led to the so called export-led growth (ELG) hypothesis (McKinnon, 1964), where the dominant cause of economic growth is an increase in export activities, and was first proved to be true by Michaely (1977), Balassa (1978), Krueger (1978) and Feder (1983), among others.

Trade and investment in Sierra Leone

A proportional representation of Sierra Leone's exports

Mineral exports remain Sierra Leone's principal foreign exchange earner. Sierra Leone is a major producer of gem-quality diamonds. Though rich in this resource, the country has historically struggled to manage its exploitation and export. Annual production estimates range $70–$250 million; however, only a fraction of that passes through formal export channels (1999: $1.2 million; 2000: $16 million; 2001: projections $25 million). The balance is smuggled out and has been used to finance rebel activities in the region, money laundering, arms purchases, and financing of other illicit activities, leading some to characterize Sierra Leone's diamonds as a "conflict resource."

Recent efforts on the part of the country to improve the management of the export trade have met with some success. In October 2000, a new UN-approved export certification system for exporting diamonds from Sierra Leone was put into place that led to a dramatic increase in legal exports. In 2001, the Government of Sierra Leone created a mining community development fund, which returns a portion of diamond export taxes to diamond mining communities. The fund was created to raise local communities' stake in the legal diamond trade.

Sierra Leone has one of the world's largest deposits of rutile, a titanium ore used as paint pigment and welding rod coatings. Sierra Rutile Limited, fully owned by Nord Resources of the United States, began commercial mining operations near Bonthe in early 1979. Sierra Rutile was then the largest non-petroleum U.S. investment in West Africa. The export of 88,000 tons realized $75 million for the country in 1990.

The company and the Government of Sierra Leone concluded a new agreement on the terms of the company's concession in Sierra Leone in 1990. Rutile and bauxite mining operations were suspended when rebels invaded the mining sites in 1995. Negotiations for reactivation of rutile and bauxite mining are in progress. The U.S. interest in the company has been reduced to 25%.

Since independence, the Government of Sierra Leone has encouraged foreign investment, although the business climate suffers from uncertainty and a shortage of foreign exchange because of civil conflicts. Investors are protected by an agreement that allows for arbitration under the 1965 World Bank Convention. Legislation provides for transfer of interest, dividends, and capital

Methodology

The various aspects of research design and methodology viz. nature and scope of the study, data, research design, data collection tool etc. are summarized as under:-

Definition of Research: The business dictionary describes research as a planned or systemized process of investigation that is aimed at improving existing knowledge or uncovering new facts. Research generally falls into two categories namely basic research and applied research. Basic research is usually for the purpose of improving scientific knowledge while applied research uses the basic research knowledge acquired for the development of new techniques, products and helping solve problems (The business Dictionary).

“Research is the systematic and objective identification, collection, analysis and dissemination of information for improving decision making related to the identification and solution of problems and opportunities in marketing” (Naresh M, 2008). This definition has two phases thus explaining how a research is done and the reason why research is conducted. The first aspect that answers how to conduct a research involves systemizing planning, identifying the research problem with accuracy, using the right data sources for collecting data, accurate analysis of data and its interpretation and final presentation of findings. According to Rajasekar (2006), the following are the steps or stages in a formal research process.

1. Choosing a research topic

2. Defining the research problem. It includes identifying various literature and references, and the chosen topic

3. Designing the research

4. Research investigation: This where the validity and reliability of the study are conducted as well as both data collection and sampling techniques.

5. Data analysis

6. Final interpretation of findings

Nature and Scope of the Study

The present study is descriptive in nature and examines external trade and its impact on economics growth in Sierra Leone since 2010. The study also measures how external trade

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contributes to the economic growth of Sierra Leone. This study is based on data gathered from journals and online platforms holding data on Sierra Leone's external trade. The research work will provide useful insights to government, policy makers and researchers in framing policies that can help in boosting the country's export and as well contribute to a sound economic growth.

Research Design

A descriptive research design was used for this study. Kothari (1990) says that descriptive research studies are those studies concerned with describing the characteristics of a particular individual, or of a group. The major purpose of descriptive design is description of the state of affairs as it exists. In a descriptive design the researcher must be able to define what he wants to measure and must find adequate methods for measuring it along with a clear definition of population to be studied. This being a study that had the characteristics that have been described i.e. concerned with describing characteristics of a group with clear definitions of the population and the measures that will be used, the descriptive research design was the most fitting and was therefore be utilized.

Documentary Review

Under this method, the researcher tried to examine whether the data collected were reliable, suitable and adequate. This method helped the researcher to get supportive information that was being complemented data obtained. The method was therefore being helpful to understand the contribution of external trade on economic development; by other researchers. Different books, journals, newsletters, electronic information and other forms of documented materials will be perused.

Discussion of Data and Interpretation of Results

This chapter will discuss the data of the study and interpret the results, taking into consideration three (3) fiscal years -2013, 2016 and 2017.

Trade Summary of Sierra Leone

Exports 2013

Commodities	**Values (in USD)**
Iron ore	US$ 209 millions
Titanium Ore	US$ 141 millions
Diamonds	US$ 104 millions
Cocoa beans	US$ 72.3 millions
Aluminum Ore	US$ 68.5 millions

Source: OEC-Sierra Leone Export

Imports 2013

Commodities	**Values (in USD)**
Rice	US$ 190 millions
Cars	US$ 41.2 millions
Cements	US$ 29.2 millions
Delivery Trucks	US$ 25 millions
Packaged medicaments	US$ 24.9 millions

Source: OEC-Sierra Leone Export

Exports 2016

Commodities	**Values (in USD)**
Cocoa beans (whole or broken, raw or roasted)	US$ 14.19 millions
Dump trucks (for off highway use)	US$ 10.99 millions
Cocoa shells, husks, skins and other cocoa waste	US$ 8.89 millions
Coniferous wood sawn or chipped lengthwise, sli	US$ 8.28 millions

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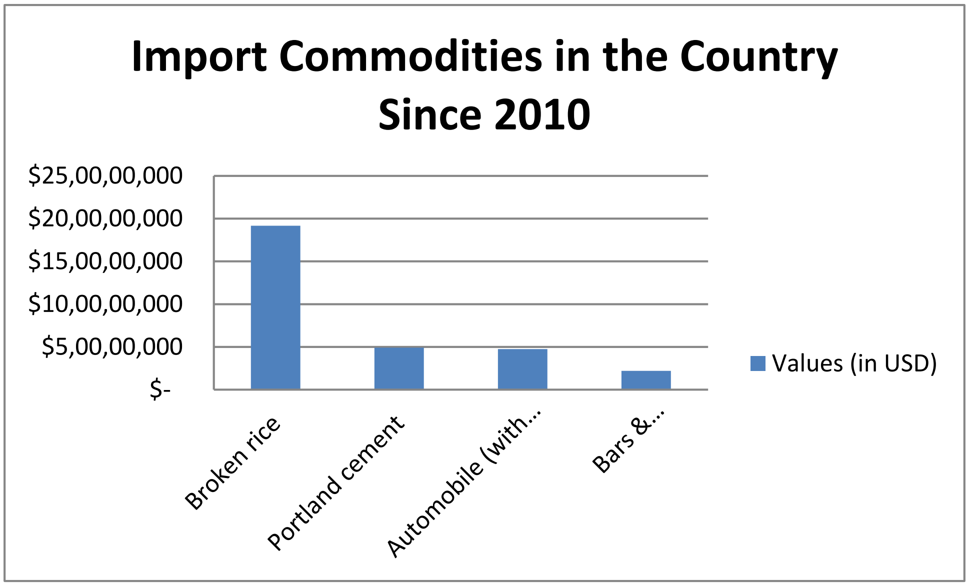
Source: world Bank



Commodities	Values (in USD)
Broken rice	US$ 191.618 millions
Portland cement	US$ 49.10 millions
Automobile (with diesel engines)	US$ 47.54 millions
Bars & rods,i/nas,hr,hd,ribs	US$ 22.03 millions

Source: world Bank

Exports 2017

Commodities	Values (in USD)
Iron ore	416 million
Diamonds	20.68 millions
Rutile	200 millions
Cocoa, Coffee and Fish	70 millions

Source: CIA Fact book

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Imports 2017

Commodities	Values (in USD)
Foodstuffs	250 millions
Machinery and equipment	156 millions
Fuels and lubricants	300 millions
Chemicals	112 millions

Source: CIA fact book

The tables above show Sierra Leone's export and import for the FY 2013, 2016 and 2017 as presented by the World Bank. It shows that Sierra Leone records a constant balance of trade deficit each year. The data indicate that Sierra Leone is an import country, with majority of the goods consumed by its citizens coming from other trading partners. Its top import partners include; China -11.5%, US- 9.2%, Belgium- 8.8%, UAE- 7.7% , India 7.4%, Turkey- 5.2 %, Senegal- 5.1 %, Netherlands- 4.3 % (2017)

Conclusion

looking at the economy of Sierra Leone and Sierra Leone Trade, Sierra Leone Exports, Sierra Leone Imports, it is important to understand that this particular country is listed as a "least developed country. Currently, the GDP is at 1.9 billion in United States dollars, which as slowly increased since the end of the civil war in 2002. Just two years ago, the World Bank listed Sierra Leone trade at the 147 position while the CIA rated it as the 153. The challenge with the Sierra Leone trade is that it has always experienced a tough time because of exploitation of mineral being depended on too much.

Interestingly, the government of Sierra Leone and even the people of this country have long believed that gold and diamonds are enough to generate earnings specific to the foreign exchange market. It has also been believed that these two resources are enough to bring investors in. Unfortunately, with this thinking being off base, large scale agriculture products, sustainable investments, and any development for the industrial sector have been grossly neglected by the government. Therefore, the economy is based on Sierra Leone exports of unsustainable resources or assets that cannot be reused.

Policy Recommendations

The following policy recommendations are proposed for action steps by the Government of Sierra Leone (GoSL);

- The government should take a review of existing external policies, hereby adopting sound policies that will benefit the People of Sierra Leone.
- The Government of Sierra Leone should modernize and strengthen its infrastructure, tax, regulatory, human resources, innovation, and other domestic policies that to ensure that local companies are as well positions to complete in the external trade arena.
- The GoSL should diversify the economy (Agriculture, Tourism, Fishing etc.) and stop being reliant on mining as a major source of export, as this is turn will help boost the economy.
- The GoSL should setup a more robust system to help in the prepare valuation of all exported minerals out of the country.

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