

STYLISTED FACTS

Trade Liberalisation Increases Imports (M)

<i>Direct Causes</i>	<i>Indirect Causes</i>
Reduction of trade restrictions.	BoP support tied to trade liberalisation.
Reduction of local cost of M due to tariff reduction.	Fall in forex cost of M due to slow down of economic activity in exporting countries.

Does Import Increase Lead to Stagnation or Growth?

<i>Growth</i>	<i>Stagnation</i>
<p>M aimed at:</p> <ul style="list-style-type: none"> - increasing output (capital and intermediate goods); - cheapening wage goods; - improving efficiency: Q/L; Q/K; quality and standards, etc; 	<p>M of simple final consumer goods:</p> <ul style="list-style-type: none"> - substitution of domestic production; - fall in capacity utilisation and efficiency; - fall in investment and employment; - FDI simply directed to basic processing of resource-based exports; <p>M of luxury goods:</p> <ul style="list-style-type: none"> - distortion of the pattern of consumption; - inefficient use of scarce resources.

WHAT HAPPENS IN SSA COUNTRIES?

- unplanned and fast trade liberalisation: no attempts to experiment, to discriminate according to relative economic competitiveness and strategy, to develop competitive productive capacities and to guide the application of scarce resources;
- very significant increase in the imports of simple, final consumer goods;
- collapse of capacity utilisation;
- the last two combined to result in lesser investment and relatively less imports of output and efficiency improving goods and services;
- hence, fast and unplanned trade liberalisation, combined with lower forex costs of imports from developed economies, have contributed to economic stagnation import increasing in SSA.