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covid-19 Brief

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Impact of Trade Shocks on Growth and Poverty in Guinea.

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The COVID-19 pandemic is affecting economies through several channels, including through changes in global commodity markets. This brief presents a short overview of an assessment of the growth and poverty effects of disruption in primary commodity markets in Guinea. The analysis focuses exclusively on the impact of the disruption in global commodity trade, that is, of changes in global prices and market access. We are using differences between prior and post COVID-19 projections of global commodity prices by the World Bank as measures of the impact of the pandemic¹. The combined variation of prices of Guinea's primary commodities² translates to a slight increase (0.2 pp) in the country's export price index (Figure 1). Indeed, the most important commodity exports are gold and aluminum, which account for 76.9% of Guinea's total exports. The increase in gold price (9.3 pp), is compensated for by a decrease in price aluminum (-8.9 pp). The average import price index, on the other hand, declines by -4.3 pp (Figure 1). The predicted changes in prices, compounded by reduced access to foreign markets, have resulted in a decline in exports and imports of primary commodities and have affected economic growth negatively. As the country faces these shocks, the ultimate effect on Guinean economy also depends on its capacity to respond to changes taking place in global markets. In other words, the extent to which governments succeed in adopting interventions to control the pandemic that minimize disruption to economic activity is critical to determining the magnitude of the effects on the domestic economy. This is reflected in Figure 1 where the numbers on the horizontal axis represent decreasing degrees of responsiveness from 1 (highest) to 35 (lowest) as one moves from left to right. The measure for responsiveness

is a combination of elasticities of export supply and import demand by Guinean firms and consumers, as well as elasticities of demand for Guinean exports in foreign markets. Depending on the degree of responsiveness, the simulated change in imports, in constant value, resulting from disruption in global commodity markets is shown to vary from 5.9 to -7.4 pp. The simulated change in export, in constant value, varies less, ranging from 1.4 to -3.6 pp (Figure 1).

The above changes reflect adjustments in the broader economy to changing global market conditions, with potentially serious consequences for overall growth and poverty rates. Figure 2 shows the probable effects on economic growth, with changes in GDP growth rates ranging from an increase by 1.3 pp to a decrease by -2.3 pp. The decline in GDP growth is the more likely case in face of limited capacity by the economy to respond to global price changes, given the widespread disruption in domestic supply chains. Table 1 shows estimates of changes in poverty rates resulting from deteriorating global trade environment and limited adjustment capacity by the Guinean economy. The figures are based on the lowest responsiveness scenarios. As the country battles to gain control over the pandemic, the measures put in place are likely to slow down economic activities. It is therefore more likely that the actual ability to adjust to changing global trade conditions will be limited, meaning that actual responsiveness is more likely to be closer to the low scenario case. Poverty rates are thus estimated to increase by 3.7 pp across in the country. Poverty is estimated to increase by more in rural areas (4.4 pp) compared to urban areas (2.5 pp). These rates are estimated based on

¹World Bank. Commodity Markets. Retrieved in July 2020. www.worldbank.org/en/research/commodity-markets#2

² See Figures 3 and 4 in Brief 025.

the highest decline in imports (-7.4 pp) and exports (-3.6 pp) and highest reduction in GDP growth (-2.3 pp). Higher responsiveness to the changing global trade environment would lead to more pronounced reaction by economic actors, with positive effects on imports and exports, economic growth, and poverty. This outcome is more likely the longer

the disruption in global markets persists and the more firms and households find ways to adjust. The simulated outcomes above highlight the importance of careful choice and implementation of interventions to respond to shocks that are certain to happen in the future.

Figure 1: Trade Effects of Global Commodity Market Disruption (pp)

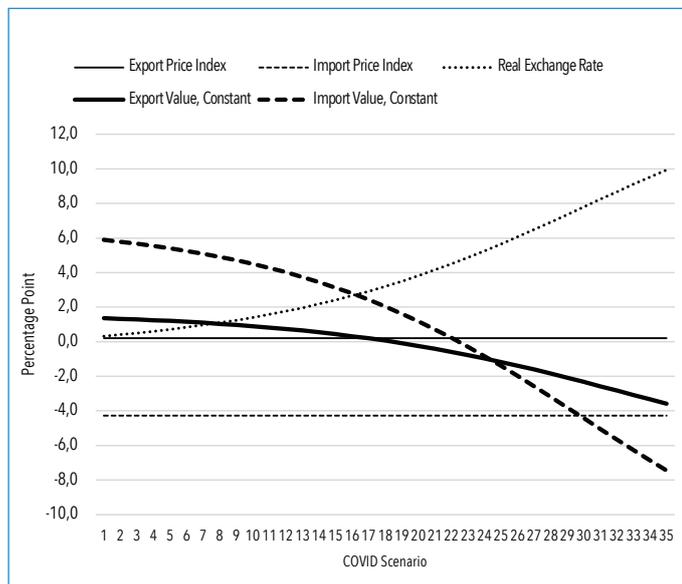
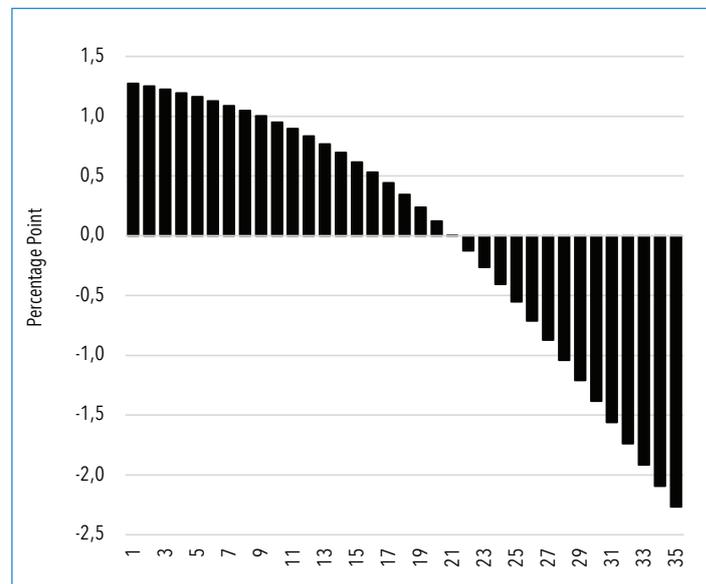


Figure 2: GDP Growth Effects of Global Commodity Market Disruption (pp)



Note: The COVID scenarios (1 to 35) combine different values of trade (import and export) elasticities across commodities to mimic the responsiveness of Guinea’s economy to changing global market conditions. Scenario 1 uses the highest and scenario 35 the lowest elasticity values. The remaining scenarios combine difference values of elasticities between the two extremes. Export price refers to the average weighted F.O.B. price indexes. Import price refers to the average weighted C.I.F. price indexes. Export and import values are in constant 2019 prices.

Table 1: Change in poverty headcount ratio resulting from global trade disruption (pp)

	Guinea	Urban	Rural
Ratio (pp)	3.7	2.5	4.4
Number	459 071	111 110	347 961

Source: Authors’ calculations.

Note: The results are based on COVID scenario 35 which combines the lowest values of trade (import and export) elasticities with the shock in commodity prices.



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