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## International Trade and Economic Growth in Ghana; Benefits, Constraints and Impacts

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### Abstract

The purpose of the paper is to comprehensively look at international trade and economic growth in Ghana. The topic is to carefully look at the benefits of international trade to Ghana, the constraints faced by Ghana in international trade or globalization (internal and external constraints) as well as the impacts of these constraints to the macro economic development of Ghana. The paper has enumerated some fundamental benefits Ghana enjoyed from international trade such as faster economic growth, improved product quality, reduction in poverty level and promotion of good governance. The paper has also identified some of the constraints Ghana face from international trade or globalization which is external and internal factors such as, lack of capacities and trade related infrastructure, land acquisition problem, weak regulatory procedures as well as tariffs on agriculture products, refusal of the western countries to eliminate subsidies, foreign exchange problems, administrative barriers and low technological development. Furthermore, the manuscript has also drawn a brief summary of problems and suggestions to minimize some of these challenges and conclusion on the macro economic factors that has been affected by these constraints.

### Keywords

**Definition of keywords:** Developing country: a country having a standard of living or level of industrial production well below that possible with financial or technical aid, or a country that is not yet highly industrialized.

Trade: is simply defined as exchange of goods and services.

International trade: is the exchange of goods and services across Borders, regions, and continents [1].

### Introduction

Trade and globalization is an important means of economic development of any country and it has played a significant role in the development of Ghana and African continent [2]. Ghana has enormous natural resources spanning from gold, cocoa, bauxite, timber, cashew, oil, tuna, aluminium, diamonds, horticultural produce and manganese ore. Ghana has also been blessed with human capital which has led to the development and expansion of businesses and influx of foreign direct investment. The question, is Ghana growing economically as a result of international trade or globalization? According to World Bank [2], trade has played an important role in the development of Africa in the last two centuries and continue to do so in the present times. In the case of Ghana,

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has this impacted positively on the economic development of Ghana? Of course, it is evident that Ghana is growing economically, but the growth is not in commensurate with the living standards of the population. In spite of the fact that African countries are richly endowed with natural resources and human capital, it is strongly noted as the poorest, deprived and neglected continent in the world [3]. Ghana is naturally blessed with the most important natural resources such as gold, cocoa, bauxite, timber and more. Ghana's development after independence does not reflect on the large natural resources. Ghana's poverty rate has not reduced significantly considering the large number of unemployed graduates seeking to find jobs or taking jobs that are not in consistent with their qualifications. In the context of discussing international trade or globalization, which has a significant influence to reduce poverty, unemployment and better standard of living, is insignificant in Ghana [4]. In spite of globalization's promise of prosperity for the world, and particularly developing nations, trade liberalization has not significantly reduced poverty [5]. This paper will discuss the benefits of international trade, the constraints faced (internal and external constraints) by Ghana in relation to international trade and or globalization as well as the impact it has on the economic development of Ghana and summary of the effects on macro-economic growth suggestions and conclusion.

### **Benefits of International Trade**

International trade has played an important role in the development of developed and developing countries with the effort of WTO and GATT who are set up to promote free trade among countries in the world. Their main emphasis has been to eliminate or reduce trade barriers and promote free trade [6]. This is as a result of the benefits free trade brings to various countries in the world. Free trade cannot be mentioned without the benefits it brings to various countries. This paper has identified three fundamental benefits Ghana enjoyed for the past few years which include the faster economic growth, reduction in poverty, promotion of governance, and improved product qualities at lower prices as a result of foreign competition and this is as a result of international trade and globalization [7]. According to World Bank, economic growth has increased life expectancy by over a decade in developed countries and has increased over a twenty year average in developing countries and which Ghana is inclusive [8].

The relationship between international trade, globalization and poverty reduction comes predominantly from job opportunities created by foreign investments which create a considerable number of job opportunities. Arguably this has reduced the unemployment rate in Ghana. Multinational Corporations investment in Ghana creates new job opportunities whilst enabling better placement for locally available skilled workers. This is accomplished as the unemployed are recruited and trained by the local subsidiaries of the foreign corporations of their operations and at the same time the skilled workers are poached away from local corporations with a higher wage margins.

According to UN, FDI, the most stable components of

globalization, has created over 53 million jobs worldwide which has beneficial effects on Ghana's economy as well as other developing countries. The world as a whole is more prosperous ever than before as a result of globalization [9]. Ghana's economy has enjoyed positive effects in the last few years such as fast GDP growth, expansion and growth in the business sector, steady but stable economic growth as a result of international trade and globalization with free trade as a result of globalization, improved efficiency and resource allocation in Ghana. This has not only allowed traders to specialize in the production of those goods and service they do best, but also gave consumers the opportunity to benefit from a more efficient means of production [9]. This efficiency generally has reduced the production cost which in turn leads to cheaper goods and services [10].

According to Lumina [11], trade, development, political and civil liberties are not exclusive to one another. The process of economic globalization has resulted in better political governance in Ghana. Though Ghana's trade policies are not developed as the developed countries, however, an abysmal trade policy ruins economic development. But there have been a gigantic improvement in the world trade policies enabling countries like Ghana to meet certain standards which is important to increase in export of Ghana's raw materials whilst receiving investors into the country for economic and social improvement [7].

### **Constraints on International Trade and Globalization in Ghana**

Though there have been tremendous benefits in international trade, this paper cannot do without comprehensively discussing the constraints which has been mostly dominated on the developing countries. These constraints will be looked at in two dimensions, internal and external constraints on the part of the developing world and Ghana at large.

#### **Internal constraints on Ghana**

Internal constraints are challenges faced by Ghana as a result of inability to meet certain economic standards to help improve in the world market. Some of the internal related problems include lack of capacities and the trade related infrastructure for the integration into the world trade system despite increased market access. This makes Ghana and most of the countries in Africa ineffective to perform in the world market, though there are opportunities for them to improve themselves.

Land acquisition is a major constraint most investors face. Challenges such as difficulty in acquisition of land, weak regulatory procedures, delays in regularizing land related issues, costly transportation system and inadequate feeder roads. This problem can be resolved by government acquiring and preserving land for purposes of investment and business activities and simplification of regulatory procedures for investors to fast track the acquisition and registration of lands for business purposes as well as creating and advancing the transport sector. For instance, revamping the rail transport will increase or broaden the transport sector that can lead to increased accessibility.

Notwithstanding, Privatization of certain areas of the ports will help create more infrastructures whilst regulating the activities of these private operators.

Corruption and ineffective implementation is a problem that is created by the people in power. Two reasons accounts for this, most of the people placed in power are not loyal to the country but with personal interest of amassing wealth. These so call people placed in power employ individuals with close political or personal relations and neglect the competence of the individual. There is the need for establishment of independent institutions to ensure that strong and effective measures are in place to monitor and reduce these corrupt practices. High cost of inbound and outbound transport costs reduces or curtails imports and exports activities at Ghana's ports [12]. To address this challenge, the government has to ensure that some of the unauthorized and indiscriminate charges are reduced to certain level that will enable more import and export activities. Moreover, foreign exchange challenges are constraining business activities, this affect the ability of investors and businesses to invest in the country or import and export to and from Ghana [13].

Failure by government to enforce existing laws and lack of absolute regard for the judiciary makes it challenging for Ghana to implement necessary legal changes required by trade liberalization [11]. It is important for the government to address these important challenges by strengthening the judiciary system through training and employment of more judges to handle and implement most business and trade related issues [7].

According to Jobodwana [14], International trade has played a positive role in raising the income of poor in developing countries but with some exceptions. He further stated that, this has not been the case in all developing countries. In practical terms, relating to Ghana, international trade has increased economic growth without equivalent reduction in poverty and employment. Ghana need to strongly and strategically provide for domestic manufacturers to support import substitutions. This can be done through capital accumulation for domestic business ventures, training and development of programs, education and business development, lowering interest rates for manufacturers and businesses, and accelerated implementation of technological hubs for development [15].

Trade liberalization or international trade has not brought the expected growth especially in developing countries and one important reason to this situation, is existence of large growing informal economy [9]. Ghana in the last few years experienced tremendous growth in the economy, and this is as a result of increase in expansion of small and medium enterprises and that has the tendency of creating more job opportunities [12]. However, on the larger scale, market women and men who have no properly registered businesses makes it much harder for government to generate taxes from this business. This has made it impossible for the government to give adequate protection for the local business men and women allowing foreigners such as the Chinese, Indians and Lebanese to dominate the informal economic sector.

## External constraints

The second dimension is the external constraints which has limited Ghana from fully exploiting the opportunities in the world market as well as advancing in the area of technology and agriculture. This is largely as a result of the super powerful countries strictly enforcing certain rules which do not allow them to increase their market shares, such as the refusal of United States of America (USA) and the European Union (EU) to reduce or eliminate subsidies, especially on agriculture products [16]. Because of this, the developing world finds it difficult to compete with their peers in the developed world resulting in agriculture products either being rotten or destroyed because of lack of market [6]. This has a great setback for Ghana as its exports are largely dominated by agriculture products and raw materials. According to Karunanidhi [3], the elimination of US and EU subsidies on agriculture never materialized as promised. It is time for these so called superpowers to go by the promise and agreement to eliminate the difficult subsidies imposed on these countries to benefit more from international trade and trade liberalization.

Large amount of income is earned from foreign exchange through agriculture exports which contribute greatly to domestic savings and capital accumulation for Ghana [8]. However, the expected income cannot be achieved because of low patronage, high level and intermittent embargos on selected agriculture products and the predominant excuse, is always low standard levels of products.

In modern context, technology is seen as the main key to economic growth of any nation [17]. The protection of intellectual property rights of business from developed countries are seen as having an adverse effects on developing countries as they are heavily dependent on technology from the former. Having access to good medicine is presumed as a way of having population with good health conditions [8]. Ghana has no good medical and health institutions because of denial of access to cheaper generic medicines from the developed world. Again, administrative barriers such as difficult procedures in respect of customs and practices remain a hindrance. More comprehensively, Embargos are placed on products that are more needed in the world market from the developing countries; Ghana in most instances is compelled to sell the product at a cheaper price as in their raw form to the international market [11]. They are transformed to finished goods and sold back at a higher cost [1]. Developing countries do not advance economically because of the high dependency on importation of goods and services from the developed countries. As stated by Irvin [9], any country whose economy is highly dependent on the importation of goods and services will not develop or may have a slow growth. Ghana's slow economic growth is as a result of being dependent on technology and importation of goods and services from the developed world.

## Impacts on Ghana

Though there are other factors that might have brought some of the economic problems Ghana and other developing countries face, but in the context of international trade

there have been worsening terms of trade [18]. According to OECD (2011), "Developing nations complain that their commodities terms of trade have declined long time ago as the prices of their exports relative to their imports have fallen [10]. Critically, exports prices of primary products of developing nations are determined in competitive markets whereas the monopoly of manufacturers in the industrial nations results in high price [3]. Non-diversified economies as developing country or economies such as Ghana are highly dependent on the advanced nations and majority of their raw materials are exported to advanced nations whilst they import from these advanced nations leading to high prices of goods and services [6]. Besides, unstable export markets as a result of decrease in demand for nation's specialized product which greatly reduce revenue from exports and Seriously disrupt income generation as well as damage employment level (UNECA, 2013) and furthermore, limited market accessibility [13]. Though, the integration of developing countries as a whole has improved greatly [10]. Protectionism and trade barriers imposed by many advanced nations has been a hindrance to Ghana's market access such as global protectionism in agriculture has been a major problem for the third world countries as agriculture commodity forms their main export [16].

## Summary

In the context of international trade and economic growth, though there are benefits, the constraints and impact has broadly affected the macro economic growth of Ghana, low employment levels, slow GDP growth, poor allocation of resources, decrease in general income levels of populates, slow socio economic growth, and high inflation rates as well as stifle business growth in Ghana. As a result of the above mentioned challenges, it is imperative for Ghana to make a substantial effort to improve productive capacities in industries. It is also important to pay attention to attracting manufacturing projects and building the domestic capacity necessary for such activities. In order to achieve trade objectives, it is crucial for Ghana to strive to enhance linkages between foreign affiliates and domestic firms such as small and medium enterprises to broaden the trade lines between these businesses. More broadly, develop and strengthening of stronger economic institutions such as Ghana Investment Promotion Council, strong Commercial Courts and Ministry of Trade and Industry to enhance trade and business within and across borders, protection of property rights, enhancement of democratic accountability and effective checks against bureaucratic corruption. Empirical evidence shows that improvements in economic institutions have positively improved economic performance across countries leading to better trading incentives [2]. Domestic demand for goods and services cannot be enough, so it is important to advance the promotion of Ghana made goods across borders, such as participation in the world trade forums with acceptable world standard of Ghana made goods through the Ministry of Trade and Industries. Finally, broadening of international industrial relationships to partner with industries in the Western and Sub-Saharan African countries for training and education of human resource and acquisition of modernized but cheap technology and tools for skill development

## Conclusion

Both developed and developing countries have tremendously benefited from international trade such as efficient allocation of resources, improvement in the global efficiency, specialization in production of goods and services, and reduction in the cost of production of goods and services.

Notwithstanding, there have been and are still constraints that are faced by the developing countries which are in two dimensions (internal and external). The internal constraints relate to lack of capacities for necessary infrastructure to be integrated into the world market, heterogeneity in the economic growth whilst the external constraints are seen as the refusal of the world super powers such as USA and the EU to reduce or eliminate subsidies, protection of intellectual property, administrative barriers and embargos on products and services. These have impacts on Ghana and the developing countries such as, decline in commodity terms of trade, non-diversified economies, unstable exports markets, limited market access and protectionism. This has led to low employment levels, slow GDP growth, poor allocation of resources, decrease in general income levels of people, slow socio economic growth, and high inflation rates as well as stifle business growth in Ghana.

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