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GHANA'S EXPORT AND IMPORT TRADE: AN EMPIRICAL REVIEW

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Abstract

Globalization has increased interactions among nation-states and international trade has been deemed as a major driver of globalization, along with international investment and information technology. Many trade theories posit that gains from trade arise when nations specialize in the production of goods in which they have comparative advantage and trade for goods in which they have a comparative disadvantage. This gives rise to the concepts of exports and imports. This study adopts an empirical approach to review the exports and imports of the economy of Ghana, with a view to determining the trade balance as well as provide a vivid picture of the country's trade, The findings are that the country's imports exceed exports with negative trade balance, which is as a result of the low value of exports, in contradistinction to high value manufactured imports.

Keywords: Ghana, international trade, exports, imports, balance of payments

INTRODUCTION

All things being equal, trade is supposed to be beneficial to economies that engage in free trade. China's rise over the past 40 years, since reforming and opening up has been largely attributed to the country's emergence as a global superpower.

The argument for trade is that it promotes specialization and efficiency in production, which does not only benefit nation-states but the world economy at large. Further, differences in resource endowments mean that nation-states benefit from trade. Moreover, since no particular country can produce all the goods its citizenry needs, trading provides a variety of goods and services that increase the standard of living of the citizenry.

Some economists, however, believe that openness to trade can be harmful, such as import substitution industries for example. However, trade is generally seen to beneficial and it can be more costly not to trade.

At the same time, whilst countries like China and other developed countries seem to benefit from trade with a positive balance, least developed, and some developing economies are suffering from a situation where their imports outweigh exports, leading to a negative balance of payment problems.

Problem Statement

Ghana's comparative advantage lies the many resource abundance; chief among them being precious minerals such as gold, diamond, bauxite, and manganese. The country is also a leading exporter of cocoa and timber. The country, however, like most sub-Saharan African economies is saddled with external debts such as IMF loans and depends on much of donor support.

The question that begs for answer therefore is; if the trade is so beneficial, and the country is endowed with such resources, why is it faced with such a scenario. This is the problem that calls for research.

Aims of the Study

The prime of this research is to evaluate the exports and imports composition of Ghana's international trade, using empirical data to provide an overview of the country's trade situation and serve as a foundation for further research.

LITERATURE REVIEW

This section of research reviews scholarly literature on trade. The review includes arguments for and against trade as submitted by authors in their studies.

Gains from trade

According to Edwards (1992), trade is beneficial, and Wacziarg and Welch (2003) add that liberalizing trade as well as opening the economy to trade impacts positively on both investment and GDP growth. On the evidence of trade impacting the economy, Sukar and Ramakrishna (2001) in their studies report a positive impact on the Ethiopian economy. According to Eggert (2002), resource endowments such as minerals have the tendency to impact people's livelihood in the economy. According to Esfahani (1991), exports are beneficial in eliminating barriers that may exist in foreign markets.

On the channels of impact, Helpman and Krugman (1985), submit that exports, benefits economic growth, by foreign technological adoption as well as benefits that accrue to large scale economies. In a study by Michaely (1977), he argues that exporting can enhance developing countries' development. Authors such as Chenery and Strout (1966) submit further that exports can increase foreign exchange earnings and balance of payment improvements, as well as importation, needed manufacturing technologies

Arguments against Trade

Some authors, are of the view that trade may not be as beneficial. In his studies, for example, Li (2003) reports that importation of services impacts negatively on the growth of developing countries. According to Zafar Ali (2007), oil importation leads to upward sing in prices detrimental to poor economies in Africa. Tull (2006) adds that cheap Chinese textile imports have impacted negatively African local textiles, similar to results by Ibrahim (2017). Hilson et al (2014) attribute illegal gold mining in Ghana to trade. Aryee et al (2003) adds further that soil and water contamination, as well as land degradation, has been the result

Conclusion on the Literature Review

From the literature review, it can be realized that whilst exports are largely seen to benefit the economy, imports, although may be beneficial in terms of providing variety and allowing acquisition of production technology, generally impacts negatively on the economy. Therefore, whether an economy will be better or worse off depends on its composition of trade (exports as against imports in terms of value).

RESEARCH METHODOLOGY

This study adopts an empirical methodology employing the interpretive approach to interpreting time series data from 1960 to 2017, from secondary data sources such as the World Bank country indicators trade data on Ghana, CIA Factbook and Ghana government records on trade.

Nations Competitive Advantage – Porter's Diamond

The Porter Diamond is useful in explaining the competitive advantage that nations possess, arising from factor endowments, as well as the role of governments as a catalyst in enhancing their respective country's global competitiveness. This model was propounded by Michael Porter, a corporate and competition strategist and founder of The Institute for Strategy and

Competitiveness at the Harvard Business School. The diamond is a proactive economic theory, as opposed to simply quantifying a country or region's comparative advantage.

According to Porter's diamond, nations can create new advantages of factor endowments which includes, skilled labor, and strong technology industry as well as government support of a nation's economy. This theory is different from traditional theories that focus on a country's endowments such as natural resources, labor and population size, land, and locational advantages as the primary determinants of a nation's comparative advantage. The porter's diamond which is illustrated by the diagram below resembles the shape of a diamond from which it derives its name. The four points of the diamond depict the four interrelated determinants which are theorized by Porter, as the deciding factors of a nation's comparative advantage. The factors are the strategy of the firm, structure and rivalry, the related supporting industries, conditions of demand as well as factor conditions. The strategy of the firm, structure, and rivalry posits that competition promotes efficiency in production and technological innovations, whereas related supporting industries stands for downstream and upward industries which facilitate innovation through the exchange of ideas. Conditions of demand stand for the nature and size of the customer base for a product, which also promotes innovation and improvement of products. The most important, according to Porter's, is factor conditions. Factor conditions represent elements that he believes an economy can create for itself, including, the large pool of skilled labor, infrastructure, capital, and technological innovation. He argues that factor conditions are an important determinant of a nation's comparative advantage as compared to natural factor endowments. He argues further, that government's role is needed in the driving of the economy; challenging business creation of factor conditions, by stimulation competition through anti-trust law enforcement.

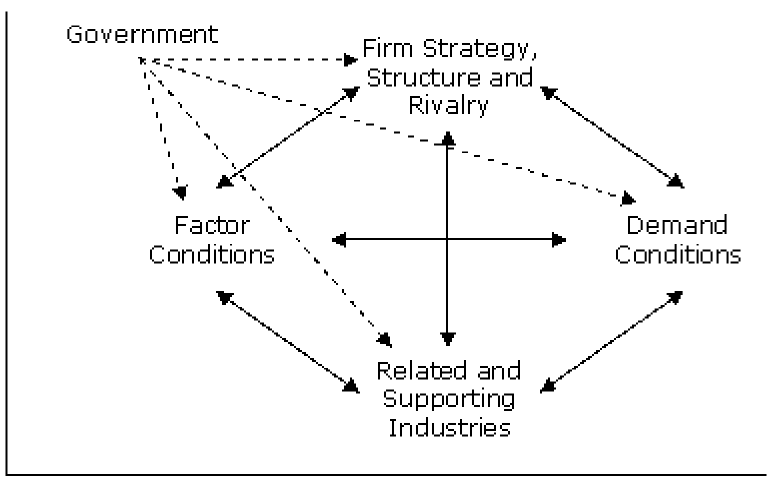

Figure 1: Porter's Diamond Model for the Competitive Advantage of Nations
Source: Valuesbasemanagement.net

ANALYSIS AND FINDINGS

This section reviews the trade structure of Ghana, in terms of exports and imports, examining empirical data and figures in order to determine the over-all trade standing of the country.

Overview of Ghana exports

Ghana's exports composition is as gold (4.43bn USD), cocoa (1.89bn USD), cashews, nuts (987m USD), crude oil (960m USD), and timber (367m USD). Exports in Ghana reached an all-time high in the first quartile of 2012 recording 4118.830m USD, with the lowest point being recorded in 2003 1st quartile (565.06m USD). Basically, Ghanaian exports, as can be seen from the composition of the basket are primarily agricultural goods, raw materials, and low-value items which do not generate much foreign exchange earnings. The top export destinations as at 2016 were Switzerland (1.87bn USD), India (1.56bn USD), United Arab Emirates (1.43bn USD), China (941m USD), and Vietnam (549m USD). Ghana's trade volume is shown in the figure below.

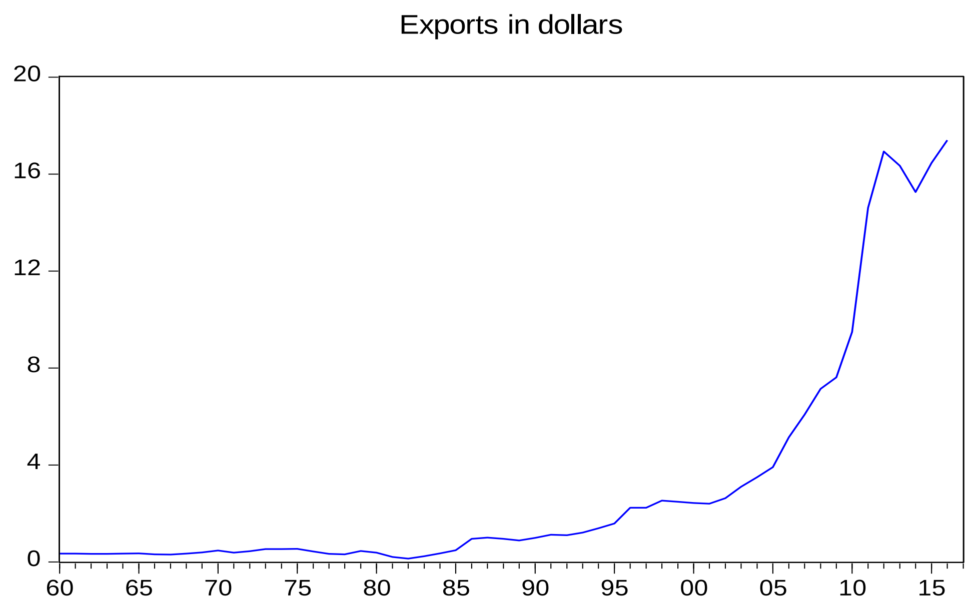

Figure 2: Exports in US Dollar for Ghana from 1960 to 2017

Source: Authors' Compilation

Overview Ghana imports

As opposed to exports, imports in the country are generally, manufactured goods with higher value. Chief imports of Ghana include cars ($881m), heavy trucks (481m USD), cement (389m USD), rice (287m USD) and frozen fish (263m USD). Ghana's top import destinations include China (4.67bn USD), United States (831m USD), United Kingdom (749m USD), India (712m USD) and the Netherlands (485m USD). The volume of imports is shown in the figure 3.

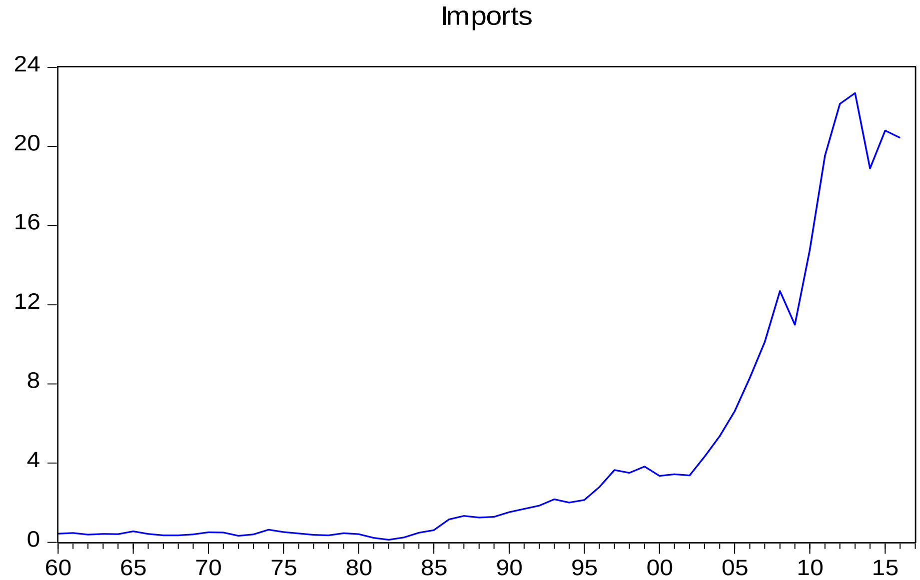

Figure 3: Imports in US Dollar for Ghana from 1960 to 2017

Source: Authors' Compilation

Ghana's balance of payment deficit

From the analysis above, the composition, and volume of exports and imports are notable. Generally, exports have increased on average, largely attributable to gold and cocoa exports. However, Imports have increased faster, outweighing exports. In 2016 for example, whereas Ghana imports stood at 11billion (bn) USD, its exports stood at 10.5bn USD with a deficit of 508million (m) USD. The figure above depicts the trade situation in Ghana.

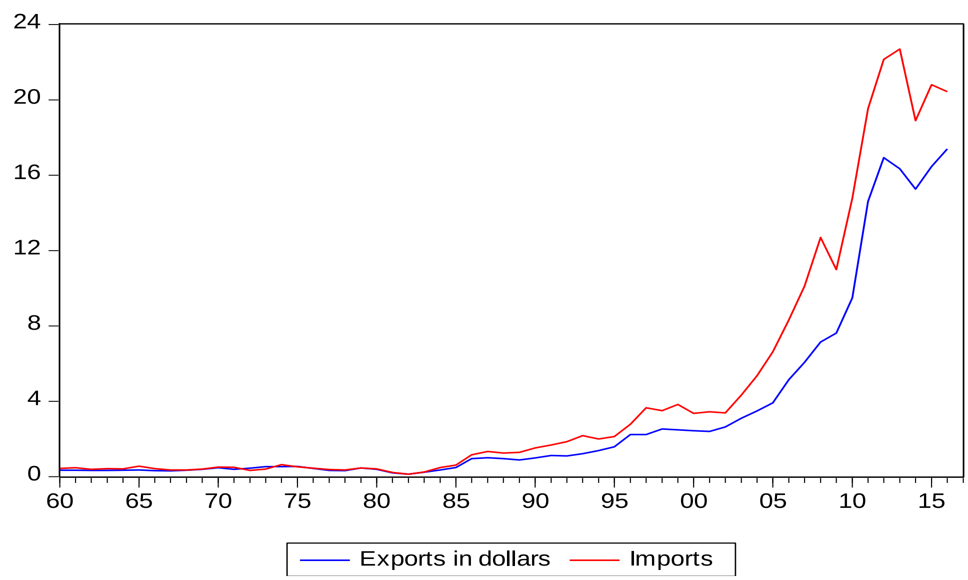

Figure 4: Exports and Imports in US Dollar for Ghana from 1960 to 2017

Source: Authors' Compilation

From the graph above the red line denoting imports rises above the blue line which denotes exports, leading a deficit trade balance as shown below.

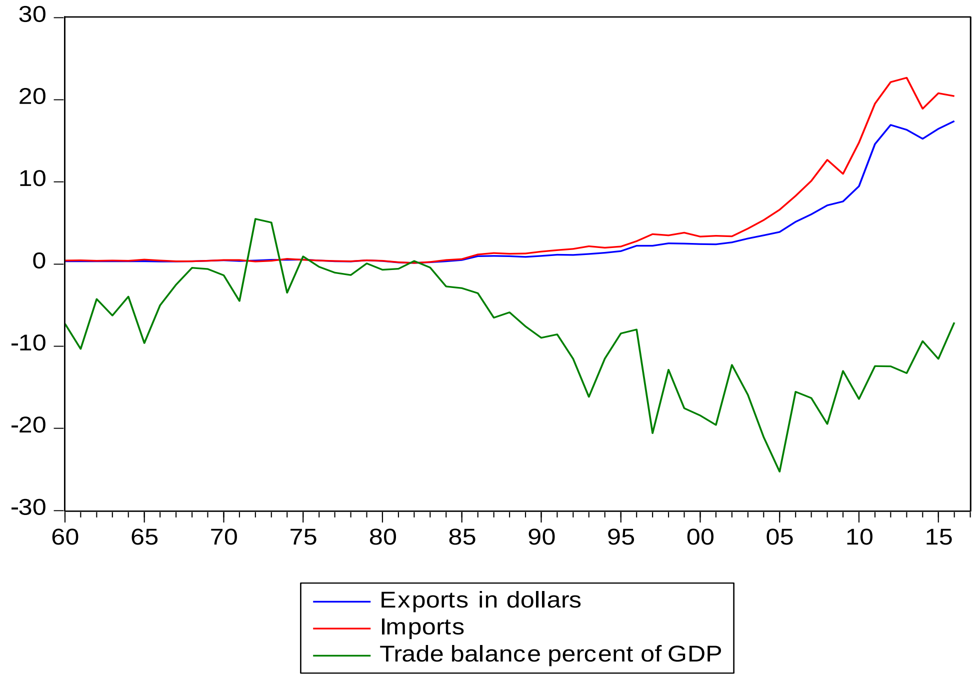

Figure 5: Exports, imports and trade balance for Ghana from 1960 to 2017

Source: Authors' Compilation

This implies that Ghana spends more to the world in trade than it earns from trading with the world economies.

CONCLUSIONS

Openness to trade is beneficial and gains from trade can accrue to countries engaging in it. Trading economies enjoy a variety of goods the world economy provides and trade has the advantage of resulting in promoting specialization, domestic competition, and efficiency. Further, trade can result in economic growth and development as well as investment.

However, the net gains from trade can either be positive or negative in terms of the balance of payments, comparing exports and imports volume and composition. Ghana like many developing economies earn less from trade than it spends to trade due to the low value and volume of its exports and compared to higher value and volume of imports.

It is incumbent on the government of Ghana and other developing countries to find ways to reverse the situation where exports exceed imports if it is to promote its development agenda.

RECOMMENDATIONS

The country should take steps to avert the deficit situation. Attempts should be channeled towards increasing export volume and reducing the volume of imports. First, the government needs to drive the economy towards changing factor conditions and cause a shift towards manufacturing and value addition to exports. Further, the country should take other measures such as attracting foreign direct investment into the country, to boost production, manufacturing, and industry. This will not only boost exports but also reduce the import bill.

FURTHER STUDIES

This study has reviewed the export and import trade of Ghana and has found the country is facing a negative balance of payment in trade. Based on the recommendations of this study, future research should focus on providing detailed solutions to the problems, as to how foreign direct investment can help promote trade of the country.

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