UNCTAD/DITC/TNCD/10
27 August 2002

ENGLISH only

JITAP Joint Integrated Technical Assistance Programme to Selected Least Developed and Other African Countries
ITC — UNCTAD — WTO

Cluster 9:

MULTILATERAL TRADING SYSTEM IMPACT ON THE NATIONAL ECONOMY AND EXTERNAL TRADE POLICY ADAPTATION

GHANA

This report was prepared in 1999 by Mr. Isaac Osei (International Consultant, Ghanexim Economic Consultants) under the supervision of UNCTAD in the framework of the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme to Selected Least Developed and Other African Countries (JITAP).

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ABBREVIATIONS

CEPA	- Centre for Policy Analysis
COCOBOD	- Ghana Cocoa Marketing Board
EU	- European Union
FOREX	- Foreign Exchange
GEPC	- Ghana Export Promotion Council
GIPC	- Ghana Investment Promotion Centre
IMF	- International Monetary Fund
ITC	- International Trade Centre
JITAP	- Joint Integrated programme for Technical Assistance to Selected Least Developed and other African Countries
MFN	- Most Favoured Nation
MTS	- Multilateral Trading System
TBT	- Technical Barriers to Trade
TIP	- Trade and Investment Programme
TIRP	- Trade and Investment Reform Programme
TPRM	- Trade Policy Review Mechanism
TRIMS	- Trade Related Investment Measures
TRIPS	- Trade Related Aspects of Intellectual Property Rights
UNCTAD	- United National Conference on Trade and Development
UR	- Uruguay Round
URA	- Uruguay Round Agreement
USAID	- United States Agency for International Development
WTO	- World Trade Organization

CONTEXT

The Uruguay Round negotiations which were concluded in December, 1993 in Geneva are the most comprehensive multilateral arrangements ever. The Final Act embodying the Results of the Round was signed on 15th April, 1994 in Marrakesh, Morocco.

Ghana participated actively in the Round and initialed the Final Act, thus accepting all the commitments which the Uruguay Round Agreements (URAs) entail. Parliament ratified the act in December 1994 making Ghana one of the original members of the W.T.O.

The commitments assumed by Ghana include:

- acceptance of all obligations of the Uruguay Round including those in new areas like TRIPS, TRIMS and Services under the "single undertaking principle".
- acceptance of the newly established World Trade Organization and its strengthened and integrated dispute settlement procedures;
- acceptance of the increased level of commitment to tariffication of non-tariff barriers and scope of tariff bindings especially in agriculture; and
- acceptance of transparency of trade policy measures including regular notifications and policy reviews under The Trade Policy Review Mechanism (TPRM).

The main concerns for Ghana in relation to the multilateral trading system are how to comply and fully benefit from the resulting opportunities for increased trade.

Market access is another important area. First, Ghana like many African countries enjoyed the right to preferential margins especially in the markets of the European Union (EU) before the URAs. Under the URAs, tariffs will be substantially reduced over time. Thus preferences will be eroded. In the EU, this erosion is estimated at 32 per cent. This has serious implications for Ghana since the EU remains Ghana's major market.

Secondly, Ghana is a net importer of food and as subsidies are gradually removed in exporting countries, food crop markets will become less distorted and prices are likely to increase and Ghana's food import bill will rise and this may lead to both trade and income losses.

The UR will lead to an expansion in world trade and countries whose domestic policies encourage increased participation in world trade will reap benefits. Thus improved market access conditions will be available under the URAs to those countries which have the willingness, ability and capacity to respond to the changing global trading environment. Indeed on the average, Ghana like many other African and developing countries will be facing very low tariffs and in many cases duty free access. This new situation provides opportunities from which benefits may be derived.

There are also other mitigating measures which are built into the URAs. The special and differential treatment for developing and least developed countries which give these countries specified transitional periods to adjust is important even though the duration is short. In addition, there is preferential treatment for countries with per capita income less than $1,000. Greater flexibility in transitional periods will enhance compliance. Technical assistance is available to developing countries in meeting compliance obligations.

For Ghana to take advantage of the market access opportunities offered by the new Multilateral Trading System (MTS), the country will have to:

- continue vigorously trade policy reforms;
- pursue a keener product/market diversification strategy;
- aggressively market non-traditional exports;
- accelerate the production of domestic food crops using available technical and financial assistance;
- pursue relentlessly private sector initiatives.

There are on-going and new negotiations for further liberalization. Developing countries have been very proactive in their quest to address the imbalances in the Agreements on Agriculture and Textiles and Clothing. The problem of tariff peaks and the high levels of bound tariffs and tariff escalation are major concerns. These are other issues which are already being discussed. These issues include those involving Services, Trade and Investment, Trade and Environment and Regional Trade Agreements.

Chapter I
GHANA - ECONOMIC POLICIES

I.1 Background

In 1983, the Government of Ghana, with donor support instituted economic reforms to reverse the decline of the economy which had virtually collapsed under the strain of years of mismanagement, controls and licensing. The key elements of the initial reforms package were stabilization and liberalization. The major results of the economic reforms over the last decade have been a 5 per cent average annual GDP (gross domestic product) growth rate, an expansion of trade and the recognition of the private sector as the principal engine of growth for the economy.

The divestiture of State interest in a number of companies and corporations to both private, local and foreign businesses as well as financial sector reforms to improve financial intermediation have been designed to give a further boost to the private sector.

In 1992, democratic governance, which had been aborted in 1972 and 1981 respectively was restored to the people of Ghana. With the strengthening of democratic institutions, and the deepening of democratic culture and practices, consensus building among all stakeholders in civil society is providing a platform for the determination of key elements of economic policy. This assures Ghana of the stability and hence predictability of basic economic policy.

The involvement of all stakeholders i.e. public and private interests in the decision making process has led to broad agreement in the following areas (see Box 1).

Box 1
Creating an Enabling Environment

1. Reduction of inflation to single digits.
2. Balancing of government's budget.
3. Reduction of government expenditure.
4. Freeing of the Central Bank from political control and institution of fiscal discipline.
5. Increasing domestic savings and institutional strengthening of the financial sector.
6. Labout market flexibility.
7. Formalization of the informal sector.
8. Maintenance of competitive exchange rates

I.2 International Competitiveness

The broad consensus reached by stakeholders at the North Carolina Conference in 1997 and the subsequent National Economic Forum on the areas listed in Box 1 implied that Ghana would move to attain her economic goals through global competitiveness. Through this Ghana would realize her Vision of becoming a Middle Income Country by the year 2020.

Apart from problems of domestic entrepreneurship and related enterprise level deficiencies in administrative and financial management, the relevant question to pose is how Ghana's policy framework affects her ability to compete internationally. How does the policy framework affect the cost of doing business and Ghana's ability to export?

I.2(a) Inflation

The Economic Reforms which started in 1983 initially succeeded in reducing inflation from about 60 per cent to 13.3 per cent in 1991. The rate then continually increased and peaked at 70.8 per cent in December 1995. Since then inflation has declined consistently and was estimated at 15.7 per cent at the end of 1998.

Table 1: Rates of Inflation (%)

Year	1993	1994	1995	1996	1997	1998
End of Year	27.7	34.2	70.8	32.7	20.8	15.7
Annual Average	25.0	25.0	59.5	46.6	27.9	19.3

Source: Ghana Statistical Service

The challenge for government is how to avoid the fiscal recklessness of the past in the face of high domestic and external debts and the pressure to expand the range and scope of development projects (CEPA, 1998).

I.2(b) Government Borrowing and High Interest Rates

Maturing loan repayments on external debt are expected to continue to be in excess of new loan disbursements and this fact coupled with interest on domestic debt have adverse implications for any attempt to reduce government expenditure and balance the government's budget and limit the role of government in financial markets (CEPA, 1997).

Government will thus continue to borrow from local financial markets and even though interest rates have fallen from the high 40s to the low 30s they still remain high and are likely to increase again.

Banks are required to maintain relatively high reserve ratios thus there are clear institutional limitations on the private sector's access to funds for investment and working capital. Long-term funds are especially difficult to access and generally unavailable.

I.2(c) Exchange Rate Appreciation

The Cedi in real terms consistently depreciated against international currencies from the beginning of the economic reforms until 1995 when in spite of declining rates of inflation, the inflationary rate rose higher than the nominal rate of depreciation of the Cedi. In 1997, the Cedi depreciated by 22.7 per cent while the rate of inflation was 27.9 per cent. In 1998, the Cedi depreciated from Cedis 2,250 = $1.00 to Cedis 2,346 = $1.00 implying a currency depreciation of only 4.3 per cent. During this period the average inflationary rate was in excess of 20 per cent. This implies a real appreciation of the Cedi - a situation which discourages exports and encourages imports.

The import of this is that the economy's international competitiveness is eroded as exporters' profit margins are reduced. This is also a disincentive to local manufacturers who may also lose competitiveness to cheaper imported products.

I.2(d) Savings and Investment

Higher average inflationary rates in the face of even high nominal savings rates of interest encourages the perception of negative real interest rates and discourages domestic savings and hence investment in productive ventures. This situation could make it difficult to attract foreign investment.

I.2(e) Domestic Demand

Wages and salaries have been rising but at a slower pace than the inflationary rates over the last decade. This implies a weakening of the purchasing power of the domestic consumer and hence demand for goods and services.

I.2(f) Era of the "Command Economy"

Ghana has moved from a long period of government controls, the dirigism of the 1960's and 1970's (Jebuni, 1997) to a new private sector led market orientation. Several laws and commercial regulations were put in place during the era of the "command economy" with the objective of controlling the private sector and not necessarily to facilitate its performance. Even though there are continuing efforts at revisions and repealing a number of the old statutes, obsolete laws still remain on the books and may be a hindrance to private domestic and foreign business initiatives. A general review of Ghana's Laws and Statutes has been commissioned in 1999 with a view to harmonizing the legal regimes with the realities on the ground.

I.2(g) Labour Regulations

There are many regulations governing how labour is hired, remunerated, fired, and retired that have been established through collective bargaining agreements which many businesses regard as additional costs. These regulations also limit the ability of formal establishments to remunerate on the basis of performance and fire on the grounds of poor output.

I.2(h) Judicial System

Many practices in Ghana's judicial system are not only obsolete but tend to affect the confidence of the business community in the administration of justice. Evidence and arguments have to be written by hand and judgment is given in the same manner (Ghanexim, 1997). There are no commercial courts or dispute settlement mechanisms in place for settling commercial and business related disputes in an expeditious manner. Time spent in court is time away from managing businesses and adds to the cost of doing business in Ghana.

A National Forum on legal Reforms for private sector development was organized in October, 1999 as a collaborative effort by the Attorney-General's Department, Association of Ghana Industries (AGI) and Ghana National Chamber of Commerce and Industry with World Bank funding. The purpose of the Forum was to bring up proposals which will ensure that Ghana has an effective judicial system in matters concerning property, contract, labour, bankruptcy, commercial codes, arbitration and personal rights, a system which will boost investor interest.

I.2(i) Barriers to Internal Trade and Overland Trade

At the entry ports, corruption is endemic and procedures often circuitous and add to the cost of doing business in Ghana and hence adversely affect Ghana's competitiveness. There are too many physical barriers which have been mounted on Ghana's major roads by the Police, Customs, Forestry officials etc. which inhibit the free movement of goods and persons. The delays as inspections are carried out are very free movement of goods and persons. The delays as inspections are carried out are very costly.

I.2(j) Transport Infrastructure

Government has invested substantial sums in the transport sector yet transport infrastructure remains poor and hence costly. This is primarily because by the end of the 1970s, the infrastructure especially roads and railways had collapsed. Major highway reconstruction, urban roads restoration and feeder roads rehabilitation have been undertaken and capacity has been enhanced slowly since 1983 yet a vast portion of the road network is not in a maintainable state. Thus transport costs remain high and account for approximately 70% of the build up of the prices of many agricultural commodities at the retail level. Commodities lose their international competitiveness at the urban retail level because of high internal transport costs. The railways have been partially restored. The Western Line which passes through the major timber, cocoa and mining areas is operational but its capacity is low - hence the increased pressure on the road network with its attendant costs.

The ports of Tema and Takoradi and Kotoka International Airport have undergone extensive rehabilitation but Ghana does not have the carriage capacity either through its airlines or shipping companies to compete effectively with foreign service providers to benefit from the increased trade brought about by liberalization and the URA.

I.2(k) Energy Provision

Power has since the mid 1960s been mainly provided through Ghana's hydroelectric facilities at Akosombo and more recently Kpong. The 1998 Energy Crisis which was provoked by the low level of the Volta Lake following a few years of inadequate rainfall showed how important an input energy provision is to Ghana's industries. This crisis also led to a more realistic realignment of utility prices to ensure cost recovery and profits for reinvestment. Ghana has taken steps through the use of alternative power sources such as thermal power to ensure that power outages do not occur again. Some industries have also imported alternative stand-by power generation facilities to forestall any failures. Thus increasing the cost of doing business in Ghana.

I.2(l) Telecommunications

Telecommunications have always been poor and costly in Ghana and business which could be done on phone of by fax had to be concluded by physical presence. Ghana Telecom has been partially privatized with the sale of 30 per cent equity to Gcom, a consortium led by Telecom Malaysia. A new network operator, ACG Telesystem Ghana Limited, an American led consortium has been licensed to operate in what is now essentially a duopoly. The duopoly situation will be reviewed in year 2001 to determine whether it is necessary to increase the number of service providers. Three (3) private mobile cellular phone operators are now providing services in and between the major urban centres. This has generally expanded and improved telephone services but costs are perceived to be high. Telex, fax and e-mail facilities are also available and four (4) licensed internet service providers have eased communications between businesses and with the outside world but few firms are on-line and relative costs could be much lower.

Government's reform policy in telecommunications has since 1996 been designed to increase privatization, liberalization, competition and modernization of the industry.

I.2(m) Factors Affecting Competitiveness

From the foregoing the following Ten Competitiveness Enhancing and Competitiveness Inhibiting Factors have been listed (see Box 2 and 3).

Box 2 : Ten Factors Inhibiting Competitiveness

1. High rates of inflation
2. Dominance of government in financial markets.
3. Rigidity of labour market.
4. Cumbersome administrative practices at points of entry.
5. Bank of Ghana interventions to support exchange rate.
6. Low domestic savings.
7. High interest rates.
8. Poor trade infrastructure.
9. Enterprise level weaknesses in administrative and financial management.
10. Limited access to long-term financing in Ghana

Box 3 : Ten Factors for Enhancing Competitiveness

1. Low inflation rates.Dominance of government in financial markets.
2. Balancing the budget.
3. Labour market flexibility.
4. Maintaining and promoting democratic culture and institutions.
5. Competitive exchange rate through sound macroeconomic management.
6. Intensify privatisation of financial sector and other government business interests.
7. Strong focused partnership between private and public sectors of the economy.
8. Stability of general economic and trade policies.
9. Support for non-traditional exports
10. Controlling and prioritising government expenditures.

Chapter II
TRADE POLICIES AND EXPORT TRADE DEVELOPMENT

Ghana has since 1983 successively promoted a liberal trade and payments regime with support from the World Bank, IMF and other donors. In 1988 foreign exchange (forex) bureaux were established to deal openly in foreign currencies and in 1989, the import license system was abolished. In 1990, with the establishment of an interbank market for foreign exchange the transition to a flexible exchange rate system which had began with the weekly forex auctions in 1986 was completed.

II.1 Import Procedures

In 1994, new import procedures were issued under the USAID funded Trade and Investment Programme (TIP). The procedures were published and satisfied transparency requirements. The procedures covered basic importing steps including clearing processes, customs entry forms and other documentation, payment procedures, duties and taxes. The Export and Import Act which emanated from the Ministry of Trade and Industry was passed by Parliament in 1995 and assured economic operators of the certainty of Government's liberal trade policies.

II.2 Tariffs

Ghana has since 1988 adopted a liberal tariff policy which has led to a simplification of the tariff structure and a reduction in tariff levels. Only three categories of tariffs have been applied since 1994 i.e. 0 per cent for essential goods, 5 per cent and 10 per cent for raw materials and capital equipment and 25 per cent applicable to all other goods.

II.3 Duty and Tax Relief

The following duty and tax relief have been made available since 1994:

1) Goods imported for temporary use and re-exported within a period not exceeding three months attract no duty. (Bond equivalent of the duty or cash deposit is however secured by the Customs, Excise and Preventive Services (CEPS) until the goods are re-exported).

2) Duty free access is guaranteed for capital equipment imported under agreement with the Ghana Investment Promotion Centre (GIPC).

3) Duty-free entry for raw materials imported for the manufacture of pharmaceutical products, agricultural implements and machinery, plastics, disinfectants, timber and timber products, etc.

4) Goods in customs bonded warehouses are exempted from payment of duty until they are delivered for the domestic market.

II.4 Policy Changes

On exports, simplified policy changes were effected (see Box 4).

Box 4 : Simplified Policy Changes

1. New export forms were introduced for non-traditional exports, thus replacing the very cumbersome "Single Administrative Procedures".
2. Non-traditional exporters now have complete access to their foreign exchange earnings thus effectively removing the requirement to surrender part of their earnings to the Bank of Ghana in exchange for Cedis.
3. Price controls and guidelines for exporters have been abolished.
4. The Exports and Import Act (Act 503) was enacted in 1995 to give the right to export any product for commercial purposes to all who are willing and able.

Ghana's reforms have had a markedly outward orientation. Liberalization has resulted in an increase in trade but its long-term sustenance depends on export expansion including diversification of the non-traditional export

Table 2: Ghana's Merchandise Trade 1986, 1991-97

	1986	1991	1992	1993	1994	1995	1996	1997	1998*
Merchandise Exports (US$M) FOB	827	998	986	1064	1270	1431	1571	1490	1810
Merchandise Imports ($M) CIF	1025	1319	1457	1728	1580	1688	1937	2128	2346
Balance of Trade	-198	-321	-471	-664	-343	-257	-367	-638	-536

Source: State of Ghanaian Economy Report 1991 - 1998, ISSER * Provisional

Table 2 clearly shows that there has been a steady increase in the level of merchandise trade, both in exports and imports, year on year. In the initial stages of the reform process the increase was more modest. Between 1986 and 1991 Total Merchandise Trade increased from $1,852 million to $2,317 million i.e., by 25 per cent. However, from 1991 to 1998, merchandise trade increased by over 75 per cent to $4.156 million. The increase in merchandise trade was the result of the response to the unilateral reforms instituted since 1983 and deepened in later years, which liberalized Ghana's trade with the outside world. This coupled with export promotion initiatives has resulted in increases in both exports and imports. Unilateral liberalization has led to trade expansion in Ghana, thus it can be expected that multilateral liberalization will result in a tremendous expansion in world trade from which all participants will derive benefits, depending on their relative capacities to take advantage of the opportunities offered by the new MTS. The increasingly adverse position on the balance of trade requires that Ghana actively promotes its exports if the country is to have the capacity to finance increasing imports.

II.5 Promoting Exports

The focus of Government policy on export promotion has been two-pronged. Firstly, the rehabilitation and promotion of the country's traditional exports of cocoa, minerals (especially gold) and forestry products is emphasized. Secondly, the promotion of non-traditional exports through both product and market diversification strategies is being targeted.

II.5(a) Traditional Exports

The promotion of traditional exports has involved sector specific policies.

<u>Cocoa</u>

Government policy objective is to maintain Ghana's position as the foremost supplier of premium grade quality cocoa beans while increasing output.

Table 3: Cocoa Exports: 1986, 1991 - 1998

Item	1986	1991	1992	1993	1994	1995	1996	1997	1998
Cocoa Beans									
Volume (MT)	195,224	243,000	223,774	263,665	238,269	237,262	349,067	261,251	327,327
Volume ($M)	469.8	315.6	276.81	250.5	295.0	361.1	478.8	384.8	538.4
Cocoa Products									
Volume (MT)	15,543	21,745	19,328	22,839	14,050	13,864	45,382	53,265	48,380
Volume ($M)	33.3	25.7	33.9	35.4	25.2	28.4	72.3	85.2	79.0
Total ($M)	503.3	349.0	302.5	285.9	320.2	389.5	552.1	470.0	617.4

Source: Bank of Ghana.

A number of policy measures have been taken by government in pursuit of the above stated objective. These include the following:

1) Periodic increases in the nominal producer price of cocoa.

2) Privatization of the acquisition and distribution of inputs to farmers.

3) Opening up of the internal marketing of cocoa which was the exclusive preserve of COCOBOD's Produce Buying Agency, to competing privately owned licensed buying agents.

4) Provision of effective extension support including the application of good husbandry practices.

5) Intensification of research into swollen shoot, black pod and other diseases which affect cocoa in order to exercise effective disease control.

The on-going merger of the Cocoa Extension Services Division and the Ministry of Food and Agriculture's Extension Services Department to improve extension service delivery.

Table 3 shows that earnings of cocoa beans have generally not been steady. Output has, however, been much higher than in 1986 implying that there have been fluctuations in prices which Ghana has little control over. In the case of cocoa products, earnings have steadily increased with output, evidence of the stability of prices of processed goods.

One disincentive to the expansion of the production base and investment in new cocoa farms is the low share of the producer price in the export price of cocoa, in spite of high nominal producer price increases (see Table 4)

Table 4: Share of Producer Price in Export Earnings

Crop Year	Producer Price (Cedi) per tonne	F.O.B. Value (Cedi) Exports per tonne	% Share Received by farmers
1991/92	251,200	515,199	48.76
1992/93	258,000	560,081	46.06
1993/94	308,000	1,012,327	30.42
1994/95	700,000	1,675,277	41.78
1995/96	840,000	2,157,051	38.94
1996/97	1,200,000	2,792,730	42.97
1997/98	1,800,000	3,795,193	47.42

Source: State of Ghanaian Economy Report, 1997, 1998, ISSER

Government policy is to increase this share to at least 60 per cent by the year 2000. However, this is unlikely to be achieved while the tax on cocoa remains at present levels and the operational costs of COCOBOD hovers around 20 per cent of F.O.B. price. COCOBOD's Corporate Plan (1987) envisages operational costs of around 15 per cent F.O.B. price per cocoa.

Minerals

Ghana exports four main minerals, namely, gold, diamonds, manganese and bauxite. Gold is by far the dominant sub-sector and the leading export earner for Ghana.

Table 5: Mineral Exports, 1986, 1991-1998

Item	1986	1991	1992	1993	1994	1995	1996	1997	1998
Gold									
Volume (fine oz)	292,211	834,986	995,377	1,210,474	1,435,475	1,689,470	1,584,380	1,747,018	2,346,918
Value ($M)	1106.40	304.4	343.41	433.9	548.7	647.3	612.4	579.2	687.8
Diamond									
Volume (carat)	564,950	663,393	690,409	552,854	717,419	645,100	634,192	562,651	555,715
Value ($M)	4.81	18.6	19.3	17.3	20.4	14.8	13.4	11.4	10.6
Bauxite									
Volume (MT)	226,461	320,313	399,155	364,642	451,802	526,335	383,612	536,732	341,120
Value ($M)	5.0	8.6	9.5	8.4	9.6	10.4	8.5	10.79	7.4
Manganese									
Volume (MT)	245,794	281,195	285,055	309,122	245,256	193,096	229,227	355,232	386,283
Value ($M)	8.2	20.2	16.5	13.9	9.62	6.4	7.1	11.6	12.1
Total ($M)	124.4	351.9	388.6	473.5	588.2	678.8	641.3	612.9	717.8

Source: Bank of Ghana

The increase in mineral export volume and value has been tremendous and earnings have quintupled since 1986 (see Table 5). In the case of gold, the increase in both volume and value has been the result of the opening up of new mines and the re-opening of old mines which had been closed down and abandoned for years. These new investments have resulted from investor judgment on Ghana's reforms especially Ghana's international trade policies. Exchange rate realism has been a key factor. The gold sub-sector has continued to grow in spite of declining world prices. This is because of the relatively low cost of production in Ghana, a fact which needs no emphasis, i.e., that continued business depends on the cost of doing business. The diamond sub-sector peaked in 1994 but earnings have more than doubled on the back of higher prices as volumes have declined. Bauxite volumes have also doubled while Manganese had its best performance over the last decade in 1997. There are increasing environmental concerns about the activities of some mining Companies and the Environmental Protection Agency is actively engaged in the enforcement of the requisite regulations.

Table 6: Timber Exports, 1986, 1991-1997

Item	1986	1991	1992	1993	1994	1995	1996	1997	1998
Timber									
Volume (C.M.)	291,382	393,598	406,662	727,813	780,000	590,000	364,771	442,017	416,164
Value ($M)	44.1	124.1	113.9	147.4	165.4	190.6	146.8	171.97	171.0

Source: Bank of Ghana

Timber exports have also generally increased in terms of volume peaking at 780,000 cubic metres in 1994 (see Table 6). There have been concerns about depleting stocks especially from the nascent environmental lobby and also within the industry itself about its long-term sustainability. The current policy of Government is outlined in the Forest Development Master Plan of 1996 which limits annual harvest levels. The many rules and regulations, levies and taxes have, however, made the industry highly volatile and clear signals have often been lacking - thus year to year fluctuations in the fortunes of the industry are notable features.

II.5(b) Further Processing

It has to be clearly emphasized that in the case of Ghana's traditional exports, Ghana can make important/gains if further processing of a high proportion of these products is undertaken before exporting.

Table 7: Non-Traditional Exports (in $millions)

Item	1986	1991	1992	1993	1994	1995	1996	1997	1998
1. Agricultural Products	17.80	33.00	22.10	26.10	39.20	27.40	50.30	57.40	77.80
2. Processed/Semi Processed Products	5.90	28.60	44.90	43.00	77.80	130.20	223.00	266.90	317.50
3. Handicrafts	0.06	0.88	1.47	2.58	2.33	2.07	2.92	4.72	6.39
Total	23.76	62.56	68.47	71.68	119.33	159.67	276.22	369.02	401.69

Source: Ghana Export Promotion Council

II.5(c) Non-Traditional Exports

The growth of the non-traditional export sector has been phenomenal and while all three sub-sectors have grown steadily, the growth in the processed and semi processed sub-sector has been truly remarkable (see Table 7). This sector includes furniture and other wood products, aluminum products and prepared foods and beverages. Its earnings of $317.5 million in 1998 outstripped timber export earnings by 85 per cent. This sector may well be the sector of the future for Ghana. Indeed the recent low levels of the international prices of gold and cocoa are expected to result in large revenue shortfalls which will by year end dislocate the national budget and throw projections out of gear. An examination of Table 3 is instructive. In 1986, 195,224 metric tonnes of cocoa beans earned Ghana $469.8 million while in 1996, 349,067 metric tonnes earned $478.8 million. Exports were 79 per cent higher in 1996 yet earnings increased by only 2 per cent.

Ghana’s export dependency on primary products makes the economy vulnerable to fluctuations in prices. Thus non-traditional exports especially processed and semi-processed products which have more stable prices ought to be aggressively promoted, for example earnings from processed cocoa beans have shown a steady increase.

From the inception of the economic reforms in 1983, Ghana put in place schemes to support the non-traditional export sector. These schemes included the use of customs duty drawbacks and rebated income tax for exporters and export bonuses. Complete foreign exchange retention has been in operation since 1994. The export bonus scheme is no longer in operation but all the other measures can be considered as being WTO compliant. In any case because Ghana’s per capita income is less than $1,000, it is permitted under WTO rules to apply these export promotion measures to support her non-traditional export sector. These measures and the simplification of export procedures have combined in the light of general economic reforms to ensure a healthy non-traditional sector performance.

II.5(d) Tourism

Under Services, there has been a really dramatic transformation of the Tourism Industry with substantial increases in tourist arrivals and tourism earnings (see Table 8).

Table 8: Tourism Earnings and Tourist Arrivals

	1986	1991	1992	1993	1994	1995	1996	1997	1998*
Tourism Earnings ($ million)	26.60	118.00	168.00	205.62	240.50	237.00	248.00	297.00	305.7
Tourist Arrivals (? 000)	NA	180.0	200.0	256.7	271.3	286.0	304.9	325.4	350.0

Source: Ghana Tourist Board, Ministry of Tourism

Tourism is responsive to perceptions about political and economic stability. Government policies for the sector have been designed to foster an image of stability and safety. The building of tourist infrastructure is critical and a number of first-class star-rated hotels of varying sizes have been built since the inception of economic reforms to cater for business, holiday and cultural tourists.

II.5(e) TIP

The Government in collaboration with USAID put in place a Trade and Investment Programme (TIP) to identify and remove constraints militating against the performance of the non-traditional export sector. The success of TIP may be judged by the increase in the number of exporters (from 1,980 in 1993 to 3,278 in 1997), the range of export products (from 185 products in 1993 to 270 products in 1987) and the increase in export earnings (from $71.7 million in 1993 to $329.1 million in 1997) from this dynamic sector. TIP has been succeeded by TIRP.

II.5(f) TIRP

A Trade and Investment Reform Programme (TIRP) supported by USAID took off in 1998 and is expected to (a) further improve the policy environment; (b) promote financial intermediation; and (c) enhance private sector performance.

Government plans to undertake such activities under TIRP which will enhance the capacity of private enterprises engaged in value-added production and marketing of selected products. In providing assistance to develop their productive capacities, TIRP will seek to make private enterprises more efficient and effective.

II.5(g) Gateway Project

Government is seeking to promote Ghana as the Gateway to West Africa through a liberalized skies policy and the establishment of Free Zones and in furtherance of this policy, the Free Zone Act (Act 504) received Presidential Assent in August 1995 to provide the required legal and regulatory framework.

With the regulatory framework for the Free Zones in place, fifty-nine (59) companies had by the end of 1998 been registered to operate within the Free Zone. Of the registered companies thirty-seven (37) or 62 per cent are already operating in a whole range of manufacturing and service areas including furniture/wood products, metal fabrication, garments, beauty products, food processing, warehousing, packaging and telecommunications. Since it is required that at least 70 per cent of all output of each firm should be exported, the Free Zones can be expected to further boost the non-traditional export sector.

II.5(h) Direction of Export Trade

The European Union remains the single most important market for Ghanaian exports. In Table 9, three (3) EU countries accounted for 25.6 per cent of Ghana’s exports in 1998. While this share is significant, it has been declining over the last decade when the share of the EU was in excess of 60 per cent. In the EU, the United Kingdom, the Netherlands and Germany are the leading markets for Ghanaian products.

The EU is followed closely by the ECOWAS sub-region. Nigeria is Ghana's most important trading partner in West Africa followed by our proximate neighbours, Côte d'Ivoire and Togo. Exports to the US have declined slowly over the past five years from US$ 198.5 million in 1993 to $144.9 million in 1997. In Asia, Japan is Ghana's most important export destination with exports totaling $52.3 million in 1997. There are many other destinations for Ghanaian exports especially non-traditional exports which are included under "others". These are becoming increasingly important though not yet significant on an individual country basis. Some of these destinations include Thailand and Vietnam in Asia, and Las Palmas and Spain, Libya Arab Jamahiriya, Tunisia, Turkey, Sierra Leone and Burkina Faso.

Table 9: Value of Ghana's Exports by Major Countries (in US$ million)

Country	**1994**	**1995**	**1996**	**1997**
United Kingdom	219.0 (13.5)	192.4 (11.4)	154.5 (9.1)	159.4 (9.3)
Nigeria	193.0 (12.1)	235.4 (13.9)	268.5 (15.8)	201.6 (11.7)
USA	187.0 (11.7)	184.4 (10.9)	162.6 (9.6)	144.9 (8.4)
Germany	57.0 (3.6)	63.8 (3.8)	65.9 (3.9)	76.6 (4.5)
Cote d'Ivoire	70.0 (4.4)	54.0 (3.2)	43.3 (2.5)	126.7 (7.4)
Japan	77.0 (4.9)	57.8 (3.4)	144.1 (8.5)	52.3 (3.0)
Netherlands	122.0 (7.6)	156.8 (9.3)	185.2 (10.9)	203.5 (11.8)
Switzerland	19.0 (1.2)	25.6 (1.5)	19.6 (1.2)	16.2 (0.9)
Togo	92.0 (5.8)	117.6 (6.9)	4.4 (0.3)	5.1 (0.3)
Others	559.0 (35.1)	601.2 (35.7)	652.3 (38.2)	733.7 (38.5)
Total	1595.0 (100)	1689.0 (100)	1700.4 (100)	1720.0 (100)

Source: State of Ghanaian Economy Report 1998, ISSER
N.B. Figures in parenthesis are percentage shares of total exports

II.6 URAs: Opportunities and Constraints

The URAs provide opportunities for increased trade primarily through improvement in market access. In the case of Ghana, interest is focused on the country's export products and destination markets.

II.6(a) Market Access

Market access under the URAs has been improved by tariff reductions supplemented by binding commitments and strengthened disciplines on quantitative restrictions and subsidies.

Ghana's main market is the EU and in EU markets, 44 per cent of industrial products entering have zero-rated tariffs as against 20 per cent in the pre-UR era. While this new situation presents opportunities, it is also true to say that Ghana is constrained by the fact that a few primary products have a dominant share (at least 70 per cent annually) of Ghanaian exports. So significant benefits cannot be derived from this market access opening in the short run.

II.6(b) Tariff Bindings

Tariff bindings are important not only in scope of coverage but also in the limits set (ceiling bindings). Ghana, like most African countries bound her tariffs above the existing applied rates opening up the possibility of increasing levels of protection for local producers. For example, in agriculture Ghana's tariffs are bound at 125 per cent and are targeted for reduction to 99 per cent over a 10-year period. On industrial goods only 50 tariff lines are bound at 30 – 50 per cent. This situation can undermine the credibility and predictability of Ghana and other African countries' trade regimes at a time of increasing regional trade. It has been noted that Nigeria is a very important destination for Ghanaian exports. For example, if Nigeria raised applied rates within its bound rate on a product imported from Ghana (which she is allowed to do) this could limit Ghanaian exports to the Nigerian market.

II.6(c) Tariff Reductions and Erosion of Preferences

African countries enjoyed MFN-related preferences under both Lomé Convention and GSP schemes. Thus as MFN tariffs are reduced over time, preferences will suffer erosion (see for example P.E. Donovan, and I. Osei, 1996). The reduction in preferences are of the order of 32 per cent (EU), 50 per cent (US), 61 per cent (Japan) and 82 per cent (Canada).

However, prior to the URAs, 250 product lines of interest to Ghana had a zero tariff and 99 per cent of Ghanaian exports faced a zero MFN duty rate in EU markets (Njinkeu, 1999). This suggests that Ghana had a very favourable pre-UR access. Thus URAs can only provide modest improvements in market access through the inclusion of additional product lines at zero-rated tariffs. Clearly Ghana's export performance will be a function of the adequacy of domestic supply response to trade opportunities rather than on any market access considerations per se.

The URAs, however, increases competition from other suppliers of similar products to the EU market. Ghana's performance will depend on the competitiveness of her products.

II.6(d) Tariff Peaks and Escalation

As Ghana tries to move to higher value-added production, its products such as jewellery (from gold and diamond,) chocolates, cocoa butter, cake and paste (from cocoa beans) and plywood, veneer and chipboard (from Timber), will face higher tariffs. This may only be a limited constraint given that the levels of tariffs are low and the opportunities for benefits resulting from value-added production are high. The problem of tariff peaks is an issue which developing countries will raise during the next series of multilateral negotiations.

II.6(e) Non-Trade Related Constraints

There are many other non-trade related constraints to full participation in international trade following the URAs. "The identified constraints are financial, the availability and price of raw materials, technology and equipment, difficulty in gaining access to market information, inadequate supply of electricity, water and port facilities and information gap between policy makers and the custom persons at the ports" (A. Oduro & K. Yahya, 1999).

Some of these constraints have been listed under the Ten Competitiveness Inhibiting Factors and discussed previously, but constraints such as lack of market information for exporters and information gap between policy makers and policy implementors not mentioned earlier are nevertheless important. Ghana Export Promotion Council (GEPC) has built up substantial export market information and its Export School plays a very useful training role, but it is well known that GEPC is not adequately funded to fulfill its role as an information clearing house for exporters and prospective overseas buyers, a role which it is eminently qualified to perform. There is also the preponderance of antiquated machinery in Ghanaian industry and associated extended periods downtime for repairs to broken down machinery to be carried out or outdated spares to be sourced. This particular constraint is not unrelated to the near absence of long-term financing in Ghana. These constraints are either enterprise level constraints or have to deal with the operational environment. They ought to be fully addressed in order for Ghana to translate the opportunities offered by the Uruguay Round into trade gains.

II.6(f) Industrial Action

Ghana has been hit by a spate of industrial actions especially in the public sector, some of these actions have led to strikes resulting in loss of several man-hours of work. This resort to strike action while a constitutional right for workers does not convey a perception of peace and stability on the labour front and may affect investment decisions by Ghanaian and foreign entrepreneurs.

Chapter III
GHANIAN EXPORTS AND MARKETS

The Ghana Export Promotion Council (GEPC) has established criteria for the selection of 20 products which are of export market interest to Ghana. A list of 17 criteria was used but it is not clear what weighting mechanism was applied. The criteria include market size, market growth trend, production structures, availability of raw materials and relevant skills, ease of training manpower, level of technology, state of competition, weight in export basket, preferential market access, existence of marketing infrastructure, local impediments to export, country export trade record, existence of development programme, value added, success time and market barriers.

III.1 Products

Using these criteria, ten priority products and ten additional products have been selected (see Table 10).

Table 10: List of 20 Priority Export Products

PRIORITY PRODUCTS	ADDITIONAL PRODUCTS
1. Cashew	1. Wood carvings
2. Garments	2. Cut flowers
3. Cocoa butter	3. Cocoa Liquor
4. Medicinal plants	4. Furniture
5. Builders Woodwork	5. Coffee
6. Canned Tuna	6. Yams
7. Basket ware	7. Veneer
8. Papaya	8. Plastics
9. Black pepper	9. Jewellery
10. Aluminum Household utensils	10. Ginger

Source: Ghana Export Promotion Council

Further work has been done on these products and the final results including the establishment of product-market matrices and analysis of sub-regional, regional and international marketing trends have been reviewed by ITC experts.

III.2 Previous Study

Other work undertaken (Ghanexim, 1997) under TIRP analyzed the demand prospects for specified sectors and products on domestic, regional and international markets and assessed the opportunities for and constraints to increasing supply. The Study covered cereals (maize and rice), starchy staples (cassava, yam), fish and seafood, horticultural products (pineapples, bananas, mangoes, cashew, black pepper and flowers), salt, textiles and garments, handicrafts, processed and semi-processed wood products and the tourism industry. The study's conclusions have been encapsulated in Table 11.

III.3 Enterprise Level Constraints

All these products are part of the non-traditional export sector and for each of these products there are only a few major exporters (1-4) who export at least 50 per cent of total product exports. It has also been established that generally the exporters operate small-scale businesses and have limited managerial and technical capacity to deal with large-scale buyers who have specific requirements including strict delivery schedules. Negotiating skills are often lacking and the lack of cooperation among exporters in the same product area makes it difficult for them to obtain realistic prices. There is also a lack of familiarity with and understanding of key instruments of international transactions such as Letters of Credit with its strict conditions. These constraints effectively limit adequate supply responses to opportunities in the market place.

It should thus be possible to tailor enterprise-level support to enable the exporters perform more effectively and efficiently to enhance their competitiveness.

Indeed of the twenty products listed by the GEPC, ten (50 per cent) were covered in the "Ghanexim, 1997 Study". The findings will be considered in the light of new insights expected from the ITC Study (mentioned above). The following Product Market Matrix (Table 11) summarizes the Results of Product-market linkages established in the Ghanexim study.

Table 11: PRODUCT - MARKET MATRIX

	MARKETS		
PRODUCT	**DOMESTIC**	**REGIONAL**	**INTERNATIONAL**
CEREALS			
Maize	✓	Togo	-
STARCHY STAPLES			
Cassava	✓	Togo, Benin	US, EU
Yam	✓	ECOWAS	EU, US/Canada
Cocoyam	✓	-	-
FISH/SEA FOOD			
Fish/Seafood	✓	ECOWAS	Japan, Spain, USA
HORTICULTURALS			
Pineapples	✓	ECOWAS	North Africa, EU
Bananas	✓	Togo, Benin	France, Holland
Mangoes	✓	-	EU
Cashew	limited	-	India/USA
Black Pepper	limited	-	EU/USA
Flowers	✓	-	EU
Kola	limited	Nigeria	Saudi Arabia, US
Salt	✓	ECOWAS	-
	✓	-	US
TEXTILES/GARMENTS	✓		
HANDICRAFTS	✓	ECOWAS	US
WOOD PRODUCTS	✓	ECOWAS	EU, US
TOURISM		ECOWAS	South Africa, EU, USA/Canada

Source of Information: "Product Market Analysis" under TIRP for USAID by Ghanexim Economic Consultants Limited, July 1997.

Chapter IV
ISSUES RELEVANT TO THE BUILT-IN AND FUTURE AGENDA

IV.1 Trade and Environment

During the Uruguay Round negotiations a Ministerial decision on Trade and Environment was taken to ensure that the WTO places on its priority list issues relating trade and environmental policies to sustainable development. In 1995, the WTO established the Committee on Trade and Environment to identify the relationship between trade measures and environmental measures in order to promote sustainable development. Several of the WTO Agreements including those on Services, TRIPS, Agriculture and TBT recognize the need to protect the environment.

Ghana believes that while trade should be promoted vigorously, the environment must be protected. Ghana recognizes in this context the important relationship between the functioning of the multilateral trading system and better environmental protection and facilitation of sustainable development.

The Ministry of Environment, Science and Technology seeks to establish a strong national scientific and technological base for the sustainable development of Ghana and ensure that the environment is protected for succeeding generations. Through its Environmental Protection Agency, the Ministry is consistently working to promote research into development activities and their environmental impacts. New investments now require environmental impact assessments prior to approval. Environmental protection should, however, not be seen as a barrier to trade. This way production and not trade is targeted to ensure that the environment is protected. A major concern of Government is the intensification and dissemination of information on appropriate technologies which will minimize pollution.

In the timber industry, Government has taken measures to ensure the implementation of the provisions of the Timber Resources Management Act. Appropriate timber royalties are now levied to reflect stumpage values of timber resources and sustain the levels of various species.

Some developing and least developed countries may use so called "environmental dumping" or "pollution haven" hypothesis which operates on the premise that firms are more likely to locate in countries with weaker environmental laws. This alters comparative advantage through unfair practices (weaker environmental laws implies low costs of production) and reduces international competitiveness. Concerted multilateral action within the WTO framework and strengthened disciplines may be required in future Rounds.

IV.2 Trade and Investment

The purpose of the Agreement on Trade Related Investment Measures (TRIMS) is to eliminate measures which can restrict and distort trade. No signatory to the WTO Agreement is permitted to apply TRIMS which are inconsistent with GATT obligations on national treatment under Article III and the prohibition of quantitative restrictions under Article XI.

As an appendix to the TRIMS Agreement an illustrative list of inconsistent TRIMS was agreed upon. The list includes measures which have local content and trade balancing requirements, and foreign exchange restrictions and domestic sales requirements. There is a notification clause which compels member states to inform WTO about inconsistent TRIMS and in the case of developing countries like Ghana eliminate these TRIMS within five years.

Government policy on investment promotion is encapsulated in the Ghana Investment Promotion Centre Act, 1994 whose provisions are in conformity with the TRIMS Agreement. The Act reserves only four areas for Ghanaian Nationals. These are petty trading, small taxi service operations (fleet limit of ten vehicles), betting business and lotteries and beauty salons and barber shops. Ghana has made a commitment as a signatory but is permitted to cap commercial presence. A TRIMS Committee has been set up by the WTO to oversee the implementation of the agreement.

The TRIMS agreement provides for a reconsideration of the agreement from January 1, 2000. The issues on which future negotiations could be launched are investment policy and competition policy. These are relevant issues of interest to Ghana as efforts are made to attract foreign direct investment. These efforts may well be on ensuring internal political and economic stability as against special measures to attract investors. In addition, Ghana is interested in building domestic capacity through technology transfers, strengthened management techniques and human resource development. Thus performance requirements are important to Ghana and Ghana's position can be promoted by working closely with other interested developing countries on negotiating proposals. Another area of interest to many developing countries is how investor behaviour can be brought under WTO disciplines.

IV.3 Government Procurement

The agreement on government procurement which is a plurilateral agreement took effect on January 1, 1996 and seeks to create open competition for government business. In Ghana, the Central Government and District Assemblies, government agencies and state-owned enterprises together control huge budgets which makes government the biggest purchaser of goods and services in Ghana. All kinds of goods and services are procured by government. Thus, Government appointees and officials who take decisions regarding procurement are often under intense pressure.

The agreement on government procurement seeks to correct situations where domestic suppliers are favoured over foreign suppliers. This is especially so with procurement by District Assemblies where only National Competitive Bidding or Limited Tendering Procedures often apply. Government efforts should be to encourage fair competition whether it is among domestic suppliers or with foreign suppliers as well. What is important is the transparency and fairness of procurement and tendering procedures and decision-making.

Further liberalization is being proposed, in terms of turning the plurilateral agreement into a binding multilateral agreement on transparency in government procurement. Ghana's position is in line with the stand of the African group at the WTO. The African Group's position is that any multilateral agreement on government procurement should primarily be concerned with transparency and not market access. In Ghana domestic suppliers have a 12.5 per cent preference margin over foreign suppliers in government procurement and this is published and generally well known. The African group seeks full recognition of the development dimension of government procurement and the need for preferential treatment of national suppliers. Non-binding guidelines emphasizing best endeavour action should form the basis of the new disciplines while the scope and definition of government procurement should be limited.

IV.4 Services

The Services sector is the fastest growing sector of Ghana's economy accounting for about 29.1 per cent of real GDP in 1998. Ghana, therefore, has an interest in how the negotiations on the unfinished agenda in the General Agreement on Trade in Services (GATS) proceeds in future. Ghana has liberalized and restructured its financial services and telecommunications sub-sectors. In both these sectors, Ghana has used strategic investors to bring in much needed foreign service expertise. Ghana will have to continue to liberalize further these sub-sectors as well as Maritime Transport Services in order to bring in those modern products and efficient systems which will make these areas more competitive.

Under the GATS there were several challenges. The relevant question was how to increase the participation of developing countries such as Ghana. Developing countries were keen on achieving the liberalization of the export of labour intensive services. There were also relevant issues of national sovereignty and control in relation to financial and telecommunication services. Developed countries, on the other hand, were interested in seeking the right of commercial presence to any market.

While all signatories were required to accept the GATS Framework Agreement and its general rules especially, those relating to MFN treatment and transparency, additional rules are applicable to countries making specific commitments. Ghana's schedule of commitments prepared in April 1994, are in five areas namely;

(i) Construction (Building and Civil Engineering Works);

(ii) Education Services (Secondary and Specialist);

(iii) Tourism and Travel-Related Services;

(iv) Maritime Transport Services; and

(v) Financial Services (Insurance and Banking).

Ghana is committed to liberalizing those areas identified in its schedule subject to specified limitations. These limitations sought to ensure that Ghana's development objectives in those areas were not compromised. Ghana's commitments have led to improvements in all these service areas as foreign service providers especially in financial services, tourism and travel related services and construction have entered the Ghanaian market and are now offering new products and better services. The activities of these foreign service providers is having a positive effect on Ghanaian service providers as they attempt to improve the quality of their services in order to be competitive or carve a niche in the market place.

IV.5 Agriculture

Agriculture was a new area for multilateral negotiations during the Uruguay Round. Further reform is needed in agriculture and Ghana, like many other African countries has a keen interest in this area. Ghana should be particularly interested in those products in which she has an export interest which were excluded from the Agreement on Agriculture. Only 58 per cent of agricultural products were bound in industrial countries and for developing countries only 17 oer cent. Products such as cocoa butter, fish and fish products and pineapples are excluded. Since these form part of Ghana's most dynamic export sub-sector, i.e., the non traditional products, it is imperative for tariffication to replace non-tariff measures. Reduction in tariff rates is equally important not only on previously excluded products but further reduction is required on products already included.

The main issues in considering the Agreement on Agriculture are that when liberalization takes place, trade in agricultural products will increase. It is likely that prices of traded agricultural commodities and food products will increase. This expectation provides an opportunity for making trade and income gains.

Ghana, as a net food importing country, can expect to face increasing costs on its food bill. The critical issue is to match the gains from the export of other agricultural commodities and establish the net gain or loss.

The EU has proposed an extension of Lomé preferences for another five years after Lomé IV expires in 2000. Beyond that, preferences may cease to be operable. The African Caribbean and Pacific (ACP) Group, however, prefers an extension for a period of ten (10) years. These matters are still under discussion.

IV.6 Textiles and Clothing

A major achievement of the Uruguay Round was the planned phasing out over a ten-year period of the Multifibre Arrangement which imposed quantitative restrictions on textiles and apparel from non-signatory countries in the past. The importance of the Agreement on Textiles and Clothing is that it covers an industry which requires less sophisticated machinery and skills for production. It also uses labour-intensive technology. Ghana's interest in this area should be that of a newcomer in international trade in textiles which should be given differential and special treatment. Ghana had a vibrant import-replacing textile industry sector for quite a long time. However, following Ghana's reforms, imported apparel has exposed their inefficiencies. Most of the firms in the industry have closed down because they cannot compete using ancient machinery and techniques. Since textiles and large scale apparel manufacturing offers an opportunity for entry into the international market place, this area is an area for further reforms.

It has to be emphasized that like other sectors, textiles and clothing trade will increase with liberalization and this will create a demand for raw cotton which Ghana can produce for export. Ghana also has an opportunity to produce materials as a sub-contractor to some of the larger apparel manufacturers. Ghana can also create a niche in the market place by exporting kente products and African fabrics. Ghana may require technical assistance in marketing some of its specialist textile products.

Chapter V
STRATEGIC OPTIONS AND RECOMMENDATIONS

V.1 Strategic Options

In Ghana, economic reforms have been very high on the political and economic agenda since 1983. While these reforms were basically unilateral (albeit prodded by the World Bank and IMF), they nevertheless have been pursued vigorously. The liberalization ushered in by the Uruguay Round supports Ghana's efforts by creating an enabling global trading environment. Opportunities are therefore created for Ghana to gain benefits provided domestic economic operators are competitive.

The UR increases both market access and security assurance for Ghana's exports. For Ghana to benefit, she has to make a paradigm shift from traditional primary exports to non-traditional exports especially semi-processed and processed exports. So a product diversification strategy is advocated and should be pursued more relentlessly.

In addition and this is hardly ever emphasized, there ought to be market diversification. Ghana has developed its traditional exports of cocoa, minerals and timber for decades and the country and economic operators have the know-how to market these products. The EU market has been the principal destination for Ghana's products but other markets for traditional products such as South East Asia ought to be explored as markets are liberalized.

With the loss of preferences following the UR, Ghana and indeed other African countries will lose their competitive edge. There is however sufficient evidence to suggest that Africa has not really benefited from preferences offered. First, the share of Africa in EU trade has declined by 45 per cent from 6 per cent to 3.3 per cent over the 14-year period to 1992. Second, Africa continues to have a fixation on primary products and the availability of preferences kept Africa in those product areas and in those markets.

Even though market access is important, the problem limiting African exports is not market access in itself but supply side constraints which may be a function of domestic policies.

As Africa faces keener competition in the global market place countries like Ghana should continue the relentless pursuance of economic policies which will lead to a competitive production and supply base. Improved technology and its application should assist Ghana in its effort to play an increasing role in world trade.

In the UR, the emphasis was on secured market access (the demand side issues) but of crucial importance are the supply-side issues some of which have been discussed. Those factors which make it difficult for countries like Ghana to have an adequate supply response ought to be examined and placed on the negotiating agenda.

V.2 Recommendations

It has been established that Ghanaian exports have expanded since the introduction of Ghana’s reforms but to increase Ghana’s share of world trade it is important to improve the domestic policy environment.

V.2(a) Deepen Reforms and Liberalize Further

With the outcomes of the Uruguay Round, the world is on a path of further liberalization. There is what has been called “an international invasion of domestic policy space” i.e., countries like Ghana can use the WTO process to have credible and stable trade policies. Ghana, like many African countries generally has relatively high applied tariffs, low coverage of bound tariff lines and very high binding rates. In future multilateral negotiations, Ghana and the rest of Africa should have the further reductions of their own tariffs on the table and move towards increasing the coverage of tariff bindings. The present regime has been a problem limiting intra-African trade to a low level. It is true that there are many countries whose revenues depend on international trade but reducing tariffs and expanding the scope of bindings will make policies credible and predictable and assist in attracting much needed investment for productive ventures.

V.2(b) Market Access

As new products are brought into the international market place following diversification, market access becomes important. An examination of market access can only be properly undertaken at a highly desegregated level since product specificity is necessary. (R. Blackhurst and W. Lyakurwa, 1998). It is important to note that even within specific product groups, there are varying tariffs. Tariffs are often fixed with a range. Further analysis into this important subject is required.

V.2(c) Identify Areas of Interest

It is important for Government to identify areas of interest to Ghana and get these items on the negotiations agenda. Some of these areas have been discussed in Chapter V but the details will have to be worked out. For example, in agriculture the problem of tariff peaks in relation to products like tuna, fruits and vegetables will have to be re-examined.

V.2(d) Adequate Representation in Geneva

Ghana has to take an active part in deliberations at the WTO in Geneva. An adequate official representation in Geneva specifically responsible for WTO matters is required. In addition, a strong outfit is needed at the home-based reference point i.e. within the Ministry of Trade and Industry. In Geneva the official responsible for WTO matters is also responsible for UNCTAD, ITC and trade promotion. In Ghana those responsible for WTO also have responsibilities for international co-operation which is a very broad area. Currently this Division is undermanned and the officials overstretched.

V.2(e) Use Local Experts and Build Capacity

The use of local experts in the Universities, research institutions and private consultancies to enhance Ghana's capacity for action in the next Round has to be deepened. It is important for the country to take full advantage of Ghana's pool of researchers before and in future negotiations not after. Technical Assistance may be sought from the ITC/UNCTAD/WTO in areas where Ghana is deficient for it is critically important for Ghana to build the capacity not only for analysis but also for implementation.

V.2(d) Identify Areas of Interest

While building up the human capacity for analysis and negotiations, the capacity for implementation is important. This may involve retraining of labour and the use of technical assistance especially in areas such as trade remedies, trade support services e.g. information.

V.2(e) Cooperation among Ministries Department

The way forward for Ghana is a strong and irreversible commitment to export development. This calls for cooperation between various Ministries, departments and agencies. Cooperation should not only be at the level of "lip-service" but should be institutionalized to an extent that officials naturally inter-relate. Key Ministries and organizations such as the Ministries of Finance, Trade & Industry and Roads & Highways, Communications, National Economic Planning Commission, Ghana Ports and Harbours Authority, Customs, Excise and Preventive Service, Ghana Export Promotion Council, Department of Civil Aviation and Free Zones Board have to work in concert united in facilitating exports. Apart from the need for national coordination, it is important to ensure adequate follow-up through the institution of appropriate monitoring and evaluation techniques.

V.2(f) Cooperate with Other Countries

Apart from cooperation among the Ministries and also with local experts, Regional and Continental cooperation is critical for two reasons. First, each individual African country has very limited potential for effective action on its own. The political leverage will certainly be lacking and the capacity to negotiate is enhanced by joint action and shared representation of ideas. What is required is the institutional framework for joint action. It could be done under the auspices of regional groupings like ECOWAS, the OAU or the ACP Group.

V.2(g) Market Diversification

In promoting Ghana's exports, the country should not ignore its traditional exports but should look to developing these exports in new markets. Indeed commodity dependence may not necessarily be a bad thing considering that product market linkages have long been established. In addition, these traditional exports can provide the base upon which processed and semi-processed products can be manufactured not only for traditional markets but also in new markets. Thus market diversification especially targeting countries with low or zero-rated tariffs for Ghana's products is a plausible option.

V.2(h) Product Diversification

Product diversification is already an important part of Ghana's strategy of developing its non-traditional exports. The non-traditional exports are important in regional trade especially with proximate countries like Togo, Burkina Faso and Côte d'Ivoire. Ghana's transport advantage over Europe in trade with these countries has to be exploited fully. The ITC study on product matrices which focuses mainly on non-traditional exports provides a more informed basis on which Ghana can proceed.

V.3 Macro Economic Policies

Macro-economic stability is the key to creating an enabling environment in which businesses can perform. A high rate of inflation does not convey a perception of stability.

V.3(a) Inflation

Inflation in Ghana peaked in December 1995 at 70.8 per cent but has since gradually declined and is officially estimated at the end of April 1999 at about 10.8 per cent. The end of year target is 9.5 per cent. It has to be emphasized that in Ghana inflation has been a monetary phenomenon fueled by the growth in money supply and government's propensity for fiscal indiscipline. In this regard, the Bank of Ghana's strict controls have led to private sector financing of Government through the accumulation of arrears for work done or for goods supplied and services rendered by the private sector. The long run implication of this situation is serious for the private sector which basically is forced to lend interest free money to Government while paying interest on working capital borrowed locally or externally. The longer arrears remain outstanding, the greater the danger of reduced production and closures, bankruptcies, retrenchment of labour and increasing poverty.

V.3(b) Government Expenditures

A reduction in government expenditure is advocated by students of the Ghanaian economy. One major reason is that in order to finance excess government expenditure, government has had recourse to borrowing from the banks and the public through issuing government bills and bonds. In this Government competes with the business community in the financial market place for limited funds. The crowding out effect is clear and worsened by the high interest rates. Currently the best base rate of any commercial bank is 28.5 per cent which follows a recently declining trend. This is still very high and does not appear consistent with the officially estimated rates of inflation.

V.3(c) Exchange Rate Management

In 1998, the Cedi appreciated in real terms by over 15 per cent continuing the trend which started in 1995. In the first half of the year the Cedi was more or less stable. This was the result mainly of Bank of Ghana's intervention through the sale of foreign exchange to support a weakening Cedi. In addition, the Bank of Ghana administratively doubled the reserve cash requirements of forex bureax from $5,000 to $10,000 and moved to suppress the "Dollarisation" of the economy by publishing sections of the Exchange Control Act 1961, which made it illegal for firms and individuals to denominate their charges/rents in any currency other than the Cedi.

Demand for foreign exchange was consequently reduced and this may have induced low interest rates. CEPA argues quite correctly that "unless one can achieve a rapid improvement in the fundamentals of the economy .... the syndrome of falling interest rates and appreciating real exchange rate is not sustainable". In the short run real exchange rate appreciation hinders exports and may lead to a new wave of protectionism as cheaper imports flood in to compete with domestic producers. The sustainability of this policy which resulted in a running down of reserves is very doubtful and dangerous since it adversely affects Ghana's ability to compete and reduces the coverage period for imports thus exposing Ghana to externally induced unexpected situations. Ghana has to get its macro-economic fundamentals right if the country is to compete successfully in the international market place and benefit fully from the new multilateral trading system.

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