CHAPTER SEVEN: OPENNESS, INCOME DISTRIBUTION AND POVERTY

7.0 Introduction
There is a growing consensus in empirical studies that greater openness to international trade has a positive impact on per capita incomes and on the incomes of the poor. This is consistent with economic theories about the effects of globalisation and international trade on income distribution and poverty. In fact, international trade theory in its abstract formulation postulates that increased openness to trade and foreign direct investment (FDI) through its impact on economic growth should make income distribution more equal and thereby reduce poverty in poor/developing countries.

For instance, it is widely agreed in economic theory that openness to trade allows an economy to make better use of its resources by allowing imports of goods and services at a lower cost than they could be produced domestically. In particular, openness to international trade enables developing countries to import capital equipment and intermediate inputs that are critical to long run growth and poverty reduction, but which would be expensive or impossible to produce domestically.

Also, in promoting more intense competition, which obliges local firms to produce efficiently, and greater access to new foreign ideas and technologies (i.e. international technology transfer) openness to trade and FDI ensures increased production both quantitatively and qualitatively thereby improving welfare.

Many empirical studies have suggested that without trade a country’s production possibilities are limited by its own natural endowments while consumption opportunities are also limited to the economy’s production possibilities. However, trade can extend these possibilities, thus leading to growth and development. The dynamic forces that trade bring along increases competition and forces domestic producers to become competitive and more efficient, often through the adoption of new technologies. Countries that engage in trade can obtain capital goods embodying the latest technology, which the domestic industry cannot develop. Thus, international trade has the potential of leading to the invention of profitable areas of investment in countries and the resultant capital flows represent foreign direct investment (FDI). The whole world is moving towards a more liberalised trading system epitomized by the World Trade Organisation (WTO), and this is expected to bring about growth and development.

During the last decade the issues of globalisation in terms of openness to trade and FDI on income distribution and poverty has received huge attention especially on within-country income inequality in developed countries, and between countries income inequality. This chapter examines the impact of openness on Income distribution and poverty in Ghana especially in the 1980s and 1990s.
7.1 Trade, Income Distribution and Poverty

In the last several years, the issue of trade and developing country poverty has become the focus of much research because of the growing concern about the impact that openness to trade has on income distribution and poverty. This is so because empirical evidence seems to be at variance with traditional trade theory. International trade theory in its abstract formulation postulates that increased openness to trade and foreign direct investment (FDI) through its impact on economic growth should make income distribution more equal and thereby reduce poverty in developing countries. This is based on the Hekscher-Ohlin-Samuelson (HOS) model, which in its simple form postulates that, for comparative advantage reasons less developed countries will tend to export low-skill intensive products (because there is intensive utilisation of abundant low-skill labour) and import skill intensive products from developed countries. Thus free trade will increase the real return of the abundant low-skill labour factor and at the same time reduce the return to the relatively scarce high-skill labour thereby reducing the income inequality within developing countries.

However, there is strong empirical evidence to the effect that trade openness has adversely affected the poor and in fact led to deterioration in income distribution in developing countries. For instance there was an increase in income inequality in Asian countries in the 1980s although these countries rapidly expanded labour intensive manufactured exports during the 1980s.

Other studies (Dollar and Kray 2001; Bourguignon et al 2002) on openness to trade and income distribution have also concluded that there is no strong evidence that openness to trade observed over the last two decades in developing countries have had any significant impact on within-country income inequality. In fact openness to trade did not explain the surge in income inequality in many developing and transitional economies in which manufactured exports and imports hardly changed.

In Ghana, the link between openness to trade, income distribution and poverty shows that trade openness deteriorated sharply between the 1960s and 1980s as a result of the very restrictive trade and exchange rate regime pursued during that period, except for a short period 1969-1972 when the Busia administration pursued some trade liberalisation. As a result per capita income of Ghanaians (used here as a proxy for poverty) also fell drastically from about US$500 in 1960 to US$340 in 1983.

As a result of the launch of the Economic Recovery Programme (ERP) in 1983 openness to trade has risen steeply from an index of 0.11 in 1984 to 0.34 in 1987, 0.33 in 1989, 0.36 in 1992, 0.57 in 1998 and further to 0.78 in 2001. Poverty also increased from 36.9% in 1987 to 41.8% in 1989, however between 1992 and 1998 poverty reduced from 51.7% in 1992 to 39.5% in 1998. With respect to income distribution the Gini Coefficient rose from 0.35 in 1987 to 0.36 in 1989, declined to 0.34 in 1992 and further down to 0.327 in 1998. This suggests that since 1989 there has been a reduction in income inequality.

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58 Measured as the ratio of exports plus imports to Gross Domestic Product (GDP)
59 Poverty is measured here by the proportion of the population below the national poverty line. Poverty Incidence from GLSS1 and GLSS2 are comparable as against GLSS3 and GLSS4.
60 The Gini coefficient varies from 0 (perfect income equality) to 1 (perfect inequality). The higher the value, the greater the income inequality.
A look at table 7.0 and figure 7.1 shows that there appears to be significant correlation between trade openness on income distribution since the launch of the ERP in 1983. In fact between the periods 1987 and 1998/1999 income distribution has become relatively egalitarian in the midst of a tremendous improvement in trade openness. This is confirmed by the simple correlation coefficient of -0.84 between trade openness and the Gini coefficient.

This could possibly be explained by the fact that between 1991/1992 and 1998/1999 export farmers have experienced the largest reductions in poverty (i.e. from about 64% to 39%) whilst food crop farmers experienced the least reduction in poverty (i.e. 68% to 59%). This is so because changes in relative prices through exchange rate devaluations, the opening of domestic markets, and changes in the structure of production are certain to lead to shifts in income distribution, with producers of tradable goods (mostly exportables) benefiting from the economic policy reforms. In Ghana about two fifth of the population are food-producing farmers, of whom about two thirds were poor in the early 1990s. In 1998, poverty fell among food producers, but the decline was not as great as that experienced by export crop producers. Most of the rural poor appear to have benefited from growth, but those producing export crops have benefited most. Ghana experienced significant reductions in poverty incidence among cash (export) crop producers during the 1990s from 64 percent to 38.7 percent as a result of more favourable producer prices of cocoa and an increase in cocoa production and Non Traditional Exports.

Table 7.0: Correlation Indexes between Trade Openness, FDI, Income Distribution and Poverty.

<table>
<thead>
<tr>
<th></th>
<th>Trade Openness</th>
<th>FDI(US$m)</th>
<th>Gini</th>
<th>Poverty Index</th>
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</thead>
<tbody>
<tr>
<td>Trade Openness</td>
<td>1.0</td>
<td>0.96</td>
<td>-0.84</td>
<td>-0.2</td>
</tr>
<tr>
<td>FDI(US$m)</td>
<td>0.96</td>
<td>1.0</td>
<td>-0.87</td>
<td>0.05</td>
</tr>
<tr>
<td>Gini</td>
<td>-0.84</td>
<td>-0.87</td>
<td>1.0</td>
<td>-0.25</td>
</tr>
<tr>
<td>Poverty Index</td>
<td>-0.2</td>
<td>0.05</td>
<td>-0.25</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Calculated from data sourced from GLSS I, II, III, and IV and IFS Yearbooks.

With respect to the impact of trade openness on poverty in Ghana, figure 7.1 shows that between 1987 and 1998, whilst there was a steep improvement in trade openness, the incidence of poverty fluctuated. For instance between 1987 and 1992 poverty incidence increased, whereas between the periods 1992 – 1998 poverty incidence reduced significantly. This seems to suggest that trade openness had a negative impact on poverty reduction in Ghana from the late 1980s to early 1990s and a positive impact in the later part of the 1990s. This explains the low correlation coefficient of -0.2 between trade openness and poverty (see table 7.0), indicating a low association between trade openness and poverty reduction.

61 This is not to imply that trade openness has been the only reason for the improvements in income distribution in Ghana. It should however be noted that, the fact that export crop farmers experienced significant reductions in poverty through higher producers prices indicates a seemingly significant impact on income distribution.

62 Based on the Upper Poverty Line £900,000 per capita per annum.

63 The use of simple correlation indexes in favour of the more preferred multivariate regression analysis is due to lack of adequate time series data especially on the Gini Coefficient and poverty index.

64 In Ghana Poverty is explained mainly as a rural phenomenon where there is low production and incomes especially in the agricultural and informal sectors as a result of low levels of education.
According to Christiansen, Demery and Paternostro (2002) the potential pathways through which trade openness impacts on poverty reduction include rural labour markets, where higher export crop prices stimulate export crop production leading to increased demand for agricultural wage labour, and ultimately higher agricultural real wages.

The importance of labour markets in transmitting the effects of economic reforms on poverty reduction through increased liquidity in rural economies in Ghana was underscored in a study by Abdulai (2000b). The study found out that in Ghana a percentage change in the domestic terms of trade between agriculture and non-agriculture led to a 0.83 percent change in the real agricultural wage rate in the long run. Also increased liquidity in rural economies from agricultural exports was found to have important spin-off effects, through an expansion of both investment in export and food crop production, and increased consumption of goods and services produced with previously underutilized local labour, land or capital. As a rule of thumb Delgado et al. (1998) posit that any policy enhancing producers’ income from agricultural exports increases local rural income by twice the amount of the increased exports.\(^{65}\)

The evolution in poverty among food and cash crop producers could be explained by the fact that food crop producers tends to be much more heterogeneous than cash crop producers. In export-crop growing zones, the effects of favourable export crop prices were transmitted to the food-crop growing households either through the labour market and product markets, or both. Transmission of such benefits to areas unsuitable for export crop production, especially when they are also remote, is much harder. This explains why in Ghana food producers in more remote and less integrated regions in the north of Ghana did not experience a similar reduction in their poverty as food growers in cash-crop in better integrated areas.

For instance the Ghana Living Standards Survey (GLSS III and IV) indicates that, in terms of the incidence of poverty, between 1991/92 and 1998/99 there has been a general reduction in poverty as the incidence of poverty decreased from 51.7 percent to 39.5 percent although the decline was not uniform across the country. Although export farmers were the winners in terms of the greatest reduction in poverty incidence from 64 percent to 38.7 percent, the fact that their contribution to poverty was only 6.9 percent in 1998/99 as against 58.1 percent by food crop farmers\(^{66}\) seems to suggest that trade openness had an insignificant impact on poverty reduction in Ghana especially in the 1990s. The concentration of the poor in the food crop sector as well as the marginal decline in poverty incidence among people in that sector compared with export farming sector is due to the fact that while the export farmers have been benefiting from governmental support in terms of technical training and other export promotion packages, the self-employed in both food and non-farm sectors are the least beneficiaries of public investment and subsidies. Indeed the food sector was one of the hardest hit sectors when agricultural subsidies were removed as part of the ERP/SAP.

\(^{65}\) Quoted from Christiaensen L., L. Demery and S. Paternostro (2002)

\(^{66}\) Poverty incidence among food crop farmers reduced marginally from 68.1 percent in 1991/92 to 59.4 percent in 1998/99.
7.2 FDI, Income Distribution and Poverty

FDI is an important ingredient for successful economic growth, poverty reduction and to a lesser degree income distribution in developing countries. This is so because FDI is well suited to affect the rapid and efficient transfer and adoption of “best practice” across borders which translate into broad based growth which is the most important factor affecting poverty reduction and in most cases income distribution.

In fact FDI remains one of the most effective tools available in the fight against poverty in developing countries, because, apart from its potential in generating growth, FDI also improves the quality of growth by reducing the volatility of capital flows and incomes, improves asset and income distribution at the time of privatisation, improves social and environmental standards and helps improve social safety nets and basic services for the poor. It should be noted that among the different types of private cross-border financial flows, FDI is the least volatile, most available to poor countries and least likely to saddle taxpayers in poor countries with unbearable debt service obligations and therefore FDI is most conducive to promote sensible development for the poor.

In Ghana, especially since 1994, there have been a series of strenuous efforts on the part of the Government of Ghana to encourage foreign direct investments (FDI) because of renewed acceptance of FDI as a component part of the engine of growth and poverty reduction strategy. Efforts in the form of promotional campaigns, institutional and legal frameworks and various fora (both home and abroad) have been embarked upon to cast Ghana as a country that possesses an FDI friendly environment.
Ever since 1994, giant strides have been made as the mining sector in Ghana, the largest FDI beneficiary, emerged from a prolonged slum and virtual decay to become Ghana’s largest foreign exchange earner. FDI inflows in other sectors have also improved tremendously. Between the last quarter of 1994 to the end of 2002, about 83 percent of the total costs of investment projects (excluding Mining) registered by the Ghana Investment Promotion Centre (GIPC) within various sectors was in the form of FDI.

Table 7.1: Annual Growth Rate in FDI and Annual Changes in Poverty Incidence and Income Inequality (1981-2001) %

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</thead>
<tbody>
<tr>
<td>FDI</td>
<td>9.89</td>
<td>71.9</td>
<td>16.9</td>
<td>89.4</td>
<td>-8.92</td>
<td></td>
</tr>
<tr>
<td>Poverty Incidence</td>
<td>N/A</td>
<td>1.6</td>
<td>N/A</td>
<td>-1.7</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Income Inequality</td>
<td>N/A</td>
<td>0.33</td>
<td>N/A</td>
<td>-0.18</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculated from FDI data sourced from IMF Year Books, Poverty and Income Inequality data sourced from GLSS I, II, III, IV
N/A = Not Available.

Figure 7.1 shows that between 1987 and 2001 FDI inflows have fluctuated from US$4.7m in 1987 to a peak of US$474.6m in 1997. With respect to poverty and income distribution, FDI inflows did not have an impact during the late 1980s. Indeed between 1987 and 1989 although there was an annual average growth rate of 71.9 percent in FDI inflow, income inequality increased by an annual change of 0.33% (i.e. from a Gini index of 0.35 in 1987 to 0.36 in 1989), whilst poverty incidence increased by an annual change of 1.6 percent per annum (i.e. from 36.9% in 1987 to 41.8% in 1989). This indicates that income distribution and poverty did not respond positively to the remarkable growth in FDI between 1987 and 1989.

During the 1990s the picture looked quite different. There was a remarkable improvement in poverty reduction from an incidence of 51.7 percent in 1992 to 39.5 percent in 1998 (this indicates an annual decrease of 1.7 percent). Income inequality also improved slightly as the Gini index decreased from 0.34 in 1992 to 0.327 in 1998, indicating an annual change of -0.18 percent. Over this period FDI inflows grew at an annual average of 89.42 percent giving an indication that FDI inflows had a relatively significant impact on poverty reduction and income inequality in Ghana during the 1990s.

7.3 Trade, FDI and the Informal Sector
The role of the informal sector in employment creation and as source of income generation for the poor has in recent times been widely acknowledged especially in the developing world. The informal sector is now being considered as the sponge to absorb entrants to the labour force, which include the unemployed, the redeployed and the retrenched, because of the low absorptive capacity of the formal sector and public sector redeployment and retrenchments.
Within the Ghanaian economy the informal sector apart from contributing to employment also makes contributions to domestic production, incomes, provision of training and skills, and basic needs. According to Baah-Nuakoh (2003), the appreciation of the informal sector contributions in the Ghanaian economy is however limited by the lack of adequate and reliable data on the sector.

According to the 1984 and 2000 population and housing census, the informal sector in Ghana employed about 82 percent and 80 percent of the economically active population respectively. Between 1984 and 2000, the informal sector employment rose by 46.4 percent or an annual average of 2.7 per cent. The informal sector’s share in total employment also rose from about 84 percent in 1984 to 89 percent in 1992. This trend in employment indicates that the informal sector plays a crucial role in creating employment and thereby providing a source of income generation to the poor.

With respect to domestic production, the informal sector produces a wide range of goods and services that have comparatively low import content and mostly utilizes discarded materials and other inputs obtained locally. The products of the informal sector are generally meant for the lower income group but due to declining incomes, the varieties of goods and services produced by the informal sector are being patronized by middle-income groups. According to Baah-Nuakoh (2003), a JASPA 1989 survey established that the informal sector accounted for nearly 22 percent of GDP and that in the rural areas the informal sector contributes a larger output to GDP than the urban sectors. In the non-agricultural sector, informal sector activities in trade and commerce is the largest contributor to GDP (52%) followed by informal activities in industry (28%) and transport (8%).

With respect to incomes the informal sector provides incomes to millions of Ghanaians who are employed in the sector. In fact incomes generated in this sector ensure some means of subsistence for a considerable portion of the Ghanaian population. Thus the informal sector plays an important role in meeting the basic needs of a large portion of the Ghanaian population both in the informal and formal sectors. This explains why the informal sector in Ghana has been suggested as “a poor man’s sector: a sector of the poor, by the poor and for the poor” (ILO/JASPA, 1985).

With respect to openness to trade and FDI, there is limited data and information on Ghanaian informal sector activities in these areas. However one area worth mentioning is the response of the informal sector activities in export trade to the structural adjustment programme. One of the main objectives of the Economic Recovery Programme when it was launched was to provide a more conducive regulatory framework for the conduct of economic activities in Ghana. In line with this objective, policy bottlenecks that restricted the scope of economic activities were removed. This was done to ensure that it would be profitable for economic agents to utilise fully market-based arrangements for production and distribution of all goods and services. This favoured the informal sector in export trade than the formal sector.

The Regional Programme on Enterprise Development (RPED) study in Ghana (Baah-Nuakoh and Teal, 1993), suggested that the relaxation of the regulatory framework affected adversely the transactions of larger (formal) enterprises in the export trade sector than on smaller (often informal) enterprises. Although the relatively large firms
wishing to export found it difficult to raise the necessary capital, small informal exporters responded much more readily in the non-traditional export sector. This was so because such informal operations in the export sector which involved the export of one or two cartons of fresh fruits could be held as travel luggage was not subject to such regulations, such as the retention of foreign exchange for export earnings, access to bank credit, business registration, etc.

7.4 The Impact of Policies for Increasing Openness
Ghana continues to practice a liberalised system of trade. Classical economists have argued that a small country must increase its participation in global markets to provide employments, profits and consumption opportunities for its people. Expansion of trade brings about increased opportunity to consume, which is a time definition of income. Real income growth means no more than improved opportunities to consume and therefore improved standards of living. It is for this reason why the government of Ghana embarked on liberalisation of the external trade sector.

The international trade policy measures embarked upon since the launch of the ERP to liberalise external trade and increase openness, focused on mechanisms to diversify exports and enhance productivity to ensure international trade competitiveness in order to achieve a sustainable level of foreign reserves.

After almost two decades there has been a tremendous improvement in Ghana’s trade with the rest of the world. It can be seen from figure 7.1 that trade openness (exports plus imports as a percentage of GDP) has responded positively to the international trade measures that have been embarked upon since the inception of the ERP in 1982. From an index of 0.03 in 1983, trade openness increased to 0.34 in 1987 to 0.54 in 1994, 0.59 in 1997 to as high as 0.81 in 2001 before finally falling marginally to 0.78 in 2001.

This could be partially explained for by the fact that there has been some improvement in productivity in the traditional exports and non-traditional export sectors. Also the various trade promotional activities/programmes embarked upon by the government and its agencies (i.e. Free Zones Programme, Gateway Programme, Export Development Fund etc.) seemed to have attained some level success.

Impact of Policies to Promote Traditional and Non Traditional Exports

Traditional Exports
To improve the cocoa industry and thereby promote traditional exports, the Government pursued a consistent policy of increased farmer income, improved agronomic practices, diseases and pests control and increased value addition.

The trends in cocoa volume (both cocoa products and beans) show that over the years output has seesawed. The volume of cocoa beans exported rose significantly from 237,262 metric tonnes in 1995 to a volume level of 348,031 metric tonnes in 2000 but declined to 310,476 in 2001 and further down to 305,000 in 2002. The decline in the volume of cocoa beans was attributed to smuggling and the onset of the black pod and capsid disease during the period 2000-2002.
To halt the decline in cocoa output due to smuggling and the onset of the black pod and capsid disease, the Government in 2002 launched the Cocoa Diseases and Pests Control Programme, which involved the control of black pod and capsid diseases. In 2003 for instance, the Government earmarked G242.0 billion to continue with the diseases and pests control programme to cover 1.6 million hectares of cocoa farms. The Government also honoured its promise to increase the farmer’s share of the free on board price of cocoa towards the 70% target by 2004/2005 season by raising the producer price from 6.2 million cedis to 8.5 million cedis per tonne at the commencement of the 2002/2003 season. This represents a 37% increase in the producer price of cocoa. Payment of bonuses and the 37% increase in the producer price took farmer’s share of the free on board price per tonne to 68.11%. In 2001 a major step was taken to liberalise the cocoa industry with the licensing of private companies to take part in the external marketing of the commodity.

The immediate impact of these policies on poverty reduction and income distribution was the 24,000 jobs created for unemployed youths involved in the spraying of cocoa trees in the local communities of the traditional cocoa growing areas in Ashanti, Brong Ahafo, Central, Eastern, Volta and Western Regions and the improved income enjoyed by cocoa farmers as a result of the substantial increase in the farmer’s share of the free on board price per tonne of cocoa to 68.11%.

With respect to minerals and timber exports, receipts have not been stable over the years. For instance by the year 2002 earnings from the mineral sector was still dominated by earnings from gold, contributing about 91.1% of the sector’s earnings, while diamond, bauxite and manganese provided 8.9%. The volume of gold exported increased from 1,584,380 fine ounces in 1996 reaching a level of 2,550,766 fine ounces of gold in 1999.

The output of gold fell marginally from its 1999 level to 2,226,492 fine ounces in 2002. Although in the 2002 the volume of gold fell the world price increased thus boosting gold earnings. The decline in gold export according to industry source can be attributed to the rising cost of production and failure of the price to recover to the mid 1990 levels. The industry sources also point partly towards the fact that countries competing with Ghana for foreign direct investment into the mining sector have a more attractive legal and investment framework with respect to mineral rights and exploitation. Again poor industrial relations in some gold mines can be attributed to decline in gold production.

**Non-Traditional Exports (NTEs)**

The Ghana Export Promotion Council does categorise the export of non-traditional products into three sections – Agricultural products, Processed and Semi-Processed products and finally Handicrafts. Processed and semi-processed goods contribute an average of about 79.73%, followed by agricultural products, which contribute an average of about 18.5%. The exportation of handicraft products forms a meagre 1.77% of total receipt from the export of non-traditional products.

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67 In fact, the decline in the incidence of poverty experienced by export crop farmers between 1991/92 and 1998/99 was mainly due to the gradual increment in the producer prices of cocoa enjoyed by cocoa farmers.
Earnings from non-traditional exports on the average have been growing since 1995 to the present. This has been as a result of strenuous efforts by the Ghana Export Promotion Council to improve the production and marketing environment for NTEs. Despite the increasing trend in earnings from non-traditional exports, the number of exporters has not been increasing on the average. In 1996, the total number of exporters of non-traditional products stood at 3,393 while the number of products exported was at 231 and by the end of 2002, the number of exporters stood at 3,083 and the number of products was 257.

Impact of Investment Policies aimed at attracting FDI inflows
Since Ghana gained independence in 1957, various governments have embarked upon various investment policies to attract private investment into the Ghanaian economy from both local and foreign sources. Investment incentives have been provided under various investment codes. The Pioneer Industries and Companies Act of 1959, which instituted a ten-year tax holiday, marked the beginning of investment promotion in Ghana after independence. The Capital Investment Act of 1963 also sought to encourage foreign investment. The 1973 Investment Decree (NRCD 141) and Investment policy Decree (NRCD 329) of 1975 were intended to encourage both local and foreign investors. One important Act which was put in place and which has tremendously attracted foreign direct investment in Ghana was the GIPC Act of 1994 which set up the Ghana Investment Promotions Centre (GIPC) with the prime objective of encouraging and attracting both domestic and foreign Investment.

Ever since 1994 giant strides have been made in attracting FDI inflow into Ghana especially the mining sector in Ghana. Indeed the Ghanaian Mining sector, which is the largest FDI beneficiary, has now emerged from a prolonged slump and virtual decay to become Ghana’s largest foreign exchange earner. FDI inflows in other sectors have also improved tremendously. Indeed between September 1994 and end of 2001 the GIPC had registered 1,255 FDI projects estimated at a cost of US$1.71 billion.

Also improvements have been achieved in investment flows with Foreign Direct Investment (FDI) to the mining sector outweighing those of the non-mining sectors. Indeed FDI flows to the mining sector between 1995 and 2000 were 2 billion US dollars.

The Impact of the Uruguay Round (UR) of talks
World Trade Organisation trading regulation has also had considerable impact on Ghana’s trade. Ghana is a member of the WTO and the country is classified by the organisation as a developing country. Ghana benefited from the Uruguay Round (UR) of talks. Tariff that was imposed on Ghana’s major agricultural products, including cocoa and coffee was reduced from 3% to 0% in the European Union market (there were no tariffs on Ghana’s agricultural exports to other advanced countries like the USA, Canada and Japan before the round). Tariffs on value-added products have also been reduced from 15% to 12% in the case of cocoa paste and from 9.6% to 7.7% in the case of cocoa butter.
Tariffs imposed by OECD countries on Ghana’s exportation of wood and furniture declined drastically by 69%, and by 76% and 67% in North America and Western Europe respectively. Opening of market access in the metal sector was also made possible by the reduction of tariffs by 63% in North America, 35% in Western Europe and 59% in OECD countries as a whole. Tariffs on textiles and garments were reduced by 20% in Western Europe, 15% in North America and an average of 22% in OECD countries. Again quotas on export of textiles and garments to these regions were removed and this is expected to boost Ghana’s textile and garment exports.

Ghana’s exports of fruit and vegetables have also benefited from a steep reduction in tariffs of up to 38% in North America and 32% in Western Europe, while the OECD countries reduced tariffs by 36%. Increased access for agricultural products to advanced countries markets included not only the reduction in tariffs but also the removal of quantitative restrictions and commitments on a broad range of products. This is expected to impact positively on prices of agricultural products entering world markets and in the long-term boost to agricultural production and thereby reduce poverty and improve income distribution.

In its entirety the opening up of trade and especially more access to markets in advanced countries through the reduction of tariffs will help boost trade and hence economic development in Ghana over time.

**The Impact of the Presidential Special Initiatives**

**Textile and Garments**

The Presidential Special initiative on textiles commenced in earnest to take advantage of the U.S. Government’s African Growth and Opportunity Act (AGOA) as well as other markets in Europe. About 50 Ghanaian medium sized garment-manufacturing companies were expected to commence production in the Tema Free Zone Enclave by the beginning of the second quarter of 2003. An amount of US$1.2 million has been disbursed to purchase the Volta Garment Factory for the establishment of a Clothing Technology and Training Centre (C.T.T.C) where 8-week training programmes for up to 400 textile workers per batch, was expected to commence in 2003.

The Export Action Programme for Garments and Textiles, which aims at developing a critical mass of high growth-oriented, internationally competitive exporting firms, targeting U.S. and European markets, has been launched. Under this programme small industrial villages have been established to make garments for exports to the United States. Fourteen garments and textile companies have benefited from training schemes to improve their standard in 2002. In addition, a model medium-sized commercial manufacturing unit with 300 workers will serve as demonstration centre for mass production of textiles. This project is expected to create about 90,000 full time jobs for Ghanaians and to inject $3.4 billion in export revenue into the Ghanaian economy by 2005.

Quite clearly AGOA presents an enormous opportunity for alternative employment and poverty reduction in Ghana if the country is able to fully take advantage of the enormous potential that the new Africa Growth and Opportunity Act (AGOA) offers.
Cassava Starch
The Integrated Action Programme for Cassava starch production and export aimed at creating jobs for Ghanaians and to reduce poverty in rural communities has started in earnest. The Presidential Special Initiative on cassava has started and a $4 million starch processing plant, the second of its kind in Africa has been commissioned at Bawjiase in the central region to process about 20,000 tons of starch annually for domestic use and exports. Already many farmers are involved in the cultivation of cassava with sustained assistance from the government to supply raw materials to the starch factory. This is expected to lead to a reduction in poverty among food crop farmers in the areas where the cultivation of cassava has started in earnest.

Palm Oil and Salt
Following the President’s visit to Malaysia, he initiated a move to encourage the production and processing of palm oil under the President’s initiative on palm oil production. This initiative is also expected to offer employment opportunities for rural communities and generate sustainable income for both the young and old. The government through the President’s Special Initiative (PSI) on salt has intensified efforts to revive and develop the salt industry in Ghana as a foreign exchange earner. The PSI on Salt was supposed to take off in 2003 and the government has facilitated the acquisition of US$40 million which can be accessed by private ventures for salt production for exports. The government is also planning to help build processing plants for palm oil and salt. This is expected to provide jobs and incomes to the coastal population so as to reduce poverty in the coastal areas where 24.2 percent of urban coastal and 45.2 percent of rural coastal population are poor.

7.5 The Role of Financial Liberalization
The financial sector has a central role to play in a country’s quest for growth, prosperity, equity and development. This is so because, in playing its central role, the financial sector through an efficient structure of intermediaries channel idle resources into more productive investments at the highest available rates of return, and in so doing ensures increased national output, growth and prosperity (i.e., and by implication poverty reduction). The ability of the financial sector in Ghana to provide such idle resources for productive investments was severely constrained by a very repressive system of intermediation before the launch of the ERP. In fact during that period Ghana experienced some financial disintermediation as the ratio of money supply to GDP (M2/GDP) declined from 0.25 in 1977 to about 0.12 in 1984.

The failure of the system to effectively mobilise resources for growth, development and prosperity was as a result of various policies implemented in the sector, and which had become dysfunctional. With respect to domestic finance and foreign exchange markets, an increasing share of such transactions took place outside officially highly regulated institutions because of pervasive controls, a massively overvalued exchange rate and scarcity of foreign exchange from official sources. Also the consolidated balance sheet of banks showed that items of short-term maturity were considerable. The banks also held excess reserves during that period because of the low returns on lending to priority sectors. According to Aryeeetey (2001) such credit and interest rate controls prevented banks from making and pricing loans according to a ranking of risks and returns. In these circumstances the banks preferred to hold cash with no return to lending at spreads insufficient to cover costs.
The financial sector reforms (FINSAP) which begun in the last quarter of 1987 were implemented against the background of the financial shallowing and the repressive monetary measures that had been implemented by the government. The financial sector reform was part of the ERP package and was based on the McKinnon-Shaw hypothesis. The McKinnon-Shaw hypothesis calls for a liberalisation of financial prices in order that high rates of interest for both lenders and borrowers would call forth new net savings and direct investment from inferior uses (McKinnon, 1973).

Therefore the factors that necessitated the financial sector reforms in 1987 were as follows:

(a) There was financial shallowing and bank distress as a result of government control over financial markets, repressive monetary measures, prolonged economic crises and certain unorthodox monetary measures implemented in the late 1970s and early 1980s.

(b) There was the need to develop the financial sector to provide support to the private sector that was seen as the main focus of development under the ERP/SAP.

(c) There was the need to improve the mobilisation of domestic resources for development in the wake of the debt crises and the reduction in foreign funds to Ghana.

According to Gockel et al (1997), it was against this background that the financial sector reforms, i.e., FINSAP I in 1988/1989 sought to improve the mobilisation of savings and enhance efficiency in credit allocation, reform the existing banking laws, develop the money and securities markets, establish a non-performing asset recovery trust, and restructure the distressed banks among others.

FINSAP 2 begun in 1990/91 to continue and complete any unfinished business under FINSAP 1, to divest state-owned banks in accordance with the financial liberalisation and deregulation programme, reform the institutional structure of the Bank of Ghana and to promote and strengthen the Non-bank financial institutions (NBFI).

In line with the above, interest rates were liberalised, credit ceilings and other quantitative controls were removed, some banks were restructured and re-capitalised, support was given to informal finance and microfinance, the money and capital markets were developed, etc.

One of the main reasons for liberalising the financial sector was to make credit more available to the private sector. This is so because of the positive and statistically significant effect that the growth of real credit to the private sector has on private investment and on economic growth. Indeed, Asante (2000) found that in Ghana the growth of real credit to the private sector had a positive and statistically significant impact on private investment in Ghana.

With respect to the impact of FINSAP on Openness, table 7.2 shows that credit from the formal banking sector to export and import trade has remained relatively lower.

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68 In fact the McKinnon-Shaw hypothesis has become central to the World Bank/IMF Structural Adjustment Programs (SAP) in the developing world.
than other sectors. This contrast sharply with the pre-FINSAP period during the financial sector remained oligopolistic and oriented towards import-export trade.

Table 7.2: Sectoral Allocation of Credit by Deposit Money Banks
Post-Finsap (%) 1990-2001

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<tbody>
<tr>
<td>Exp/Imp Trade</td>
<td>9.80</td>
<td>11.30</td>
<td>14.20</td>
<td>13.20</td>
<td>13.20</td>
<td>12.60</td>
<td>12.70</td>
<td>8.40</td>
<td>7.50</td>
<td>7.60</td>
<td>7.70</td>
<td>6.00</td>
</tr>
<tr>
<td>Agric</td>
<td>15.90</td>
<td>13.20</td>
<td>9.70</td>
<td>8.30</td>
<td>8.30</td>
<td>9.70</td>
<td>10.90</td>
<td>12.60</td>
<td>12.20</td>
<td>11.80</td>
<td>9.70</td>
<td>9.60</td>
</tr>
<tr>
<td>Manuf.</td>
<td>9.90</td>
<td>24.50</td>
<td>25.10</td>
<td>24.70</td>
<td>29.30</td>
<td>29.90</td>
<td>31.00</td>
<td>23.90</td>
<td>24.60</td>
<td>24.90</td>
<td>28.10</td>
<td>19.30</td>
</tr>
<tr>
<td>Others*</td>
<td>44.40</td>
<td>51.00</td>
<td>51.00</td>
<td>53.80</td>
<td>48.60</td>
<td>47.80</td>
<td>45.40</td>
<td>55.10</td>
<td>55.70</td>
<td>55.70</td>
<td>54.50</td>
<td>65.10</td>
</tr>
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Source: Bank of Ghana, Annual Reports (Various Years)

*Mainly made up of Domestic Trade, Services, Construction, Mining etc.

According to Antwi-Asare and Addison (2000), the financial sector reforms did significantly change (decrease) the relative share of credit to the export trade and agricultural sectors unlike the manufacturing sector, which experienced significant increases in credit from the formal banking system after FINSAP. It should however be noted that credit to the private sector still remains a problem for private investment in Ghana even after FINSAP (Asante, 2000).

The inability of the formal banking sector to provide enough financial support to the export sector post FINSAP partly explains the reason for the setting up of a new Export Development and Investment Fund (EDIF) in October 2000 by the government to provide financial support through designated commercial banks to enterprises engaged in export production. Indeed in 2002 EDIF disbursed about $12.5 million to about 23 corporate exporters and export producers which represented less than a fifth of the total available facility of $68 million. As at March 2004, ninety-seven companies mainly in agro-processing, agriculture and salt industries had so far benefited from the fund and about $25 million (¢225.2 billion) had been disbursed.

On the whole, the impact of financial liberalisation (i.e., FINSAP I and II) on trade openness, poverty reduction and income distribution in Ghana has not been very good. In fact, financial liberalisation in Ghana has led to high rates of interest in the face of high inflation rates (this ensures positive real rates of interest) and this partly explains the reason for the inability of the formal banking system to extend the required credit to the export trade and agriculture sectors and the private sector as a whole. The high rates of interest also meant that interest payments on the domestic public debt had risen rapidly such that a large part of government budget has gone to servicing domestic debts rather than being used for social expenditure needed for poverty reduction.

69 At an exchange rate of ¢9000 to $ 1
7.6 National Policies for Maximizing the Equitable Distributional Impact of Trade and FDI

Currently, the Government of Ghana aims to create wealth by transforming the nature of the economy to achieve growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralised, democratic environment. To achieve this goal, various national objectives are being targeted including:

- The achievement of a sound and stable macroeconomic environment;
- The vigorous development of the infrastructure of the country, with special emphasis on roads, ports, transportation, energy supplies and information and communications technology;
- The development of a modernised agriculture based on rural development; The delivery of enhanced social services to ensure equity and quality, particularly in education and health;
- The strengthening of the institutions for good governance; and
- The strengthening of the private sector so that it can act effectively as the engine of growth.

Among the various strategies needed to achieve the above objectives, the Government of Ghana is embarking on international trade measures, which will focus on mechanisms to diversify exports and enhance productivity to ensure international trade competitiveness in order to achieve a sustainable level of foreign reserves and to maximise the equitable distributional impact of trade and FDI.

The underlying philosophy behind the international trade policy measures is the promotion of the international competitiveness of domestic firms within the framework of trade liberalization. To ensure that trade competition is fair and not unduly disadvantage domestic firms, support is being provided to domestic firms to foster their competitiveness not only in the arena of traditional exports but to carve out new areas of competitive advantage in non-traditional commodities, particularly non-primary products.

Among the national polices to maximise the equitable distributional impact of trade and FDI are:

**Policies to Promote Rural Development and Industrialisation and Modernised Agriculture**

Due to the fact that poverty in Ghana is predominantly a rural and agriculture sector based phenomenon, any national policies aimed at maximising the equitable distributional impact of trade and FDI and generally a reduction in poverty should be targeted at rural development and industrialisation and the modernisation of the agriculture sector.

The poverty trends in the 1990s indicate a remarkable reduction in national poverty from an incidence of 50.7 percent to 39.5 percent, however, with respect to the rural population 63.6 percent were considered poor as against 27.7 percent of the urban population in 1992. Although in 1998 poverty incidence had reduced, 49.5 percent of the
rural population were poor as against 19.4 percent of the urban population. The incidence of poverty by the main economic activity shows that poverty is highest among food crop farmers (i.e. 68% and 59% of food crop farmers were poor in 1992 and 1998 respectively) as compared to other economic activities.

This indicates that efforts at poverty reduction and equitable distribution of income should be geared towards promoting rural development, rural industrialisation and the modernisation of agriculture. This has been duly recognised in the GPRS as one of the main medium term priorities for growth and poverty reduction. The government recognises that modernisation, restructuring and development of the rural environment is the catalyst for the transformation of the Ghanaian economy to a middle-income country by 2010, because the rural environment abounds in under and un-utilised human and physical resources.

In line with the above, government has embarked on infrastructure development and modernised agriculture based on Rural Development. The objective of infrastructure development is to open up the country so as to introduce competition and create an enabling environment for the private sector. At the moment the Trans-West African highway project has started to link Ghana with the rest of West Africa so as to be able to take advantage of the opportunities from West African economic integration. Also major roads to productive areas in each region that link the rural areas to the urban centres are being constructed and rehabilitated so as to open up the rural areas for investment, productivity expansion and job creation especially for agricultural labour during the off-season. Indeed, work on Trans-West African highway project has begun as construction work on the Accra-Kumasi, Accra-Yamoransa and Accra-Aflao highways have taken off in earnest.

Also government intends to modernise and extend the railway networks to major centres of development in the country. The construction of houses and other facilities for such critical groups as teachers, medical personnel and security services and for rural renewal has begun in parts of Ghana. Efforts at accelerating access to telephones, Internet, information and communications technology are being intensified. The government has also taken the necessary steps to increase the availability of energy to boost industrial production and growth.

With respect to the modernisation of agriculture as a basis for rural development, the government has put in place policies aimed at developing Ghana into an agro-industrial economy based on rural development by 2012.

**Policies to Promote Traditional Exports**

**Cocoa Sector**
Currently the main objectives of the government’s policies in the Cocoa sector, managed by a para-statal institution the Ghana Cocoa Board, are:

- To increase cocoa production from about 400,000 tonnes per annum to 500,000 tonnes per annum by 2004/2005 and further to 700,000 tonnes per annum by 2009.
- To maintain Ghana’s distinctive position as the supplier of the finest and most consistent quality cocoa.
• To retain the traditional premium of Ghana’s cocoa on the world market.
• To promote the welfare of cocoa and other cash crop farmers in Ghana so as to reduce poverty among food and cash crop farmers.

The specific policies that have been put in place to achieve the above policy objectives include;
• Maintenance of producer prices of cocoa at levels that would cover the cost of production plus a reasonable margin to the farmers to serve as an incentive to increase production and reduce poverty,
• Increased effective extension services and privatisation of the distribution of inputs to farmers,
• The provision of credit to farmers to purchase inputs at unsubsidised prices, and
• Intensification of research on disease and pest control.

Mineral Sector
The objectives of the mineral sector policies are;
• To generate foreign exchange and to increase national revenue,
• To generate employment and skill formation, and
• To transform the rural areas.

The strategies that have been implemented to achieve the above policy objectives are;
• There are continuous efforts to improve the general macroeconomic environment in order to achieve macro-economic stability,
• Measure have been put in place to ensure the avoidance of the degradation of the environment,
• Efforts have been made to ensure that the country particularly the people in the mining area benefit from the exploitation of the mineral resources, and
• Appropriate incentives are being given to mining companies to increase and sustain investment in the mining sector. They include 75% capital allowance on capital expenditure incurred in year of investment and thereafter, unrestricted transfer of profits and dividends, exemption from the payment of custom duties on plant and machinery for the establishment of mines and other further reliefs for on-going mining companies among others.

Timber Sector
The main policy objectives in this sector are;
• To promote the development of efficient and viable resource-based industries in the areas of secondary and tertiary processing so as to utilise fully, products from the forest, especially timber,
• To ensure optimisation in the utilisation of forest resources in such a manner that would ensure sustainability as well as ecological balance,
• To promote research-based and technology-led forestry management, utilisation and development so as to ensure resource sustainability, socio-economic growth and environmental stability, and
• To create awareness and involvement of the rural people in forest conservation.
Measures that have been put in place include:

- The introduction of regulatory laws and measures to check reckless destruction of the forest base as well as to monitor the operations of timber firms;
- The government has increased technical and financial assistance for the continuous rehabilitation and modernisation of the timber industry.
- The government has banned the exportation of round logs and encouraged domestic wood processing for the purposes of value addition.
- Through the Timber Export Development Board (TEDB), the government is encouraging the use of lesser known timber species as a means of sustaining the forest resource-base.
- Through the Ministry of Lands and Forestry, the government is ensuring strict adherence to international quality standards.
- The Ministry of Lands and Forestry issues out special felling permits for endangered wood species.
- The Ministry has also created incentives in terms of increased export retention for firms and placed levies on export of wood products so as to support reforestation activities.
- The Ministry has contracted foreign loans to revamp and revitalise the timber industry.

**Policies to maintain Competitive Real Exchange Rates**

The acceleration in the rate of inflation together with external shocks has contributed largely to the currency volatility in Ghana. In a flexible exchange rate regime the observed (i.e. nominal) exchange rate will depreciate (in the absence of government interventions) if the domestic rate of inflation is higher than the corresponding rate among Ghana’s major trading partners.

Maintaining stable and competitive exchange rates will therefore require discipline and a harmonization in the monetary and fiscal policies of government to reduce inflationary growth and stabilize the value of the currency. Furthermore, policies are being put in place to ensure that both market and non-market interventions in the foreign exchange market are minimized. Non-market interventions distort the exchange rate by under-pricing the foreign currency. The resulting overvaluation of the exchange rate leads to a resurgence in parallel market activities and penalizes exporters. Market interventions (i.e., the sale of foreign currency to reduce its value) on the other hand, are unsustainable especially because of the low level of the nation’s foreign reserves.

**Policies to Improve the Import/Export Regime**

Currently, efforts have been made to reduce the administrative bottlenecks associated with the export and import process so as to facilitate international trade. For instance, cumbersome customs procedures have been streamlined to reduce transactions costs associated with clearing and exporting goods.

Although the new system of destination and transaction valuation adopted in April 2000 represents an improvement over the previous system, the valuation process is still inadequate and inspection rates continue to be high largely because of inadequate training for the implementing agencies. To address these issues, public education
campaigns are been undertaken exporters and importers about new customs procedures and processes including the establishment of short courses, help desks and hotlines to assist importers.

**Policies to Diversify Export Base through the Development and Promotion of Non-Traditional Exports**

Ghana’s export earnings depend heavily on a few primary products—cocoa, gold, diamond and timber—whose prices fluctuate on the international market at the dictate of consumers. The weakening effects of the falling commodity prices has been an ever-increasing vulnerability of the country’s Balance of Payments (BOP).

Diversifying the export base is therefore a necessary imperative for reducing the nation’s vulnerability to shocks and increasing the sources and quantum of foreign exchange earnings. This objective will be achieved by diversifying the export base and identifying, developing and exploiting new areas of competitive advantage, forming strategic partnerships to take full advantage of preferential access to foreign markets provided under current trade agreements (i.e., EU-ACP, AGOA).

To promote new areas of competitive advantage firms engaged in processing of agricultural products for export are being supported. In particular, the processing of cocoa beans is being encouraged. Similar support is being granted to new promising areas such as data processing (for external markets), starch, salt and shea butter production for export.

In fact the core of Ghana’s trade policy (which is geared towards the expansion of the export base and diversification of the product range with emphasis on adding value to the primary products) is the development and promotion of non-traditional exports (NTE), whilst maintaining the country’s competitiveness in cocoa, gold, diamond and timber.

Non-traditional export development is therefore seen as one of the critical areas for poverty reduction efforts as well as for growth. The range of products designated as non-traditional is large, and is defined to agricultural products other than cocoa, timber products other than logs and lumber, locally manufactured products including handicrafts and salt and processed gold. The broad strategy is to increase non-traditional exports by reducing transactions costs and increasing the productive capacity of exporters.

Currently Ghana has a small export base of US$2.063 billion relative to the huge potential for the Ghanaian export market. One area that has a great potential and is the cornerstone of Ghana’s private sector export-led growth strategy is Non-Traditional Exports (NTEs). NTEs have the potential for increased employment, incomes and growth. For instance, in 1996 NTEs amounted to US$276.2 million and this increased to US$418 million in 2001. By the end of 2004 it is expected that NTEs would increase by 40% and within the next ten (10) years it is envisaged that NTEs would be increased by 100%.
Medium and long term policies to develop and promote NTEs include;

- Support to the private sector to build competitive supply capacity in NTEs. This is being done through product development and improvement in the supply base.
- Continued efforts by the Ghana Export Promotion Council (GEPC) to identify products with export potential and ready markets. The GEPC is also providing the necessary assistance to exporters to enable them penetrate competitive international markets. These include organising market missions, providing advice on export marketing and training exporters and personnel of export facilitating institutions to upgrade skills,
- There have been collaborative efforts by the Ministry of Food and Agriculture and Ministry of Trade, Industry and Presidential Special Initiatives to strengthen the expansion and establishment of agro-based and export-oriented industries,
- Support for the expansion of the supply base of horticultural products such as pineapple, beans, vegetables, pawpaw and groundnuts have been intensified.
- The Ministry of Food and Agriculture is lending support to the development of tree crops such as cashew, mangoes, avocados and ginger, and
- The GEPC has begun plans to build the capacity of firms to produce and export non-traditional commodities through the expansion of Export Production Villages.

Policies to take full advantage of Preferential Access to Markets

While the AGOA and EU-ACP agreements offer market opportunities for developing countries including Ghana, their ability to exploit such opportunities has been constrained by supply-side bottlenecks.

EU-ACP

West African countries have formed closer economic and trading links with countries of the European Union (EU). Whilst the bulk of Ghana’s exports end up on the EU market, a large proportion of her imports also originate from that market. Since 1975 ECOWAS together with the other ACP countries have had their trade with the EU governed by the Lome convention, the fourth in the series that expired in 2000. Under the convention Ghana, was offered non-reciprocal trade preferences by the EU. Ghana’s exports, both primary and manufactured goods (excluding a few), enjoyed free-duty and quota access to the EU market.

Ghana’s trade with the EU has been on the decline despite the concessions given to the ACP group. The fall in trade has been attributed mainly to the sharp decline in export prices of primary products over the years. The effect of the decline of export prices has been the worsening of the terms of trade, balance of payments difficulties and external debt problems.

Although the Lome Convention has put in place a compensatory financial scheme known as “Stabex”\(^{70}\), it has not been able to reverse the deteriorating terms of trade for ECOWAS member countries including Ghana. The problem of falling commodity prices has been persistent over the years leading to the development of an

\(^{70}\) Financial compensation given to exporters to deal with the problem of export short falls due to price fluctuations in exports of primary goods of the ACP group including Ghana.
international trading order that is not conducive to the long-term development and growth of ECOWAS countries, including Ghana.

AGOA

The Act provides beneficiary countries with liberal and generous access (i.e. in the form of duty-free and quota-free market access) to the U.S $10,000 billion U.S market. Ever since it was enacted in 2000, AGOA has helped to transform the economic landscape of sub-Saharan Africa by stimulating new trading opportunities for African businesses, and entrepreneurs, creating new jobs and bringing hundreds of millions of dollars in much needed investment in Africa. AGOA has therefore proven to be a vital tool for economic growth and development in Africa.

For instance, within the first two years of its enactment, U.S. imports from sub-Saharan Africa have increased by 61.5%. In the first full calendar year of implementation, U.S. imports of products covered by AGOA excluding oil and mineral fuels totalled more than U.S. $1.3 billion, representing a 97% increase when compared to the same period in 2000. In addition U.S exports to sub-Saharan Africa grew by nearly $7 billion, a 17.5% increase from 2000.

With the attainment of the AGOA visa status, Ghana now has access to the United States Market, duty and quota free. This privilege covers textiles and apparel as well as 6,400 other products. Ghana’s duty-free exports to the United States under AGOA were valued at $42.9 million in 2001; this consisted primarily of energy related products representing 23% of Ghana’s total exports to the U.S.

Currently certain US firms have announced plans to set up apparel projects, sock and food processing factories in Ghana in order to take advantage of AGOA. This will ensure the creation of new jobs and the opening up of new trading opportunities in the country.

Ghana can also take advantage of its position as the sixth largest market for U.S exports in sub-Saharan Africa, as well as its new economic orientation to reap maximum benefits from AGOA, especially in apparel and textile production.