Journal of Research in Business, Economics and Management (JRBEM)
ISSN: 2395-2210

SCITECH
RESEARCH ORGANISATION

Volume 13, Issue 4
October 31, 2019

Journal of Research in Business, Economics and Management
www.scitecresearch.com

Impact of International Trade on the Economic Growth in Ghana

Appiah Emmanuel Danquah

College of Economics and Management, Nanjing university of Aeronautics and Astronautics, Nanjing, 210016, China; gullygag2630@outlook.com

Abstract

The aim of this research is to undertake a critical evaluation of the impact of international trade on the economic growth in Ghana. For this purpose, a secondary data based research is conducted in this paper wherein a comprehensive range of empirical research papers of country and trade reports are examined to gather the data. The findings thus obtained have been analysed with the help of thematic analysis, wherein two key macro-economic indicators associated to international trade, namely Foreign Direct Investment (FDI) and exports are analysed in the context of their impact on the economy of Ghana. The findings gathered from the analysis revealed that two important macro-economic indicators for international trade directly influence the GDP of an economy and the overall growth of the country.

Keywords: International Trade, Ghana, Economic Growth, FDI, GDP.

1. INTRODUCTION

Growth of an economy implies to an increase in the production and serves as a balanced process that helps raising the productive capacity of an economy to increase the national output and income. Foreign trade, on the other hand, can be referred to the trade between different countries across the globe. Foreign trade focuses on the global resources. Organisational objectives, opportunities, and threats associated to global businesses to manufacture, buy, sell or exchange goods and services around the globe (Gipouloux, 2011). It can also be understood as an umbrella term for a comprehensive range of commercial transactions including sales, private, investments, public expenditures, transportations and logistics that occur between two or more geographical regions, nations or countries beyond their territorial boundaries (Melchior, 2018).

The mechanism of global trade can be playing a significant impact on the growth and development of Ghana and the continent of Africa. While the country has an access to rich natural resources spanning from cocoa, gold, casher, timber, bauxite, diamonds, tuna, aluminium, manganese ore and horticultural products, it is also blessed with the skilled human capital that has facilitated the expansion and development of the business and influx of foreign capital. However, it is worth pondering whether the economic growth of Ghana is the result of international trade and globalisation or not (Alagidede, Baah-Boateng and Nketiah-Amponsah, 2013). From the perspective of the World Bank, international trade has played a highly significant role in the economic growth of Africa for the last two centuries and the trend is still on. Nevertheless, in the case of Ghana, despite such growth, the rate of poverty, number of unemployed youth has not witnessed considerable or desired level of improvement. The promises of global prosperity as an outcome of globalisation and trade liberalisation are yet to be witnessed in the context of poverty and employment levels (Aryeetey and Kanbur, 2017). In light of this overview of the economy of Ghana, this paper discusses the benefits and challenges of international trade and globalisation experienced by Ghana and their impact on the economic development of the country.

2. THEORETICAL VIEW

The quest for triggering economic growth has formed the central focus of every economy, particularly the ones in the developing phase of economic growth, including the Republic of Ghana. The link between economic growth and international trade has been examined under a number of empirical studies, yet there is an absence of relevant consensus among them (Boakye and Gyamfi, 2017). While the classical economists like David Ricardo asserts that trade could have a significant impact on the countries having competitive advantage in respect of cost and opposes restriction to trade such as trade tariffs; Adam Smith argued that international trade can be beneficial for the nations having no absolute advantage in the possibilities for production (Boakye and Gyamfi, 2017). In the perspective of Piatkowski (2018) strong positive correlation was identified between the economic growth and trade as per the analysis on investment and export in Australia on a long run basis. There was an additional investigation on the economy of Poland, which established the link between economic growth and exports. The findings also emphasised that the GDP of an economy was influenced by the combined effect of export and import. United Nations Conference on Trade and Development (2007) assert that international trade serves as a catalyst for globalisation wherein the gains are distributed across nations and argue that it can serve as a useful means to channelize technological advancement to attain development. Further, empirical researches examining this correlation established linkage between investment and growth. Cypher and Dietz (2008) explain the Harrod-Domar model wherein a shortage in foreign exchange can put a check on economic growth by creating constraints on savings and imports. Another growth model was propounded by Maswood (2017), having independent and variable interplay between trade and growth on a respective basis. The outcomes of the study highlighted a robust chemistry between economic growth and trade. As micro-indicators, imports and exports can produce advance effect on the growth of the economy, which further suggests that direct impact of investments on economic growth. Spear and Young (2016) highlight that the Endogenous growth models postulate that capital accumulation can cause a rise in the trend on the rate of economic growth in the long run. Nevertheless, allowing capital accumulation is essential to raise the savings ratio. With a rise in capital stock, increase in production will lead to efficiency of labour, thereby stimulating the growth of the economy.

Some theories can also be discussed in this context such as the Absolute Advantage Trade Theory, Comparative Advantage Theory and Heckscher-Ohlin Trade Theory, which highlights critical perspectives on the impact of international trade on the economic growth. In this regard, the Absolute Advantage Trade Theory, postulated by Adam Smith established that a nation must gain specialisation in the production of export of products for which it has lower cost or absolute cost advantage above the others. This facilitates international specialisation of factors of production, which eventually leads to a rise in global output shared among the trading nations (Schumacher, 2012). Consequently, one nation would not be gaining at the expense of the other, but all nations can attain a simultaneous gain. On the other end, the same country must endeavour to import a product in which it holds an absolute or high cost disadvantage. Comparative Advantage Theory proposed by David Ricardo explains that under international trade, each nation undertakes the production of only those products in which they have a strong advantage in respect of equipment, skills, tradition or machinery in the manufacturing process, in comparison of the other nations (Suranovic, 2010). With international specialisation gaining the limelight in the globalised business world, each nations endeavours to manufacture only those products in which it has highest comparative advantage and least comparative cost. The Heckscher-Ohlin Model, also known as the Factor Endowment Theory establishes that a nation must manufacture and export a product whose production would involve large quantities of the relative abundant resources. Such countries must undertake the import of a commodity in which large quantum of relative scarce and expensive factors are required. The model predicts that trade promotes a country's specialisation such that its trading gains can be realised (Heckscher, 2006).

3. METHODOLOGY

This research has followed a qualitative approach wherein data gathered from a range of secondary sources is used to examine the impact of international trade on the economic growth of Ghana (Taylor, Bogdan and DeVault, 2015). For this purpose, the impact of the Foreign Direct Investment (FDI) and exports in Ghana are examined on the GDP of the country to determine their impact. A wide range of qualitative and quantitative studies on the impact of international trade on the economic growth of Ghana, country reports, reports of international trade are examined to gather data and draw the findings for this research. The data thus gathered from the secondary sources, is examined in light of the literature by utilising the thematic analysis method. The study has examined the data regarding the macroeconomic factors of Ghana for 2000 to 2018. The use of secondary data is used for this research because a large quantum of research conducted on this subject has been quantitative and lack considerable scope of theoretical and critical analysis. This indicates a gap in the prevailing literature, which has been sought to be addressed in this research.

4. FINDINGS AND DISCUSSIONS

4.1. Impact of Foreign Investment on the Economic Growth of Ghana

The values of FDI inflows in Ghana have been rising since 1990. As per the statistical reports on global investments, it is estimated that both, the volume and the value of the FDI inflow was unstable from 1990 to 2005, wherein the estimated values of FDI failed to reach the billion-mark in US dollars. Nevertheless, the inflow of FDI in Ghana was rising consistently annually and rose from an estimated rate of 42% from $636 million to $2.527 million for the years 2006 and 2010 (Enu, Havi and Hagan, 2013) (See fig. 1).

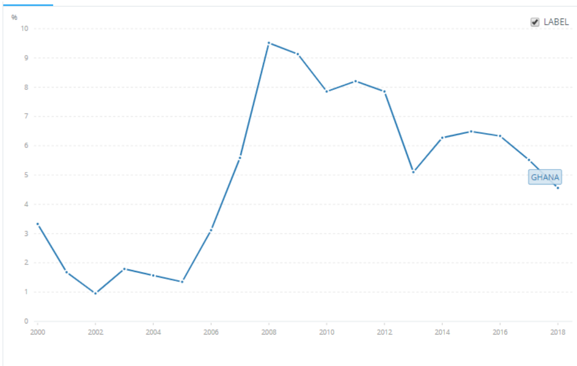

Fig. 1. Net Flows in FDI in Ghana from 2000 to 2018

(Source: The World Bank Group, 2019)

However, for the years from 1990 to 2000, the FDI inflow in Ghana was examined to be $1249.6 million, which suggested lower flow of FDI in terms of value and can be attributed to lack of adequate investment policy to gain investors. Simultaneously, outward FDI has been a consistent and a major challenge for a majority of African countries wherein no record of outward FDI can be examined for the years 1990 to 1995. The examination of FDI inflows and outflows for the years 2012 to 2016 reveal instability in the outflows for FDI wherein the highest estimated value generated from outward FDI took place in 2015 (Evans, Frank and Rebecca, 2017). On the other end, the maximum fall in the inflows for FDI in Ghana can be identified in 2016. It can be further examined that the inflows declined in 2013, rose in 2014 followed by a further decline in 2015.

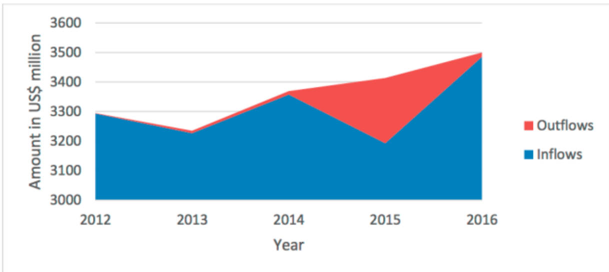

Fig. 2. Inflows and Outflow of FDI in Ghana from 2012-2016

(Source: Gladys and Evans, 2018)

The growth in FDI can be examined to be supporting numerous areas of economic growth and development in Ghana. It is highlighted that an optimal utilisation of resources and macroeconomic factors and establishment of a sound economy from 2001 to 2007 allowed the economy of Ghana to absorb an estimate of $770 million inflow of foreign capital, thereby, representing 25% of the revenue earned by the government in 2007 and 6% of GDP in 2008 (The World Bank Group, 2019). The inflow of FDI was not only received in kind, but was also in the form of technical intelligence and knowledge, which Ghana gained from the USA, the EU and other nations. Such gains ranged from scholarships, educational exchanges, technical assistance, training and equipment along with their spill over impact across various sectors of the economy (Enu, Havi and Hagan, 2013). In 2007, it was also examined that the National Communication Backbone Network project, received a financial package worth $32 for financing the first phase of the project aiming the linkage of different regional capitals and their chief towns via telecommunication (Gladys and Evans, 2018).

4.2. Impact of Exports of the Economic Growth of Ghana

The exchange of goods, services and capital across foreign boundaries indicate a considerable share of the gross domestic product in Ghana. The country plays a highly significant role in the export and import of some significant natural resources, agricultural products and raw material. Nevertheless, the primary products exported by Ghana are cash crops, cocoa, god and timber, which make a major proportion of the GDP of the country. In 2008, these products made up 75% of the total exports by Ghana (Evans, Frank and Rebecca, 2017). The economy of Ghana is largely dependent on the raw material and products for exports, which however, tends to affect the economic growth in the long run because of instability of prices in the international market. As per the statistical report by the World Trade Organisation, in 2016, Ghana held 78th position in export of merchandise and 86th position in import. The examination of the trend for exports in Ghana indicates a consistent rise from 2000 to 2018, wherein the exports for 2000 by Ghana were 2.456 billion, rose to 16.867 billion in 2012 and reached its highest until now level of 20.746 billion in 2018 (Yennu, 2018).

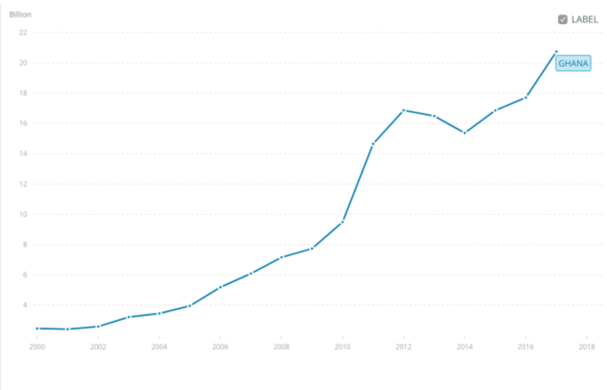

Fig. 3. Exports of goods and services in Ghana from 2000 to 2018

(Source: The World Bank Group, 2019)

These findings can be further supported with the literature that highlights that in 2016, an estimate of $11 billion were gained by Ghana from total exports that included 43% exports for gold, 17.5% of cocoa beans, 9% of crude petroleum, 9% brazil nuts, 9.5% cashew and 3.5% of sawn wood. As per the global integrated trade, import and export has influenced the economic growth and development of Ghana to a significant extent. The country achieved lower middle income out of the collective endeavours of the government and policy makers in the country (Yennu, 2018). The GDP for the country in 2004 was 6% while for 2006 it remained at a flat percent, as a result of which the relative growth of the country remained at 0%. From 2006 to 2008, the country attained an overall growth rate of 14% in 2008. The GDP and the economic growth rate for Ghana was however, highly hit because of the global financial crisis of 2008. The economy of Ghana suffered a pertinent decline in the two major economic indicators again for 2009 (The World Bank Group, 2019[1]).

5. CONCLUSION

This paper sought to undertake a critical evaluation of the impact of international trade on the economic growth of Ghana. From the findings of the research conducted to address this aim, it can be identified that the two important macro-economic indicators for international trade have a direct bearing on the gross domestic product of an economy and the overall growth of the country. From the findings it can be examined that the rise in FDI served to be highly beneficial for the infrastructure and economic growth of the economy of Ghana. The examination of exports also suggested the impact of the rising exports on the growth of the Ghanaian economy. However, as rising exports were unable to transform into significant economic growth during the years of financial crisis, it can be identified that there are some additional macro-economic factors that need to support the findings to reach a more reliable conclusion.

ACKNOWLEDGMENT

The completion and successful submission of this paper owes to a number of people, particularly I am highly obliged to my research supervisor for her able guidance, motivation and knowledge. I would also highlight the contribution of my faculty members for inculcating the right research skills and concepts of the subject that formed a strong foundation for me to compete this research. I would also thank my parents and friends for their consistent motivation and support throughout the completion of this research.

REFERENCES

[1] Alagidede, P., Baah-Boateng, W. and Nketiah-Amponsah, E. 2013. The Ghanaian economy: An overview. *Ghanaian Journal of Economics.* 1.

[2] Aryeetey, E. and Kanbur, S.M.R. 2017. *The Economy of Ghana Sixty Years after Independence*. Oxford University Press.

[3] Boakye, R.N. and Gyamfi, E. 2017. The impact of foreign trade on the economic growth of Ghana. *International Journal of Business Marketing and Management* 2(3), pp. 20-26.

[4] Cypher, J.M. and Dietz, J.L. 2008. *The Process of Economic Development*. Routledge.

[5] Enu, P., Havi, E.D.K. and Hagan, E. 2013. The Impact of Foreign Trade on Economic Growth in Ghana (1980 – 2012). *International Journal of Academic Research in Economics and Management Sciences* 2(5), pp. 174-191.

[6] Evans, T., Frank, L. and Rebecca, J. 2017. The Effect of Foreign Direct Investment (FDI) on the Ghanaian Economic Growth. *Journal of Business and Economic Development* 2(4), pp. 240-246.

[7] Gipouloux, F. 2011. *Gateways to Globalisation: Asia's International Trading and Finance Centres.* New York: Edward Elgar Publishing.

[8] Gladys, A. and Evans, Y. 2018. FDI inflows and outflows in Ghana and its exports and imports. *Journal of Economics and Sustainable Development* 9(1), pp. 38-44.

[9] Heckscher, E.F. 2006. *International Trade, and Economic History*. MIT Press.

[10] Huq, M. and Tribe, M. 2018. *The Economy of Ghana: 50 Years of Economic Development.* Palgrave Macmillan.

[11] Maswood, S.J. 2017. *Revisiting Globalization and the Rise of Global Production Networks.* Berlin: Springer.

[12] Melchior, A. 2018. *Free Trade Agreements and Globalisation: In the Shadow of Brexit and Trump*. Berlin: Springer.

[13] Piatkowski, M. 2018. *Europe's Growth Champion: Insights from the Economic Rise of Poland.* Oxford University Press.

[14] Schumacher, R. 2012. *Free Trade and Absolute and Comparative Advantage: A Critical Comparison of Two Major Theories of International Trade.* Universitätsverlag Potsdam.

[15] Spear, S. E. and Young, W. 2016. Endogenous growth theory and models: The "First Wave", 1952-1973. [Online]. Available at: https://www.econstor.eu/bitstream/10419/173739/1/859330389.pdf. [Accessed on: 26 September 2019].

[16] Suranovic, S.M. 2010. *International Trade: Theory and Policy*. Flat World Knowledge.

[17] Taylor, S.T., Bogdan, R. and DeVault, M. 2015. *Introduction to Qualitative Research Methods: A Guidebook and Resource.* New Jersey: John Wiley & Sons.

[18] The World Bank Group. 2019. Foreign Direct Investment, net inflows (% of GDP). [Online]. Available at: https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2018&locations=GH&start=2000&view=chart. [Accessed on: 26 September 2019].

[19] The World Bank Group. 2019[1]. Export of goods, services and primary income (BoP, current US$). [Online]. Available at: https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2018&locations=GH&start=2000&view=chart. [Accessed on: 26 September 2019].

[20] United Nations Conference on Trade and Development. 2007. Globalisation and development. [Online]. Available at: https://unctad.org/en/Docs/ditc20071_en.pdf. [Accessed on: 26 September 2019].

[21] Yennu, A.T. 2018. International Trade and Economic Growth in Ghana - Benefits, Constraints and Impacts. *International Journal of Economics Management Sciences* 7(4), 1-4.