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Barbara Pietuch

14. Telephone Number

(919)361-9800

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A Trade Policy Framework for Ghana

September 2003

Sigma One Corporation

A Trade Policy Framework for Ghana

Submitted to:

U.S. Agency for International Development
Mission to Ghana

for:

Trade and Investment Reform Program (TIRP)
Improved Policy Reform and Financial Intermediation
USAID Contract Number: 641-C-00-98-00229

In fulfillment of the following milestones:

2.36 Assist MOTI to develop and implement a National Trade Policy

September 2003

Sigma One Corporation

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A Market-Driven Trade Policy For Ghana

Sigma One Corporation

Trade as the Engine of Growth

Trade increases the opportunity to consume, which is the true definition of income.

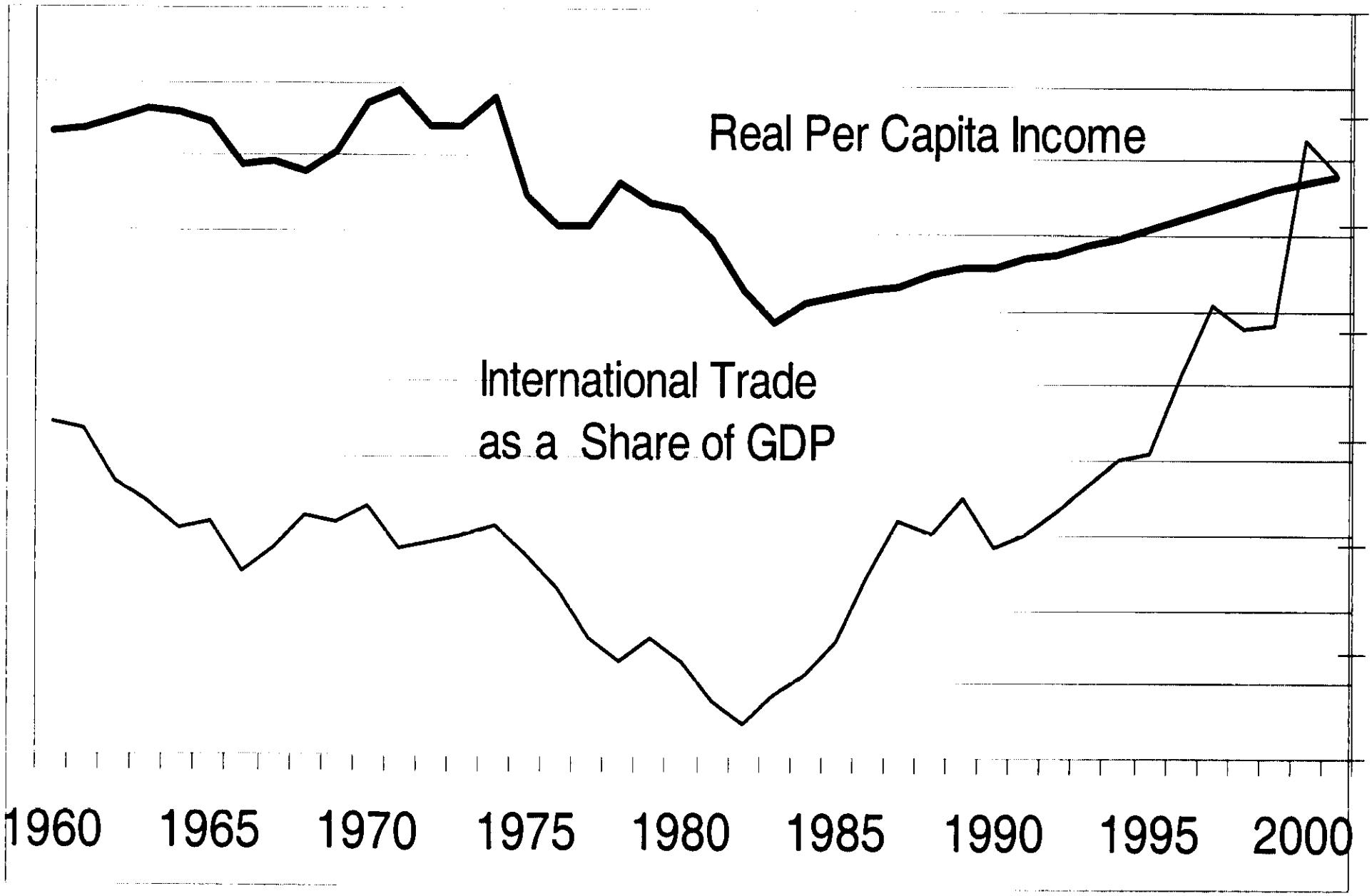
Ghana has a small, open economy that must rely upon external trade as the engine for its economic expansion.

Ghana cannot afford to insulate itself from the forces of global supply and demand - economic growth and living standards could suffer.

Trade has been the basis for Growth...

- Increased openness for trade (exports and imports) has been the basis for economic growth in Ghana since the mid-80s.
  - Ghana's trade as a share of GDP has grown from 12% in 1983 to 57% in 1995 to 110% in 2001. Real Per Capita Income has grown in the same time period (see the following chart).
- Manufactured goods account for only 15% of exports. More high value-added exports are needed.
  - Ghana must produce quality goods and services demanded at prices equal to, or lower than, those prevailing in the international markets to compete.

Relationship between Income and Trade



High Value-Added Products For Economic Growth

Ghana should (for faster economic expansion):

- Promote a policy environment to facilitate low-cost production for export
- Imported inputs needed for export production should enter free of duties; e.g., with the drawback program, and hassles are minimized
- Increase production of high value-added products to target exports to high income countries
  - These markets represent the biggest pool of consumer spending in the world.
- Use bilateral or multilatertal agreements to access high-income consumers' markets.

Accessing High-Income Consumer Markets

- Produce to meet quality standards and quantities demanded by the high-income consumer
  - Market decides what it wants, when and of what quality and at what price. Producer must comply to access the market
  - Enter into strategic alliances with international firms to obtain investment credit, market information and facilitate sales in the destination markets
- Reduce tariffs and obtain quota-free entry for Ghanaian exports through bilateral or multilateral trading arrangements.

Why have A Trade Policy Statement For Ghana?

- To build consensus on a unified trade policy vision for stakeholders
- To ensure adoption of consistent trade instruments that are beneficial and reduce contradictions
- To encourage a more predictable business environment that allows appropriate risk-taking for firms to expand production for exports
- To send clear, unambiguous signals to investors, here and abroad, that Ghana is open to increased investment and trade

The Path to a Coherent Trade Policy

An effective Trade Policy Coordinating Committee (TPCC) at the Ministry of Trade and Industry and President's Special Initiatives, with wide stakeholder participation to gain full support for the trade policies adopted. The TPCC can

- lead the implementation of an outward-looking trade and investment policy that promotes access to high-income markets for Ghana's non-traditional exports
- develop coherent policy responses to special internal or external situations that maintain business confidence and stability

Current Trade Policy in Ghana

Trade policy in Ghana is currently a collection of liberalization actions and interventionist measures that contradict one another and lead to confusion and misinformation in the business community

Who is affected?

Ghanaian firms and their foreign counterparts doing, or intending to do, business in exports or imports from or to Ghana

The result:

Ghana's comparative advantage remains unexploited. Trade expansion is held back

The average Ghanaian citizen pays more for purchases of ordinary consumer goods

Restricting Imports by increasing tariffs...

- Allocates resources away from more productive uses
- raises the cost of imported raw materials used in exports
- increases the local price of protected outputs, thus hurting low-income consumers
- Creates an artificial wedge between local and foreign prices and signals incentives to Ghanaian firms that are not sustainable in the long term
- artificially raises the foreign currency value of the Cedi

HARMING GHANAIAN EXPORTS IN GENERAL

Tariffs Can...

- Encourage companies to maintain high prices even when market forces require lower prices
- Create distortions that penalize competing users of the product or imported input
  - one firm's output is another firm's input
  - products may have multiple end uses; e.g., gray baft for textiles is entered duty-free [as eligible] but used for other end uses that would otherwise attract a duty
- Increase the general cost of doing business

Unintended effects of special tariffs are complex and include smuggling, misdeclaration or creative classification.

Which Ghanaian Sectors Can Compete?

- An "effective tariff protection" of over 100% allows many firms in agriculture and industry to remain in business
- Enforcement of full reciprocity provisions of multilateral trade agreements; e.g., WTO and EU-ACP will jeopardize the profitability of many firms in Ghana
  - e.g., firms in textile, garments, plastics, aluminum, iron rods and processed foods are likely to suffer
- Non-traditional exports of high value stand a better chance of competing globally without tariff protection at home
  - High-income consumers prepared to pay higher prices can cover the higher local cost of doing business

Popular Arguments 'v' Liberalization

- The economy is over-liberalized
  - markets were opened too wide and quickly to outside competition
- Government allows foreign imports to put local producers out of business
  - Local producers pay taxes and create jobs
- Current trade liberalization has not enhanced local producers' competitive advantage
  - Trade policy must protect the "national" interest
- Local producers are not able to compete in their own backyard and build competitive capacity before entering the global market

What can Trade Liberalization do?

- The "flood" of new consumer imports can challenge local industries to take advantage of newly-identified market demand
  - Increasing prevalence of fruit juices at social and business occasions points to a preference for natural fruit juices to minerals
  - Use of local brands like Refresh and Kalyppo seems to have increased in Ghana even as Ceres entered to tap pent-up demand for juices
  - Foreign firms can reduce market expansion costs for Ghanaian firms as they take the risk of exploring and identifying new markets or products

What can Trade Liberalization do?

- promote improvements in local packaging and marketing
- encourage product diversification and business expansion
  - Coca Cola Ghana Ltd. is diversifying its product line by introducing Bonaqua and Dasani water
- build local market research capacity to meet new market information demands
  - This could lead to collaboration between Ghanaian industries and academia (similar to the South African CSIR model)
- Integrate Ghanaian firms into the Global economy
  - by creating a policy environment for Ghanaian firms to harness their competitive advantage

An effective Trade Policy Empowers Firms to...

- identify new opportunities or clusters to export or invest
- align existing resources to respond to the export opportunity or cluster identified
- develop strategic alliances to fill in their resource, technical, managerial and marketing gaps
- benefit from economy-wide stability and reduced cost of doing business

.. to produce market-specified quality products and export them fee and hassle free

A Successful Environment for Trade Should Have...

- A quantum leap in demand for strong Business Development Services (BDS) as a foundation for growing businesses to meet international market demands
- Clusters with competitive advantage highlighted
- Effective and efficient financial, labor and goods markets that reduce the cost of doing business and allow "clusters" of industries with competitive advantage to flourish
  - When a cluster has the determinants of competitiveness - demand and factor conditions, firm strategies and structures and foundations - in its favor, it may have competitive advantage over other clusters.

The Way Forward

- Trade liberalization is a mixed blessing but worth pursuing, because the results for long-term development are proven as demonstrated by Singapore et al
- Tariff protection is also a mixed blessing but, on balance, may harm Ghana's competitiveness
- Accepted international trade policy instruments and protocols can be used to address domestic business grievances regarding "perceived" unfair trade practices
- Trade policies should be outward-looking and promote full participation of Ghanaian firms in the global market

The Way Forward

- Trade policy and macroeconomic management are not independent of each other
  - Prudent economic management in the three markets (goods, financial and labor) increases the positive impact of outward-looking trade policies by enhancing a firm's ability to expand production for export with lower cost of doing business
- Ghana needs a predictable and transparent trade policy
  - Policies must encourage firms to take calculated risks to expand their businesses and access new markets
- Operating an open and free trade regime is not sufficient to raise Ghana's trade performance; nor does having a comparative and competitive advantage
- Businesses must respond to the opportunities created.

The Way Forward

- The Trade Policy Coordinating Committee (TPCC) can provide a forum to help create a level playing field for all stakeholders and establish support for a coherent trade policy.
- The TPCC framework can allow deviations from the stated trade policy by providing a transparent mechanism to address special requests.
  - Special requests are indicative of market failure. A coherent trade policy can rationalize such requests to minimize impact on overall trade performance
- The TPCC replaces sectoral or industry specific interests
  - compels all stakeholders to participate in maintaining a transparent national trade policy

Elements of a Market-Driven Trade Policy

- Transparency
  - Everyone knows or can access rules and regulations
- Consistency
  - same over time and within Ghana's international obligations
- Predictability
  - Changes are not ad hoc, and allow time for firms to adjust their business practices

Elements of a Market-Driven Trade Policy

- Openness
  - Anyone can export or import
- Coherency
  - business rules do not contradict each other
- Free
  - without quota or special tariffs on imports or exports

Elements of a Market-Driven Trade Policy

- Conciseness
  - Can be summarized to convey a sense of the importance attached to trade and investment in Ghana
- Flexibility
  - firms can adapt to changing external situations and re-focus on new products or markets without having to seek permissions
- Maintenance of a level playing field
  - Everyone in Ghana is subject to the same rules and regulations and exemptions are well-known

Draft of Trade Policy Statement for Ghana

To promote a transparent, effective and pro-active trade environment that enables firms in Ghana to establish and maintain a creative and competitive edge on the global market, thus promoting growth and prosperity for all citizens

CABINET INFORMATION PAPER

PRESENTED BY THE

HON. MINISTER OF TRADE, INDUSTRY AND PRESIDENT'S SPECIAL INITIATIVES

SUBJECT: GHANA'S TRADE POLICY FRAMEWORK

I submit for the information of Cabinet, the enclosed document defining the framework for Ghana's Trade Policy. This policy framework takes cognisance of the need for the national trade policy to contribute to Ghana's growth agenda, and to complement programmes for poverty reduction and wealth creation as enshrined in the GPRS.

The Trade Policy Framework lays emphasis on:

- Promotion and development of small and medium scale enterprises(SMEs);
- Promote wealth creation among the rural communities through processing their products;
- Export-led development strategy with focus on agro-processing and other local resourced-based manufacturing activities;
- Empowering the private sector in Ghana to participate in international trade in a competitive manner.

The framework document also includes strategies for promoting Ghana's International trade relations within the context of the ECOWAS integration arrangement, the ACP-EU Economic Partnership Agreements, the WTO multilateral trading arrangements as well as the Africa Growth and Opportunity Act initiative of the US Government and other market access requirements from Ghana's trading partners.

This trade policy framework was subjected to a workshop in December 2002 in which various stakeholders participated. The views and comments of those stakeholders have been incorporated into the Ghana Trade Policy Framework document and have helped to enrich its content.

The policy framework will be developed and expanded into a full-fledged trade policy document.

KWADWO AFFRAM ASIEDU
DEPUTY MINISTER

.....SEPTEMBER 2003

Aims And Objectives

Objectives of Ghana's Trade Policy:

- To contribute to Economic Growth of Ghana through the creation of a free and open trade regime which in turn, will support Government's efforts at poverty reduction and wealth creation.

- To ensure that export-led growth will drive the economic growth of Ghana. Ghana's market is relatively small and therefore, if Ghana is to grow as desired and become a leading agro-industrialised country in Africa by 2010, then it needs to do so by exporting.

- To ensure a fair and level playing field in order to enhance competitiveness of industry. Distortions in the trade regime lead to inefficient allocation of resources to protected sectors rather than efficient and competitive ones. This lack of competitiveness and inefficiency means that Ghanaian companies are unable to compete in international markets. It also means that consumers in Ghana pay higher prices, and other producers who use products from protected sectors face increased costs and are unable to compete locally and in international markets. All these stifle economic growth.

The success of Ghana's Trade policy will be measured by the following benchmarks:

- An increase in trade's share of GDP as a measure of openness.

- An improvement in export performance measured by Non-Traditional Export (NTE) share in GDP and increase in Ghana's world market share.

- A reduction in the number of complaints to MOTI&PSI regarding unfair trade practices as a measure of the extent to which the trade regime is fair and level.

These objectives will be achieved through:

- Promotion and development of new and existing domestic resource-based industries with export potential.

- Empowering the private sector to participate in trade except where the Government might initiate temporary intervention for reasons of market failure, risk mitigation and/or achieving economies of scale. Private sector participation will focus on indigenous and joint venture small and medium sized companies.

Sectoral Focus

In the domestic agriculture and industry sector:

- Emphasis will be on local resource-based industries and value added products, which are globally competitive, to maximise the benefits to Ghana and promote wealth creation among the rural poor producers through processing of their products.

- Trade policy instruments should not be used in sectors, which are not viable and unlikely to be viable except in those cases where it is clearly necessary to support poverty reduction programmes especially in agriculture.

- Trade policy instruments could be used temporarily in sectors, which are distressed but potentially viable.

- Trade policy instruments will be used on imports to ensure a fair and level playing field in Ghana's markets in order to allow competitive Ghanaian companies to compete locally where imported products are provided unfair advantage.

- Complementary policy instruments will be needed to ensure a fair and level playing field amongst domestic operators.

In the export sector:

- Trade policy will focus on encouraging internationally competitive local resource-based firms through a free and open trade regime.

- Trade policies will emphasise the development and promotion of export of services.

Geographic Focus

Main target markets for export:

- The focus of the trade policy is to expand trade with our major trading partners – EU, and the US – by taking advantage of the opportunities created under the Cotonou Agreement and the AGOA. Additionally, trade policy will focus on increasing our trade with the sub-region and other parts of the world.

International Trading Environment

Priorities in the global environment:

- The immediate priority for international negotiations is within the ACP-EU framework because of the importance of Ghana's strong trade and economic links with the EU and the potential for a significant impact of these negotiations on Ghana's economy.

- Priority will continue to be accorded to engagement in the full range of the WTO negotiations to ensure maximisation of Ghana's market access opportunities worldwide.

- Recognising the potential of developing exports to the sub-region, priority will also be given to the ECOWAS market.

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- Priority will be given to the US market, taking advantage of the opportunities provided within the AGOA initiative.

- Ghana will target the African market within the AU and other regional markets.

Strategies for developing international relations:

- In the ACP-EU trade negotiations, Ghana will seek to achieve better terms of trade in terms of negotiating improved market access (tariffs, duties, rules of origin and other non-tariff barriers) with a view to achieving an expansion in trade which would have a positive impact on import revenues, local industries, foreign exchange earnings, whilst maximising the potential benefits such as reduced prices for consumers.

- In the ECOWAS negotiations, Ghana will seek to accelerate moves towards the integration of the sub-region since it will improve the system of free trade in the region and facilitate ACP-EU negotiations.

- Under the AGOA initiative, Ghana will identify and encourage the development of specific products, which can be produced locally and competitively for export to the US market.

- Within the context of WTO, Ghana will effectively participate in the full range of negotiations to ensure that the results are beneficial to Ghana or do not adversely affect Ghana. This will be achieved through defending our national interests and the building of strategic alliances.

National Trade Environment

Macro-economic Policy needed to achieve trade policy objectives:

- There are too many taxes at central, regional and district levels that complicate and make unclear the tax regime, which places a high burden/cost on businesses in Ghana. There is the need for rationalisation and simplification of the tax system at all levels.

- The system of tax assessment and collection will be revised. The current mode locks up capital and increases the cost of doing business thereby increasing prices for consumers.

- Government's expenditure should provide necessary physical and social infrastructure as well as access to capital/credit in order to enable business to operate competitively.

- Government will take necessary macroeconomic measures to help ensure lower interest rates and realistic exchange rates.

Import Regime Policy needed to achieve trade policy objectives:

- Taking account of the numerous free trade agreements which Ghana will be party to over the coming years, as a result of on-going negotiations, tariffs will be progressively reduced leading to loss of Government revenue. It is therefore important for Government to identify other sources of revenue other than tariffs.

- The Government will identify those imports which contribute to the competitiveness of domestic industries and tariffs on these will be progressively eliminated. Tariffs on the remainder of the imports would be reduced within the framework of WTO, ACP-EU, ECOWAS and other international obligations.

- Other measures will be instituted to ensure there are no distortions in the import regime, which could impede competitiveness.

- Current tariff exemptions will be phased out in line with the identification of inputs for domestic production except when dictated by Ghana's international obligations.

- The policy of no quantitative restrictions will be maintained to ensure that there are no distortions in the import regime, which could impede competitiveness, except for reasons of health, safety, environment and national security.

- Standards and other technical requirements will be WTO compliant.

- Commercial defence instruments would be developed and strengthened to ensure a fair and level playing field in the liberalised Ghanaian market (eg. Competition law and other WTO acquired rights).

- Government Procurement will maintain preference for local suppliers to promote local business.

Export Regime Policy needed to achieve trade policy objectives:

- There will be no export taxes, charges and other duties except in the case of cocoa and other selected agricultural products where the producers are outside the tax net.

- Minimum export prices should be eliminated as they distort market forces and inhibit competitiveness.

- Export controls should not be used except for reasons of environment, food and national security, because they reduce certainty and restrict export growth.

- The ban on exports of antiques and historical artefacts will be maintained to protect the national heritage. Exports of products covered by international agreements, will be banned or licensed where applicable.

- The Export Processing Zones will be used as a stimulus to export production and diversification until such time that domestic environment is conducive for competitiveness.

- Corporate tax concessions will be instituted for all non-traditional exporters as an incentive for export production and diversification for a limited period.

- Government's export finance and insurance schemes will be adequately resourced, strengthened and developed in order to reduce the risk to exporters and enhance their competitiveness.

- Government will provide substantial resources to Ghana Export Promotion Council (GEPC) to undertake effective export promotion and market development activities.

- Government will expand and strengthen trade representation abroad and adequately resource the Trade Missions to support and sustain export promotion and investment activities.

Work Programme And Role Of Wider Society

MOTI&PSI's approach to developing these trade policies is to study the implications and effects of the proposed changes to Government policy, practices and laws to trade, consumers, producers and especially poor segments of society. To ensure these contribute effectively to economic growth and poverty reduction, MOTI&PSI will ensure each policy component is:

- Focused (i.e. contributes to achieving the trade policy objectives stated by the Government).

- Reasoned (i.e. based on concrete and rigorous analysis so that policy makers and stakeholders understand the full implications to wider society in Ghana of each proposal)

- Transparent (i.e. policy and procedures are easily monitored and decision processes are clear).

- Clarity (i.e. policies and laws are clearly set out, known and understood by all segments of society).

- Consistent (i.e. policies and laws are applied evenly and without discrimination across all stakeholders).

- Certain (i.e. the risk of trade in Ghana is reduced as all policies and laws will be understood, set out and enforced without exceptions).

- Participatory (i.e. will ensure policies and laws enable the participation of all segments of society.

- Output Orientated (Clear targets/benchmarks will be set aimed at measuring the contribution of each policy component to the wider trade policy objectives).

A position paper on each policy component will be prepared by MOTI&PSI. This will form the basis of broader consultation with all stakeholders in Ghana. MOTI&PSI will formalise consultation through the Inter-Institutional Committee on Trade (IIC) to seek the opinions and further technical inputs as a contribution to refining the policy. In addition, as part of the Ministry's on-going Trade Dialogue Strategy, specific stakeholders will be identified and consulted to gain further insight, analysis and opinions on MOTI &PSI's current thinking.

A final policy paper will be prepared, taking account of the inputs from all stakeholders. Following the necessary approvals, MOTI&PSI will begin implementation of the Policy. This will take the form of publication and promotion of the policies to all stakeholders, revised activities of the MOTI&PSI Desks (changes to operations, regulations, laws and positions at International fora) and establishment of ac-hoc cross-Ministry Working Groups to ensure implementation of policies effectively.