What Is The Weight Of Foreign Trade On Economic Outgrowth Of A Country? Evidence in Ghana

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Acknowledgment
The authors wish to thank the National Science Foundation of China (NSFC 71203079) for the financial support

Abstract.
This study empirically aims to investigate the weight of foreign trade on economic outgrowth for Ghana from 1960-2016. We use a panel fix effect model in estimating the weight these variables on the Real GDP. Real GDP in millions of US$ is used for proxy in economic outgrowth. Empirical investigations reveal that four of the variables are statistically significant at 5% and these variables are export, import, inflation rate and trade balance.

The coefficients of the variables used, export and gross domestic product at the current basic price, are positively related to the Real GDP, while other variables such as exchange rate, import, foreign direct investment, inflation, and trade balance have a negative weight on the Real GDP.

Outcome- Result of the analysis shows that there is a significant positive correlation between export and economic outgrowth. The result also shows the significant negative weight of trade balance on economic outgrowth. Thus, a unit change in trade balance will result in $823.813 millions reduction in the real GDP of the country. The significant negative weight shows the relatively bigger share of import on the economy. Ghana should set tactics to improve exports and high Technical produced goods.

This study shows that a unit rise in export volume will lead to addition in the Real GDP. More, too, attention should be focused on exporting goods and improvement in trade structure which will, in turn, improve the efficiency in Ghana's production sector

Keywords: Economic Outgrowth, Weight of Foreign Trade

1. Introduction

Trade across the frontiers that is with the remains of the world by making unavailable commodities available in the other countries is termed as foreign trade. There were arguments about a trade that it plays an important role in promoting economic outgrowth and increased productivity, particularly more so there were also a lot of disputation ongoing for numerous decades ago. Times have validated that countries that are internationally active in trade tend to be more generative than nations that only produce for their domestic market.

With the globalization and consolidation of the world economy, most countries in the world have been aggregated into the 'Global Village' by global trade and investment relationships. The evolutions of international trade and investment become more and more important for understanding the global economic and political landscape (Zhang, Wang, Liu, & Wang, 2016).

Countries' economies have become more and more closely affiliated with external factors like openness and as a result of globalization and liberalization of trade. Investigations into foreign trade about the effects of trade on the economic outgrowth of a nation have become more imperative in this day era of globalization. Coming out with the result will help government's and policymakers decide on which path to follow when it comes to foreign trade and determines the main sources of economic growth taking into account foreign trade.

From the introduction of the outward-oriented policy and economic reforms, the economy of Ghana is still trying all it best to experience economic outgrowth with respect to foreign trade. Ghana is one of the nations
that attained independence on 6th March 1957. Then nation shares borders with Togo to the East side, to the North is Burkina-Faso and to the West is Cote d'Ivoire.
The country's economy is with an estimated population about 28 million in 2016. The countries are endowed with a large deposit of mineral covering most industrial mineral. The country's major economic, natural resources are Gold, Manganese, Bauxite, and Industrial diamonds, Timber, Rubber, Hydropower, Petroleum, Silver, Salt, and Limestone. The nation also blesses with agricultural products such as Cocoa, Cashews, and other export crops products. Gold and Bauxite alone account for 64.4% of the nation's primary export according to records.
Also, according to records, mining revenues of the country in 2011 was $50 million as against $20 million in 2010.
Additionally, Ghana involvement in foreign trade has contributed one way or the other in productivity of domestic industries and improvement of technology. Therefore, research on how international trade bestowed to Ghana's economic growth can assist as a discovering case study by increasing his participation on the global stage.
This study begins introduction in section 1 and section 2 with literature review from the standpoint of foreign trade effect on economic growth. In section 3, formalized facts are discussed respectively. Model specification, estimation, and interpretation of result are discussed in section 4. Section 5 introduces summary, conclusion, and recommendation agreeing to the model built in this research

2. REVIEWS OF SELECTED EXISTING LITERATURE
The relationship between export growth and economic outgrowth in developing countries is an extending pursuit both in theoretical and empirical literature.
A large number of empirical surveys have been carried during the last two decades to investigate the part of exports on economic outgrowth or the export-led growth hypothesis using either time-series or cross-section data (Ekanayake, 1999). Much of the studies made on this topic proved that there is a significant positive relationship between export growth and economic development or is there any negative relationship between trade and economic outgrowth. This indicates that there is no clary stand on the weight of trade on economic outgrowth.
Detailed validations have confirmed that foreign trade has a positive result on economic outgrowth by energizing capital accumulation, technology improvement, institutional development thus increased imports of capital and intermediate products which are not available in the importing country, and industrialization is giving more room for specialization. (Onafowora & Owoye, 1998) researched on investment and trade policies on economic outgrowth on 12 sub-Saharan African countries, the impact of export, suing a vector error correction model (VECM). The outcomes suggested that there is an outward-oriented trade policy for export and economic outgrowth which needs to follow. More active participation in the international market by encouraging exports will lead to rivalry and makes headway trade in terms of productivity (Wagner, 2007).
Investigations in foreign trade effects were totally limited to few countries prior to the 1960s. This was in line with the development of econometric models, and there were also many complicated methods flowing from mathematical models in analyzing the impact between economic growth and foreign trade. Till now, views have been divided into two major categories. One focuses on the causality connection between foreign trade and economic outgrowth to investigate whether economic outgrowth is driven by foreign trade or not. The other principally talks about the input of foreign trade to economic outgrowth.

According to the OECD (2003) investigation on the impact of trade on the average income per population, the result shows that elasticity of foreign trade was 0.2 and is statically significant. (Afonso, 2001) looked into the impact of international trade on economic outgrowth by using a rank correlation analysis among developed countries. The outcome of the study gave a positive relationship between foreign trade and economic outgrowth. This means that nations can attend a more eminent level of economic growth if the economics develop the export sector.
He also revealed that there exists a strong positive correlation between export and economic outgrowth for both
middle and low-income countries, but at the long-run, the effects incline to diminish with respect to the level of development. (Dollar, 1992) looked into the impact of international trade on economic outgrowth by using a rank correlation analysis among developed countries. The outcome of the study gave a positive relationship between foreign trade and economic outgrowth. This means that nations can attend a more eminent level of economic growth if the economics develop the export sector.

He also revealed that there exists a strong positive correlation between export and economic outgrowth for both middle and low-income countries, but at the long-run, the effects incline to diminish with respect to the level of development. (Zeren & Ari, 2013) ascertained positive bi-directional causal links between openness and economic outgrowth for G7 countries. They are of the view that, if international externalities of cognitions are progressive tense, then the growth of rich countries will increase boosted through trade openness. However, if international externalities of cognitions are progressive tense, then the growth in poor countries will decrease with the increase in trade openness. It, therefore, means that poor countries will not gain from foreign trade with respect to the level of knowledge they have on the foreign externalities. According to (Gries & Redlin, 2012), they analyze the short-term and long-run dynamics between per capita GDP growth and openness for 158 countries over the time from 1970-2009.

The researchers use panel cointegration tests and panel error-correction models (ECM) in compounding with GMM estimation in searching the causal relationship between these two variables. They accost the problem of a possible endogeneity between liberalization and outgrowth by admitting only growth rates and lagged values of the independent variable.

Additionally, the researchers apply Deference GMM and System GMM estimation. Using the estimators also came up with the issue of potential correlation between the lagged endogenous variable and the error term. They solution suggest a long-run relationship between liberalization and economic growth with a short-run modification to the digression from the equilibrium for both directions of dependency. The long-run coefficients suggest a significant positive causality from liberalization to growth and vice versa, suggesting that, international consolidation is a beneficial strategy for outgrowth in the long term. By contrast, the short-run coefficient indicates a negative short-run modification by suggesting that, liberalization can be afflictive for an economy undergoing short-term modifications. Adding to the full panel, the researchers sub-divide the data into income-related subpanels.

While the long-run effect remains preponderantly positive and significant, the short-run modifications become positive when the income level increases. This result suggested that dissimilar trade structures in low-income and high-income countries have different effects on economic outgrowth. It is generally believed that as openness increases, economic growth will increase with the increase in technological innovation and productivity (Zeren & Ari, 2013). This basically means that, if countries open or involved in foreign trade, it will lead to economic outgrowth and it will also strengthen productivity in the trading countries.. (Leybourne, Sapsford, & Greenway, 1997) investigated on the impact of liberalization of trade on economic outgrowth of some 74 selected developing nations. In the investigations, a dummy variable was used to investigate the impact of trade liberalization.

The finding concluded that, on an average, trade liberalization seems to be having a deterioration effect on economic outgrowth. According to (Zahonogo, 2016), they have investigated how trade liberalization affects economic outgrowth in developing countries, with a focus on sub-Saharan Africa (SSA). By using a dynamic growth model with data from 42 SSA countries from the period 1980 to 2012. They investigation employ the Pooled Mean Group estimation technique, which was appropriate for drawing conclusions from dynamic heterogeneous panels by considering long-run equilibrium relations. They empirical prove suggests that, a trade brink exists below which greater trade liberalization has beneficial effects on economic outgrowth and above which the trade effect on growth declines.

The evidence also suggests an inverted U-curve (Laffer Curve of Trade) response, robust to changes in trade liberalization measures and to an alternative model specification, suggesting the non-fragility of the linkage between economic outgrowth and trade liberalization for the Sub-Saharan countries. The findings are assuring and supporting the view that, the relationship between trade liberalization and economic outgrowth is not linear.
for Sub-Saharan Africa (SSA).
Accordingly, the Sub-Saharan Africa (SSA) countries must have more effective trade liberalization, especially by productively checking import levels, in order to cost increase in their economic outgrowth through international trade. This implies that they can be an economic growth if the SSA countries can concentrate on the export promotion and limit the much imports.

The relationship between trade liberalization and economic outgrowth has been theoretically arguable. While established wisdom forecasts a growth-enhancing effect of trade, recent developments indicate that trade openness is not always good for economic outgrowth. Increased international trade can engender economic outgrowth by easing the dissemination of knowledge and technology from the direct import of high-tech goods (Almeida & Fernandes, 2008). Trade liberalization in developing countries has therefore been carried out with the expectancy of growth stimulation. However, endogenous growth models postulate that the input of trade to economic outgrowth varies depending on whether the force of comparative advantage orientates the economy's resources toward activities that can engender long-run growth or away from such activities. Moreover, theories suggest that, due to technological or financial constraints in less-developed countries, they may lack the social capability needed to embrace technologies developed in more forward-looking nations. Thus, the growth effect of trade may take issue according to the level of economic development. While the intermediate impact is likely to be negative, as resources become supererogatory in areas of comparative disadvantage, their eventual relocation into areas of comparative advantage will increase the outgrowth rate; the evidence points to a J curve-type response (Falvey, Foster, & Greenaway, 2012). This shows that the possibility of trade impact on growth can be cut out if the resources are not properly located. And more so if the resources are redundant in an area of comparative advantage. So, returns to growth on those resources will be negative leading to no impact of foreign trade on economic.

Exports have more extensive impacts on economic outgrowth than solely through TFP, and foreign demand can be very important outgrowth performance even in the short term (Afonso, 2001). (Fitzová & Zídek, 2015) examines the relationship between trade and economic outgrowth in the Czech and Slovak Republics by discussing the situation after the Velvet revolution in 1989. The change in trade structure and the orientation of the trade in both republics were explicating and illustrated on available data.

The empirical part of the study proved an analysis of the relationship between trade and GDP growth, using econometric analysis. The researchers employed the theory of cointegration, the vector error correction model and Granger causalities to explain the relation. A long-term equilibrium among the investigated variables was identified in both countries, and the empirical findings also hint the important role played by exports in the economic outgrowth in both republics. The study concluded that economic outgrowth in both of the countries could be distinguished as export-led

2.1. TRADE AS ENGINE OF GROWTH THEORETICAL REVIEW

The first endeavor to explicate why countries engage freely in international trade has its root-age in 1876 with Adam Smith's theory of absolute advantage. According to this theory, a country can heighten its successfulness if it specializes in producing goods and services that have an absolute cost advantage over other countries and imports those goods and services that have an absolute cost disadvantage.

This theory explicates why countries through imports can increase their well-being by simultaneously selling goods and services in international markets. Adam Smith thus, viewed trade as a positive holistic game (Fainshmidt, Smith, & Judge, 2016). This viewpoint of Smith's was in direct contrast to the Mercantilist of the 16th-century viewpoint of trade been a zero-sum game. The 16th century Mercantilist is conceived that, if economies wish for power and riches, more goods should be exported and stops import or restrict import to the lower level. They believed that such strategy would result in an inflow of gold and silver by making the economy grow and become wealthy. With these thy viewpoint, they advocated total government constraint and advocated for economic nationalism.

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2.2 COMPARATIVE ADVANTAGE THEORY
In line with the order of comparative advantage, a country should specialize in goods that can relatively produce more efficiently than other countries (Baldwin, Wyplosz, & Wyplosz, 2006). This stands to prove that, notwithstanding absolute cost disadvantages in producing goods, a nation can still export those goods that have absolute cost disadvantage and import commodities with the largest absolute disadvantage.
According to David Ricardo who propounds this theory assumed that he assumed that, there is only two countries, two commodities and one factor of production. To him, a country exports the goods whose comparative advantage is lower and import goods whose comparative cost is higher. The theory also assumed that technology for both nations is fixed and making a trade with each other balances and also roll out money inflow for both nations.
His theory is also based on the theory of labor value that, the commodity price (value) is equivalent to the value of the labor number of times spent production process. Here labor is used in a fixed proportion in producing the goods. His assumptions are somehow unrealistic taken in to account that labor can be grouped into skilled and unskilled and also without looking at the others factors of production.
Notwithstanding his unrealistic assumptions, his theory is one that cannot be done away with it is still relevant to explaining opportunity cost in days foreign trade theories.

2.3 HECKSHER-OHLIN TRADE THEORY
The Ricardian theory of comparative costs and the insertion of the terms of trade explicates to a certain degree why trade occurs, in what commodity, and in what aggregate. But give no report as to why comparative cost ratios differ between countries.
One response to this question was offered by Heckscher in 1919. The theory stats; A nation will export commodities in which its most abundant factor is used relatively intensively and import those commodities which integrate the factors with which it is least endowed (Mundell, 1960). For more understanding, different original endowments of factors of production lead to differences in comparative costs, which at the end-run leads to trade
Hecksher-ohlin theory emphases' the divergences in relative factor endowments and factor prices between countries on equal technology and tastes assumption. His model base on two propositions the first one is a specialization of a country in producing goods that need abundant intensive resources and exports them.

The second one follows that countries divergences in factor endowment thus some countries are capital intensive and others are labor intensive. He also identified that the different in pre-trade goods price among economies was what led to trade and price depends totally on production possibility curve also taste and preferences.
In all the production possibility curve depends only on factor endowment and technology and for him, economies should export goods produced with abundant resources. In these regards, developing economies should specialize in the production of primary products and export because they have abundant labor and those goods demand higher labor and in return import goods that are capital intensive in its production.
The theory also considers the homogeneousness of capital and labor between two countries and two commodities which the production function assumed to show constant returns to scale. The theory also has been criticized on the base that factors inputs are indistinguishable in quality and the homogeneous units cannot be evaluated, and the factor endowment differs in quality.

3.0 STYLIZED FACTS
According to world banks records, Ghana's economic performance betters in the first half of 2017, after extensive fiscal slippage in 2016. The fiscal deficit for the first half of 2017 was 2.7% of GDP that shows that the economy is on track to meet its goal of 3.5% of GDP but total revenues were 14.9% below the target of 2017. The nation's total debts short from $29.2 billion to $31.7 billion thus 73.1% and 68.8% on GDP in 2016 and 2017 respectively leading to a slowdown on debt accumulation rate and higher GDP growth. The economy
expanded from 4.4% to 6.6% in 2017 as a result of the high record of industrial growth of 11.5% in 2017 compared to 1.8% in 2016.

These records are as a result of the contributions of the mining and petroleum not leaving out agriculture sectors contributions from 5% to 736% 2016 and 2017 respectively. Due to the slow growth in finance, information, and communication, the services sector drops from 6.6% to 3.7% in 2016 and 2017 respectively, and the non-oil growth of the economy also drop from 6.3% to 3.9% in 2016 and 2017 respectively.

4.0 MODEL SPECIFICATION AND EMPIRICAL RESULTS
We use Ordinary Least Square (OLS) technique to study the connection between real GDP and other variables under consideration.

4.1 MODEL SPECIFICATION
In order for us to really know the impact of these variables on gross capital investment, the following multiple regression equations are explicitly specified.

\[ y = f(x) \]
Where \( y \) stands for the Real Gross Domestic Product and the \( f(x) \) being the function of the RGDP

\[ \text{RGDP} = f(FXR + EX + IM + IFR + TB + FDI + GDPCBP) \]

Where; FXR stands for the foreign exchange rate, EX stands for export, IM stands for import, IFR stands for the inflation rate, TB stands for trade Balance, GDPCBP stands for the gross domestic product at a current basic price and FDI stands for foreign direct investment.

Where RGDP =Real Gross domestic product is the dependent variable in this study.

\[ \text{RGDP}_t = \beta_0 + \beta_1 FXR_t + \beta_2 EX_t + \beta_3 IM_t + \beta_4 IFR_t + \beta_5 TB_t + \beta_6 FDI_t + \beta_7 GDPCBP_t + U_t \]

Where; \( \beta_1 FXR_t \) implies foreign exchange rate at time “t”, \( \beta_2 EX_t \) Implies exportation at time “t”, \( \beta_3 IM_t \) implies importation in period two at time “t”, \( \beta_4 IFR_t \) implies inflation rate in period four at time “t”, \( \beta_5 TB_t \) implies trade balance in period five at time “t”, \( \beta_6 FDI_t \) implies foreign direct investment at time “t” and \( \beta_7 GDPCBP_t \) implies gross domestic product at current basic price at time “t” The \( \beta_0 \) is always the constant intercept of the equation.

Here the \( U_t \) is the stochastic term thus its usual has some properties of zero mean and non-serial correlation.

\[ TB_t = \beta_{10} + \beta_{12} EX_t + \beta_{13} IM_t + U_{it} \]

To know the trade balance in the equation, we subtract the total import from the total export of the country, and the result gives us the balance of trade thus either positive or negative balance.

Results

Dependent variable RGDP\(_t\).

From table one we can solve the equation 2 that talks about the summation of all the component of the Real Gross Domestic Product.

\[ \text{RGDP} = -.1538768 + 1.017432 + (-1.006651) + (-25860.15**) + (-8.23813) + (-1.08223) + 1.01e-11 \]

This result shows the coefficient of the variables and to see if these variables have any weight on the real GDP of the economy. The OLS results in table one show that, from all the variable, trade balance’s coefficient shows the negative result with at-Statistic also in negative and a zero probability. This implies that there is a significant
negative correlation between Real GDP and trade balance. Again, from the table, our result agrees with some theories that state that export-lead industries will lead to economic growth that theory is also seen from table 1. From the table, export has a significant positive correlation between the growth of real GDP, but the other way is true. From the table, there is a significant negative correlation between import and economic growth.

A closer look at the table shows that inflation rate from the result also shows a significant negative correlation between the variable and economic growth. If so what then is the weight of foreign trade on the economy of Ghana? Computing all the result in equation 2, it gives a negative weight on the economy of the nation Ghana.

Table 1

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
<th>95% Conf. Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>_cons</td>
<td>-.3110935</td>
<td>.2470776</td>
<td>-1.26</td>
<td>0.214</td>
<td>-.806891 - .1847041</td>
</tr>
<tr>
<td>EXPORT</td>
<td>1.017432</td>
<td>.0282792</td>
<td>35.98</td>
<td>0.000</td>
<td>0.960686 - 1.074179</td>
</tr>
<tr>
<td>IMPORT</td>
<td>-1.006651</td>
<td>.0174674</td>
<td>-57.63</td>
<td>0.000</td>
<td>-1.0417 - -0.9716</td>
</tr>
<tr>
<td>EXCHANGERATE</td>
<td>-.1538768</td>
<td>.249623</td>
<td>-0.62</td>
<td>0.540</td>
<td>-0.65478 - 0.347028</td>
</tr>
<tr>
<td>GDPCBP</td>
<td>1.01e-11</td>
<td>1.54e-11</td>
<td>0.66</td>
<td>0.513</td>
<td>-2.07E-11 - 4.10E-11</td>
</tr>
<tr>
<td>IFR</td>
<td>-25860.15**</td>
<td>26155.57</td>
<td>-3.38406</td>
<td>0.0026</td>
<td>-3.05E-11 - 3.20E-11</td>
</tr>
<tr>
<td>FDI</td>
<td>-1.08223</td>
<td>0.645095</td>
<td>-0.02425</td>
<td>0.9890</td>
<td>-2.65471 - 1.3324</td>
</tr>
<tr>
<td>TRADEBALANCE</td>
<td>-8.23813</td>
<td>0.93979</td>
<td>-8.77</td>
<td>0.000</td>
<td>-10.1208 - 6.35551</td>
</tr>
</tbody>
</table>

Sources: Author’s computation

From the regression, our R-squared = 84%, Adjusted R-squared = 68%, F-statistic = 5.41, Probability > F = 0.00160. From the table, the result shows that a unit increase in import will lead to a $101.7438 million increase in the Real GDP growth of the country. The opposite is true. A unit increase in importation will result in $100.6651 million reductions in the Real GDP growth of Ghana. Now the big weight from, the result is that of trade balance which should be positive, has turned the other way. From the result, it shows that a unit increase in trade will lead to $823.813 million reductions in the real GDP of the country. This result leads to the main weight in the Real GDP growth of the county it also means that there is more outflow from the economy to pay for more imports.

The determination coefficient, which is the R-squared, shows the percentage of variations in the dependent variable that are accounted for by variations in the explanatory variables. The R-squared measures the explanatory powers of the model. A closer study at table 1 indicates that the specified model has a fairly high coefficient of determination. This is seen from R-squared of 84% The R-squared reports that the variables can explain about 84% of all the variations in Real GDP and the 16%, which is the remaining variations, in the Real GDP is not accounted for in the model rather by other variables outside the model.

The fitness of every regression result is based on its R-squared. The adjusted R-squared shows that asymptotically, the variables can explain roughly 68% of the total variation. This implies that model has the goodness of fit.

The F-statistics also test the general significance of the model. F-calculated is compared with F-tabulated where F-calculated is more than the F-tabulated, we, therefore, reject the null hypothesis (Ho) and conclude that the variables are statistically significant in explaining the dependent variable. From the table, it shows that F-statistics is 5.4100; and Probability (F-statistic) is 0.001560. We, therefore, reject null hypothesis but then accepts the alternative hypothesis. Thus, explanatory variables jointly considered are significantly vital in explaining variations in the dependent variable.
From table 1, by solving equation 3, it follows like this: $\beta_0 = -0.3110935 \beta_1 = -1.538768 \beta_2 = 1.017432 \beta_3 = -1.006651 \beta_4 = -25860.15 \beta_5 = -8.23813 \beta_6 = -1.08223 \beta_7 = 1.01e-11$.

\[
RGDP = -0.3110935 + (-0.1538768 \times FXR) + 1.017432 \times EX + (-1.006651 \times IM) + (-25860.15 \times INFR) + (-8.23813 \times TB) + (-1.08223 \times FDI) + 1.01e-11 \times GDPCBP.
\]

Conclusions

This study examined the weight of foreign trade on Economic outgrowth in Ghana bearing in mind the coefficients the variables used, export and gross domestic product at current basic, are positively related to the real GDP, while other variables such exchange rate, import, foreign direct investment, inflation, and trade balance rate put a negative weight on the Real GDP. The positive coefficient of the total export implies productivity in the economy. In the well-lit of this research, the conclusion that foreign trade exerts positive weight on the economic development of a nation through export-lead industry can be agreed on. But the other way from this study shows that foreign trade has a negative weight on the economy of Ghana. From the study, it is seen that there is more outflow from Ghana’s economy, thus, from the coefficient of the trade balance, it could be drawn, and the exchange rate can also prove that outflow

Recommendation

Ghana should set tactics to improve on exports and high Technical produced goods. This study shows that a unit rise in export volume will lead to an audition in the RGDP so, more attention should be focused on exporting goods, and there should be an improvement in trade structure which will, in turn, improve the efficiency in Ghana's production sector. Also, a bulk amount of exports implies more openness which can help the domestic sectors lean new production technologies and in turn raise productivity.

Finally, Ghana government should encourage the aggressive willingness to compete for exports by ransacking the imports of high technology. The government should try to cut down the high levels of importation into the country. The domestic firms should also try and get appropriate technologies needed for their production. Ghana government should focus on the import-substitution industries that can combat the higher importation in the country.

Reference


