

# Private Sector *Trade Note*



## CARICOM-Ghana Trade

### ► BACKGROUND

In 2013, CARICOM exported United States Dollars (USD) 265.8mn worth of goods to the African continent, 87.9 percent of which comprised of mineral fuels, oils and distillation products. Meanwhile, in 2013, CARICOM imported roughly USD 327.6mn worth of goods from Africa, 79 percent of which comprised of mineral fuels, oils and distillation products. In terms of two-way trade between the CARICOM region and the African continent in 2013, mineral fuels, oils and distillation products accounted for approximately 83 percent of total trade. Therefore, it would appear that outside of the cross-border trade in mineral fuels, oils and distillation products, very little is happening at present with respect to wider trade and investment between the CARICOM region and African countries.

According to the African Development Bank Group, the Organisation for Economic

Cooperation and Development (OECD) and the United Nations Development Programme (UNDP), with a growth rate of 4 percent in 2013, Africa's economy outpaced growth in the global economy which stood at 3% in 2013 (African Development Bank Group, Organisation for Economic Cooperation and Development Development Centre and the United Nations Development Programme, 2014). According to Forbes (2014), Africa's economic potential is enormous and the continent is now home to six (6) of the world's ten fastest-growing economies (Alaoui, 2014). Forbes (2014) estimates that Africa's Gross Domestic Product (GDP) is anticipated to increase by six percent annually over the next decade. Forbes (2014) also approximates that the real income of Africans has increased by at least 30 percent over the past ten years.

As the CARICOM region seeks to diversify its trade and economic relationship away from the United States (US) and the European Union (EU)

primarily, the African continent is one of the emerging growth areas in the world economy where numerous opportunities abound for cross-border trade and investment flows. Ghana in particular is an ideal entry point to the African continent (particularly West Africa) as it has an established tradition of peaceful political transitions; it has a dynamic economy and a population nearly twice as large as the combined population of CARICOM. Ghana has also garnered the attention of global institutions, with the World Bank/International Finance Corporation (IFC) Doing Business Report 2014 singling out Ghana as the "best place for doing business in the Economic Community of West African States (ECOWAS) region" (World Bank and the International Finance Corporation, 2014).

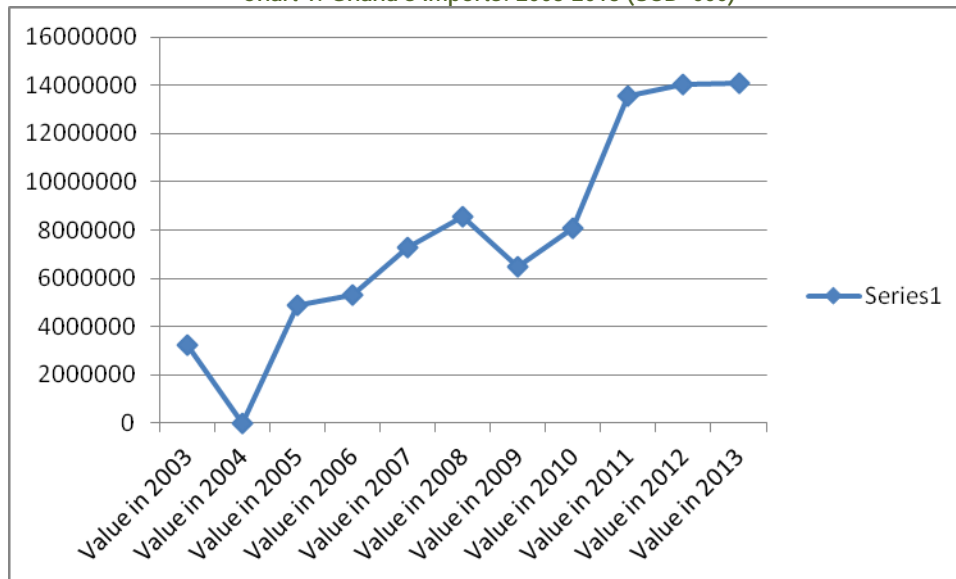
Recently, some iconic CARICOM companies have sought to capitalize on the opportunities in Ghana in the areas of manufacturing and financial services. The GraceKennedy Group

out of Jamaica began operations in Ghana where the company is manufacturing and distributing malt beverages, with Ghana being used as a hub for the West African market (Adombila, 2014). In 2014, Republic Bank of Trinidad and Tobago became the single largest shareholder in HFC Bank Ghana, where its shareholding now stands at 32.02 percent, up from the 8.79 percent

shareholding it held in 2012 (Caribbean New Media Group, 2014). The investments made by GraceKennedy and Republic Bank could potentially pave the way for other CARICOM conglomerates that may also have an interest in expanding their businesses in Ghana or elsewhere in Africa.

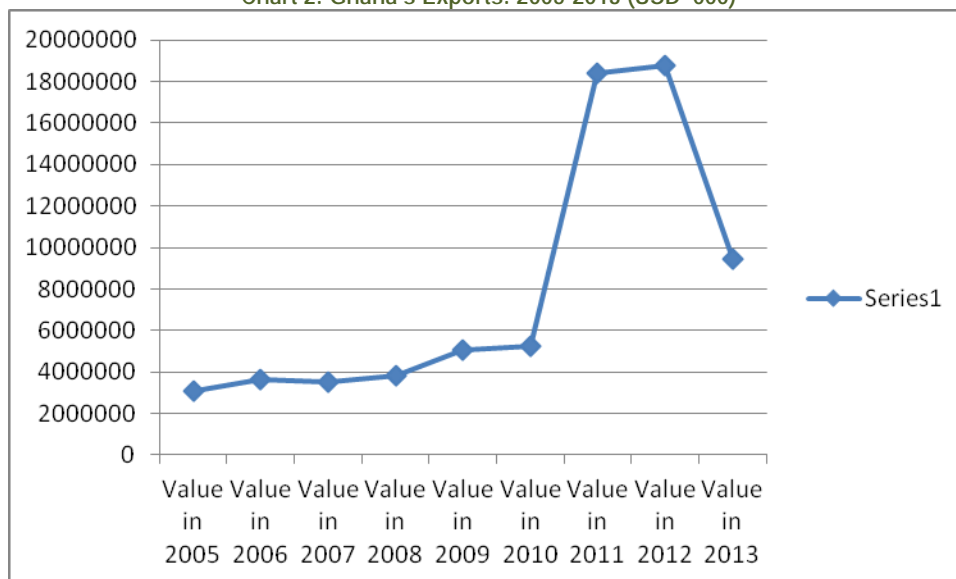
Ghana has a population of just over 25.9 million people. The World Bank (2014) estimates that Ghana has a Gross National Income (GNI) per capita of USD 1,760, which is consistent with the country's classification as a lower middle income State (The World Bank, 2014).

Chart 1: Ghana's Imports: 2003-2013 (USD '000)



Source: International Trade Centre, 2014

Chart 2: Ghana's Exports: 2005-2013 (USD '000)



Source: International Trade Centre, 2014

*In recent years, some of CARICOM's major exports to Ghana have included ceramic products, fish and seafood and chemical products. Combined, these products accounted for 99 percent of CARICOM's exports to Ghana in 2012.*

According to the African Development Bank (ADB) (African Development Bank Group, 2014), Ghana's economy has registered economic growth at an average of about 6.0% over the past six years. However, in 2013, the ADB observed that growth decelerated to 4.4%, substantially lower than the growth of 7.9% achieved in 2012, yet marginally better than growth for the African continent on a whole and over a percentage point higher than global growth. Ghana's economic growth has been largely driven by service-oriented sectors and industry, which the ADB estimates to have grown on average at a rate of 9.0% over the five years up to 2013.

In terms of outlook, the ADB anticipates that Ghana's economy will maintain robust growth over the medium term, bolstered by improved oil and gas production, increased private-sector investment, improved public infrastructure development and sustained political stability. During the course of 2015, the ADB forecasts that Ghana's economy would grow by around 8% which would represent an above average growth rate compared to recent years.

#### ► MAJOR ECONOMIC ACTIVITIES

Some of the largest contributors to Ghana's GDP include agriculture, forestry, hunting, fishing; construction; finance, real estate and

business services; transport, storage and communication; and wholesale and retail trade, hotels and restaurants. According to the United States' Central Intelligence Agency (CIA), agriculture accounts for up to 25 percent of Ghana's Gross Domestic Product (GDP) while the services sector represents roughly 50 percent of GDP (United States Central Intelligence Agency, 2014).

Gold and cocoa exports are major foreign exchange earners for Ghana. However, in recent years, oil production has become an important source of revenue and with an estimated 700 million barrels of oil reserves; oil production is set to boost economic activity in Ghana for the foreseeable future.

#### ► GHANA TRADE PERFORMANCE

In 2013, Ghana imported just over United States Dollars (USD) 14 billion worth of goods. Some of Ghana's main imports included meat, fish and seafood, dairy, cereals, animal and vegetable fats and oils, sugar and sugar confectionary, mineral fuels and oils, pharmaceutical products, soaps and lubricants, chemical products, textiles, clothing and apparel, steel products and beverages and spirits. **Chart 1** below provides a representation of the value of Ghana's imports from the rest of the world for the period 2003-2013.

From 2005 onwards, China displaced the United States (US) as Ghana's single largest source of imports. The top five (5) exporters to Ghana are China, the US, the United Kingdom (UK), Belgium and India. Outside of the US, Brazil is the only other major exporter to Ghana from the Americas.

With respect to its exports, Ghana's exports are primarily driven by exports of fruits and vegetables (including cocoa and cocoa preparations), meat, fish and seafood preparations, mineral fuels and oils, wood and wood products, gold, copper and aluminium. **Chart 2** below depicts the value of Ghana's exports to the world for the period 2005-2013.

South Africa currently ranks as the number one (1) destination for exports from Ghana. Other major markets for Ghana's exports include India, the United Arab Emirates, France and Vietnam.

#### ► CARICOM-GHANA TRADE PERFORMANCE

Traditionally, Ghana has not been a significant trading partner for CARICOM. For the period 2003 to 2013, CARICOM's exports to Ghana have been modest, with a peak of 26.8 million USD in 2012 and a low of USD 4 thousand in 2013. In recent years, some of CARICOM's major exports to Ghana have included ceramic products, fish and seafood and chemical products. Combined, these products accounted for 99 percent of

Table 1: Top CARICOM Exports to Ghana in 2012

Products	2012 Exports (USD 1000)
Ceramic products	14,439
Chemical products	10,325
Fish and seafood	1,788
Iron and steel	50
Optical, photo, technical, medical etc apparatus	48

Source: International Trade Centre, 2014

Table 2: Top CARICOM Imports from Ghana in 2013

Products	2013 Imports (USD 1000)
Pharmaceutical products	197
Wood and wood products	63
Tanning, dyeing extracts, tannins, derivs, pigments etc	3
Milling products, malt, starches, inulin, wheat gluten	1

Source: International Trade Centre, 2014

CARICOM's exports to Ghana in 2012. **Table 1** below depicts CARICOM's top exports to Ghana in 2012 (exports were not substantial in 2013).

Trade with Ghana has been uneven amongst CARICOM Members. The main CARICOM Member States taking advantage of trade with Ghana in terms of export sales between 2003 and 2011, for instance, were The Bahamas, Antigua & Barbuda, Suriname, Trinidad & Tobago, Jamaica and Grenada. In 2012, Jamaica was the dominant CARICOM exporter to Ghana, accounting for 38.7 percent of total CARICOM exports to Ghana. However, a notable feature of CARICOM's exports to Ghana was the inconsistency of exports, both in terms of value and product. For example, in 2009, Grenada exported USD 1.2 million worth of fish and other seafood products to Ghana, but recorded no additional exports of that product category before (up to 2003) or after 2009 (up to 2013). Grenada also did not record any exports to Ghana between the period 2004 to 2008; and 2011 to 2013. Similarly, Trinidad & Tobago exported over USD3.7 million worth of inorganic chemicals, precious metal compound and isotopes to Ghana in 2006, but recorded no further exports of this product category prior (up to 2003) or after (up to 2013) that period. Generally, the majority of CARICOM Member States were unable to generate export sales of over USD1mn cumulatively between 2003 and 2013.

With respect to Ghana's exports to CARICOM, in recent years, these have primarily consisted of mineral fuels and oils, essential oils, cereals and wood and wood products. Some of the main CARICOM importers of products from Ghana are Antigua & Barbuda, The Bahamas, Guyana and Jamaica. **Table 2** below provides a representation of CARICOM's top imports from Ghana in 2013.

There are numerous opportunities in Ghana for CARICOM to expand its existing exports as well as create new export opportunities. The US Commercial Service (2012) has identified several bulk goods, consumer-ready food products and other merchandise goods which have significant potential in the Ghanaian market. These products include:

- .....**Bulk goods:** wheat flower, soybean oil, vegetable oils,

feeds and fodders;

- .....**Consumer-ready goods:** snack foods, breakfast cereals, red meats, poultry meat, dairy products, wine and beer, fruit and vegetable juices and tree nuts;
- .....**Forest products:** logs and chips, hardwood lumber, softwood and treated lumber, and panel products; and
- .....**Fish products:** edible fish and seafood (United States Commercial Service , 2012).

In addition to the opportunities listed immediately above, there are possibilities for CARICOM merchandise exporters to further penetrate Ghana in areas including the following products:

- Medicaments not elsewhere specified, in dosage: In 2011, Ghana was a US\$83mn import market for this product class increasing from US\$52mn in 2009. CARICOM exporters generated US\$69.4mn in export sales from medicaments in this product class (HS 3004.90) globally, but did not generate any export sales in Ghana in 2011. CARICOM exporters last generated US\$136,000 in export sales to Ghana in 2009. The duty on medicaments (HS 3004.90) was 3.3%.
- Hot rolled bar/rod, irregular coils less than 14 mm diameter: In 2011, Ghana was a US\$62.5mn import market for this product class increasing from US\$25.3mn in 2009. CARICOM exporters generated US\$170.6mn in export sales from this product class (HS 7213.91) globally, but did not generate any export sales in Ghana

in 2011. CARICOM exporters last generated US\$1mn in export sales to Ghana in 2009. The duty on these hot rolled bars and rods (HS 7213.91) was high at 20%.

- Portland cement nes: In 2011, Ghana was a US\$35.7mn import market for Portland cement (HS 2523.29), increasing rapidly from US\$335,000 in 2009. CARICOM exporters generated US\$48.6mn in export sales from this product class globally, but did not generate any export sales in Ghana between 2009 and 2011. In 2011, Ghana imported Portland cement in this product category at US\$110/ton, while CARICOM was able to export this product at US\$69/ton globally. The duty on these Portland cement products (HS 2523.29) was 20%. This implies that with CARICOM export prices almost 40% cheaper than the price at which Ghanaian importers were landing this product in 2011, this product could be a very viable one where transportation/freight costs, insurance, inland duties/charges and other trade/logistics costs are competitive.
- Non alcoholic beverages nes, excluding fruit and veg juices: In 2011, Ghana was a US\$31mn import market for this product increasing from US\$11.3mn in 2009. CARICOM exporters generated US\$22.7mn in export sales from non alcoholic beverages globally, but did not generate any export sales in Ghana in 2011. CARICOM exporters last generated US\$85,000 in export sales to Ghana in 2009. The duty on these non alcoholic beverages (HS 2202.90) was high at 20%.
- Sweet biscuits: In 2011, Ghana was a US\$27.7mn import market for sweet biscuits increasing from US\$14mn in 2009. CARICOM exporters generated US\$14.7 mn in export sales from sweet biscuits globally, but did not generate any export sales in Ghana in 2011.



CARICOM exporters last generated US\$13,000 in export sales to Ghana in 2009. The duty on sweet biscuits was 20%.

#### ► INVESTMENT OPPORTUNITIES FOR CARICOM IN GHANA

The Ghana Free Zones Board (GFZB) has identified eleven (11) areas for foreign direct investment (FDI) into Ghana, in which the country is seeking to capitalize on its perceived comparative advantage. The 11 sectors identified by the GFZB are:

- Information and Communication Technology



Traditional Ghanaian masks

- Textile/Apparel Manufacturing
- Agro-food Processing
- Seafood Processing
- Jewellery/Handicraft Production
- Metal/Hand Tool Fabrication
- Floriculture
- Light Industry/Assembling Plant
- Ceramic Tiles Manufacturing
- Pharmaceuticals

*Ghana Free Zones Board, 2012)*

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Apart from the sectors mentioned above, Ghana also has a buoyant financial services sector, namely its insurance, capital markets and banking sub-sectors which might be attractive to CARICOM investors. PricewaterhouseCoopers (PwC) asserts that Ghana's insurance market is thriving, with huge potential for further growth in both life and non-life insurance (PriceWaterhouseCoopers, 2014). A Report prepared for the Ghana Institute of Management and Public Administration (GIMPA) and the Venture Capital Trust Fund of Ghana (2013) notes that as of January 2013, Ghana had up to 25 Non-Life Insurance companies, 18 Life Insurance companies, 2 Re-insurance companies and 54 Broking companies (Tandoh, Owusu-Ansah, Amewu, Aful, & Boakye, 2013). Overall, the Insurance industry is estimate to have grown in the five year period up to 2013 by 32 percent, with the Life Insurance sub-sector in particular demonstrating impressive growth of roughly 50 percent during the same period.

The Stock Exchange, Brokerage firms, Investment advisors, Fund Managers, Trustees, Custodians, Registrars and Security depositories comprise the Capital Market sub-sector in Ghana. At the end of 2011, the Report prepared for the GIMPA and the Venture Capital Trust Fund of Ghana estimated that there were 129 licensed security market operators, 34 listed companies, 106 Government Bonds and 19 Stock-Broking firms licensed to trade on the Ghana Stock Exchange (GSE).

With respect to its banking sub-sector, for the five years leading up to 2012, Deposit Money Banks remained consistently profitable according to the Report prepared for the GIMPA and the Venture Capital Trust Fund of Ghana. The Report further stresses that as Ghana's Oil and Gas market continues to develop, institutional clients, industries and other market players would require more of financing, payment services, currency trades, guarantees and international trade activities. There is also a growing retail banking market, particularly geared towards the working class population which is increasingly seeking auto loans, mortgage loans and students' loans. Loans to the agricultural sector is also another avenue for growth in the Banking sub-sector, with the Ghana Cocoa Board alone reported to have borrowed some USD 2 billion to finance cocoa purchases for export in the

2011/2012 cocoa season.

There may also be possibilities to encourage investments from Ghana into CARICOM based on two motivations. First, recognizing the existing import market, CARICOM can encourage joint ventures in specific areas to exploit the CARICOM market (market seeking joint venture opportunities). Second, where the CARICOM import market may not be large enough to absorb Ghana's export capacity, Ghanaian investments can be promoted in CARICOM to exploit export opportunities in non CARICOM markets, particularly markets in Latin America with which CARICOM has trade agreements, but which remain untapped for Ghanaian exporters and investors (such as Colombia, Costa Rica, the Dominican Republic and Venezuela). These can be termed efficiency seeking investments.

#### ► CONSTRAINTS TO DOING BUSINESS WITH GHANA

The World Bank/IFC Doing Business Report (2014) ranks Ghana 67<sup>th</sup> out of 189 countries with respect to the ease of doing business. This ranking places Ghana second only to South Africa for African countries and considerably above the sub-regional average for Sub-Saharan Africa which stands at 142<sup>nd</sup>. With respect to the metrics employed by the World Bank and the IFC, Ghana's ranking relative to 189 countries in each field is outlined below:

- Starting a business – 128
- Resolving insolvency – 116
- Enforcing contracts – 43
- Trading across borders – 109
- Paying taxes – 68
- Protecting investors – 34
- Getting credit – 28
- Registering property – 49
- Getting electricity – 85
- Dealing with construction permits – 159

Particularly as it relates to trading across borders, the World Bank/IFC Doing Business Report (2014) notes that exporting a standard container of goods from Ghana takes 19 days and costs USD 875. Meanwhile, importing the same container of goods is reported to take 42 days and costs USD 1360. Given the insufficiency of air and sea links between the CARICOM region and Ghana (as well as

other parts of Africa), there is a possibility that the cost of trading between the region and Ghana could be even higher and logistically more complex than it is for trade between Ghana and the rest of the world. Therefore, CARICOM companies may want to explore alternative means of market entry and penetration outside of the traditional air and sea transport. Some of these alternative means of market entry and penetration could include production licensing arrangements with Ghanaian companies, franchising or direct investment in production infrastructure/establishment of subsidiaries, branches or offices in Ghana.

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