A Tale of Two Nations: Ghana and South Korea

In 1970, South Korea and the West African nation of Ghana had similar living standards. South Korea's GDP per capita was $260, and Ghana's was $250. Nearly 50 years later, South Korea boasts the world's 11th-largest economy and has a GDP per capita of $32,000, while Ghana's GDP per capita is just $1,786. Clearly, South Korea has grown much faster than Ghana over the last half century. According to a World Bank study, part of the explanation can be found in the different attitudes of both countries toward international trade during the second half of the twentieth century.

Ghana gained its independence from Great Britain in 1957. The country's first president, Kwame Nkrumah, was an early advocate of pan-African socialism. His policies included high tariffs on many imported goods in an effort to foster self-sufficiency in certain manufactured goods and the adoption of policies that discouraged exports. The results of these inward-oriented policies were a disaster for Ghana. Between 1970 and 1983, living standards in Ghana fell by 35 percent.

For example, when Ghana gained independence, it was a major producer and exporter of cocoa. A combination of favorable climate, good soils, and ready access to world shipping routes made Ghana an ideal place to produce cocoa. Following inde-pendence, the government created a state-controlled cocoa marketing board. The board set prices for cocoa and was the sole buyer of cocoa in the country, The board held down the prices it paid farmers for cocoa. while selling their produce on the world market at world prices. Thus, the board might pay farmers 25 cents a pound, and then resell the cocoa on the world market at 50 cents a pound. In effect, the board was taxing exports by paying cocoa producers considerably less than they would get for their product on the world market. The proceeds were then used by the government to fund a policy of nationalization and industrialization to promote self-sufficiency.

Over time, the price that farmers got paid for their cocoa increased by far less than the rate of inflation and the price of cocoa on the world market. As returns to growing cocoa declined, farmers started to switch from producing cocoa to producing subsistence foodstuffs that could be sold profitably within Ghana. The country's production of cocoa and its cocoa exports plummeted. At the same time, the government's attempts to build an industrial base through investments in state-run enterprises failed to yield the anticipated gains. By the 1980s, Ghana was a country in economic crisis, with falling exports and a lack of foreign currency earnings to pay for imports.

In contrast, South Korea embraced a policy of low import barriers on manufactured goods and the creation of incentives to promote exports. Import tariffs and quotas were progressively reduced from the late 1950s onward. In the late 1950s, import tariffs stood at 60 percent. By the 1980s, they were reduced to nearly zero on most manufactured goods. The number of goods subjected to restrictive import quotas was also reduced from more than 90 percent in the 1950s to zero by the early 1980s. Export incentives included lower tax rates on export earnings and low-interest financing for investments in export-oriented industries.

Faced with competition from imports, Korean enterprises had to be efficient to survive. Given the incentives to engage in export activity, in the 1960s Korean producers took advantage of the country's abundant supply of low-cost labor to produce labor-intensive manufactured goods, such as textiles and clothing for the world market. This led to a shift in Korea away from agriculture, toward manufacturing.

As labor costs rose, Korean enterprises progressively moved into more capital-intensive goods, including steel, shipbuilding, automobiles, electronics. and telecommunications. In making these shifts, Korean firms were able to draw upon the country's well-educated labor force. The result was export-led growth that dramatically raised living standards for the average Korean.

By the 1990s, Ghana recognized that its economic policies had failed. In 1992, the government started to liberalize the economy, removing price controls, privatizing state-owned enterprises, instituting market-based reforms, and opening Ghana up to foreign investors. Over the next decade, more than 300 state-owned enterprises were privatized, and the new, largely privately held econ-omy was booming, enabling Ghana to achieve one of the highest growth rates in sub-Saharan Africa. The country was helped by the discovery of oil in 2007. Ghana is now a significant exporter of oil. In addition, Ghana remains a major producer and exporter of cocoa, as well as gold. Although the state-run cocoa marketing board still exists, it has been reformed to ensure that farmers get a fair share of their export earnings. Today, one of its stated functions is to promote exports and protect farmers from the adverse impact of volatile commodity prices. In short, Ghana has shifted away from its inward-oriented trade policy.

Case Discussion Questions

1. What was Ghana trying to achieve with its post-independence policies toward international trade? Why did these policies not have the intended effect?
2. What was South Korea trying to achieve with the trade policies that implemented from the late 1950s onward? Did these policies work? Why?
3. What does the relative experience of Ghana and South Korea teach you about the importance of international trade policies?
4. Drawing on the case history of Ghana and South Korea, what advice on trade policy would you give a developing nation? What resistance to your recommendations would you expect?