Business-Government Relations: Politics and Policy of Trade Liberalization and Local Industries in Ghana

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Abstract

This Paper examines the impact of trade liberalization on the local manufacturing industries, the state of the relationship between government and business in Ghana, and the challenges facing the local industries. It uses the neo-mercantilism as a theoretical lens through the application of process tracing. Data from the textile industry was used to justify the challenges and the decline of the industry after post-independence. The paper argues that the sequencing of trade reforms, particularly import liberalization has damaged the local manufacturing sector in Ghana. The assumption is that without a strong government intervention to protect the local manufacturing industries, it will be difficult for the local industries to strive in a competitive trade environment that fostered by globalization.

Key Words: Trade liberalization, neo-mercantilism, process tracing, globalization.

1. Introduction

Due to trade liberalization, the removal of government incentives and restrictions of trade between nations (Hill, 2012) and the influence of multi-national corporations (MNCs) on the domestic economy cannot be overemphasized. In spite of the fact that trade liberalization has a strong tendency to boost the domestic market in Ghana, it is argued that trade policy reforms, particularly import liberalization have been fruitful as far as placing Ghana on the path of global competitiveness (Dinye and Nyaba, 2001). However, a government, in order to protect the local manufacturing industries from stiff competition, has to regulate import trade liberalization. The local industries in Ghana, particularly the textile industry over the previous decades has experienced a decline in growth and production due to stiff completion from the globalized industrial world. To consolidate the vibrancy and the potency of the local manufacturing companies in the country, pragmatic government policies are needed to position the local industries in a direction that would make those industries grow to an appreciable level. This paper, therefore, examines the impact of trade liberalization on Ghana’s local manufacturing industries. It is argued that the sequencing of trade reforms, particularly import liberalization has damaged the local manufacturing sector in Ghana. The assumption is that without a strong government intervention to protect the local manufacturing industries, it will be difficult for the local industries to strive in a competitive trade environment that fostered by globalization.

Ghana launched the Economic Recovery Program (ERP) in 1983. The program sought to actualize the prescriptions of the World Bank and International Monetary Fund (IMF) for structurally adjusting the economies of developing countries so as to increase efficiency (Kraus, 1991). The execution of the ERP has been central to the adjustment process in Ghana’s trade policy reform. The reforms in corporate policies like the liberation of the foreign exchange, tariff adjustment, deregulation of domestic market prices and control, institutional changes and import liberalization has led to the adjustment agenda in pursuit of economic liberalization (Dinye and Nyaba, 2001). The Provisional National Defense Council (PNDC) pursued a trade liberalization policy in 1986 to restore the feeble local manufacturing industries to enable them compete in the liberalized world trade environment (Bhasin, 2012).There has been a noteworthy change in Ghana's economy since the implementation of the trade liberalization policy commenced. Despite the fact that there has been a calculable development at a yearly rate of 7.4 percent in the broad industrial sector for the period of 1986 to 1993 (Ghana vision 2020, 1996, p. 50), between 1997 and 2006 the manufacturing subsector recorded a frustrating performance of growth at an annual rate of 4.68 percent (State of Ghana's Economy Review, 2006, p.18).

The manufacturing sector in a country like Ghana is essential for international competitiveness. Therefore, the perceived demise of the local manufacturing industries is crucial since it affects employment opportunities in the country. In consonance with its assessment, the study seeks to address the following empirical questions: Why has the Ghanaian government not been able to address the deteriorating rate of local manufacturing industries? What is the impact of trade liberalization on Ghana's local manufacturing industries?The thrust of the study impinges on two fold objectives: first, to gain knowledge of how the policy of trade industrialization has affected the local manufacturing industries in Ghana specifically the textile industry and how the industries dialog with government in dealing with the problem, and also to examine the measures that have to be established to ensure the sustainability of local industries. The study is significant in that; it sheds light on trade liberalization and its effect on local industries. It provides in-depth information confronting the demise of the local manufacturing industries. The study also provides information that can help mount strategies to protect local industries from collapsing. However, there has been a serious debate over the appropriate trade policy for developing countries, the contest has been between free-market advocates and trade protectionism. While free market proponents support an outward-looking, export-oriented trade regime, trade protectionists settle for inward-looking systems. They both, nonetheless, concur that industrialization ought to be the overwhelming economic development strategy (Todaro, 1992). That notwithstanding, this study utilizes neo-mercantilism as the theoretical framework within which the analysis is situated.

Several scholars, both in Africa and across the globe have made academic contributions on trade liberalization; exports, imports; price equilibrium globalization (Domberger 1979, 1980, 1981; Kardasz and Stollery, 1988; Sahaanan and Feinberg 1995; Czinkota and Ronkainen, 2007; Spiegel Special, 2007; Foroutan 1992; Harrison 1990; Yang and Hwang 1994; 2007; Killick, 1982; Unger, 1988). In Ghana, some scholars and academia have attempted to explore the impact of trade liberalization on the economy (Tangari, 1992; Jebuni et al., 1994; Appiah- Kubi, 2001; Ayine, 2004; Awuah 2009; Allotey 2010; Allotey, 2010). Their works examine globalization, trade liberalization, and trade policy. This paper sets apart from other research because it explores the politics and policy dialogue between government and the local manufacturers in Ghana. It also draws on the neo-mercantilist analytical framework from international relations and its interaction with domestic policy process and institutions.With regard to methodology, this paper uses an inductive qualitative analysis as its research design through the application of the single case study method. This will help in the empirical analysis of the research under investigation. The rationale for selecting Ghana as a case study is due to its adoption of the Structural Adjustment Programme (SAP) that led to the economic transformation of the country. Ghana was viewed as a success story in Africa by the Bretton Woods institutions as far the SAP and Economic Recovery Programme (ERP) were concerned. A case study helps in providing detailed and comprehensive examination of an aspect of a historical episode in a bid to test or develop generalization about historical explanation (George and Bennet, 2005). It offers a plausible and an in-depth analysis of the chain of causality and mechanisms of correlation between a phenomenon and the contextual casual factors (Steinberg, 2007).

This research data from official government documents, parliamentary Hansards, newspaper articles.. This study also uses process tracing to complement case study methods (Collier, 2011). In the present case, it contributes to the other source of data collected from the performance of the textile industry. Through the process tracing, the paper traces the post-independence development of business-government relations in Ghana by concentrating on the early periods of the 1980s to 2016. This is because Ghana has passed through the transformation of different political leaderships that have sought to present their own policies. The process tracing would help trace the various governmental policies put in place to ensure and enhance the spate of local manufacturing industries. In this regard, implemented and adopted policies by the various governments will serve as a point of reference.

The remaining part of this study proceeds as follows: the first part reviews the theoretical underpinning of political economic development by focusing on the transition of classic and modern political economic development theories; the second section explores the politics of trade liberalization in Ghana; section third examines the role of multinational corporations in trade liberalization in Ghana; the fourth section examines the impact of trade liberalization on local industries, but will put emphasis on the textile industry as a reference point; the final section concludes the paper with a summary of the main findings and recommendations.

Theoretical Transition of Political Economic Development

Various theories have different prescriptions for government policy on trade and advancing economic development. Theories of economic development can be traced to both the medieval and modern times.

Among the ancient theories of political economic development, was mercantilism also known as interventionism. It emerged during the medieval age with an ambitious domestic policy undertaking (Conteh, 2013) to correct market failures in a political jurisdiction. Mercantilism, to follow the definition of North (North et al, 1975 as cited in Conteh) is a form of protectionist and discriminatory policy instruments used by governments to advance economic activity with the aim of maximizing aggregate national wealth. Its main theoretical disposition encapsulates national economic policy with the view of accumulating monetary reserves, especially of finished goods. Neo-mercantilism, which is an extension of the mercantilism, contends that through protectionist policies, a state should involve itself in guiding the economy to expand domestic production. The government should use tariffs, subsidies, and exchange controls to guarantee infant industries.Other variants of a school of thought such as the physiocrats, a contemporary dimension of mercantilism, hold the view that agriculture must be made superior and all other sectors should be subservient to it (Conteh, 2013). They rejected the proposition of intervention of the state in the market by mercantilism. The classical economic approach championed by Adam Smith (1937) drew from the two early theories, but developed formal models and arguments that underscored the liberty of property as the keystone of every rational economic order (Gide, Rist and Richards 1948, as cited in Conteh, 2013, p.38).

Other influential scholars who share the notion of the classical economist including David Ricardo, Robert Malthus and John Stuart Mills contend that economy is directed by certain natural laws that can be studied with rigorous methodology of the natural sciences (see Stirati 1994; Galbraith 1987). The economic policy discourse never eroded as it sets other parameters for the advent of neoclassical theorists, powered by the works of Alfred Marshal, William Stanley Jevons (11970), Carl Menger (1950) and Leon Walras (1954) (See Conteh, 2013).
The neoclassical political- economic theory makes a stark contrast with the theoretical assumptions of neo-mercantilism. Rather, they believe in the efficiency of the role of the market and the minimal role of the state in achieving economic development (Gerken, 1999, pp.19-24 as cited in Conteh, 2013).

Proponents of this school of thought such as William Stanley Jevons, Carl Menger and Leon Walras argue that the market will be efficient if there is an insignificant part of the state and the distortions of governmental interventions in the economy (Conteh, 2013). Its basic assumptions impinge on trade liberalization, deregulation, and minimal role of the state in economic activities. It argues that there is perfect competition for all commodities in the market in all countries and hence state mediation in a type of protectionism would create distortions in economic activities (Gerken, 1999, p. 19-24 as cited in Conteh). This school of thought is against all economic controls of government interventions and instead argues for liberalizing financial and trade controls for free trade regimes (Peet et al., 1999). Laurie (2011, pp.3-4) notes that most of the policies pursued by the international financial institutions (IFS) are rooted in the neoclassical approach in economic thinking. The neoclassical political, economic theory fails to recognize the fact that trade liberalization has the tendency of killing infant industries in developing countries in favour of developed countries because of the imperfect nature of the market. Thus, when governmental interventions such as tariffs, quotas, subsidies, and regulatory barriers are retracted, it becomes very challenging for the newly emerging industries to strive in this unprecedented global competition.

The emergence of Keynesianism has resurrected the theoretical debate among scholars. Thinkers of this school have shifted the economic debate from microeconomic laws to the macro variables of a nation's general economic wellbeing (Conteh 2013, p. 41). This school espouses policy intervention in the economy with the general assumption that government intervention will reduce the severity and durations of downturns in the business cycle (Conteh, 2013). Such interventionist policy instrument is known as discretionary stabilizers (a set of instruments like taxation policies and subsidies) or automatic stabilizers (measures such as income-maintenance programs) aimed at increasing the rate of capital returns and of correcting cyclical fluctuations in the business cycle (Conteh, 2013).Keynesianism as an economic tool was utilized by the industrialized countries to advance economic growth in national development, maintain high levels of employment, and identify trends in the economy as well as using fiscal, monetary, and other policies to correct market failure (Keynes, 1935). Thus, on the basis of this theoretical assumption, this paper intends to utilize the neo-mercantilist theory by drawing insight from the Keynesian economic theory. The two theories share some basic theoretical assumption of government taking a key role in stimulating economic development. The neo-mercantilism serves as the bedrock for the theoretical canopy under which the argument of this paper is held. Subsequently, this theoretical disposition is significant on the grounds that it better explains why the local industries in Ghana are declining particularly when Ghana embraced the SAP in 1983.

It also provides a compelling justification for government policy intervention to stimulate the performance of local industries for the advancement of socioeconomic welfare in the state. Additionally, the utilization of the theory is essential in dissecting the Ghanaian context, especially the period of the 1960s to 70s when the state was effectively involved in securing the local manufacturing industries. Central to these ideas are assumptions about the role of the state in creating certain policy instruments to support the fragile industries.

The Neo-mercantilist Economic Thinking - A perspective of the Ghanaian case

Neo-mercantilist theory inspired by the realist assumption postulates the active role of the state in its economic oversight. This theory draws insights from the mercantilist theory of economic development. Neo-mercantilist as a variant of mercantilism makes a crude case for government involvement in promoting economic development by expanding domestic production. To neo-mercantilism, the state is seen as a principal agent for safeguarding the international interests of national economy and its prime stakeholders (Hale, 2006, p. 2). Neo-mercantilism as a theory of economic development emerged in the late eighteen and early nineteen centuries in the U.S, Canada and other developed countries as a strategy for political and economic development (Hale, 2006; Duncan et al., 2008). This theory contends that through the kind of protectionist policies, the state should not remain aloof from the economy; rather it should involve itself in guiding the economy to expand domestic production. Proponents of neo-mercantilism assert that a country's domestic production will expand if the state introduces policies to protect its industries, especially in a competitive global world (Duncan et al, 2008; Coughlin et al, 2000).

It argues that due to the unbendable competition that countries face, governments ought to intervene with protective policies in order to allow domestic industries to grow. They believe that the infant industrial state would be forced out if exposed to the stiff competition that characterizes the global market (Coughlin et al., 2000). Scholars of neo-mercantilism put forth the argument that when trade is liberalized, smaller, or less developed local industries will be swallowed by highly advanced foreign industries. Therefore, to allow infant industries to develop, government policies must favor the infant industries from rolling out of the market. The theory contends that industrialization is not possible without the existence of protection coming from the state to encourage national industry against the stiff competition from the global market (Menon and Ziglar, 2008).
Protecting the infant industry will mean that governmental policies are necessary for making it realize in that direction. Neo-mercantilists encourage protection policies from governments such as tariffs, quotas, subsidies, regulatory barriers, and exchange controls in an attempt toprotect the domestic industries from market pressures. They believe that through these state interventions in protecting industries, Pareto optimality would be achieved in the development of critical firms within the domestic market (Menon and Zigler, 2008).

A tariff is a form of protection strategy adopted by states as a way of imposing taxes on goods entering the country from abroad and, thus, results in higher prices. This has been the best form of protection for domestic producers because it raises the price of imported goods, and, therefore, lessens competition for locally produced goods. Domestic industries will, therefore, escape the vagaries of the competitive nature of the external market which could threaten its operations. By this approach, fragile industry in weak countries would have the confidence of navigating into the domestic market, expand its operations and generate more revenue for the state (Coughlin et al, 2000).Another strategy espoused by neo-mercantilist in protecting infant industries is through governmental subsidies. This alternative restricts the terms under which foreigners can compete in the home market as a result of lowering the prices of locally produced goods and services. Subsidies enjoyed by local industries in a form of special tax incentives and direct service payments have a positive effect on the quality of domestic products (Coughlin et al., 2000). Again, as argued by this school of thought, the use of quotas also has a positive implication for domestic or infant industries against the global competition. They contend that the international market is so anarchical that without state intervention, especially in smaller counties, its domestic industries could not withstand the pressures of competition. By this, they encourage the state to limit the maximum number of items or products imported into its domestic market. The limited amount of goods entering into its territory would safeguard the local industries from being swallowed by its foreign counterparts (Coughlin et al, 2000).

Consequently, exchange controls are among the protectionist policies that shield domestic industries against competition. As argued by this school of thought, it is convincingfor third world countries to restrict access to foreign money required by foreign goods. This happens when a government tries to hold its exchange rate artificially low for foreign goods to appear expensive in the home market.

Due to the expensive nature of foreign goods, domestic industries would then strive in business which would guarantee its operation in the market without external threat (Coughlin et al, 2000; Kicsi and Buta, 2010).Nonetheless, the neoclassical political, economic theory makes a stark contrast against the theoretical assumptions of the neo-mercantilism. Rather, they believe in the efficiency of the role of the market and the minimal role of the state in achieving economic development (Gerken, 1999). Proponents of this school of thought such as William Stanley Jevons, Carl Menger and Leon Walras argue that the market will be efficient if there is a minimal role of the state and the distortions of governmental interventions in the economy (Conteh, 2013; Aguiar 2006).

The neoliberal theory represents a close link between the relationship of government and businesses in an economic political society. It is important to note that this theory has laid the intellectual foundation for the development of the advanced industrial countries at the time when they were in a state of nurturing their economy.

This has led to the widespread achieving high levels of industrial development in western liberal democratic states. It is, therefore, important to view the state and businesses working hand in hand in navigating the prospects of businesses in its jurisdiction. This is reminiscent of a comment made by Karl Polanyi on modern state's expansion of market mechanism as well as the protection of the society against the destructive consequences of the waymarket mechanisms operate (Polanyi, 1957).Self-protection according to him is complex and includes the need for political control and social protection. On the basis of these theoretical assumptions, this paper suggests the need for government intervention to protect fragile industries at least even if temporary will lead to the economic successes of developing countries. Neo-mercantilism may be seen as theoretically untidy, but it certainly is a theory that led to the development of most European and industrialized countries in the world today. Among these countries, include Japan, Germany, Britain, Canada, and the US. Therefore, governments in third world countries could formulate economic policies in that direction to safeguard their fragile industries in a manner that could withstand competition particularly from the developed economies.

The Historical and Political Development of Trade Liberalization in Ghana

Ghana adopted several approaches to achieving economic growth and development after it gained independence. It began with a push for rapid industrialization, particularly from the period of 1957 to 1960s, utilizing various measures and state intervention (Aryeetey, 2000).The Convention People's Party (CPP) government, led by Kwame Nkrumah, started the state intervention approach that sought to reinvigorate the domestic industries in order to achieve economic advancement as espoused by the government. This prompted the pursuit of import substitution industrialization (ISI), which was inspired by the government as part of its economic policy and financial arrangements. The seven-year development plan was outlined by the government to enhance the capacity of domestic industries with the aim of promoting national development and economic viability (Aryeetey, 2000). The general objective was to utilize interventionist policies to protect domestic industries against the whims and vagaries of foreign competition.

Consequently, in the 1970s the Bussia administration was pro-market. So there is a little deviation from state intervention to economic liberalism. However, the Acheampong government decapitated the neoliberal economic agenda of its predecessors and passed interventionist policies. The Acheampong government introduced the program of operation "feed your industry," which emphasized the need for rapid industrialization in the country. The pursuit of this policy shielded many domestic industries against global competition. High tariffs were imposed on finished product coming from outside the country; while domestic industries enjoy tax holidays and subsidies (Bhasin, 2012). These establishments were exceptionally significant in that the state assumed a part in propelling the interest of the domestic industries through the protectionist measures (Adams, 2011).

However, the economic condition of Ghana declined profoundly, particularly in the late 1970s and 1980s, and the worsened economic conditions cajoled the government to introduce radical reforms.Peter Arthur (2006) contends that "Ghana's economic conditions were deplorable, to say the least, and the economy was on the brink of collapse." The deteriorating nature of the economy became worse due to high inflation, rampant corruption, maladministration, and extensive labor unrest. To redeem these situations, a practical step was taken by the Provisional National Defense Council (PNDC) military government, led by Jerry John Rawlings (Ninsin, 1987).

The December 1981 coup, led by J.J. Rawlings conveyed the PNDC to power in Ghana. After the coup, the country became sharply partitioned by two predominant ideologies, that is, the ‘left’ side rooted in socialist ideology, and the ‘right’ engrained in the ideals of bourgeoisie morality and institutions (Ninsin, 1987).
The leftist constituted university lecturers, students, and graduates, who shared a socialist notion about a just state. On the other hand, the rightist comprised assorted business associations with capitalist interests operating in the country. The leftist appealed to the Ghanaian masses through its mantra of popular government.

The leftist, which is the PNDC, pledged to champion socialist policies in pursuit of economic development, through protectionist measures (Ninsin, 1987).Nonetheless, due to the economic hardships that hit the country, the government made a ‘U-turn’ from its previous socialist policy propositions and finally agreed to seek refuge from the International Financial Institutions (IFS). The exacerbated state of Ghana’s economy, coupled with a lack of a viable alternative in resuscitating the economy, forced the PNDC government to embrace the economic conditionality espoused by the World Bank and the IMF (Boafo-Arthur, 1999). The program sought to execute the remedies of the World Bank and the IMF by structurally altering the economies of the third world nations including Ghana through the liberation of its economy (Boafo-Arthur, 1999).The ERP reform was market driven, which attempted to change the Ghanaian economy from the socialist ideology of protectionism. This land marked policy change forced Ghana to liberalize its economy despite the unbendable competition from the global market. The implementation of the structural adjustment in pursuit of trade liberalization molded Ghana’s trade policy. The ERP reforms include policies like the liberalization of foreign exchange, tariff adjustment of domestic prices and control, institutional changes and import liberalization (Konadu-Agyemang, 2000).

The adoption of the ERP in Ghana has consequently moved the nation's protectionist economy to a liberalized and outward-arranged policy. Basically, import substitution industrialization was replaced by free trade (Bhasin, 2012). Among the measures, the government implemented was trade liberalization, which involves the removal of extensive qualitative restrictions, the lowering of tariffs and other protectionist financial measures, and the liberalization of the foreign exchange (Brafo-Insaido & Obeng, 2012). This is captured by the World Bank appraisal of the procedures of trade liberalization in ensuring economic development (as quoted in Ayine, 2004, P. 216):

‘‘It should be noted that unlike many other countries, Ghana did not go through the transitional trade liberalization phase of converting its quantitative restrictions into equivalent tariffs before gradually lowering the latter. Instead, it dismantled its vast system of quantitative restrictions and import licensing at the same time as it proceeded to reduce the level and range of its tariffs and then restructure the rate within the same time. The transition must have been too abrupt for some industries” (WB).

Ayine (2004) notes that in approaching the trade reforms, both Ghana and the World Bank failed to recognize the fact that rapid trade liberalization in a country where industries have been profoundly warranted would make local industries fragile. Smith (1771 as cited in Ayine, 2004) contends that rapidly removing trade barriers would mean that cheaper foreign goods of the same kind might be dispensed so fast into home market which would leave thousands of people out of a job. This would pile up the already precarious in balance within the country, thus, increasing the unemployment rate among Ghanaians. To comprehend the approach of the World Bank and the IMF in this context requires an extensive and deeper analysis of their proposals and ideological underpinnings (Ayine, 2004).The ideological assumptions of the IMF embody exchange liberalization, eliminating subsidies, reducing tariffs on imported goods, privatization, increase export, reduced financial control (Ismi, 2004; Oppong, 2013). Applying trade liberalization, the IMF contends that the advancement of unhindered trade is the only means of generating wealth for development and poverty reduction. Consequently, states ought to open their market for free movement of goods and services with less governmental intervention. This indicates that the government is to reduce tariffs and eliminate import duties. These assumptions were carried alongside the Structural Adjustment Program (SAP) (Ismi, 2004).The implementation of the SAP, installed in this ideological inclination of the World Bank and the IMF created severe damages to Ghana’s domestic industries, particularly when Ghana kowtowed to the policy recommendations of the World Bank and the IMF.

Consequently, though the World Trade Organization (WTO) is distinct from the international financial institutions, its policies and strategies are indistinguishable from the assumptions of the international financial institutions economic thinking. Its overarching principles of market liberalism and nondiscrimination, embedded in economic liberalism, hold that countries ought to open their market for competition across the globe (Asare, 2011). Ghana, as a member of the WTO, endeavors to apply its principles in order to avoid violation and infringement on their economic and financial principles. Its rules are binding on member countries; therefore, member countries are tied with these ideological inclinations that are binding on them (Asare, 2011).

Market liberalism, thus, implies that movement of goods and services from one country to another should be allowed freely without any governmental restrictions. Restrictions such as tariffs, quota, and other trade barriers are not tolerated on the side of member countries. This assumption holds that market will be efficient if there is a minimal role of the state in achieving economic development.

It contends that open economic policy will advantage both the developing and the developed world since countries that do not produce certain commodities will benefit fromfree trade. However, it is often argued that the global north countries benefit more from market liberalism than the developing countries since the developing countries are unable to compete in the market (Asare, 2011).Moreover, the nondiscrimination policy of the WTO implies that each country faces identical opportunities to trade with other member countries. Thus, countries are forbidden to use taxes and other form of regulations to provide requisite advantages to their domestic industries at the expense of foreign industries that compete with their domestic industries.

Countries are required to treat the products coming from different countries in the same way they treat the products originating from their countries. This means that member countries should outline domestic policies that fit into these principles, which invariably have negative repercussions for developing countries like Ghana (Asare, 2011).Egu (2009) observes that the trade liberalization espoused by the SAP has had a negative impact on Ghana's domestic industries. For instance, the textile industry, in particular, has suffered most from the whims of trade liberalization leading to the shutting down of the industry. Over 2500 workers in the textile industry were laid off as a result of the industry's inability to compete, thereby leading to the exacerbation of unemployment rate in the country. Further, it is argued that due to the trade liberalization, there is a consistent influx of cheap textiles from China competing with locally produced textiles. The unbendable competition facing Ghana's domestic industries causes difficulties for the industries to make a giant stride. As a result of the stiff competition, small industries are usually losers of trade liberalization and that the government needs to bail out the industries through protectionist measures (Egu, 2009). Accordingly, parts of the damages of Ghana's trade liberalization have also led to the annihilation of the poultry industry. It is, therefore, important to note that the unbridled nature of the global market coupled with high competition has left the industry redundant. This is because the industry could not withstand the harsh competition against its counterpart from abroad. The leaders of the industry complained bitterly and pleaded with the government to erect trade barriers against imported products (Johnson, 2011).

The textile industry in Ghana was one of the vibrant industries when Ghana attained its independence in 1957. Around the period of 1960's, it employs more than 25000 workers with over 20 large scale textile industries in Ghana. It was a period of rapid growth and economic viability. This contributed to a 20% of the country's total gross domestic Product (GDP) (Quartey &Abor 2010). Available statistics by ISSER have it that the countries' total output in 1997 was pecked at 129 million yards, however, declined drastically to 42 million in 2011 (Amartey Jr, 2014). As a result of stiff completion from the globalized market, the industry has faced a decline in production, which has also resulted in a decline of economic outcomes (Sackey,2011). The decline emanated from the inconsistent government policies over the years, that resulted in a considerable decline of Ghana's' textile industry. Due to the Trade liberalization that Ghana adopted as a way of fulfilling the Structural Adjustment program in 1982, the textile subsector started deteriorating and operating at a low capacity. The situation degenerated in a worse condition due to the fact that more than half of the factories in the industry wound up that led to the decline of employment I the industry (Quarty, 2006). The decline in the rapid growth of the industries particularly the textile industry is attributed to the fact the there is strong completion on the neck of the industry for which the textile industry is unable to stand with. To justify and vindicated this point, the below table is a clear example of how the textile industry has kept deteriorating under diverse government policies since independence.

Table 1: Decline of the textile industry in Ghana

Year	Total number of employers	Percentage (%) change in employment	Yards of fabric produced
1977	25000	-	129000 million
1995	7000	72	46000 million
2000	5000	28	65000 million
2005	2961	41	39 million
2015	1700	-	-

Source: Adapted from Quartey and Abor (2010).

The above table has vindicated the fact that there has been a noteworthy declined in the textile manufacturing industry. The declined after the 1977 where there is strong government intervention. The performance of the textile industry deteriorated in 1995 under the trade liberalization policy adopted in the 1980s. This sudden experience has affected and continues to affect the industry, especially with the latest influx of textile products from China.

The Politics and Policy of Business-Government Relations in Ghana

This notwithstanding, the negative implications of trade liberalization on the industrial development forced the Association of Ghana Industries (AGI) and the Ghana National Chamber of Commerce (GNCC) to engage the government on how to mitigate the negative effects of the trade policies. The AGI, in particular, has been critical of trade liberalization for its devastating impacts on its members. In 1989, the AGI complained heavily to the government about the precarious imbalances of the trade liberalization (Tangiri, 1992). They believe that without governmental intervention, infant industries would be crippled and this would negatively affect the Ghanaian economy. They argued for a fair competition between domestic and foreign firms due to the unbridled nature of the global market. They called for ‘realistic measures at least in the ‘medium term’ to protect local industries from the ravage of an open, uncontrolled, and unfair competition from cheap inputs (Tangri, 1992). In 1990, the AGI acknowledged that “a significant change in attitude towards the problems facing industry has taken place, but felt that the government had been unduly slow to respond to the financial distress recently suffered by many companies” (Tangri, 1992).In addition, they complained that their views were ignored by the government in proposing methods of arresting the worsening situation (Ayine, 2004).

Institutional mechanisms for promoting communications between the business groups and the government were largely missing. This made it difficult for the business groups to interact with the government. Corollary, the relationship between government, AGI, and GNCC became fraught as their grievances were not considered by the government due to the unfair nature of the competition that they faced from the foreign product (Opoku, 2010).

Interestingly, in January 2000, the government through the Ministry of Finance initiated a policy to promote a “sustainable development of local industry”, which aimed at imposing a special importation tax on some goods in pursuance of promoting local industry. In pursuit of this policy the customs and excise (Duties and other tax) (Amendment) bill, was laid before parliament. The deputy finance minister supported and justified the policy. He argued that it is incumbent upon the government to institute policies that would protect local industries from the stiff competition, which exit them from business (Ayine, 2004). This move by the government restored confidence among business groups as it loaded the business scale heavily in favor of the domestic industries. The bill that was laid before parliament was used by the government to torpedo imported goods in the country. In this climate, the government’s ability to restore confidence among business groups was at least progressively preserved.

This further compounded as the chairman of the finance committee of parliament, reported to the full house about the importance of the bill. The report stated that the purpose of the bill is to include a special tax on some imported commodities in the pursuit of protecting the local industries. He asserts that an earlier tax imposed on selected imported commodities had been partially removed in 1998 and completely removed in 1999. The report said that the removal of those taxes had affected the productions of the domestic industries. Consequently, the new tax law was designed to encourage the production of a local substitute (Ayiney, 2004).The bill- the Customs, Excise (Duties and other taxes) (Amendment) was passed in March 2000, imposing 20percent special tax on selected import as an effort to protect domesticindustries (Ayine, 2004). The AGI supported the tax introduced by the government, despite opposition from other stakeholders. The AGI believed that this initiative coming from the government would ameliorate the pressures that they suffered in the previous years from the hands of the global market. Their support also meant that the government had restored confidence in domestic production.

However, there has been a significant opposition coming from the IFIs and other multilateral and bilateral institutions and agencies. They contend that the protectionist policy implemented by the government would undermine free trade (Ayine, 2004). It is pertinent to indicate that the unfavorable policies of the IFIs have crippled the progress of domestic industries in developing countries due to their economic liberalization program.

In view of these developments, the Ghana government subsequently reviewed the tax in terms of its scope and incidence (the number of the products covered as well as the rate were reduced).

The percentage of the tax was reduced from 7% to 5% of tariff lines as against the initial obligation. The tax was finally repealed because of the criticism coming from the IMF a year after it was levied (Ayine, 2004).The repealof the special tax by the government also received stark criticism from domestic industries. They argued that it is a failure on the part of the government to provide them with the needed protection and that as being an incentive to their problems.

They opined that the government was more interested in fulfilling its obligations to the IFIs than in assisting domestic industries (Ayine, 2004). The schism between the government and the business group could be attributed to the lack of political will on the part of the leaders to embark on aggressive economic policies to safeguard their fragile industries against their foreign counterparts.Growing domestic impatience by some Ghanaians in the ruling NDC indicted some politicians for their lack of political will and incompetence. This resulted in a transfer of power from the NDC to the NPP as the NPP won the 2000 general election. The election was a two horse race despite the existence of several political parties. In an attempt by the NPP government to embark on their aggressive policies in line with their manifesto, in 2003, the NPP administration led by Kufuor, made an attempt to slash tax on imported commodities in the country.

A budget statement and economic policy were presented before parliament by the minister of finance. In that budget, the government proposed a 20percent tax on imported products in undertaking its commitment to protecting the domestic industries. The bill was laid before parliament in April 2003 and passed, albeit, the ministry later asked the agencies not to implement the law. This development raised serious doubt about the commitment on the part of the government to implement policies that it had planned. AGI and other civil society interpreted the suspension of the tariffs as yet another indication of government's failure to protect domestic industries from the adverse effects of competition engendered by an open trade regime (Ayine, 2004; Ghanaweb, 24th November, 2004). Consequently, the government in an attempt to boost confidence among the manufacturing industries formulated the Ghana national industrial policy to expand manufacturing sector and special distribution of industries (Mensa and Nyado-Addo, 2012). Though the latter policy was a good attempt to expand manufacturing sector, it derailed the attempt by the government to shield domestic industries from the influxof foreign goods.

Due in part to the failure of the NPP to walk their promise in relation to businesses, there was another change of government. This time round the ousted NDC was brought back to power in the 2008 elections. In 2013, the NDC government after realizing the tenuous condition faced by the domestic industries, the government through the ministry of trade pledged to the AGI that the government will give the manufacturing industries a special package to propel its growth. This was after the government realizes that without the hands of the state, it becomes difficult for local industries to survive in this globalized world (Ghana Business News, 2013). Consequently, James Asare-Adjei, argued that even in the industrialized countries,whose production are sometimes subsidized by their government are the same industries that are competing with a fragile industry in Ghana (Ganaweb, 22nd January, 2014).

To curb the situation he proposes to the government to reassess its trade liberalization policy that has led to the influx of all manner of cheap foreign goods into the country at the expense of local ones. He was referring the influx of Chinese textiles in the Ghanaian market that has contributed to the demise of the local industry (Ghanaweb, 21st January, 2014). Aside the challenges facing the industry, the government has failed to control the influx of imported products which are cheaper than the locally produced commodities. This situation has rendered the manufacturing sector redundant with a negative growth of -0.5 percent in 2014 (Ghanaweb, 22nd January, 2015). In several respects, the Ghanaian government has failed to use its political will to design policies to protect domestic industries against the vagaries of global competition. It is important to note that although neoliberal economic policy instruments have tied the hands of developing countries from protectionism, nevertheless, domestic policies on the part of the government could be used in response to the international laws set by the IFIs.

Conclusion

It is evident from the above analysis that without strong governmental intervention to protect the local manufacturing industries, it will be difficult for local industries to strive particularly in this era of trade liberalization. The government needs to intervene through the use of tariffs, subsidies, quotas and other legislative instruments in protecting the interest of domestic industries.

However, due to globalization, trade liberalization, coupled with that of the IFIs, an undue pressure is mounted on the government to design concrete policies that will protect the interest of the domestic industries.Ghana after independence, in an attempt to achieve rapid industrialization, use different strategies to achieve economic development through the important substitution industrialization. Domestic firms make giant stride during that era as a result of the tax holidays, government subsidies, as well as the high tariffs imposed on imported commodities. As a result of the structural adjustment program inspired by the IFIs in time of difficulties, there has been a significant change from the closed economic system to an open market system due to the trade liberalization espoused by the IFIs.

More importantly, the rules of the WTO have made it difficult for countries to close their markets against the competition emanating from the global market. Member countries are therefore mandated to open their markets for free trade with one another. This makes it difficult for domestic industries in developing countries like Ghana to compete with the giant firms in the global market.Moreover, it is evident from the analysis that the AGI has tried to engage the government on instituting measures to deal with the declining domestic industries. Government at a certain point through legislative instruments imposed high tariffs on some assorted imported products, but later repealed those tariffs because the IFIs frowned upon those measures. Also, there exist less formal dialogue between the government and local industries due to the weak institutional mechanisms in place. The AGI was aggrieved because the government failed to undertake its commitment to imposing tariffs on some imported products.

Thus, notwithstanding the challenges, there is the need for policy dialogue between the government and domestic industries in mounting up strategies that will mitigate the challenges that the industries face. With this, the domestic industries could make a giant stride in expanding their gamut to navigate the market, and thereby ensure economic development in the country. Despite the international laws that promote trade liberalization, the government could institute measures to protect the local industries. It is argued that developed countries in spite of the laws of the IFIs instituted measures such as tariffs, subsidies, quotas, and regulatory barriers to protect their industries. The study has also significant theoretical implications for neo-mercantilism. It highlights the usefulness in drawing theoretical insights from the neo-mercantilist point of view in understanding government policies on new emerging industries in developing countries for which Ghana is no exception.

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