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Abstract: Foreign trade and sustainability is high on the political agenda. German and international policy-makers undertake increasing efforts to use trade policy more effectively for sustainable development purposes. A growing toolbox is meant to facilitate these policy aims, including sustainability chapters in trade agreements, sustainable value chains and sustainability standards. Meanwhile, scientific evidence on how trading activities impact on firms' sustainable behaviour is limited.

This question is addressed by researchers from the Kiel Institute for the World Economy and the University of Ghana in a recent study 'Foreign Trade and Sustainable Development in Ghana'. The study provides new empirical evidence on the link between business sustainability and firms' engagement in international trade, using a survey database for more than 400 Ghanaian firms spanning 2013-2015, plus four case studies based on interviews. This unique information source provides a previously untapped wealth of information on various aspects of business sustainability in a Sub-Saharan African country. The key findings of the study are summarized in this policy paper.

Keywords: Africa, Ghana, foreign trade, sustainability

*The report 'Foreign Trade and Sustainable Development in Ghana' is authored by Charles Ackah (Institute of Statistical, Social and Economic Research, University of Ghana, Accra), Holger Görg, Aoife Hanley and Cecília Hornok (all three from the Kiel Centre for Globalization, Kiel Institute for the World Economy, Kiel, Germany). The research was conducted on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and supported by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ GmbH). For copies of the full report, please contact Ms. Michaela Rank, Tel. +49 431 8814 208, e-mail michaela.rank@ifw-kiel.de.

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1 Introduction

Foreign trade and sustainability is high on the political agenda. German and international policy-makers undertake increasing efforts to use trade policy more effectively for sustainable development purposes. A growing toolbox is meant to facilitate these policy aims, including sustainability chapters in trade agreements, sustainable value chains and sustainability standards. Meanwhile, scientific evidence on how trading activities impact on firms' sustainable behaviour is limited.

This question is addressed by researchers from the Kiel Institute for the World Economy and the University of Ghana in a recent study 'Foreign Trade and Sustainable Development in Ghana'. The study provides **new empirical evidence on the link between business sustainability and firms' engagement in international trade**, using a survey database for more than 400 Ghanaian firms spanning 2013-2015, plus four case studies based on interviews. This unique information source provides a previously untapped wealth of information on various aspects of business sustainability in a Sub-Saharan African country.

Sustainability is explored both in its social and environmental aspects:

- Firstly, whether exporters or importers pay **higher wages**, thereby sharing the value they create with their employees.
- Secondly, whether exporters/importers provide **better non-wage working conditions** (insurance against accidents, medical care, pension contributions, vacation, sick and maternity leaves, training opportunities)
- Thirdly, whether these trading firms **behave in an environmentally sustainable way**, by implementing energy saving and pollution abating solutions.

But how does foreign trade make companies willing to operate more sustainably? By engaging with international customers and suppliers, firms may be encouraged (or indeed required) to behave in more sustainable ways. Demand for goods and services that have socially and environmentally responsible attributes is growing rapidly – a trend especially driven by developed countries. Exporting firms competing on such markets rather than just on a small domestic market increasingly have to meet such requirements. Also, suppliers of inputs from abroad may be concerned about ethical business practices and therefore request from their customers such behaviour. Or they may be role models for importing firms on how to produce sustainably. One may again expect that such effects would be stronger if the firm imports intermediate goods from developed countries.

2 Data and Methods

The study relies on two main sources of information. One is a **survey database** that includes rich information on several hundred Ghanaian firms. This is complemented with evidence from **four case studies**, sampled from the survey: one small-sized firm, one medium-sized firm and two large-sized firms, two of which import and all of which export to some degree. Unlike the survey database, which covers the years 2013-2015, the case studies ascertain the most recent status of the firms, referring to the years 2018-2019.

The survey data is from the Enterprise Survey on the Employment Effects of Different Development Policy Instruments in Ghana. The survey instrument was administered by the Department of Economics, University of Ghana in collaboration with the Swiss Programme for Research on Global Issues for Development and the World Trade Institute. The data is based on a stratified random sample of firms registered with the Association of Ghana Industries (AGI) and the National Board for Small Scale Industries (NBSSI). Two survey waves were undertaken, enabling the construction of a three-year panel for 2013-2015.

The sample firms are located in seven out of the ten main geographical regions in Ghana, cover the manufacturing, construction and services sectors, and represent both the small and medium-sized and the large firm segments. Close to a fifth of the companies exported and more than half of them used imported raw materials in their production. In the analysis, trading partners are classified into two broad groups, African and non-African countries.

Firms responded to questions concerning company practices related to social and environmental sustainability. This information is collected only in the first wave of the survey for a single year. Concerning non-wage working conditions, roughly 30-40 % of the companies provide insurance for their workers against accidents or illness, pay for their workers' medical care or contribute to their pension schemes. A similar share of them provide opportunity for paid annual, maternity or sick leaves. In contrast, paid study leave is much less prevalent. 60 % of companies provide some kind of training for their workers.

As for environmental sustainability, more than half of the companies report to have some energy efficient system, which mainly means using low-voltage bulbs. A further 14% use capacitors to store electric energy. Having other types of energy efficient systems, such as solar panels or clear roof designs, is rare. Very few of the enterprises (only one to seven percent) have ISO quality certifications relevant for either social or environmental sustainability.

The survey database is used to generate regression-based empirical evidence on how trading activities can impact social and environmental sustainability. This is complemented by more detailed information from the case studies.

3 Summary of Results

The findings of the study can be summarized in five brief statements. Those related to wages (3 & 5) reinforce the earlier findings of Ackah, Görg and Hornok (2019).[1] The rest are novel findings that make up the backbone of the current study's contribution.

1. Trading is positively linked to sustainable business practices

a. Exporters and importers engage in more socially responsible behaviour than similar non-traders with regard to various sustainability measures. Both exporters and importers are significantly more likely to pay for the medical care of their workers and provide them with paid leave – annual, maternity or sickness related. Importers also offer more training opportunities to their workers than non-importers, while exporters are more likely than non-

[1] Ackah, C., H. Görg, and C. Hornok. *Can trade foster development? Firm-level evidence for SMEs in Ghana*. Study funded by the German Federal Ministry for Economic Cooperation and Development and co-reviewed by Deutsche Gesellschaft für Internationale Zusammenarbeit. May 2019. Kiel Institute for the World Economy.

exporters to contribute to pension schemes and to have ISO certification for corporate social responsibility (CSR) or occupational health and safety (OHS).

b. Exporters and importers are more likely to use energy efficient systems than non-traders. However, this only relates to the use of low voltage bulbs, not to any other device (capacitor, solar panel, clear roof design, etc.).

2. Causality may run both ways

a. Establishing causality between trading and socially and environmentally responsible behaviour is difficult. The case studies indicate that investment in sustainability measures can be a prerequisite for being able to enter export markets. Global G.A.P. certification and ISO certifications for social responsibility and occupational health are mentioned as market-access criteria by two of the four interviewed firms.

b. However, the data analysis shows that companies that did not trade in 2013, but started to do so in 2014 or 2015, were not more sustainable than companies that did not start to trade. This implies that social or environmental sustainability is not in all circumstances and in all dimensions a prerequisite for entering the foreign market.

c. We propose the following interpretation. As it is shown by a large body of literature, it is the better performing firms that start exporting and importing (so-called “self-selection”). These are the firms that also have the means to invest in sustainable business practices, which is a prerequisite for market entry in some markets. But adopting socially and environmentally responsible behaviour is also a learning process that can be facilitated by foreign market experience. A firm that starts to trade with limited or no sustainable business practices can be encouraged by foreign partners and consumers to introduce more such practices at a later stage.

3. Exporters pay higher wages, especially for the skilled

a. Exporters pay, on average, more than 50% higher wages than non-exporters. This result reflects two factors, namely that “better” firms (that pay higher wages) become exporters and that exporters may subsequently increase wages. Further analysis shows that the average amount a company spends on a worker is roughly 30% higher after the company starts to export. This suggests that companies share the benefits from exporting with their workers and is in line with a large body of literature for both developing and developed countries.

b. Our data also allow us to distinguish worker types. Using this information, we find that the monthly wage a skilled worker earns is by a third larger in an exporting than in a non-exporting firm. Salaries for managers are also higher when a firm exports (by a similar magnitude). By contrast, no statistically significant difference is found between exporters and non-exporters in the wages they pay to unskilled workers. In other words, exporting exacerbates the skill wage premium.

c. The importing of raw materials is not associated with higher (or lower) wages at the firm.

4. It makes a difference who you trade with

a. In line with previous literature, the positive link between corporate sustainability and trade is generally stronger when trading with countries outside Africa, i.e. with more developed markets, than with other African countries. It is mainly exporters to non-African markets that pay higher wages and a skill wage premium and that are more likely to practice environmental sustainability than similar non-exporters. Moreover, it is importers of inputs from outside

Africa that drive the observed positive association between importing and social and environmental sustainability.

b. Interestingly, the above finding does not apply to exporting and non-wage social sustainability. Companies that exported to other African countries were significantly more likely than similar non-exporters to contribute to the pension schemes of their workers, offer them paid maternity leave, or have ISO certification a year later. This is a surprising finding and the reasons for this are not clear. To clearly pin-point why this is the case, more research with additional data would be necessary.

5. The gender of the business owner matters, but only for wages

Distinguishing firms by gender of the owner shows that only male-owned firms (not those with female owners) raise their wages after they enter the export market. This mirrors our findings in our earlier report (Ackah, Görg, and Hornok, 2019). On the contrary, we find no indication that non-wage social sustainability or environmental sustainability would vary with the gender of the business owner.

4 Policy Recommendations

Based on the above findings, we derive four policy recommendations.

Firstly, **to increase exports governments should assist firms in learning to meet export-related sustainability requirements.** The findings of the study suggest that being able to export and having certain sustainable business practices in place can be a 'package deal', where causality is likely to go both ways. Governments who promote both sustainable practices and foreign engagement in tandem, can contribute to a virtuous cycle where sustainable practices improve market access, and exporting experience further enhances sustainable business practices.

Secondly, **governments should stimulate sustainable business practices also more widely on the domestic market.** The study indicates that sustainability requirements by export markets can be an important incentive. This incentive often leads to positive outcomes in financial and sustainability terms. But not all companies can become exporters. It may thus make sense for governments to promote decent work and green jobs through incentives also for domestically-oriented companies. Ghanaian policymakers for example, and in line with the Ghana Industrial Policy, could advocate for domestic firms to adopt respective ISO certifications.

Thirdly, **there is a role for policy to provide incentives for firms to train workers, in particular unskilled ones, in order to enable them to work with more sophisticated technology and ultimately benefit from wage gains.** The study results clearly show that exporting raises wages, but much more so for skilled workers and managers than for unskilled workers. For Ghana, this would also be consistent with the government's agenda for continuation and expansion of skills training and employment placement, particularly for the youth, to stem the overemphasis on academic education to the neglect of employable skills in Ghana. The National Employment Policy recognizes the need to promote a national system of apprenticeship that shall be primarily targeted at further preparing the youth to acquire proficiency in the numerous areas of skills, industry, and craftsmanship.

Fourthly, **policy-makers should tackle the root causes of trade-related gender imbalance.** As the study shows firms run by female managers / entrepreneurs can be successful exporters, but do not have the higher wage growth that is observed for male-led exporting firms. This suggests that, in line with objectives in the Ghana National Employment Policy, policies are needed that assist the development of women entrepreneurship, females' access to credit, provision of adequate institutional support, removal of cultural inhibitions, and provision of practical management training.

Research partners

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