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Catching Up with the 'Giants': A Growth Strategy for Ghana

Introduction

Economic growth is not everything. But it is the foundation of everything.
It is the glue that holds societies together.

For Ghana, the search for growth has been long, difficult and elusive.

The first three decades after Independence were traumatic: growth was low. It also fluctuated.

The last two decades have been more reassuring: growth has averaged about 5%. Consequently, the poverty rate has steadily fallen from 52% in 1991 to 28% in 2006.

Should Ghana be complacent about the recent surge in growth and the resulting reduction in poverty? The obvious answer is absolutely not.

To its credit, the Government has set a target of attaining middle income status by 2015, which would require growth to rise to 7-8% a year.

But other countries with economic characteristics similar to ours at Independence, such as Malaysia, Mauritius, Singapore and South Korea, have grown to become middle or high income countries. For example, in 2005, South Korea's per capita income was $15840, Mauritius' was $5250 and Ghana's was….. $500.

In addition, Ghana's economy remains highly vulnerable to external shocks. This has been demonstrated most recently by the food and fuel price rises of 2008. The Ghanaian economy will be further tested as the global recession deepens.

I shall address three questions:

1. What can we learn from the experience of the growth "giants"?

2. What are the key elements of a growth strategy for Ghana?

3. What political economy challenges will need to be overcome if Ghana is to adopt such a growth strategy?

My key message is:

Ghana can design a "natural resources plus" growth strategy, based on our specific advantages and drawing on lessons from the "giants" of growth. The biggest challenge is that of leadership, which can make or break Ghana's growth dream.

I. <u>Learning from the 'Giants'</u>

What can we learn from the experience of the 'giants' of growth? We draw from two related studies.

The first, titled *Economic Growth in the 1990s: Learning from a Decade of Reform*, which I had the privilege of directing in 2004, while at the World Bank.

The second study, a follow up to the Lessons of the 90s study, was *The Growth Report: Strategies for Sustained Growth and Inclusive Development (2008).* It asked: what can we learn from the experience of sustained growers, which it defined as countries that had grown at a rate of 7% or more, for periods of 25 years or more. Thirteen countries met these criteria, nine from East Asia and the others from different regions. I will refer to them as the 'giants' of growth. They are: Botswana, Brazil, China, Hong Kong/China, Indonesia, Japan, S. Korea, Malaysia, Malta, Oman, Singapore, Taiwan (China), and Thailand.

This report was done under the auspices of the Commission for Growth and Development and led by Michael Spence, a Nobel Laureate in Economics. It brought together 19 development practitioners from around the developing world. From the Continent, the Commission included Trevor Manuel from South Africa, and Ngozi Okonjo-Iweala, then the Nigerian Finance Minister.

The two reports, jointly, offer four overall lessons:

(a) first, **no one size fits all**: each country developed an approach that capitalized on its strengths—social, political and economic. They attacked problems sequentially, and not all at once. In his review of it, Rodrik wrote:

"The Spence report represents a watershed for development policy—as much for what it says as for what it leaves out. Gone are the confident assertions about the virtues of liberalization, deregulation, privatization and free markets. Also gone are the cookie cutter policy recommendations unaffected by contextual differences. Instead, the Spence report adopts an approach that recognizes the limits of what we know, emphasizes pragmatism and gradualism, and encourages governments to be

experimental….If there is a new Washington Consensus, it is that the rulebook must be written at home, not in Washington."

(b) second, each country exhibited **some common elements**:
macroeconomic stability;
openness to the global system;
high savings and investments; and a
judicious use of a discretionary role for the state, with a strong reliance on markets.

This is noteworthy since it implies some self-imposed constraints that each successful country followed.

(c) third, their experiences also signaled some clear no-nos that countries need to avoid. From this list of "bad ideas", some are particularly relevant for Ghana:
(i) **It is a bad idea to subsidize energy** except for very limited subsidies targeted at highly vulnerable groups in the population;
(ii) **It is also a bad idea to** deal with joblessness by relying on the **civil service as an employer of last resort.** This is different from public works programs as a social safety net.
(iv**)Similarly,** providing **open-ended protection** of specific sectors or firms, and jobs from competition fails the test. Support, if any, should be for a limited period, with clear benchmarks for exiting;
(v): **allowing the exchange rate to appreciate excessively** before the economy is ready for the transition to higher productivity industry.

(d) fourth, each country had **visionary leadership** that was doggedly focused on growth. Leadership constantly adapted to challenges and opportunities. It was pragmatic and experimented with new approaches. It scaled up successes and promptly dropped failures. As one practitioner put it: "the leaders were all hungry for growth!"

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II. What are the key Elements of a Growth Strategy for Ghana ?

Drawing from these reports, and adding the need for pragmatism, experimentation and persistence, I would like to propose that Ghana adopt a **Natural Resource Plus** growth strategy with four elements:

1. **Agriculture**;
2. **Mining & Oil**;
3. **Education;**

and then,

4. make the **Transition to a manufacturing and services driven economy**.

Let us deal with each of the four elements in turn, while recognizing that manufacturing and services will play a role in the early stages too, but will take over as the driving force of growth at a later stage, as it did in China for example and is now doing in Vietnam.

(A) Agriculture: Agricultural growth in the last 6 years has been at a historical high: it has grown at 5.2% pa. This growth has been driven more by extending the land frontier and by favorable global market developments, than by growth in **agricultural productivity**. Thus it will not be sustained. This becomes clear in a comparison of Ghanaian crop yields in maize, cassava, cocoa, etc with achieved yields in other countries. We also know from international experience that agricultural productivity growth is an essential early phase of development in many low income countries.

Ghana thus faces a major challenge and opportunity in agriculture. A recent IFPRI study shows that, were Ghana to attain 6% growth in agriculture between now and 2015, as the Government's program aims to do, this would increase GDP growth by an additional 1% a year. It would lift about an additional million persons out of poverty. It would reduce rural poverty further, and would make a real dent in the poverty of the rural savannah, including the North. **This would be an outstanding contribution!**

What policies would be needed to attain this level, and sustain it beyond 2015?

The policy agenda for increasing agricultural productivity in Ghana needs to be comprehensive while dealing with key constraints in sequence. Here I deal briefly with two of the key issues**.** **In each of these areas, Ghana will need to explore new approaches with pragmatism and cautious experimentation.**

(a)**Experimenting with Land Markets**: The issue of access to **land** has been identified as the second most critical constraint to investments, following energy supply. Only one form of insecurity of land tenure – its impact on inadequate land fallowing- costs Ghana 2% of GDP.. The Government's Land Policy and Land Administration project are attempting to deal with some of these issues, but at a slow pace. **This is an area for bold experimentation**. Aggressively experimenting with Land Banks is one such.. The outgrower system, fast developing all over Africa, can be given policy support to become institutionalized. The Chinese developed many policies by such small scale experimentation in different parts of their country. Land will need **primary** policy focus in any attempt to increase agricultural productivity.

(b)Rural Infrastructure: There has been a failure to recognize that the share of rural infrastructure, not just infrastructure, needs to rise. Rural investments in irrigation, in rural roads and in rural energy have been central to all successful stories of high agricultural productivity growth, the latest being Vietnam. The evidence is strong: in Vietnam, living in a rural community with roads increased the probability of escaping poverty by about 70% compared to one without roads. Only 4% of land is irrigated in Africa, compared to about 40% in South Asia. **The implied rebalancing of the infrastructure budget in favor of rural areas will be politically difficult, given the urban bias in such expenditures. The debate over rural infrastructure has not really begun.**

2. **Mining and Oil:** Ghana is also richly endowed with mineral resources, and the recently confirmed oil find. Natural resources can be a blessing. But they have to be managed well. They share three characteristics—exhaustibility, volatility and rents—which have strong policy implications.

(a) **Exchange rate Management**: there is a need to *manage the exchange rate* such that it does not appreciate so fast that it makes all non-oil exports unprofitable. Nigeria failed to do this and saw its agricultural sector dwindle, whilst Indonesia was adept at avoiding the “dutch disease” and saw its agriculture grow and contribute to poverty reduction. The Growth report favors a frontal attack on excessive appreciation.

(b) **Public Investment Office**:the resources generated have to be ploughed back into high return investments. Using strictly economic criteria, and avoiding low return political projects and white elephants, is essential. The best record is that of Chile, whose very *professional Public Investment office* has shown the way. Full information on all projects is available to the public, and the very few exceptions that are made can only be made by transparent Presidential decisions.

(c)Stabilization Fund: volatility of prices—and we have seen oil prices rise to $147 and fall to $60 this year—must be managed to avoid economic disruptions. The solution to this, as eminently demonstrated once again by Chile’s experience with its Copper Stabilization Fund, is to **establish a fund** into which earnings above a trend price are saved and invested; drawing down from this fund when prices fall below this trend. Chile has used an independent commission to establish the price trend on a non-political basis.

. Ghana's own experience with the impact of volatile cocoa prices on public expenditures over the last few decades has not been a happy one either.

(d) **Fair Mining and Oil Taxation**: a fair tax system for the mining and oil industries. Often, in the early stages of resource exploitation, countries offer generous terms in order to attract investors into what is seen as a high risk venture. Such first generation terms make eminent sense for both parties. But host countries and investors should build in scope for increasing the share of country revenues as risks decline over time. Allowing for *second generation terms,* or for *programmed periodic renegotiation,* is a wise approach that few have used. Zambia has recently sought to renegotiate its contracts, while Tanzania has hinted at the need to do so.

Ghana's mining industry has a tax regime that is still framed in the first generation contracts put in place in the 1980s. In contrast, the model oil contract appears to have many of the progressive taxation safeguards that second generation contracts would suggest. **It will be important to undertake a review of the first generation mining contracts in line with agreed procedures, in an investor friendly way, and ensure that Ghana's mining revenues reflect second generation contracts internationally.**

(e)**Transparency:** The existence of rents also requires *transparency* as a measure against the risks of rent-seeking behavior. Through patron client relations with governments or public officials, super-profits could give rise to inappropriate investments, excessive consumption and sometimes also to grand corruption.. However, transparency ie information to the public, on all revenues paid to Governments, on the transfers to different levels of government, and on the rates of return used to justify specific investments, can all go a long way to helping create the conditions for better governance of resource rents.

(3) **Education:** Resource-based development strategies have always raised concerns about their capital-intensity and lack of spillovers. Successful resource-based countries have one unmistakable common factor: **investments in education and knowledge, with a special focus on science and technology.** Ghana can convert its resource base into a blessing by investing – big time—in raising the quantity and quality of education.

The loss of momentum in Ghana's educational system in the 70s and 80s has given way to a gradual revival since the 90s. But the challenge is a huge one Ghana is to implement a successful Natural Resource Plus strategy. How does Ghana compare with other countries on the quality of education?

There is limited information on the **quality of education** across countries. In 2003, some 46 countries voluntarily participated in a science and mathematics test, including Ghana for the first time. The results were very instructive for Ghana. The average score in mathematics for Ghana was somewhat below 300, compared to an African average of 350, and a world average of slightly over 450. In contrast, the scores for Malaysia and South Korea were above the world average in both areas. This result, one of the few international comparisons of quality available, suggests that quality has to be a strong focus in education, if Ghana is to compete internationally.

Ghana's quest to improve the quantity and quality of education in the coming years needs a **comprehensive strategy**, again with an initial focus on key priorities. I would make one suggestion here**:**

the oil wealth's biggest contribution to Ghana should be to help finance the prioritized needs of the educational sector, and the test of money well spent should be international test scores of the above kind, and not just expenditure levels.

Nigeria spent a large share of its early oil wealth setting up universities in every state. Neither quality nor sustainability were assured.

(4) The Transition to Manufacturing and Services: The biggest fear surrounding a Natural Resource plus strategy is whether it will run out of steam and never make the transition to a manufacturing and service based economy, in which productivity growth is fueled by knowledge and innovation. Chile is currently struggling with this transition, and has to catch up to the giants in its educational and innovation systems. Is there an example of success in this transition that Ghana can identify with more readily? Perhaps the most relevant example of success for Ghana from among the growth giants is Malaysia.

Malaysia has grown over the 1971-90 period at 6.7%. It has reduced absolute poverty from about 50% in 1970 to 5% in 2004. In the 1960s, the main development challenge had to do with the dependence of the economy on natural rubber and on tin.

Diversification was the fundamental strategic policy goal. It had two components: in agriculture, from rubber to palm oil, and overall from agriculture to manufactures.

Export-oriented manufacturing gained momentum from the early 1970s. Malaysia developed a comparative advantage first in **resource-based manufacturing**, and then later added **labor-intensive manufactures**. Thus, exports of resource-based manufactures grew between 1996 and 2005 at 12% pa, whilst non-resource based manufactures grew at 11%.

What is striking is how important a role was played by **rubber and palm oil products**, Malaysia now accounts for 80 percent of the world's exports of catheters, 70 percent of latex thread and 60% of rubber gloves. Currently, Malaysia is the world's largest producer and exporter of palm oil, producing palm oil products, oleochemicals (for the preparation of soap, cosmetics, printing ink, etc.) , biodiesels and biomass products (including 'green plywood' from oil palm trunks, food containers, and palm biomass for energy generation).

Non- resource based products included: machinery, textiles, plastics, but the big development was that Malaysia became a major exporter of electronic components, industrial electronics and consumer electronics.

Three conclusions can be drawn from the Malaysian experience:

(a)From **Natural Resources to Manufacturing:** it provides a striking example of how an economy relatively rich in natural resources can transform itself into a more industrialized economy over about 20 years;

(b) **Avoiding Wrong Sectors**: its failed attempt to promote heavy industries including autos underscore the risks of moving into areas where an economy has no strong comparative advantage;

(c) **Education**: new sources of growth always have to be sought, and Malaysia is now working the services sector, especially in the information technology area. During my recent visit to Malaysia, the Deputy Prime Minister described Malaysia's secret recipe for development in three words: **education, education, education**.

III. What Political Economy Challenges Need to be Overcome for a Natural Resource Plus Growth Strategy?

Ghana's political system has been described as "neo-patrimonial". This involves the imposition of strong patron-client networks on top of the rules-based democratic framework, and its main consequence is to limit the policy autonomy of government. It explains in large part why policies tend to persist and not change as circumstances or opportunities change. As Gyimah-Boadi, Killick and others argue in their study of the "Drivers of change in Ghana":

behind Ghana's moderate growth statistics, there is limited structural economic change,…. in agriculture and other resource-based sectors such as mining, ….(and) in manufacturing, because this serves the interests of the beneficiaries of the existing distribution of power.

How can the proposed growth strategy be implemented given the existence of a neo-patrimonial system?

Political leadership:

. The Growth Report stresses the critical role of leadership in all of the growth "giants". Leaders must be trusted to deliver on the early sacrifices that sustained growth requires. They balanced the interests of losers and gainers from each policy change, and took advantage of crises and opportunities to keep the momentum for growth alive

Democracies find it hard to look beyond the next election. But Botswana, within a democratic framework, has been the fastest growing economy in the world over the last three decades. India, the world's largest democracy, has continued implementing economic reforms since 1991, even though different governments have ruled since then.
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Crises and opportunities provide visionary leaders with openings to change policies. The most astute leaders have been those, like Deng Xiao Ping, Lee Kwan Yew, Mahathir, and Khama, who have used crises to change the political equilibrium in their societies in favor of deeper economic reforms. The food crisis of 1978 led Deng Xiao Ping to introduce land reforms which liberalized agricultural production and unleashed China's growth.

What crises and opportunities might Ghana's leadership confront?

The most significant looming crisis is **the current global recession.**:
this has already brought uncertainty to the prices of food and fuel;
commodity prices have been falling;
the global recession is worsening and will affect trade, investments, remittances and possibly even aid.

There is a threat to Ghana's growth, to the balance of payments, to the fiscal accounts, and the prognosis for inflation remains worrisome. Projections for African growth have been reduced from earlier levels of 6% closer to 4-4.5%, and Ghana's growth is similarly threatened.

Will the new leadership response in the usual fashion? **Or will the leadership find ways of changing the policy environment and implementing policies to increase growth in new ways?**

There are also **opportunities** ahead, which can be turned to favor new growth policies in Ghana: The most important is of course the **new oil discovery**. We have referred above to some of the needed policy responses such as transparency, a Stabilization Fund, an independent Public Investment Office, exchange rate management; and investing big time in education. Will the leadership find ways of putting all of these new policies in place by managing the losers and the gainers as part of a larger social compact?

A second opportunity for the post-election period is to create a momentum to democraticize the District Assemblies and to promote greater **decentralization** on economic matters. This may require Constitutional amendments. Capacity will grow over time. This can help leverage further reforms in favor of rural infrastructure, agriculture and education.

Will these crises and opportunities be used, with vision and deft handling, to help change policies that will put Ghana on a new growth path? Will the leadership find

creative ways of compensating the potential losers and giving them a stake in the new policy environment?

Civil society organizations: CSOs are an essential complementary actor in nascent democracies like Ghana's. CSOs play an important role in shaping public policy debates, and in some cases, advocating for specific reforms. CSOs include NGOs, the media, the private sector, churches, unions and other organizations outside of the formal governmental structures. In a sense, CSOs are made up of all citizens.

How can CSOs help?

NGOs can analyze the impact of public expenditures and policies, and share their results widely with the public so as to promote public debates;

The **media** can encourage analytically grounded debates on the role of patronage networks, and the use of patronage networks rather than institutional ways in the conduct of economic activities in agriculture and the private sector generally.

The **private sector, and especially the younger entrepreneurs**, who are involved in horticulture, outsourcing, private educational services, etc. have a role to play in fostering a rules-based investment climate.

Will these and other CSOs rise up to the challenge?

V. Conclusion: Let me conclude with a call to action:

to the new political leadership;
to NGOs,
the media,
the private sector,
the new entrepreneurs,
and other CSOs.
Indeed to all of us.

The giants have shown the way. Ghana can embark on a path of sustained growth by taking advantage of crises and opportunities, by balancing the interests of losers and gainers, by experimenting, by being pragmatic, and by being "hungry for growth".

Will we heed this call?
Will Ghana's growth dream emerge from the efforts of our civil society organizations?
Indeed, from each one of us?
And, above all… WILL OUR LEADERSHIP HEED THIS CALL?