

## **The Rise of Asia, Oil and Food: Implications for the next President's Agenda**

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### **Introduction**

Ghana, and African countries generally, have enjoyed high growth, low inflation and reduced poverty over the last six years. These impressive gains are now threatened by three structural challenges: the rise of Asia, oil prices, and food prices.

In this article we ask the following two questions:

1. How can Ghana, and Africa more broadly, overcome the global crisis that, in part because of the rise of Asia, has raised the prices of oil and food?
2. What key initiatives might the next President of Ghana launch in his first 100 days to lead Ghana away from the this crisis, and towards a future of inclusive growth, poverty reduction and an expanding middle class?

My key message is that the global economic crisis is both a **threat** and an **opportunity** for Ghana and most African countries. Ghana's next President will need to take early action to address the underlying problems and to do so with skill, courage, and vision.

This article is in four parts: (1) The Rise of Asia; (2) Oil; and (3) Food. It will conclude with (4) Suggestions for the next President's priority initiatives in his first 100 days in office.

### **I. The Rise of Asia**

When history books are written 300 years from now, the rise of Asia will be seen as the dominant story of our time, and the Cold War, a minor reference. This opinion, from Larry Summers, one of the world's most eminent economists, captures the historic significance of the rise of Asia.

What do we mean by the rise of Asia? Simply put, it consists of 3 things: a) it is what has lifted 500 million people out of poverty in 15 years! b) It is the phenomenal growth underlying this historic performance; and finally (c) it is the emergence of Asian countries as global economic players in trade, investments and capital flows.

Let me share some statistics. China alone generates about 25% of world growth in living standards, equal to the share of the US. Despite the global slowdown, China's current growth rate is expected to fall by only 3 percent from 12% to 9%. India's is expected to fall from 9 to 7%. The two countries have been growing at an average rate of 10% a year for the last decade. Further, China is now the manufacturing center of the world. India, about a decade or so behind China, is charting a new course based on service exports, small and medium enterprise development and world class direct investments.

It is interesting that China, India and Japan have shown a strong interest in deepening their economic relationships with African countries. At the November 2006 Africa-China Summit held in Beijing, I observed as China committed itself to country after country, offering aid, finance, debt relief, trade preferences, and technical cooperation in the construction of major infrastructural projects. India recently followed suit in April 2008, and in May, so did Japan. This renewed interest has increased trade and investment flows. Chinese-African two-way trade has grown from about \$10 billion in 2001 to \$55 billion in 2006, and is expected to hit \$100 billion in 2010. China is now Africa's third largest trading partner after the US and the EU. Ghana has just reported \$3 billion of FDI in the first quarter of 2008, the bulk of it from China and India.

But while the rise of Asia is to be celebrated, it also has challenging consequences for the rest of the world, and for Ghana and Africa.

**Challenges:** The most immediate consequence of the rise of Asia has been its contribution to the rise in the price of oil and food. Also Asian interest in Africa's trade and investments leads to concerns about an Asian "scramble for Africa". Further cheap manufactured imports from China, though welcomed by domestic consumers, are seen as a threat to domestic industries. Finally, China often imports its own labor for its construction projects in African countries. Chris Alden, in his recent book, "*China in Africa*", wonders if China's role in Africa is one of a "partner, competitor or colonizer".

Perhaps the question that best embodies the fear and opportunity that Asia offers Africa is captured in the following: "China has an Africa policy. But does Africa have a China policy?"

**Opportunities:** Africa urgently needs an Asia policy. And Asian interest in Africa provides a strong foundation for crafting a win-win relationship.

What are the key elements of an Asia policy? Ghana can play a leading role by building support among African countries to seek three commitments from their Asian partners centered on trade, investments, and skills.

**Trade:** Both China and India have followed the example of the EU and offered free access to their markets to Africa's Least Developed Countries (LDCs). But Africa's LDC have the capacity mostly unprocessed natural resources. Countries like Ghana, Kenya, Tanzania, Senegal, Nigeria, etc. which could process these resources for export, are excluded from free access. Further, both China and India have higher duty rates on more processed commodities, thus keeping them out. Thus it is easier to export cocoa or coffee beans than chocolates or processed coffee; raw diamonds, than cut diamonds, etc. This phenomenon, known as tariff escalation, is a key hurdle for African exports to Asia. Asian tariff escalation is worse than that of the EU and the US. The first goal should then be to negotiate *tariff de-escalation* for all African countries.

**Investments:** Chinese and Indian policies towards foreign investors in their own countries built in safeguards and incentives for local inputs, technology transfers, joint ventures etc. They can therefore appreciate the need for Africa to have similar goals, especially given the otherwise limited spillover effects typical of natural resource investments. The rest of the Continent can learn from South Africa, which has negotiated joint ventures, technology transfers, and even voluntary export restraints from China, while also investing in China in areas such as breweries and conversion of coal to liquid fuel.

China and India have been able to negotiate better terms with their investors also because they are large markets. African countries will need to negotiate together or in groups for leverage. There is thus a need for an *Investment Code of Conduct* under which Asian investors will follow agreed principles aimed at facilitating spillovers in employment, skills, business development, technology transfer, joint ventures, access to markets, etc. in African economies.

**Skills Development:** Both China and India, like the rest of Asia, have emphasized education and skills development as the *de facto* foundation of their growth strategies. Both have stressed that as developing countries, they are keen to be ‘partners in development’ with African countries. We should seek to put in place a wide-ranging *Compact on Human Development*, which will allow African countries to draw on Asian knowledge and experience and skills, tailored to the needs of individual African countries. The focus should not just be on scholarships and educational exchanges, but also on on-the-job training, twinning arrangements, etc., massively increasing the scope and scale of current efforts.

### **The Oil Price Increase**

**Challenges:** Oil prices have doubled in the last year, in large part because of growing demand and stagnant supplies. This increase in demand is largely due to Asia’s fast growth. As in the case of food, these higher prices are expected to be sustained, although the range of projections, between \$100 and \$250 a barrel, is wide. Oil price increases imply a major and permanent shift of income away from non-oil to oil producers, which today amounts to \$2,600 billion globally. For Ghana, the increased cost over the last 12 months has been about \$800 mll., or about 6% of GDP, almost wiping out all of the growth in Ghana over the same period!

For Ghana, and for non-oil producers in Africa, the short term effects of this crisis are three fold: *first*, the healthy growth of the last 6 years is now at serious risk of slowing down, as oil and food prices more than offset today’s high prices for other commodities, like cocoa and gold; *second*, for the first time since the mid-90s, rising inflation --which hurts poor people the most— has become a major threat; it is also leading to tighter monetary policies which will further reduce growth; and *third*, the exchange rate and reserves are under strain, with a possible need for international transitional support. Apparently, some \$300 million have just been drawn down from the \$750 million Sovereign Bond account.

The policies required to encounter this economic challenge, while preserving the social and political fabric, are difficult to finance and implement.. Should other commodity prices like those of cocoa, coffee, etc. also fall, the difficulties will be compounded.

Over the medium term, once Ghana has adjusted its demand to the new higher price, the major transfer of income abroad requires a corresponding increase in savings in order to offset the likely impact on investments and growth.

**Opportunity:** Now let us turn to the silver lining, and there is one.

Ghana would benefit from greater conservation and energy efficiency, and a greater reliance on renewable energy. For example, most Chinese villages have long relied on solar energy and biogas for some of their energy needs. Higher oil prices will induce greater use of solar and wind energy in Ghana and other African countries, as well as induce improving technology for renewable energy globally.

For Ghana the situation considerably improved by the recent oil discovery. Ghana's oil gives her the opportunity to more than offset, in terms of net income loss, what the oil price increase takes away. Ghana's imports, estimated at between \$2.5 billion p.a. are lower than the expected average annual export earnings from oil of about \$4 to \$5 billion over the next 20 to 25 years (assuming 1 bill. barrels, priced at \$100 per barrel). But the real challenge is not this arithmetical check of net foreign exchange flows. It is to make sure that Ghana shapes her oil future as a blessing not a curse.

The lessons of experience from other countries which have avoided the curse of oil are helpful. To avoid the deterioration of governance that typically accompanies oil, three functioning institutions are needed:

- (i) Institutions to ensure full transparency in all aspects of the oil cycle, (contract negotiations, revenues received and expenditures undertaken);
- (ii) Institutions to ensure the effective functioning of a Fiscal Stabilization Fund to smooth out volatile revenues. If necessary, a Sovereign Wealth Fund to invest any longer term savings according to agreed principles.
- (iii) Institutions to implement the Public Investment program based on transparent and rigorous cost-benefit criteria. Special attention to investments in the oil-producing areas to avoid a Niger delta like problem will be needed.

## **The Food Price Increase**

**Challenges:** The food price increase is not expected to be temporary, for several reasons. First, it reflects increasing demand from China and India and from other developing countries, as well as from many countries for biofuels. Second, it also reflects limited supplies. The supplies have been constrained by the neglect of agricultural investments in developing countries in the recent past. Developed country subsidies on agriculture have also contributed to this neglect in developing countries. Third, this supply problem has been compounded by the increased price of fertilizers and shipping, both due to the oil price rise.

Robert Zoellick, the World Bank's President, said to the G8 earlier this month: "the world is entering a danger zone... some 41 countries have lost 3 to 10% of their GDP from rising food, fuel and commodity prices since January 2007." Strauss-Kahn of the IMF has recently expressed the view that some countries may now be at "a tipping point" because of the double impact of rising food and oil prices. Many countries see their social fabric under strain, as food riots have affected about 30 countries, including Burkina Faso, Cameroon, Egypt, Ethiopia, Haiti, Senegal, Madagascar and Mozambique. .

In the short term, the best that can be done is to manage through a combination of temporary measures (such as reduced tariffs, selected and temporary subsidies, special cash transfers to poor people where administrative capacity permits) and also draw on global resources and actions to minimize the transitional costs. Ghana's recent short term package was aimed at doing precisely this, and similar measures have been taken all over the developing world. But the short term response is only a transitional one. What should the transition aim at?

**Opportunity:** In the medium term, there is a need for an African agricultural revolution. Increasing agricultural productivity is the surest way of promoting both growth and poverty reduction. Asia's great success in lifting

hundreds of millions above the poverty line was based on increasing agricultural productivity as a first step. Unlike in Asia and Latin America, African agricultural productivity growth has been flat for the last 25 years. In Ghana, many false starts have been made too.

There are three main challenges here: land tenure security; adapting the lessons of experience of successful countries and institutions; and experimenting with bold innovations.

*Land Tenure Security:* Improving land tenure security would make a tremendous contribution to increasing agricultural productivity in Ghana, and in Africa. This has recently been demonstrated in a compelling way by Chris Udry, who teaches at Yale and also undertakes a research program in collaboration with ISSER at Legon. His research demonstrates convincingly that land improvements and fallowing, both essential for increasing productivity, do not occur unless there is a minimum measure of security of land tenure. Farmers who are well placed in the community's hierarchy and closer to political authorities tend to invest more in their acquired land, because they are more certain of reaping the rewards of their investments. In general, women also invest less than men. Udry estimates that better defined property rights could, simply by permitting more fallowing of land, generate up to an additional 2.1% of GDP in Ghana, or over \$200 million!! Increases in investments in land beyond fallowing would make this number even higher. How might this finding be used for policy?

We can draw a lesson from trade policy here. Many countries like Bangladesh and China have successfully used Special Economic or Export Processing zones to simulate favorable conditions for productivity growth which would not have been possible country-wide. In Ghana, the idea of a Land Bank has been mooted by among others, the ISSER Land Project. The Ministry of Agriculture has a Land Bank website, which is largely dormant. Can the Land Bank idea be given legs, as it apparently has been in Tanzania? Or can a series of experimental Special Agricultural zones be set up, across Regions, to see whether this will generate new investments?

*AGRA, Brazil and Thailand:* Building links and drawing from successful institutions and countries will be critical. First, the AGRA (Alliance for a Green Revolution in Africa) initiative has to be embraced by Ghana and all African countries. It seeks to help African countries do what other continents have done. It is chaired by Kofi Annan, based in the Cameroon,

and funded by the Rockefeller (also associated with the first Green Revolution) and Gates Foundations, among others.

Second, Brazil's experience is highly relevant for Africa, and must be tapped. Brazil's soil and climatic conditions parallel many parts of Africa. It has emerged as a major exporter of agricultural products, including oranges, sugar cane, chickens, soybeans. It is a successful example of a "natural resource plus" strategy, using research, new seeds, techniques, irrigation systems, with a strong private sector role, to yield a world class agricultural sector. Brazil's world famous agricultural research program, EMBRAPA, has been a key element of this success story. Today, EMBRAPA has an office to support African countries, and that office is located in Accra, and can be a major knowledge resource.

Third, Thailand's soil and climatic conditions are similar to those of some parts of Africa. And Thailand has become one of the world's leading producers and exporters of rice, and has interesting lessons that African countries can adapt.

*Bold Innovations:* Finally, productivity growth will require experimenting with genetically modified (GM) crops, which is the boldest innovation on offer today. Many countries such as the US, Brazil, Argentina, and some Asian countries, have adopted GM crops. Few, if any, African countries have experimented with GM crops. Research has not found any negative effects to date on health, and the environmental effects are at worst mixed if no pesticides are needed, although a new herbicide is. The strongest opposition, on ecological and risk grounds, has come from the EU. With the food price crisis, there is now growing interest in exploring this avenue, to help develop higher productivity seeds, including in parts of the EU. The possible effects of climate change on African agriculture only strengthen the case further.

### **III. Conclusion: An agenda for the next President's First One Hundred Days:**

Ghana has achieved a lot to be proud of. But the global economy is changing. The fundamental goal is to rekindle and sustain growth to Asian

levels. As Martin Wolf noted recently, “Growth is not everything. But it is the foundation for everything.”

Growth successes have been associated with effective leadership. This is one of the major findings of the recent Independent Growth Commission report, chaired by Nobel Laureate Michael Spence, working with 19 developing country policy makers. In the countries that succeeded, in the words of one of the Growth Commissioners, “their leaders were hungry for shared growth”. Their path was fraught with obstacles and unexpected shocks like today’s food and fuel price rises. They experimented carefully, and never hesitated to change course if their experiments failed. As Deng Xiao Ping put it, they “crossed the river by feeling the stones

What medium-term priorities must the next President adopt in his first 100 days to rekindle and sustain growth? There are 5 key areas:

**Priority 1--Education:** Recently, Joe Stiglitz emphasized education as the key lesson of East Asia for Africa. In Ghana 9 out of 10 youth aged 15-17 are *not* enrolled in senior secondary schools. The technical and vocational training system still needs to be integrated with the jobs market and the rest of the education system. Tertiary education enrolment in science and technology is not high enough for a high growth economy.

*The first priority for the next President is to address the low access of Ghanaians to secondary and tertiary education, and to an effective vocational and technical training system, and improve their quality. This can be done by using a large share of Ghana’s oil wealth for education.*

**Priority 2-Ghana’s Growth Commission:** Two months back, the report of the Independent Growth Commission was launched in London and Cape Town. This report was a follow up to a World Bank review of the Lessons of Growth in the 90s, a project I had the privilege of directing in 2003-4. I joined Minister Trevor Manuel, one of the Commissioners, to do the Cape Town launch.

The message of the Growth Commission is simply that growth is a very complex process, there is no simple formula, and every country must

develop and experiment with its own growth strategy while learning from the experience of others.

*The President's second priority should be to develop and implement a Ghana Growth Strategy. A Ghana Growth Commission could call on the best brains and experience from within and outside Ghana such as China, India, Malaysia, Vietnam, Thailand, Brazil, Chile and Botswana.*

**Priority 3- Reaching out to Asia:** Asia will dominate global growth for the foreseeable future. With a clear growth strategy in hand, and alongside other African countries:

*The third priority for the next President is to reach out to China and India with concrete proposals that constitute an Asia policy covering: tariff de-escalation; an agreed Investment Code of Conduct; and a Human Development Compact.*

**Priority 4- Capturing the Blessings of Oil:** The new President must put in place the three institutional arrangements that are essential to capture the blessings of oil and have them function effectively.

*His fourth priority is to put in place effective institutions to ensure transparency and accountability on all matters relating to the oil cycle; apolitical functioning of a Stabilization Fund and as needed a Sovereign Fund; and a Public Investment office to approve all public projects only if they meet rigorous economic and financial criteria.*

Many interests will need to be made subservient to the national interest, including from important political constituencies. But, as democracies like Chile, Norway, and post-2004 Nigeria, have shown, it can be done.

**Priority 5- Implementing Ghana's Agricultural Revolution:** For land abundant countries like Ghana, agricultural productivity growth is the first step in inclusive growth.

*The next President's fifth priority should be to launch a full fledged Land Bank or Special Agricultural zone experiment; develop a strong partnership with countries and institutions such as AGRA and EMBRAPA, Brazil and Thailand; and adopt experimental approaches to GM crops, while negotiating with the EU as needed to maintain market access.*

Finally, a closing thought: History shows us that reforms are undertaken more in times of crises than in periods of benign growth. History has ushered us into a new crisis. The word “crisis”, in Chinese, is formed by putting together the words—“danger” and “opportunity”. Will we, like the Chinese, see this crisis as an opportunity? Will the next President lead Ghana into a period of Asian-style growth and help make this Africa’s century? Ghanaians will certainly be counting on him to do so!