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Emerging “Dutch disease” in emerging oil economy: Ghana’s perspective

Emerging
“Dutch disease”

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Abstract

Purpose – The purpose of this paper is to examine the Ghanaian economy within the context of its macro-economic indicators and the performance of the agricultural sector against the backdrop of the exogenous economic explanation of the resource curse. This is aimed at equipping policy makers with the tools needed in identifying symptoms of the Dutch disease as it transitions from an agrarian to an oil economy.

Design/methodology/approach – This is a research paper, employing quantitative and qualitative data of the macro-economic indicators in the last ten years (2000-2010) and policy initiatives since the discovery of oil in commercial quantities in Ghana. Furthermore, it also examines theoretical perspectives of the Dutch disease as frames of analysis to gauge the existence of any symptoms of the latter.

Findings – The paper questions a previous World Bank (2009) report classifying the Ghanaian economy as already showing signs of the Dutch disease. The paper suggests that the macro-economic indicators show resilience and stability of the economy which is necessary for growth. It is observed that various government policies are aimed at improving agriculture inspite of the emerging oil industry. The paper recognizes some areas of concern and recommends further studies to observe the changes in dynamics when the “petro-dollars” begin to flow into the economy.

Originality/value – This is a pioneering work which seeks to provide early warning signals of the Dutch disease in an emerging oil economy.

Keywords Resource curse, Dutch disease, Ghana, Oils, Gas, Gases

Paper type Research paper

Introduction

The efforts of the Government of Ghana from 2000 to 2006, through oil exploration under the auspices of the Ghana National Petroleum Corporation (GNPC), yielded dividends with the major discovery of oil in 2007 by a US based oil company, Kosmos energy. The discovery is 75 miles offshore of Ghana, named the Jubilee field. Ghana’s discovery is said to be one of the largest offshore find on the continent and estimated to hold about 1.8 billion barrels of recoverable oil, and 800 billion cubic feet of natural gas (Kapela, 2009). The first commercial production from the Jubilee field began in December (2010). Furthermore, there had been another discovery by Tullow oil plc, a UK based company, with many more discoveries envisaged.

The status of Ghana is expected to change from an oil importer to exporter and be named among the league of oil exporting nations and perhaps a member of Organization of Petroleum Exporting Countries (OPEC). The expected revenue to be generated by government from the oil would potentially strengthened Ghana’s



development initiatives and the “petro-dollars” will be essential in fueling the engine of growth and the desired development yearned for by Ghanaians. But on the contrary, this seemingly and rather simplistic assumption may not be valid since the path to development has eluded many other countries endowed with natural resource, including oil and gas exports, in the past. Empirical evidence shows that natural resource abundant countries in Africa have not done that well in terms of economic and human development indicators (Palley, 2003). Nigeria’s economy has been in doldrums with increasing poverty among its population inspite of the huge inflow of oil revenues (Human Rights Watch, 2005). Gabon’s economy has stagnated with the presence of oil revenue, while Angola ranks 166 out of a total of 177 in the United Nations Human Development Index (Human Development Report, 2004). The notion of a negative relationship between natural resource and socio-politico economic development does not sit well with many; that instead of being a blessing, oil exports can become a curse for some countries endowed with oil. Karl (1997) described these as “paradox of plenty”. Paradox of plenty depicts the situation where a country benefits less from more resource revenue inflow. Many reasons had been espoused for this murky situation. In most of the countries that have experienced this phenomenon, natural resources are viewed as lootable resources that provide the impetus for instability and conflict (Collier and Hoeffler, 2004). A decline in terms of trade of primary commodities, instability of international commodity markets, poor economic linkages between resource and non-resource sector, and the “Dutch disease” are all part of the economic explanation of why natural resource abundant countries can show such poor economic performance in terms of growth and income redistribution (Ross, 1999, p. 298).

The resource curse syndrome is a phenomenon that describes the inability of natural resource abundant countries to derive full benefits from its natural resource (Soros, 2007). It epitomizes the fact that the resource which is a blessing becomes a curse due to some intervening factors. These intervening factors which are economic, Political and social underpin the phenomenon of the resource curse. It is the management or otherwise of these factors which have significantly contributed to the fact that only few countries with natural resource have been successful in reaping the associated benefits and the many others that have failed, particularly in Africa. The economic factor is associated with slow or negative economic growth due to what has been described as the Dutch disease. Many authors have attempted to establish the linkages between natural resource (oil, diamonds, and drugs) and economic performance (Palley, 2003). The absence of a strong and sound economic base is said to have contributed to the poor economic performance of oil rich countries, resulting in the resource curse syndrome.

The initial oil production from Ghana’s Jubilee field started from 60,000 barrels of oil per day (bopd) and currently stands at 120,000 bopd. It is anticipated that daily production will increase to 250,000 bopd by 2013. The field life of the Jubilee field is estimated to be between 20-30 years. The IMF and World Bank estimated an annual revenue flow of US\$1 billion from the Jubilee field (Edjekumhene and Edze, 2010). Commercial production in the Jubilee field commenced in December 2010 and by October 2011, the GNPC on behalf of Ghana has lifted oil four times, a total of 2,980,720 barrels from the field. The revenue flow received from three of the liftings amounted to 506.0 million Ghana Cedis (US\$337.3 million), (Full Budget Speech for 2011 Financial Year, 2011; Full Budget Statement for 2012 Financial Year, 2012). It is projected that as production increases the annual estimate of US\$1 billion will be achieved.

This paper therefore examines the Ghanaian economy as it transitions from an agrarian to an oil economy against some key indicators in order to appreciate any symptoms of the Dutch disease. In achieving this objective it reviews literature on the state of the field in respect of the Dutch disease which is used as the frame of analysis. Additionally, it examines the performance of the macro-economy before the first production of oil from Ghana's Jubilee field in December 2010, and the agricultural sector in particular to determine the stability of Ghana's economy and finally, analyses the “spending effect, and resource reallocation effects” due to the emerging oil industry in Ghana.

The Dutch disease

The dominant economic explanation of the resource curse is the “Dutch disease”. According to Humphreys *et al.* (2007) the Dutch disease is a shift from the hitherto productive sectors such as agriculture and manufacturing to the non-tradable sectors such as resource export and construction industry. The term is attributable to the 1960s economic downturn of The Netherlands with regards to the manufacturing sector and the North Sea natural gas discovery. This phenomenon generates two effects: the “spending effect” which involves utilizing petro-dollars to patronize internationally traded goods instead of domestic goods, and the “resource pull effect” which entails the shift of labour and materials towards the natural resource sector (Humphreys *et al.*, 2007, p. 5). The cumulative effect of these is the distortion of the economy away from traditional tradable goods production (agriculture and manufacturing), towards non-tradable sector like construction. The inflow of resource rents results in the appreciation of real exchange rate. This affects exports of these traditional tradable goods and makes them less competitive in the domestic market (Humphreys *et al.*, 2007). At the same time, there is increase spending in the non-tradable sector (Duruigbo, 2005). Similarly, there is a drive for movement of labour and materials to the non-tradable sector, thereby increasing cost of production in the traditional tradable sector. This is known as the resource pull theory. This impacts the economy adversely as a result of loss of jobs, and human resource in agriculture and manufacturing, and poor performance in these sectors. As a result of these, the condition of the poor remains unchanged and may deteriorate in the midst of the inflow of “petro-dollars”. This may create the condition for grievances which may be expressed through agitations, strikes, resulting in general instability and conflict (Humphreys *et al.*, 2007).

The issue of economic growth and natural resource has received some scholarly work with divergent views on the role of Political institutions in generating or suppressing economic growth, thus arresting or exacerbating the resource curse phenomenon. The common denominator which has also been confirmed by empirical data is that most resource abundant countries have performed poorly in terms of economic growth compared with their resource poor counterparts. Bertine (2005, p. 202) posits that economies of countries with abundant natural resources grow less rapidly than economies with scarce natural resources. Natural resource abundant countries such as Nigeria, Zambia, Sierra Leone, Angola, Saudi Arabia and Venezuela has been shown to have a slower or no growth as compared with resource-poor Asian tigers like Korea, Taiwan, Hong Kong and Singapore (Melhum *et al.*, 2006). It has been established that countries rich in natural resources on the average lag behind their counterparts with less resources (Sachs and Warner, 1995, 1997a, b; Gelb, 1988; Lane and Tornell, 1996; Gylfason *et al.*, 1999; Auty, 2001; Stijns, 2002).

The point of divergence in the “natural resource – resource curse” discourse lies with the role of institutions in these natural resource abundance countries. While Sachs and Warner (1995, 1997a, b) contend that institutions do not play significant role in the resource curse debate Melhum *et al.* (2006) argue that institutions are decisive for the resource curse. The former explained that the rent-seeking hypothesis that natural resource abundance results in the deterioration of institutional quality in turn reducing economic growth, cannot be empirically supported. They rejected the rent-seeking approach in explaining the Dutch disease. The latter asserts that the quality of institutions is relevant and important in transforming the natural resources into a blessing or a curse. They emphasized that the differences in growth performance among the resource rich countries is attributed primarily to how these resource rents are distributed through the institutional arrangements (Melhum *et al.*, 2006).

The significant role of institutions in the resource curse debate cannot be over emphasized. Some scholars believe that the resource factor is not critical to the economic demise in oil-rich countries as institutions. They also argue that the cause of economic growth or the lack of it can be attributed to right and wrong institutions (Duruigbo, 2005). Empirical evidence shows that, some natural resource abundant countries have witnessed significant economic growth while others have not. Melhum *et al.* (2006, p. 3) described these two groups as growth winners and growth losers. The determinant of a growth winner or loser is contingent on the quality of institution; which they described as either grabber friendly or producer friendly institutions. Grabber friendly institutions exist when rent-seeking and production are competing activities, and are characterized with weak rule of law, malfunctioning bureaucracy, and corruption. It is particularly bad for growth when it promotes unproductive activities. Producer friendly institutions on the other hand prevails when rent-seeking and production activities are complementary, and allow rich resources to attract entrepreneurs into production, leading to higher growth.

Bertine (2005) submits that the growth of countries rich in natural resource ultimately depends on the quality of institutions. Good institutions provide the ambient environment for optimal operational performance and vice versa. Torvik (2009) argued that good institutional apparatus stalls the negative effect of natural resource on growth. Oil discovery is particularly viewed to be worse in countries without developed institution (Karl, 1997). *The Economist* (2006) expressed the point that most oil endowed countries used their wealth to develop the authority of the state instead of the national oil companies. When these national oil companies begin operation without strong institutions to regulate them, it results in corruption and inefficiency. This and other factors underscore the success story of Norway, which had an efficient institution long before Statoil commenced oil production. Generally, bad institutions enhance corruption, or may create the incentive for the ruling classes to destroy institutions in order to facilitate kleptocracy.

Macro-economic indicators

The Ghanaian economy for the last decade has been progressively performing quite well even in the midst of the financial crisis. Ironically, it recorded one of its highest real gross domestic product (GDP) growth of 7.2 percent in 2008. This however fell sharply by 3.1 percentage points to 4.1 percent in 2009, a situation attributable to the impact of the global financial crisis. The real per capital GDP growth for the same period mirrored the

fallen trend of 4.8 to 2.8 percent with a 1.9 percent population growth rate. In spite of the fall in growth, the average yearly inflation was up to 19.29 percent in 2009, an increase of 2.83 percentage points of the previous year. The lending rate from the banks also pummeled by 7.73 percentage points, from 25.02 to 32.75 percent (ISSER, 2010). Notwithstanding the downturn between 2008 and 2009, the economic outlook for 2010 looked promising. The austere measures by the Government of Ghana for the past two years via its tight fiscal and monetary policies yielded some positive results. Inflation was down to a single digit of 9.6 percent by the second quarter of 2010. The budget deficit (including arrears payment) that stood at 14.5 percent by the end 2008 declined to 10 percent by August 2010, and the current account deficit reduced to 8 percent of GDP by the end of 2009 from about 21 percent of GDP in 2008. The prime rate from the Bank of Ghana declined to 15 percent in August 2010, from 18 percent in 2009. These positive developments have received some international acknowledgement. Fitch, a London-based credit rating agency described Ghana's economy as stable, with a B + rating which is indicative of a strong economy (Amoakos 2010, pp. 1, 3).

The management of public debt is crucial in averting the Dutch disease in Ghana's emerging oil economy. Improper management of public debt and servicing could have negative consequences on macro-economic stability and growth in the short and medium term. Ghana's total debt continues to rise even after the Highly Indebted Poor Countries (HIPC) relief in 2005. After a drop from 8,043 million Ghana Cedis (US\$5,363 million) in 2005 to 5,297 million Ghana Cedis (US\$3,531.33 million) in 2006, the total debt surge from 7,295 million Ghana Cedis (US\$4863.33 million) in 2007 to 11,976 million Ghana Cedis (US\$7984 million) in 2009, as indicated in Table I with its attendant rise in debt servicing (ISSER, 2010, pp. 53-4).

This rising trend in Ghana's debt can be detrimental to the economic fortunes of the country if not effectively managed. The easy option of resorting to borrowing in anticipation of the oil revenue is not sustainable particularly if Ghana is to avoid the Dutch disease. Although borrowing is not bad *per se* especially when applied in

Item/year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total public debt	5,121	5,608	6,846	8,442	7,804	8,043	5,297	7,295	8,542	11,976
Total debt service	390	418	513	619	539	623	691	677	1,177	1,605
External debt	245	187	292	341	285	361	388	355	694.7	855
Principal	187	139	213	256	192	261	298	256	497	538
Interest	59	48	79	85	93	100	90	98	197	317
Domestic interest	145	231	221	279	255	262	303	322	482	750
<i>Percentage</i>										
Debt to GDP ratio	189	141	140	128	98	84	46	52	50	55
External debt: GDP ratio	160	121	112	107	77	65	22	26	25	30
Domestic debt: GDP ratio	29	27	29	21	21	19	24	27	25	25
Debt service to domestic revenue	81	61	58	45	28	27	27	19	25	27
Debt service to exports	20	22	25	24	20	22	19	17	21	27
Loans to domestic revenue	38	44	15	23	18	20	18	13	14	22
Grants to domestic revenue	12	38	17	23	26	22	25	23	17	20
Debt service to GDP ratios	14	11	10	9	7	6	6	5	7	7

Source: ISSER (2009) and Government of Ghana 2010 budget statement

Table I.
Debt servicing and prospects for sustainability (Ghana Cedi in millions), 2000-2009

productive sectors of the economy for higher growth, however, it can destabilize the economy if misapplied or captured by the Political elite. It is worth noting the linkage of the upsurge of public debt from the year 2007, the year of discovery of oil.

With the US\$1.5 billion Korean STX housing loan deal which is expected to build 30,000 houses for the security services and about US\$17 million loans and grants expected from China and Japan which was agreed in 2010. This trend is likely to continue in anticipation of petro-dollars, posing potential problems for the stability and sustainability of the emerging oil economy. This is against the backdrop of the risky nature of the boom-burst cycle of oil prices. The debt servicing ability may be stalled when oil prices dips, resulting in debt overhung (Murshed, 2010). Another worrying development is the attempt by government to make some changes in the clause of the proposed Petroleum Revenue Management Act that prohibits the use of petroleum reserves account as collateral for debt or borrowing against petroleum reserves in other to allow its use of future revenues as collateral for loan. This could be a recipe for possible exploitation if this amendment is effected. According to Nankani and Allen (2004, cited in ISSER, 2010), the empirical threshold of debt service to export ratio is 25 percent, which is 2 percent below debt service to export ratio for 2009. Ghana's total debt has significantly increased since 2007. According to ISSER, Ghana's total indebtedness increased from 7,295 million Ghana Cedis (US\$4,863.33 million) in 2007 to 8,542 million Ghana Cedis (US\$5,694.67 million) in 2008, further increasing to 13,355 million Ghana Cedis (US\$8,903.33 million) in 2009, and 17,743 million Ghana Cedis (US\$11,828.67 million) by December 2010 (2011, p. 55). This trend seems to continue into the first three quarters of 2011. Some economists have cautioned that Ghana's debt stock may reach 40 percent of GDP by the end of the third quarter of 2011, a condition that will be above the 37 percent of GDP of debt stock that sent Ghana to HIPC. This depicts a gloomy state of Ghana's debt situation and will require a formulation of an effective and sustainable debt management policy if Ghana is to avoid the negative effect of public debt burden.

A stabilized economy serves as a good foundation for accelerated and sustained growth. The Ghana Cedi has appreciated against the major currencies; 0.1 percent against the US dollar, 2.2 percent against the pound sterling, and 5.4 percent against the euro (Budget Statement of 2011). As important as this may seem, how the economy will respond to the inflow of "petro-dollars" without distortions is of much interest. Although total revenue showed an increase of 24.9 percent over the 2008 figure (ISSER, 2010), revenue mobilization generally continue to be a real challenge. The huge leakage in the institutions and agencies mandated to collect these revenues need to be plugged, if this challenge is to be addressed. Growing the Ghanaian economy will potentially increase government revenue and this will require investment in productive sectors of the domestic economy, particularly agriculture, to generate the needed growth. This growth is essential to create the opportunity for investment of oil revenue instead of consumption. Economic growth itself does not avert the resource curse until it is translated into developments that impacts positively on the people of Ghana and particularly the under privileged, marginalized and poor as asserted by Murshed (2010). In distributing the bigger pie of growth to the poor, it may create inequalities that may precipitate greed and grievances that are drivers of internal conflict (Ross 2004b, cited in Murshed, 2010). Achieving economic growth may not be a panacea to the resource curse, if it fails to engender development, benefit the poor, and reduce or eliminate

societal inequality. Kakwani and Pernia (2000) argue that pro-poor growth should reflect a disproportionate benefit in favour of the poor in the sharing of the national cake.

Agricultural sector performance

Agriculture continues to be the backbone of Ghana’s economy, and fundamental to the prosecution of a sustainable development and poverty reduction agenda. This was re-enforced by the Maputo declaration which enjoined African countries to allocate at least 10 percent of national budget on agriculture. Ghana has recorded sustained positive growth in per capital food production since the 1990s and efforts continue in this direction. Expenditure for the agricultural sector, which is a percentage of total government expenditure, has shown a steady increase from 1.36 percent in 2000 to 10.32 percent in 2008. This has reflected in the overall growth of the sector. The growth rate in 2009 was 6.1 percent, an increase of 0.1 percentage points over the previous year. Notwithstanding the progress in this sector, the economy remains vulnerable to external shocks due to its narrow resource and export base (ISSER, 2010, p. 105). From Table II it is clear that the agricultural sector undoubtedly remains the largest sector of the Ghanaian economy contributing 34.5 percent to GDP in 2009, an increase of 0.6 percentage points of the previous year.

The main drivers of growth of the agricultural sector in 2009 were the performances of two sub sectors; crops/livestock and cocoa (6.2 percent each) (ISSER, 2010). Cocoa, timber and non-traditional agricultural exports provided the major foreign exchange earnings for agriculture. Foreign exchange earnings from agriculture as indicated in Table III, increased to US\$2,197 million in 2009 from a 2007 figure of US\$1,549 million, with cocoa (84.9 percent), timber (8.2 percent), and non-traditional agricultural exports (6.9 percent) as main contributors (ISSER, 2010, pp. 112-13).

It is notable that the investment and further development of the agricultural sector, particularly on cocoa production is essential to avoiding the Dutch disease. A characteristic of countries that have experienced the Dutch disease has come about when there has been a shift of focus. The phenomenon of the Dutch disease shows a shift of focus and concentration from the agricultural and manufacturing

Year / period	Agriculture	Sector Services	Industry
2002	39.5	33.0	27.5
2003	39.8	32.8	27.4
2004	40.3	32.6	27.2
2005	39.5	32.9	27.6
2006	39.3	32.9	27.8
2007	38.0	33.4	28.6
2008	33.9	31.8	26.5
2009 ^a	34.5	32.3	24.9
<i>Average</i>			
2002-2004	39.8	32.8	27.4
2005-2009	36.3	32.4	27.2

Note: ^aRevised as at June 30, 2010

Source: Ghana Statistical Service, Accra

Table II.
A sectoral contribution
to GDP, 2000-2008 at
constant 1993 prices (%)

Table III.
Foreign exchange earned
by agricultural and
non-agricultural sectors,
2000-2009 (US\$ million)

Year/period	Cocoa & cocoa products		Agriculture				Non-agriculture		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
2000	437	22.5	175	9.0	75	3.9	1,254	64.6	1,941	100.0
2001	381	20.4	169	9.1	82	4.4	1,235	66.1	1,867	100.0
2002	463	22.4	183	8.9	86	4.2	1,322	64.5	2,064	100.0
2003	818	34.9	174	7.6	138	6.0	1,182	51.5	2,297	100.0
2004	1,071	39.2	212	7.7	160	5.9	1,290	47.2	2,733	100.0
2005	908	32.4	227	8.1	151	5.4	1,516	54.1	2,802	100.0
2006	1,187	31.8	199	5.3	203	5.4	2,146	57.5	3,735	100.0
2007	1,103	26.3	249	6.0	197	4.7	2,646	63.0	4,195	100.0
2008	1,487	28.2	317	6.0	188	3.6	3,278	62.0	5,275	100.0
2009*	1866	32.0	180	3.1	151	2.6	3,643	62.4	5,840	100.0

Source: Bank of Ghana, Accra and Ghana export Promotion Council, Accra, in ISSER: 2009

sectors to the resource export and construction sectors, resulting in economic stagnation. A World Bank (2009) report described Ghana as having some of the symptoms of the Dutch disease even before the flow of oil revenue. This position was predicated on the moderately steady contribution of industry to GDP for the past two decades. In this instance what the World Bank fails to acknowledge is the fact that the economy of developing countries hinges on other sectors and not industry but the assertion of Ghana already experiencing the Dutch disease cannot be taken lightly.

A scrutiny of Ghana's economy in the light of the Dutch disease will be better appreciated if focused on the agricultural sector which is the driving force of the economy. The Government of Ghana seems to be demonstrating its commitment to improving agriculture even in the anticipation of oil revenue. The policy of mass cocoa spraying, the procurement of tractors for farmers groups on hire purchase in other to mechanize agriculture, the presidential initiative of youth in agriculture, establishment of the Buffer Stock Management Company, the establishment of the Savanna Accelerated Development Authority (SADA), are manifestations of that commitment leading to unprecedented feat for the first time in the 2010-2011 crop year by exceeding 1 million metric tons of cocoa harvest. This feat has been attributed to good agronomic practices, payment of remunerative producer price, application of fertilizers, disease and pests control, use of hybrid cocoa seedlings, and scientific research (Dzawu 2011). Although this is encouraging, it is not without challenges. The SADA board is directly under the supervision of the presidency. Even though it can be argued that this arrangement may present some opportunities, it is inherently susceptible to Political control which may not inure to the benefit of the ordinary people. Issues such as curbing smuggling of the cocoa, creating ready market for the products, storage facilities are being addressed.

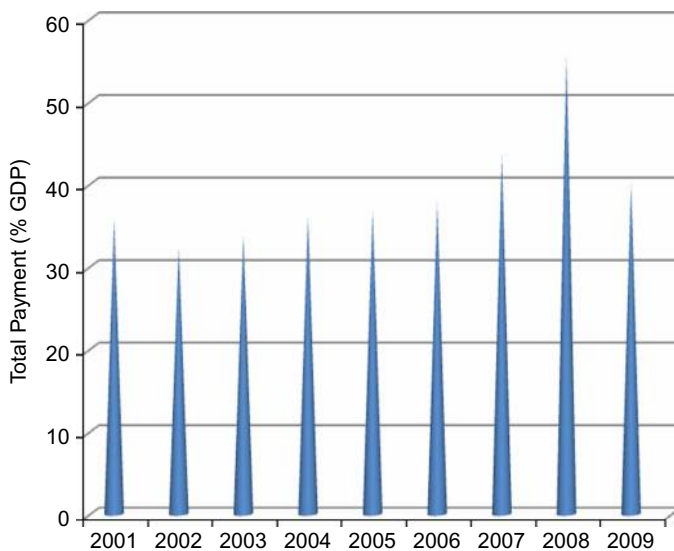
No efforts should be spared in eschewing the temptation of over dependent on oil revenues. Apart from shrinking the tradable sector, it has the capacity to lead to the abrogation of the social contract with the people, restricting citizen participation and enhancing Political capture of oil rents. The effect of this may include the widening gap between the rich minority and the very poor majority with potential for resistance by

the latter via demonstrations, strikes and or conflict. Diversifying the Ghanaian economy by stimulating the agriculture, industry, manufacturing sectors, and expanding the tax network to generate the needed revenue, in other to avoid over dependence on oil revenues is undoubtedly the way forward.

The spending effect and the resource reallocation effect

The “spending effect” concept is premised on the upsurge of spending in the non-tradable sector due to the uncompetitive traditional tradable sector, created by exchange rate appreciation due to the flow of oil revenues (Humphreys *et al.*, 2007). Currently, the exchange rate of Ghana Cedi against major currencies is stable. Although it is not clear how the yet anticipated “petro-dollars” may influence the dynamics in the economy, probable speculations could be made based on two factors; government expenditure trend prior to the discovery, and the high propensity to spend in an oil economy. The total Ghana Government expenditure as a percentage of GDP has been within the range of 32-38 percent for the period 2001-2006. After a 3.36 percentage points drop from 2001 to 32.34 percent in 2002, it has consistently and gradually increased by between 0.5 and 2.3 percentage points annually to 37.70 percent in 2006. Significantly, however, total expenditure as a percentage of GDP was up by 5.81 and 11.91 percentage points in 2007 and 2008, respectively. Given that the period 2003/2004 recorded the highest percentage point increase of 2.31 percent, high expenditure associated with election years could explain the occurrence, but the oil discovery and anticipated revenues could have driven the increment to that significant level in 2007/2008 (Figure 1).

This feeds into the second factor which is the infectious nature of oil revenue to government expenditure. The expectation of oil revenue can induce governments to engage in profligate spending that creates huge current account deficit, budget deficit,



Source: ISSER (2009) and Government of Ghana 2010 Budget Statement

Figure 1.
Trends in government payments (percent GDP), 2001-2009

and public debt burden (when borrowed) which places an albatross of debt servicing on the economy, thereby stifling development and growth. Although the 2009 government expenditure per GDP fell by a significant value of 15.39 percentage points due to the tight fiscal policies of government, the implementation of the single spine salary policy which is aimed at ensuring equity and fairness in public sector wages, and the increasing labour demands on government poses a challenge on government spending. It requires for government to improve its internal revenue generation capacity, and link salary to performance and productivity. This is to prevent spending oil revenue on remunerations and avoid the resource curse syndrome.

While the spending effect is yet to be visibly observed due to the absence of oil revenue, the “resource reallocation effect” is visibly manifested. Oil companies and service companies are inundated with employment applications. However, the technical nature of offshore oil exploration provide little employment opportunities upstream, but more in the downstream sector. There are reported cases of movement of skilled and unskilled labour to the Western Region of Ghana, the region that borders the Jubilee field. This exacerbates the existing unemployment problem in the area, as the region has the highest unemployed youth, 44 percent of registered youth were unemployed (GTUC/FES, 2009). It is not clear how this labour movement has dislocated other sectors especially agriculture, but what is certain is that the pull of labour was mainly from the huge unemployed pool, thus ameliorating any impact of job loss. Another evolving dimension is the pull or attraction of huge foreign direct investment into the emerging oil economy. The drivers of this pull may include the stable macroeconomic environment and the oil resource among others. Countries like India, Iran, Sweden, China and the Czech Republic have all expressed interest in investing in various sectors of the Ghanaian economy. This potential capital injection could stimulate and reinvigorate the economy and enhance growth. This could be a positive development in avoiding the resource curse if the wealth generated is employed in eradicating poverty, illiteracy and disease.

Institutions and economic growth

Beyond the economic explanation of the Dutch disease and the resource curse, there are Political dimensions that shape the economies of natural resource rich countries. The Political dimension finds expression in the institutional arrangements which create the environment that facilitates the utilization of resources for economic growth and development. Institutions have been defined by North (1990) as the rules of the game and more formally as humanly devised constraints that shape human interaction (Duruigbo, 2005, p. 18). Good institutions seek to hinder government expropriation and enhance civil liberties (Acemoglu *et al.*, 2001). It is the regulatory apparatus that stifles fraud, anti-competitive behaviour, moral hazards, and creates those social and Political institutions that ensures risk and social conflict reduction (Rodrik, 2000). The position advanced is that natural resource rich countries characterized as growth losers have deficits of good institutions (Duruigbo, 2005). The institutional set up in Ghana by the time of first commercial oil production from the Jubilee field is examined under regulations and the regulators.

The vituperations of the Ghanaian Political leadership suggest that the oil and gas resource shall be a blessing and not a curse. They envisage that Ghana will be among the few growth winners due to the presence of the oil and gas resource.

The extent to which this rhetoric reflects the reality is unclear. What is certain however is the nature of the institutional readiness for first oil production. The institutional set up has attracted mixed responses in respect of its state of readiness. One school of thought contends that the institutional arrangements by the time of first production is sufficient and will evolve with time with changes made along the line. This position is supported by government officials and its agencies. Another school of thought argues that the institutional set up is not strong enough and requires pruning before the commencement of first oil production. It is observed that civil society and academia are split between these two views.

Issues have been raised with regards to the existing legislations regulating operations in the oil and gas industry in Ghana. There was the tacit admission that the existing legislations enacted in the 1980s were inadequate to address the challenges of the emerging oil economy, hence the need for some pruning and additions to the existing legislations. In spite of this deficiency, commercial oil production commenced without the full compliments of the required legislations. The petroleum exploration and production bill and petroleum revenue management bill were in parliament, yet to be passed into law when oil production commenced in December 2010. The National Oil and Gas Policy, the whistle blower's bill and the right to information bill were all at various stages of the legislation process. This apparent legislative deficit poses a challenge to the institutional arrangements with the potential of failing in its regulatory function.

The existing legislations by the time of first oil production had inherent short falls. These legislations were enacted during the military regime in the 1980s which restricted the spaces of engagement and contribution by the general public. This lack of wider consultation could starve the process of the diverse views that could enrich the policies and bills. This raises questions about why oil production commenced in the absence of these very necessary legislations.

The international oil companies (IOC's) and the Political elite have appropriated credit for the record time development of the Jubilee field. Beyond this accolade is the possible rationale behind this speedy development and commencement of oil production with deficient legislations. For the IOC's, it reduces the cost of exploration and the turnaround time for recouping their investment. The lack of sufficient legislations also inures to their benefit, as it allows the IOC's to use the advantage of information asymmetry to the detriment of the host country. The contractual agreements between government and the IOC's for instance were kept out of public knowledge. The operations and activities of the IOC's are also shrouded in secrecy. This lack of transparency enables the Political elite to be influenced to act in ways and make decisions that benefit the IOC's at the expense of the larger public. Although debatable, some questions have been raised with the nature of the Government of Ghana agreements with some of the IOC's.

The Political elite have argued that there is no need for the full complement of legislation before oil production commence. They contend that these legislations will be improved with time as production progresses. This explanation may be a façade, since the motivation may be the desire of the Political elite to have quick access to the resource rents to consolidate and perpetuate their hold on power. It may also be a deliberate attempt by the Political leadership to create the environment to enhance corruption and facilitate kleptocracy.

Another aspect of the institutional arrangements that require some attention are the agencies of state charged with the responsibility of ensuring the adherence to the legislations and regulating the oil and gas industry in ensuring that Ghana benefits from the new found resource. These agencies include the Ministry of Energy (MOEN), Environmental Protection Agency (EPA), GNPC, Ghana Navy, Ghana Police Service, Commission for Human Rights and Administrative Justice (CHRAJ), Economic and Organized Crime Office (EOCO). The presence of legislations is relevant only to the extent that they are enforceable. Enforcement rest with the mandated agencies or institutions of state mentioned above. Unfortunately, most of these agencies were under resourced with logistics and human capital by the time of first oil production. This could be argued as a rational Political decision to maintain a weak institution to make it easy for corruption and kleptocracy to thrive. Central in this dynamics is the presence of the oil resource which is subject to capture by the key actors. Against this backdrop, the rhetoric of the Political elite in using the oil resource to engender growth comes under serious scrutiny and raises doubt about their real intentions. Even though gas arguably, provides direct benefits to the ordinary citizenry, the infrastructure and platform for its production is yet to see the light of day. Further work is underway on the institutional readiness in Ghana's emerging oil and gas industry on the topic "Rent-seeking Resource and Institutional Challenges in Ghana's Oil and Gas Industry".

Conclusion

Ghana's discovery of oil in commercial quantities in 2007 and the the first commercial production commencing in December (2010) from the Jubilee Field (Ghana's offshore oil field) has elicited a mix of joy and fear by Ghanaians. Joy because oil provides an additional source of revenue for the country, and fear because the presence of oil could negate economic growth, weakened institutions, enhanced corruption, weakened democratic structures, and could result in violent conflict if not well managed as noted in other African countries. As Ghana prepares to transit into an oil economy, the government has promised to make the oil and gas resource a blessing and not a curse as known to have happened in other parts of the world.

The major macroeconomic indicators are showing resilience and stability of the economy even as Ghana increases its oil exploration operations. Inflation has been brought down to single digit of 8.58 percent in December 2010 from 20.74 percent in June 2009 (Ahmed 2011, p. 9) fiscal deficit reduced to 10 percent, and a GDP growth of 4.1 percent. Ghana's local currency, the Cedi has appreciated against the major currencies and the prime rate has been brought down to 15 percent. Although this sound economic base sets the tone for accelerated growth when the oil and gas revenue comes on stream, the rising debt burden since the discovery of oil in Ghana could upset the growth agenda in the short and medium term. It has been argued that achieving growth is essential but not sufficient in averting the resource curse unless it translates into development that impact positively on the poor. Proponents of the Dutch disease posit that oil revenues causes appreciation of the currency which affects the competitiveness of the traditional tradable sector. It is not certain how the economy will respond to this challenge as its currency has appreciated even before the flow of oil revenue.

Another symptom of the Dutch disease is the distortion of the economy away from agriculture and manufacturing to the oil sector. The study questions World Bank's designation of Ghana as already experiencing the Dutch disease on the basis that

Ghana is an agrarian economy and not industry led. Agriculture continues to drive the economy bringing in a foreign exchange of US\$2,197 million in 2009. Government interventions such as increases in producer price of cocoa, mass cocoa spraying exercise, establishing the Buffer Stock Management Company to provide ready market for farm products among others demonstrates its commitment to boost agriculture production in spite of the oil discovery. This is a positive step in preventing such distortions and avoiding the Dutch disease.

The spending effect and the resource reallocation effect that characterized the Dutch disease were further interrogated within the emerging oil economy. Government expenditure has shot up significantly since the year of discovery and the trend will continue having regard to the colossal loans already contracted and those in the pipeline for various developmental programs, including the increasing wage budget due to the implementation of the single spine salary structure (SSSS). This spending effect could be attributed to the infectious attraction to borrow in anticipation of oil revenue, thereby increasing the debt burden with the potential to entrenching the resource curse in the absence of a debt management policy. The resource reallocation effect is visibly manifested with the movement of unemployed youth towards the oil and gas sector, and the pull of foreign investment to stimulate growth and create employment.

All may not be well with institutional set up prior to first oil production in Ghana. There seem to have been a conscious or unconscious but subtle attempt by various governments at weakening institutions, particularly those mandated to ensure transparency and accountability, in order to promote their parochial ends. The failure by government to legislate appropriate laws and adequately resource key state agencies that will play important roles in the oil and gas industry before production begins could be part of the grand strategy to incapacitate these institutions to facilitate corruption and kleptocracy.

Contrary to the claim by the World Bank that Ghana is already experiencing the Dutch disease, the Government of Ghana's continued effort at improving the performance of the agricultural sector and an effective policy to manage her debts are the key factors to avoiding the Dutch disease and in truly ensuring the blessing that oil brings and not the often talked about associated curses. The stable economy and the increase of foreign investment will facilitate growth for development. Clearly, Ghana may be on track and should hopefully embrace blessings rather than curses, if attention is paid to the rising debt stock and the institutional set up.

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