A Decade From Now

Preview of Economic Structure Based on Trends
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How do we proceed?

- To preview the economic structure in 2022 requires that we make some forecasts of the internal and external environment and juxtapose them on an assumed set of policies.
- Although many scientific tools (statistics, economics, computer science) are available, forecasting also involves judgment

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Forecasting is Inherently Hazardous

- The environment in which we operate in is constantly changing.
- The further out you go in the forecast horizon, the harder it is to predict accurately.
- Uncertainty tends to compound itself, particularly as we extend the forecast horizon.
- So we are grateful that we are being asked to look forward for only 10 years!

So Why Bother?

- Forecasts help us by predicting changes ahead of time
- Critical decisions can then be made based on rational expectations of future conditions
- Facilitates the formulation of rational/consistent economic policies that helps the economy achieve sustainable growth
- Our forecast of Ghana in 2022 will be conditional and will depend on:
  - Forecasts of global/external developments
  - Anticipated policy direction within the next 2-3 years

Its about Competitiveness!

- The future path of an economy in today's global setting is fundamentally dependent on the competitiveness of the economy
- The Global Competitiveness Report defines competitiveness as *"the set of institutions, policies and factors that determine the level of productivity of a country"*
- Level of productivity
  - sets the level of prosperity that can be earned about an economy
  - Determines the rates of return obtained by investments in an economy
- A more competitive economy will grow faster over time.
- The Global Competitiveness Report measures the existence of these institutions, policies and factors across a wide range of dimensions called "the 12 Pillars of Competitiveness"

The 12 Pillars of Competitiveness

Basic Requirements
•Institutions
•Infrastructure
•Macroeconomic Environment
•Health and Primary Education

→ Key for **factor-driven** economies

Efficiency Enhancers
•Higher education and Training
•Goods market efficiency
•Labor market efficiency
•Financial market development
•Technological readiness
•Market size

→ Key for **efficiency-driven** economies

Innovation and sophistication factors
•Business sophistication
•Innovation

→ Key for **innovation-driven** economies

Ghana's 10-Year Record

- Ghana has been outperforming the global average in terms of growth – an average of 6% annual GDP growth in the last 10 years
- Achieving robust headline growth is not good enough because it may not lead to desired structural change
- It is important to make the distinction between "economic growth" and "economic transformation"
- Economic transformation refers to structural changes that accompany the process of economic development.
- Such transformation may be reflected in the changing role of key sectors of the economy such as :
  - Share of manufacturing or agriculture in GDP
  - Share of labour force on agriculture
  - Composition of exports
  - Degree of urbanization

The Structure 10 Years Ago – Composition of GDP

- Composition of GDP
  - Agriculture was dominant contributing 35.9% of GDP followed by services (29.9%) and industry (24.9%)
  - Manufacturing dominated industrial sector
  - Government services dominated services sector
- International Trade
  - Commodities, raw materials dominated exports i.e. *a factor driven economy*
  - Bulk of our exports were commodities and raw materials to industrial countries (43.5% of exports)
  - Our competitiveness has been based on factor endowments (*inherited wealth*) and unskilled labor NOT *created wealth*

Export Performance

	2001		2011		2001-2011
	$millions	%	$millions	%	
Cocoa Beans and Products	378.1	20.5	2,870.87	22.5	1.9%
Gold	625.82	34.0	4,920.22	38.5	4.5%
Timber and Timber Products	169.2	9.2	165.66	1.3	-7.9%
Crude Oil	0	0.0	2,778.53	**21.7**	21.7
Other Exports	669.68	36.9	2,050.14	16.0	-20.3
	1842.8	100.0	12,875.42	100.0	

What are the constants?

- Agricultural commodities and minerals) constituted the bulk of our exports in 2001 (64%)
- By 2011 agricultural commodities still constituted he bulk of our exports (84%)
- Gold was the largest export in 2001 (34%) and remained so in 2011 (38.5%)
- As at 2011, Ghana was still a factor-driven economy
- Growth is not being matched by export diversification
- Low value-added export basket

What has changed in the composition of GDP by 2011?

- Agriculture has lost ground, especially crops and livestock
- Industry has held its own bolstered by crude oil production starting 2010
- Manufacturing has lost ground ; 9.1% in 2001 compared to 6.7% in 2011; trend is visible in more recent years (2007-2011)
- Big story is services; from 29.9% (2001) to 48.5% (2011); key drivers are financial services, IT
- Private sector provision of services has grown relative to government.

What has Changed in Export Performance?

- Crude oil is matching cocoa as a foreign exchange earner in 2011
- Crude will shortly overtake cocoa and will likely be the largest foreign exchange earner by 2022 as more oil fields are brought into production
- Trends indicate that Ghana will continue to be a factor-driven economy unless competitive structure of the economy changes.

Could these changes have been foreseen?

- Role of crude oil was clearly not foreseen (Jubilee field was discovered in 2007)
- Others could have been foreseen and were policy driven e.g. financial sector
  - Major reforms(FINSSP I, FINSSP II, NBFI, FINSSP) revamped financial sector
  - In 1993, key legislation such as the SIL, NBFI laws were enacted
  - Accelerated reform under FINSSP saw accelerated reform reflected in about 15 financial sector laws over a 10-year period starting around 2000
- Financial sector indicates that what happens in the future will largely be a function on the decisions taken today.

What happened in Agriculture?

- Agriculture fallen behind in terms of contribution to GDP hampered by:
  - Weak infrastructure (dependence on rain fed agriculture, lack of irrigation facilities)
  - Dominance of small holders (limited economies of scale); limited commercial farming
  - Low productivity (low yields)
  - Access to appropriate credit
- Simultaneously, trade liberalization and inability to match productivity else where had made it cheaper to import (e.g. rice)

What happened in Manufacturing…(1)?

- Hampered by high cost environment
  - Small domestic market (no economies of scale)
  - Poor infrastructure
- Decline of manufacturing in spite of 20 – 40% advantage because imports are subject to duty and other levies that are not applicable to domestic manufacturers
- Calls for protection from imports
- Manufacturing for domestic production is out of sync with current global trends

What happened in Manufacturing …(2)?

- To understand what happened in manufacturing we need to go back to the global environment
- Stagnation and decline of manufacturing in occurred in Ghana while other countries achieved accelerated industrialization
- Because Ghanaian manufacturing was uncompetitive
- Ghana faces a different sort of globalization than it did at independence.

Global Developments in Manufacturing

- Traditional: Early in industrialization high transport costs restricted trade; Expensive shipping limited manufacturers within the same city or country; import substitution was an option because of high transportation costs
- Unbundling Phase 1: the geographical separation of producers and consumers; driven by fall in transportation; manufacturing for export (Japan, Korea)
- Unbundling Phase 2: Supply chain industrialization
- Both types of unbundling require competitiveness driven by efficiency enhancers (e.g. labor market efficiency, technological readiness, market size)

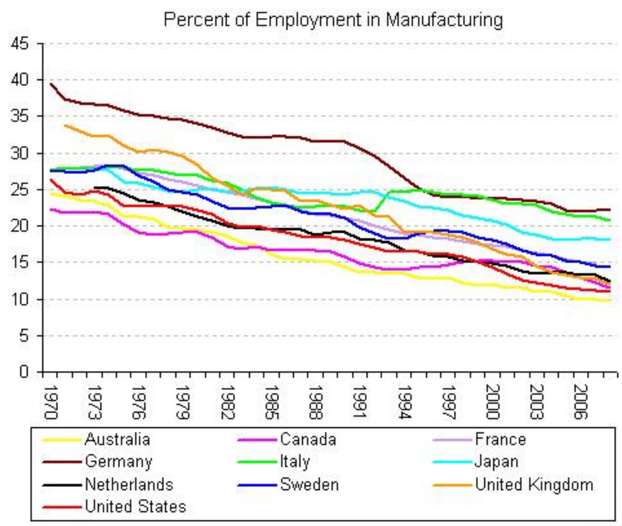
Unbundling Phase 1

- Ability to take advantage of economies of scale
- A single plant could produce goods at a lower unit cost than lots of smaller factories
- A cluster of large suppliers at lower cost
- Production clustered in massive cities in a few economies
- Difficult to catch leaders
- Japan and Korea entered with cheap products with state aid and slowly improved their technology.

Unbundling Phase 2

- Revolution in IT allows firms to manage supply chains over long distances
- Companies can build plants in the cheapest locations, ship components there to be assembled and export finished products around the world Production is broken up across long, multinational supply chains
- Requires timely shipment of components and parts
- Countries are able to fit into supply chain if they are have the relevant efficiency factors;
- Requires consistency in productivity and efficiency gains else plants will move out (e.g. Valco received alumina from Jamaica, produced aluminum for export, taking advantage of low cost of power in Ghana, but efficiency was lost as cost of power went up)

Percent of Employment in Manufacturing in Advanced Economies



Comments

- In advanced economies, per cent of employment in manufacturing has dropped sharply since the 1970s
- In the United States manufacturing as a share of total employment has fallen 15.5 percentage points in recent decades, from 26.4 per cent of jobs in 1970 to 10.9 per cent in 2008.
- In some other countries the decline has been even steeper. In Britain, for example, the share of employment held by manufacturing has fallen 21.9 percentage points in the last few decades, from 33.9% in 1971 to 12% in 2008.
- But advanced countries have moved up the quality ladder because of their competitive advantage in business sophistication and innovation

Where did the Manufacturing Go?

- Generally, manufacturing value added to GDP has declined everywhere
- But some countries have been able to hold their own in terms Manufacturing Value-Added as % GDP
- These are the countries with high levels of efficiency who can manufacture and export competitively

Manufacturing Value Added as % GDP for Selected Countries

Country	2001	2010/11	DIFF
India	15	14	-1
China	32	31	-1
Korea	**27**	**31**	**+4**
Malaysia	29	26	-3
Thailand	**33**	**36**	**+3**
Ghana	10	6	-4
United Kingdom	15	13	-2
United States	16	11	-4

Some Countries foresaw Changes in Manufacturing

- Korea went through stages
  - Import substitution
  - Manufacturing for export
  - Heavy and Chemical industries
- Manufacturing for export accelerates productivity gains by placing firms under the discipline of export markets

Global Competitiveness Index (2011-2012) 142 Countries Ranked

Country	Overall	Basic Requirements	Efficiency Enhancers	Innovation and Sophistication Factors
China	26	30	26	31
Ghana	114	122	92	98
India	56	91	37	40
Indonesia	46	53	56	41
Malaysia	21	25	20	22
Korea	24	19	22	18
Philippines	75	100	70	74
Singapore	2	1	1	11

Conclusion on Ghana Manufacturing Diagnostics

- We started with import substitution manufacturing with a focus on the domestic market
- Import substitution with tariff protection is a dead end in the face of global competition as consumers will always prefer cheaper imports
- Only manufacturing that is globally competitive will survive
- To expand manufacturing requires competitiveness driven by efficiency enhancers

Forecasting 2022 - Assumed Global Conditions

- Decline of manufacturing in developed economies
- Shift of manufacturing jobs to areas of the world where labour is cheap
- “The World is Flat” (Thomas Friedman)
  - Competition everywhere
  - Technology makes information and knowledge spread quickly
  - We are competing with the whole world
  - Each country has to be more creative
  - No more advantages of location
  - Everyone can compete
- Advanced and some emerging countries will move up the value ladder
- Countries with best efficiency enhancement will become favourite locations for manufacturing
- Other countries will continue to be factor/endowment driven

Some interesting internal opportunities

- Demographic dividend (56% of population is between 15-64, considered the most productive age group) i.e. falling birth rate makes for a smaller population at young, dependent ages and for relatively more people in the adult age groups—who comprise the productive labour force.
- It improves the ratio of productive workers to child dependents in the population. That makes for faster economic growth and fewer burdens on families.
- Taking advantage of dividend requires certain policies:
  - Human capacity development Competitive economy to take advantage of global opportunities
  - Policies to generate capital (savings, FDI, financial sector development)

Tertiary Education Gross Enrolment Ratio*

Country	2001	2005	2010/11
China	10	19	26
Ghana	**na**	**6**	**12**
India	10	11	18
Indonesia	14	17	23
Malaysia	25	29	40
Korea	83	93	103
Philippines	30	27	30

*Enrollment in tertiary education regardless of age as a percentage of the total population of the five-year age group following secondary school leaving.

What to expect in agriculture?

- Agriculture share of GDP will continue to drop unless interventions focus on removing constraints:
  - Access to credit
  - Support to commercial agriculture
  - Better infrastructure (irrigation, transportation)
  - Productivity gains (Raising yields instead of acreage)
  - Land tenure system
- Transformation of agriculture will be slow because of significant lags between policy and outcomes and implementation challenges over the years

What to expect in Manufacturing if Trend Persists

- Manufacturing will continue to decline because of inability of domestic manufacturers to be globally competitive
- The only manufacturing that will survive is globally competitive products
- Higher productivity elsewhere will create space for imports as consumers will not pay more for more expensive and lower quality locally manufactured products
- Scaling up from trend requires efficiency enhancers including market size (export access)

What to do in manufacturing…(2)

- ECOWAS trade liberalization holds the key to a "Manufacturing for Export" strategy
  - Regional value chains
  - Economies of scale
  - Incentives for processing
  - Unimplemented protocols
- Requirements
  - Business friendly government
  - Cheap labor
  - Good infrastructure
  - Foreign firms provided technology and management
  - Borrow technology

Growing the Service Industry

- The service sector consists of the "soft" parts of the economy, i.e. activities where people offer their *knowledge and time* to improve productivity, performance, potential, and sustainability.
- The basic characteristic of this sector is the production of services instead of goods

Examples of Service Sectors

- Government
- Telecommunication
- Pharmaceuticals
- Healthcare/hospitals
- Public health
- Waste disposal
- Education
- Banking
- Insurance
- Financial services
- Legal services
- Consulting
- Information technology
- News media
- Tourism
- Retail sales
- Real estate

Drivers of Service Sector

- Quality of most services depends largely on the quality of the individuals providing the services,
- "people costs" are a high component of service costs
- Human Resource base drives service industry

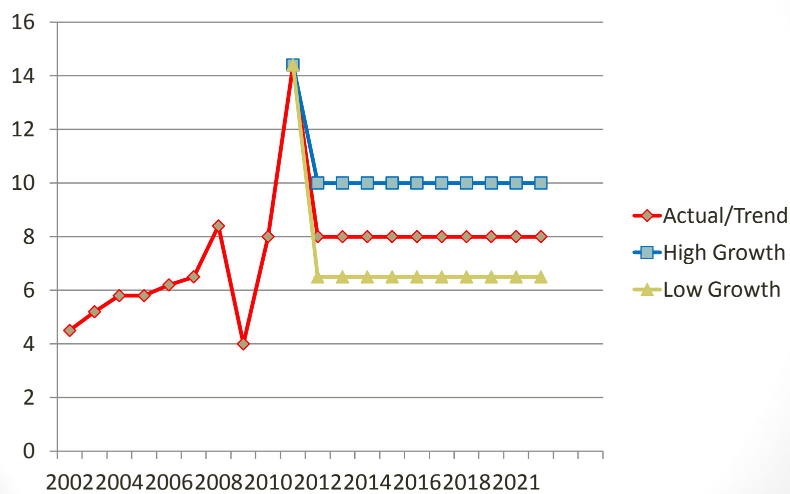
What to expect

- Service sector will grow for a number of reasons:
  - As incomes rise, demand for services will rise
  - Less capital intensive
  - We have the advantage of a large number of university graduates who can be deployed faster in services than in agriculture or manufacturing
  - Services are increasingly exportable (e.g. financial services (banking, insurance), health services, education)

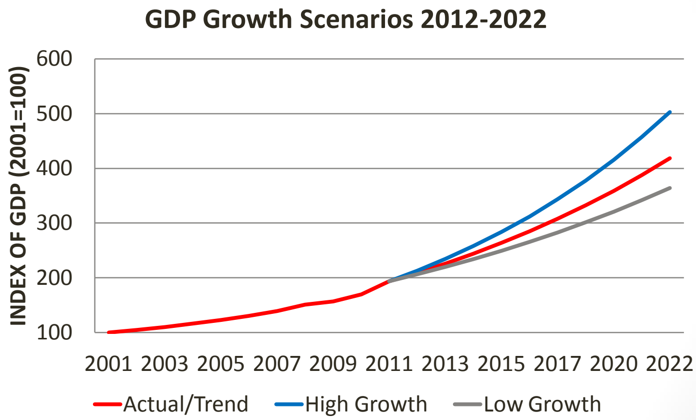
Scenarios for the next decade

- Current Trend (8% annual growth)
  - Current configuration of competitiveness
  - Low level of efficiency enhancers
- High Growth (10% annual growth)
  - High investment in efficiency enhancers will drive faster growth in services sector
  - Interventions in financial markets with development finance (loans, venture capital);
- Low Growth (4-6%)
  - Possible only in the face of major dislocations over the next decade
    - Weather
    - Falling commodity prices (gold, cocoa, crude oil)

Possible Scenarios for Growth



GDP Growth Scenarios (2012-2022)



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The Forecast

- Trend Growth (Avg. GDP Growth of 7-8%) with some transformation (p=60%)
  - Commodity dependence
  - Crude oil will overtake cocoa and gold as largest export in terms of value
  - Agriculture will continue to shrink or at best grow slowly
  - Manufacturing will stagnate or decline
- High Growth (Avg. GDP Growth of 10-12%) with rapid transformation (p=30%)
  - Use front-loaded efficiency enhancers to move up the value chain
  - Service will continue to lead
  - Some agricultural transformation towards commercial agriculture
- Low Growth (Avg. GDP Growth of 4-6%)(p=10%)
  - Unlikely scenario because of strong factor endowment (including emerging oil and gas sector)

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Obstacles to scaling up

- Competitive politics makes it difficult to achieve consistency in in the implementation of a national development strategy
- Contrast with Singapore, Malaysia with less political polarization
- Current debate on the role of the National Development Planning Commission (the recommendations of the Constitutional Review Commission versus the Government White Paper) reflects lack of consensus on how to craft and implement a national development strategy