NO.29 IEA MONOGRAPH

GHANA'S MIDDLE-INCOME REALITY CHECK PART I

THE ECONOMIC DIMENSION

IEA Ghana

INSTITUTE OF ECONOMIC AFFAIRS, GHANA

The Institute of Economic Affairs (IEA)

GHANA'S MIDDLE-INCOME REALITY CHECK PART I: THE ECONOMIC DIMENSION

By Dr. J. K. Kwakye[1]

Abstract

After rebasing in 2010, Ghana's per capita GDP rose to Middle-Income Country (MIC) level as defined by the World Bank. The per capita income measure is, however, seen to be too narrow as it does not even include key economic indicators let alone important social and development indicators. As the first of a two-part paper, this paper assesses Ghana's Middle-Income status in comparison with Malaysia and South Africa based on economic indicators and paper finds that on macroeconomic performance, Ghana lags behind. The paper concludes that Ghana may need to undertake major policy interventions to improve its economic performance to a level commensurate with its new MIC status.

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ISBN: 988-584-37-7
ISSN: 0855-3238

This publication was sponsored by the International Development Research Centre (IRDC)/Think Tank Initiative.

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Executive Summary

According to new rebased GDP figures released by the Ghana Statistical Service (GSS) in November 2010, Ghana joined the ranks of Middle Income Countries (MICs) from 2007 based on its elevated per capita GDP. The per capita GDP measure is used by the World Bank to classify countries into less developed, middle income, and advanced countries. This measure is, however, seen to be too narrow as it does not even include key economic indicators let alone important social and development indicators.

In the first of a two-part paper, this paper assesses Ghana's MIC status using broader economic indicators.[2] To make the assessment more meaningful and credible, instead of assessing Ghana in its own right, the country is pitched against two of the best MIC performers—Malaysia and South Africa. Apart from its spectacular socio-economic performance as a member of the "Asian Tigers," Malaysia had a lot in common with Ghana at the time of their common year of independence, 1957, although they have since moved along quite dissimilar development paths. South Africa, on the other hand, is the African giant and powerhouse that has made tremendous economic strides and is an aspirational reference point in Africa. Its inclusion is also intended to provide geographical balance to the assessment. These two countries provide excellent development models for Ghana.

The paper compares the performance of Ghana with Malaysia and South Africa on the basis of selected economic indicators for extensive periods. The periods depend on the availability of data though some periods extend for 40 years.. The performance indicators selected for the assessment relate to the domestic macroeconomy, the real economy, the financial sector, the external sector, and competitiveness.

On macroeconomic performance, the paper finds that Ghana has lagged substantially behind Malaysia and South Africa. Ghana has had higher rates of inflation, driven by higher monetary growth rates, in turn driven by higher budget deficits. Further, Ghana has had higher public debt-to-GDP ratios. Ghana has had more overvalued and, by implication, less competitive exchange rates for most of the review periods. On the other hand, Ghana has had lower national savings and investment ratios. Ghana's poorer macroeconomic performance generally, and its lower investment levels in particular, contributed to its poorer growth performance compared to Malaysia and South Africa. Ghana's GDP growth rates have been lower, as have been its per capita GDP growth rates. It is no wonder, therefore, that it took Ghana such a long time to join the ranks of the MICs on a per capita income basis.

In terms of the performance of the real economy, Ghana has lagged behind Malaysia and South Africa. Malaysia's economy has followed a more normal evolution to the extent that industry and services have continuously increased their share of GDP, while agriculture's relative share has declined. Ghana, on the other hand, has seen a near-demise of its industry in general and the manufacturing sector in particular. Agriculture's share of GDP has declined, as

[2] The second part of the series will base the assessment on social and infrastructure indicators.

expected, but rather slowly. On the other hand, the services sector has grown strongly, emerging in recent years as the lead sector of the economy. In terms of productivity, Ghana has fared much more poorly in industry and services compared with Malaysia and South Africa, and in agriculture compared with Malaysia.

In the course of a country's development, the primary agricultural sector tends to be dominant in the pre-industrial stage. But as development takes hold, rising agricultural productivity allows resources tied to the sector to be released to other activities in industry and services. It is, therefore, usual to see the agricultural sector's share of GDP decline over time. Meanwhile, the secondary industrial sector tends to grow and increase its share of GDP. The tertiary services sector then follows in increasing importance, "servicing" industry and agriculture. While the transformation from agrarian to industrial to a service economy tends to be typical of many countries in their development, individual experiences may differ depending on relative economic endowments and comparative advantages in production and trade. The sharp increase in Ghana's services sector, the relative decline of industry, and low agricultural productivity growth do not portend well for the country's long-term sustainable development. Remedial policy interventions may be required to redress the balance.[3]

In terms of financial intermediation and deepening, which indicate how the financial sector contributes to growth of the real economy, Ghana has trailed both Malaysia and South Africa. Ghana has had the lowest banking density of the three countries, providing the least access to banking services. Ghana has also had the lowest levels of private sector credit, a factor cited as a key obstacle to business in the country. Ghana also has had the lowest money supply-to-GDP ratio of the three countries, an indication of the shallowness of the financial sector. Thus, on all three measures of financial intermediation/deepening, Ghana has performed the poorest. By deduction, Ghana's financial sector has had the least capacity to facilitate savings and investment in support of economic growth.

On external performance, Ghana generally has lagged both Malaysia and South Africa. Of the three countries, Ghana's trade and current account imbalances have been the largest. Ghana's external imbalances reflect a high import demand, driven by inadequate local substitutes, in the face of a diminishing manufacturing sector that cannot compete with cheaper imports that mostly benefit from home subsidies. The high import demand also reflects an exceptionally-high Ghanaian appetite for foreign goods, influenced by Western culture and a growing middle class. This exerts constant pressure on the international reserves and the exchange rate. Ghana has also had the highest external debt-to-GDP ratios of the three countries, the result of borrowing to finance the external imbalances. While Ghana's debt ratios declined sharply following HIPC and MDRI reliefs, they have subsequently been on the rise once more. In terms of FDI flows, Ghana has generally had the lowest net inflows relative to GDP of the three countries. Ghana's lower net FDI inflows have contributed to lower investments and its inferior growth performance.

In terms of the competitiveness of the three economies, Ghana has trailed both Malaysia and South Africa. Ghana has had a relatively more overvalued exchange rate for most of the review

[3] While important, this subject goes beyond the immediate purpose of this paper.

periods which has rendered the economy uncompetitive in price terms. In terms of broader non-price measures, Ghana has also lagged in competitiveness. For example, the Global Competitive Index (GCI) report for 2011-12, based on wide-ranging indicators of competitiveness, ranked Ghana 114th out of 142 countries. By comparison, Malaysia was ranked 21st and South Africa 50th. Further, figures from the World Development Indicators (WDI) for 2011 show Ghana trailing both Malaysia and South Africa in terms of the ease of doing business. Ghana's relatively low competitiveness has been a drag on investment in the country and on the economy's growth.

The key conclusion of this paper is that, while Ghana's per capita GDP after rebasing may have risen to MIC levels, the country still lags behind major MICs in terms of a broader range of economic indicators. Major policy interventions are, therefore, needed to improve Ghana's economic performance to a level commensurate with its new MIC status.

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1. Introduction

In 2010, the Ghana Statistical Service (GSS) rebased Ghana's National Accounts (or Gross Domestic Product (GDP)). The exercise involved a change in the base year, changes in methodologies and concepts, and data revisions.

The GSS announced that, following the rebasing, Ghana had become a Middle-Income Country (MIC). The determination of MIC status was based on the fact that the calculated per capita GDP had increased to within the per capita GDP bracket for MICs used by the World Bank.

The rebasing and the proclaimed ascendancy of Ghana to MIC status have generated a lot of debate in the country. The debate has focussed on two main issues. The first relates to the justification for the rebasing, while the second relates to the MIC qualification for Ghana.

This paper seeks to throw more light on these issues as a contribution to the debate. To this end, the paper elaborates on the rebasing exercise and also assesses Ghana's MIC status.

The paper is structured as follows. After this Introduction, it expatiates on the national accounts rebasing exercise in Chapter 2. In Chapter 3, Ghana's MIC status is assessed using various economic indicators. Here, comparison is made with Malaysia and South Africa, two of the world's best MIC performers. Chapter 4 contains the summary of the results and the conclusion to the paper.

2. The Rebasing Exercise: Rationale and Results

Prior to rebasing in 2010, the GSS used 1993 as the reference year in the compilation of Ghana's National Accounts. The compilation was also based on the 1968 international system of national accounts (SNA68), which had its related methodologies and concepts.

The GSS justified the rebasing of the national accounts on several factors.

First, the rebasing was to update base-year prices, as more current prices were more representative of component economic activities.

Second, the rebasing was to reflect structural changes in the economy by capturing new activities and reweighting the GDP component activities.

Third, the rebasing was to adopt the more current 1993 system of national accounts (SNA93), which, according to GSS, almost all countries had adopted to replace the old system (SNA68). Adopting SNA93 entailed using new methodologies and concepts. These related, among others, to: valuation of reforestation; more disaggregation of data for wholesale and retail trade; new model to value livestock production; and the use of multiple- rather than single-indicators as extrapolators for forward estimates for the GDP subsectors.

Fourth, the rebasing entailed improvements and revisions to data sources. These included: the industrial census; Ghana Living Standards Survey (GLSS); Value-Added Tax (VAT); banks' consolidated profit and loss accounts; telephone call volumes; updating and using broader and more disaggregated services sector; and inclusion of oil extraction activities.

Fifth, the rebasing involved reconciliation of the output, income, and expenditure methods of computing GDP.

In fact, the UN recommends rebasing of national accounts at 10-year intervals for the foregoing reasons. Clearly, Ghana's GDP compilation had become outdated. This called GDP values, especially in real terms, into question and also made international comparisons difficult.

According to GSS, the rebasing resulted in the 2006 GDP increasing from GH¢11,672 million (US$12,687 million) to GH¢18,705 million (US$20,332 million) (Tables 2.1 and 2.2). The 2006 per capita GDP also rose from GH¢533 million (US$580 million) to GH¢855 million (US$929 million). The corresponding figures for 2010 show GDP increasing from GH¢25,603 million (US$18,030 million) to GH¢44,799 million (US$31,548 million) and per capita GDP from GH¢1,070 million (US$753 million) to GH¢1,872 million (US$1,318 million).

Table. 2.1: Old Series: GDP and Per Capita GDP

	2006	2007	2008	2009*	2010*
Nominal GDP (GH¢ m)	11,672	14,046	17,452	21,747	25,603
Cedi/dollar rate	0.92	0.94	1.07	1.42	1.42
Nominal GDP (US$ m)	12,687	14,942	16,310	15,423	18,030
Population estimate (m.)	21.88	22.39	22.90	23.42	23.93
Per capita (GH¢)	533	627	762	929	1,070
Per capita (US$)	580	667	712	659	753

Table. 2.2: New Series GDP and Per Capita GDP

	2006	2007	2008	2009*	2010*
Nominal GDP (GH¢ m)	18,705	23,154	30,179	36,867	44,799
Cedi/dollar rate	0.92	0.94	1.07	1.42	1.42
Nominal GDP (US$ m)	20,332	24,632	28,204	25,963	31,548
Population estimate (m.)	21.88	22.39	22.90	23.42	23.93
Per capita (GH¢)	855	1,034	1,318	1,574	1,872
Per capita (US$)	929	1,100	1,232	1,109	1,318

Source: GSS website
*Provisional

The World Bank classifies a country with per capita Gross National Income (GNI)—a measure that is close to the GDP—of US$976-US$11,905 as a MIC. On this basis, Ghana became a MIC from 2007, when the rebased per capita GDP of US$1,100 fell within this range for the first time.

As can be seen, the MIC per capita GDP range is quite wide. Assuming the range is divided into three equal sub-ranges: US$976-4,619, US$4,620-8,263, and US$8,264-11,905, and countries belonging to these sub-ranges are respectively called: Lower Middle-Income Countries (LMICs), Middle Middle-Income Countries (MMICs), and Upper Middle-Income Countries (UMICs). Ghana's per capita GDP for the period 2007-10 falls in the first sub-range. Thus, based on per capita income alone, Ghana is at best a LMIC.

But the fundamental question many people have been asking is whether income alone is a sufficient MIC yardstick. There is a swell of opinion that one may have to look at a broader range of socio-economic factors to assess Ghana's MIC status. In this first part of a two-part series, the assessment is based largely on economic indicators.[4]

[4] The second part of the series will base the assessment on social and infrastructure indicators.

3. Middle Income-Country (MIC) Assessment

To assess Ghana's MIC status, the paper follows the tradition of comparing the country with other MICs. As noted above, the field of MICs is wide ranging, from LMICs to UMICs. A decision has to be made, therefore, regarding which MIC(s) to compare Ghana with.

The IEA and UNDP recently produced a collaborative paper on Ghana's MIC status that was presented at a roundtable conference attended by government officials, parliamentarians, academia, civil society organizations, donors, the media, and other stakeholders.[5] In that paper, Ghana was compared largely with other MICs in Sub-Saharan Africa (SSA). The paper asserted that Ghana compared favorably in many dimensions with SSA MICs, "particularly with respect to socio-economic and governance indicators and attainment of the MDGs." Comparisons with MICs, overall, however, were "much less favorable." The paper pointed out that progress for Ghana would require efforts to fully exploit the opportunities for growth and development utilizing the country's advantages. Ghana's continued progress would depend on rising incomes and paying attention to the other elements that support and sustain development. These included solid economic performance, food security, improved governance and broad improvements in personal and social capabilities, particularly health, education, infrastructure, participation, and empowerment. The paper stressed the importance of Ghana continuing to receive aid following her achievement of MIC status. Given the economy's structural imbalances, an overly abrupt withdrawal of development assistance was likely to undercut the capacity for sustained growth and the ability to reduce extreme poverty and promote other dimensions of the MDGs.

Comments from participants at the conference were dominated by doubts about Ghana's MIC status. Many argued that income was not an adequate measure of MIC status and that Ghana was lacking important economic facilities and social amenities, including in the areas of infrastructure, education, health, energy, water supply, and sanitation. Moreover, poverty was still deep and widespread, and the standard of living of a majority of Ghanaians was considerably low. Further, Ghana still heavily depended on foreign aid to fund its development and social budget. The overwhelming view was that comparing Ghana with SSA MICs was not very ambitious.

This paper is a follow-up to the IEA/UNDP publication. In an attempt to be more ambitious in the assessment, this paper compares Ghana with two renowned MICs—Malaysia and South Africa. The reason for the selection of these two countries is two-fold. These countries have achieved high socio-economic performance that provides a good example for Ghana. They also provide geographical balance to the assessment.

Four South East Asian Countries (SEACs)—Malaysia, Singapore, South Korea and Taiwan—dubbed the "Asian tigers," have had spectacular economic transformations over a relatively short period of time that has propelled them into the upper echelons of the MICs. They have thus become a reference point when comparing the achievements of other emerging MICs.

[5] See: Moving Towards Middle Income Country Status: Potential Implications For Development Assistance And Achievement of MDGs In Ghana, *mimeo, by the UNDP and IEA, 2011 (Feb.)*

Among the SEACs, perhaps none is a better candidate for comparison with Ghana than Malaysia. This is due to several reasons. Malaysia is a country that had similar characteristics as Ghana at the time of their independence. In fact, the two countries have a common colonial legacy; they were both colonized by Britain and obtained their independence just months apart in 1957—Ghana in March and Malaysia in August of that year. Economically, both Ghana and Malaysia were similar in several respects in 1957, especially in terms of their level of international reserves and per capita incomes. Ghana and Malaysia have similar geographical characteristics and demographics. Ghana has a population of about 24 million (2010 census), while Malaysia's is only slightly higher at about 28 million (2010 census). Both Ghana and Malaysia are multi-ethnic, multicultural, and multilingual. Both countries have tropical climates and vegetation, and a range of natural resources. Ghana's natural resource endowment includes: gold, cocoa, timber, diamond, bauxite, manganese, and (recently) oil. Malaysia is a major exporter of natural and agricultural resources, with petroleum being the most valuable exported resource. Malaysia is a major producer of tin, rubber and palm oil.

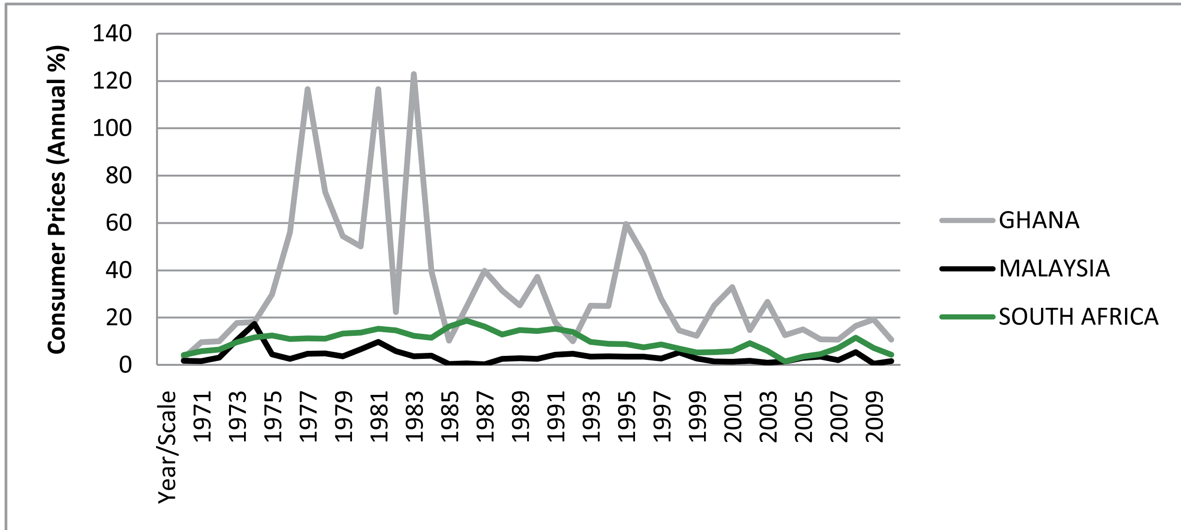
South Africa, on the other hand, is the African giant and powerhouse that has made tremendous economic strides before and after apartheid. South Africa is a medium-sized country, bigger than Ghana. It has a population of about 51 million, more than twice that of Ghana. Like Ghana, South Africa is mostly warm and sunny. It boasts a diverse landscape of semi-desert, mountainous, coastal, and subtropical terrain. Like Ghana, South Africa has an abundance of natural resources, including gold, chromium, coal, iron ore, manganese, nickel, phosphates, tin, uranium, diamonds, platinum, copper, salt and natural gas. Also, like Ghana, South Africa is a nation of diversity, with a variety of cultures, languages, and religious beliefs.

The comparisons between Ghana on the one hand, and Malaysia and South Africa on the other, are based on basic economic indicators. The economic indicators selected for the assessment belong to the areas of the domestic macroeconomy, the real economy, the financial sector, the external sector, and competitiveness. The policy choices that have taken these countries along their different development paths are highlighted to buttress the assessment.

3.1 The Domestic Macroeconomy

Fig 3.1.1 below illustrates inflation rates for the three countries over the 40-year period, 1970-2010. Clearly, Ghana has had much higher rates of inflation than Malaysia and South Africa. As will be seen from other macroeconomic indicators, a hallmark of the SEACs, in particular, has been the maintenance of relative macroeconomic stability, which has been conducive to investment and long-term growth. Ghana, on the other hand, has had long periods of macroeconomic instability, which stifled investment and growth.

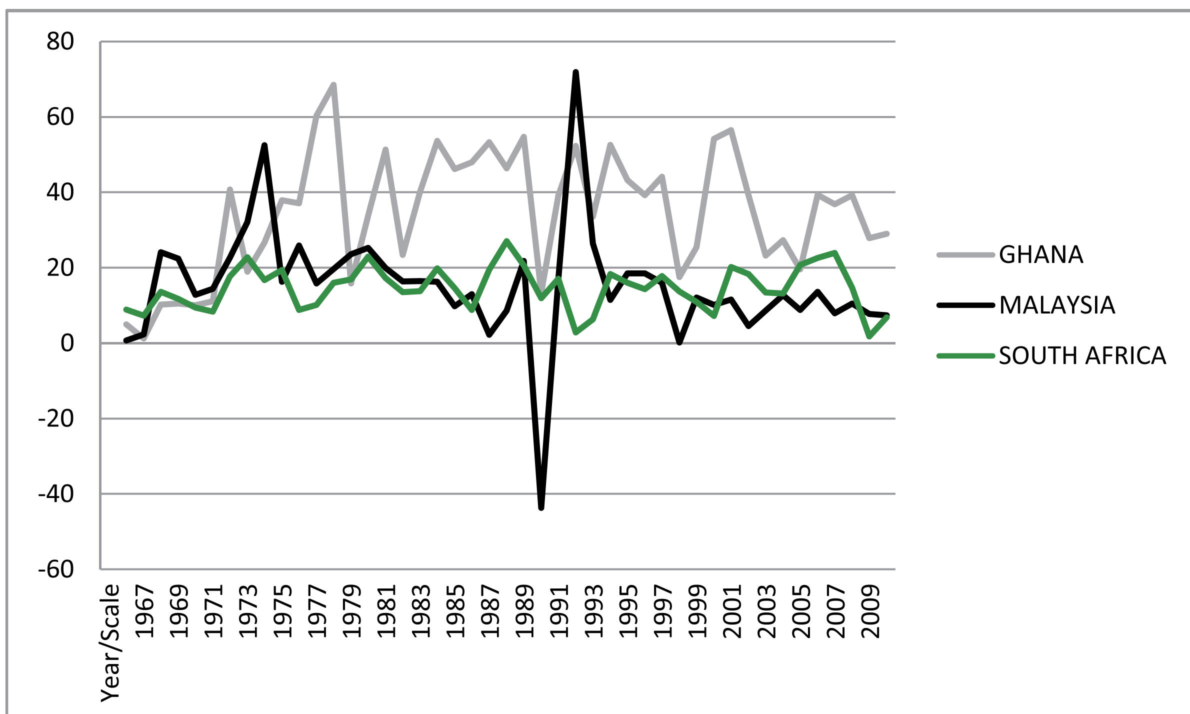
Fig. 3.1.1: Inflation Rate



Source: World Development Indicators (WDI), World Bank.

Money supply is a major driver of inflation. As can be seen from Fig 3.1.2 below, over the review period Ghana has had much higher rates of monetary growth compared to both Malaysia and South. It is no wonder, therefore, that Ghana has had correspondingly higher rates of inflation as indicated above.

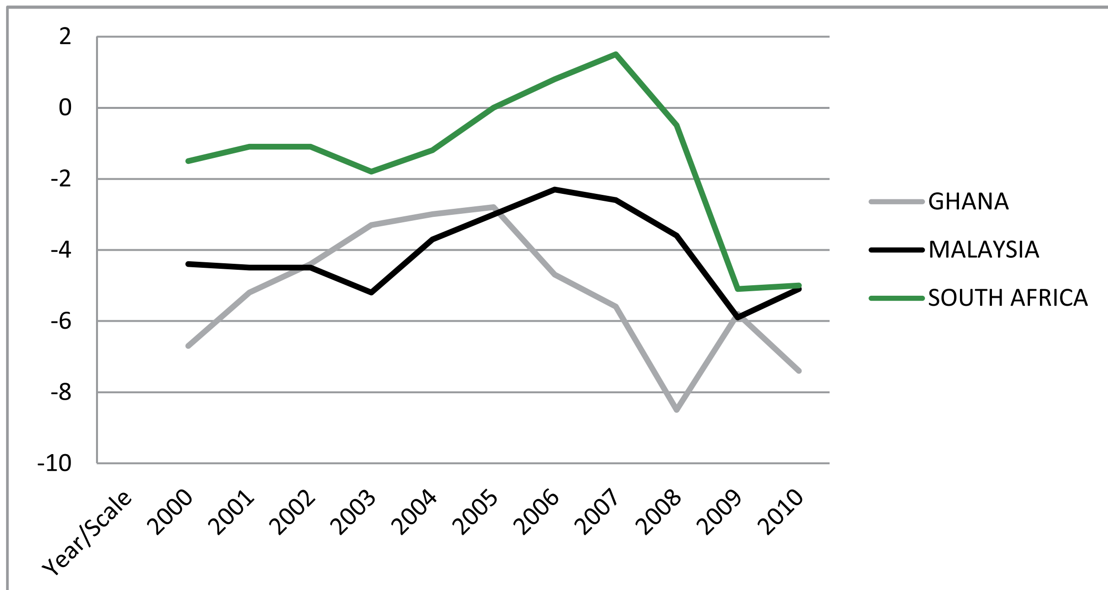
Fig. 3.1.2: Broad Money Growth (Annual %)



Source: World Development Indicators (WDI), World Bank.

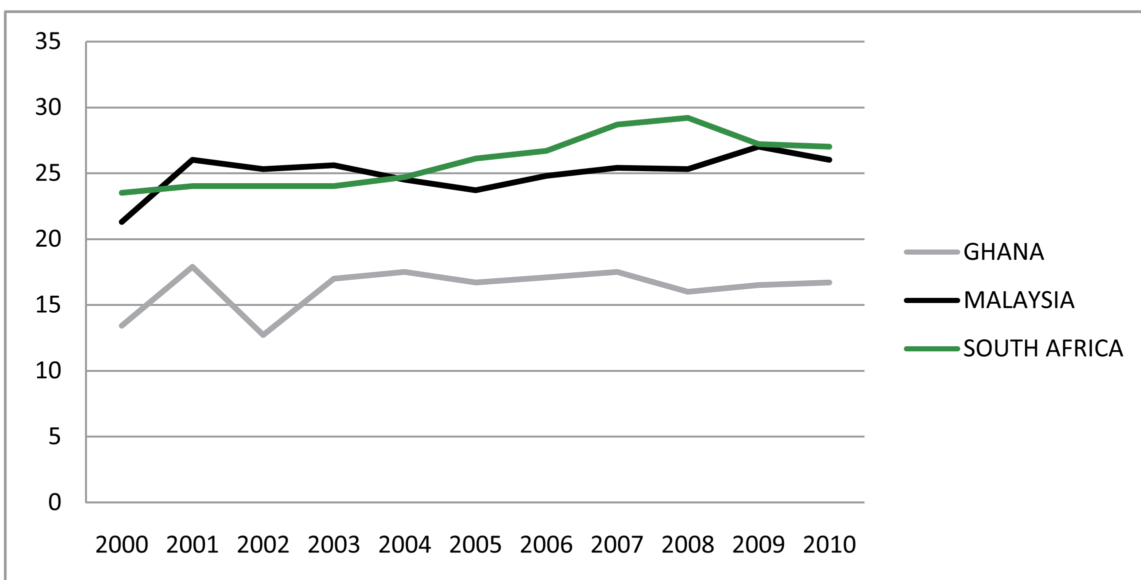
The budget deficit in turn is a driver of monetary growth, especially if it is financed by the domestic banking system. Fig 3.1.3 below shows that Ghana has, on average, higher budget deficits than Malaysia and South Africa, which drove its monetary growth. It appears from Figures 3.1.4 and 3.1.5 that Ghana's higher budget deficits emanated more from lower revenues, as expenditures were lower than those of Malaysia and South Africa. In other words, Ghana's fiscal problem seemed to lie more with lower revenue levels than constrained expenditure. It will be shown later that investment was a casualty of Ghana's revenue-constrained spending, which adversely affected her growth. This is not to suggest, however, that there was no room for prioritization of expenditure to focus more on priority development and social spending.

Fig. 3.1.3: Budget Deficit /Surplus as % of GDP



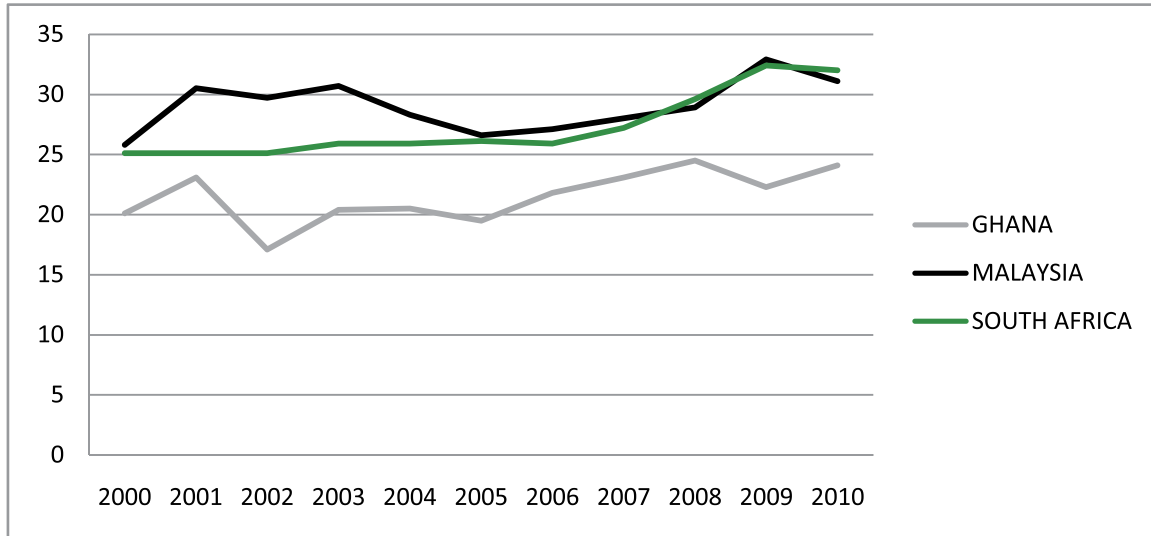
Source: World Development Indicators (WDI), World Bank.

Fig. 3.1.4: Government Revenue (as a % of GDP)



Source: International Monetary Fund (IMF)

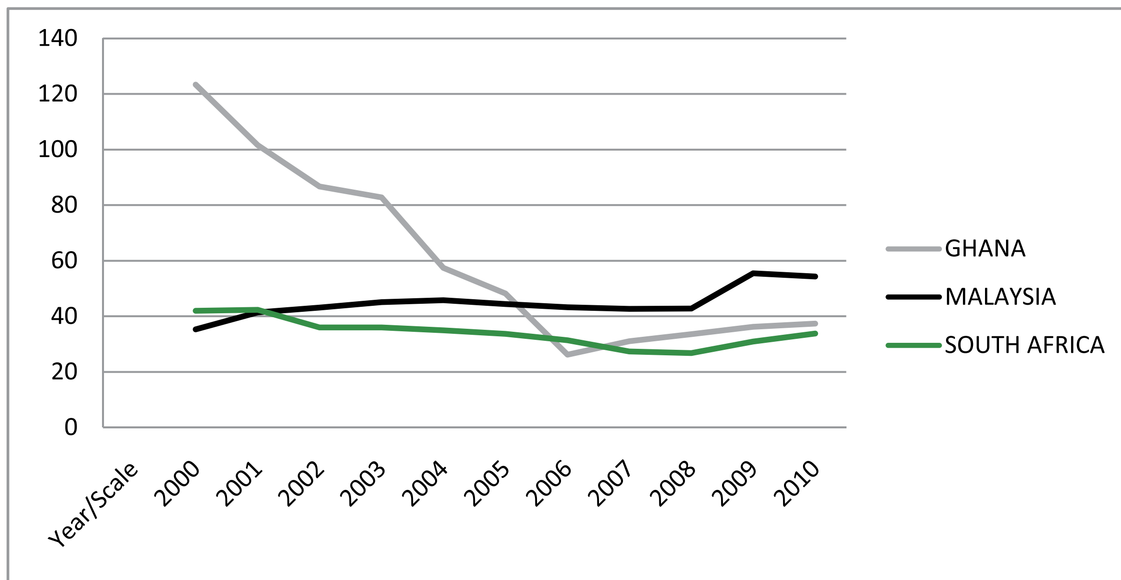
Fig. 3.1.5: Government Expenditure (as a % of GDP)



Source: International Monetary Fund (IMF)

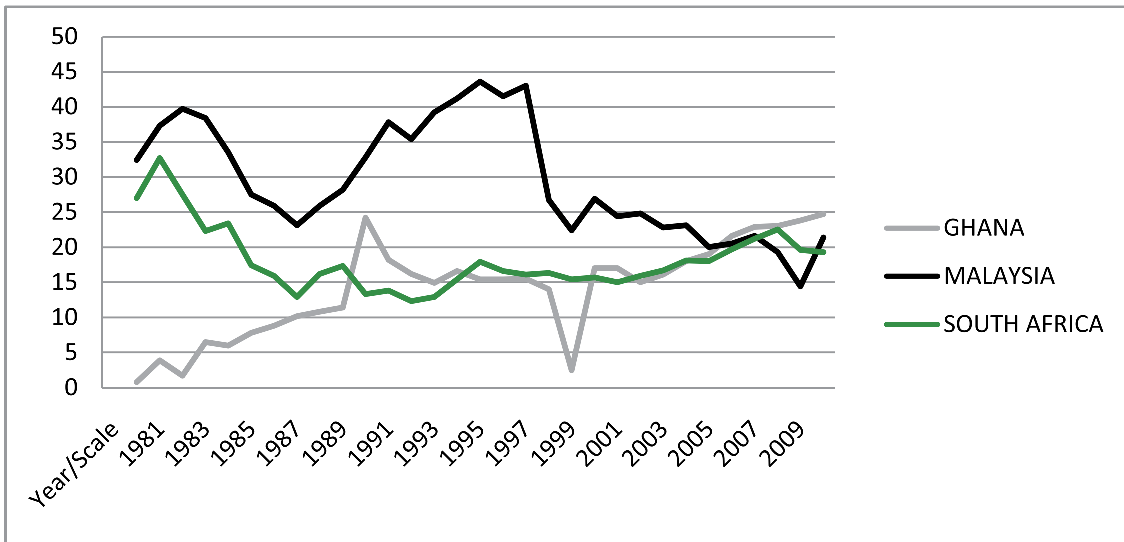
Ghana's higher budget deficits and the borrowing to finance them led to its public debt as a ratio of GDP being higher than that of Malaysia and South Africa for most of the period as depicted in Fig. 3.1.6.

Fig 3.1.6: Government Debt as % of GDP



Source: International Monetary Fund (IMF)

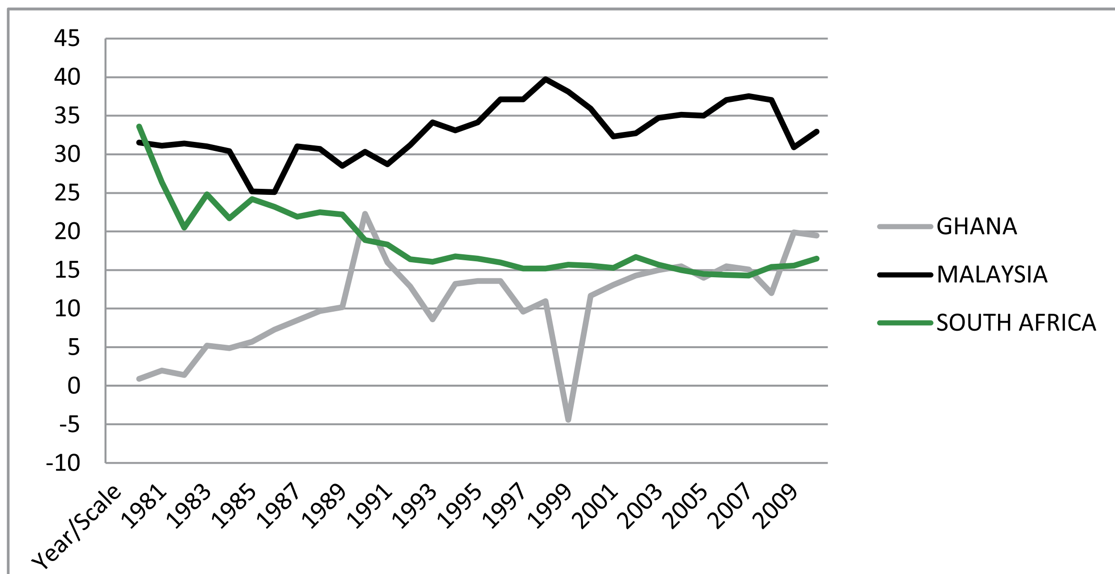
Fig. 3.1.7: Total Investment as % of GDP



Source: World Development Indicators (WDI), World Bank.

Fig 3.1.8 illustrates the levels of national savings for the three countries. Ghana has had lower (national) savings as a ratio of GDP than both Malaysia and South Africa. The contrast with Malaysia is particularly remarkable. Since a nation's investment is fed primarily by its own savings—supplemented by foreign savings—it is no wonder Ghana has had the lowest investment ratios of the three countries as noted above.

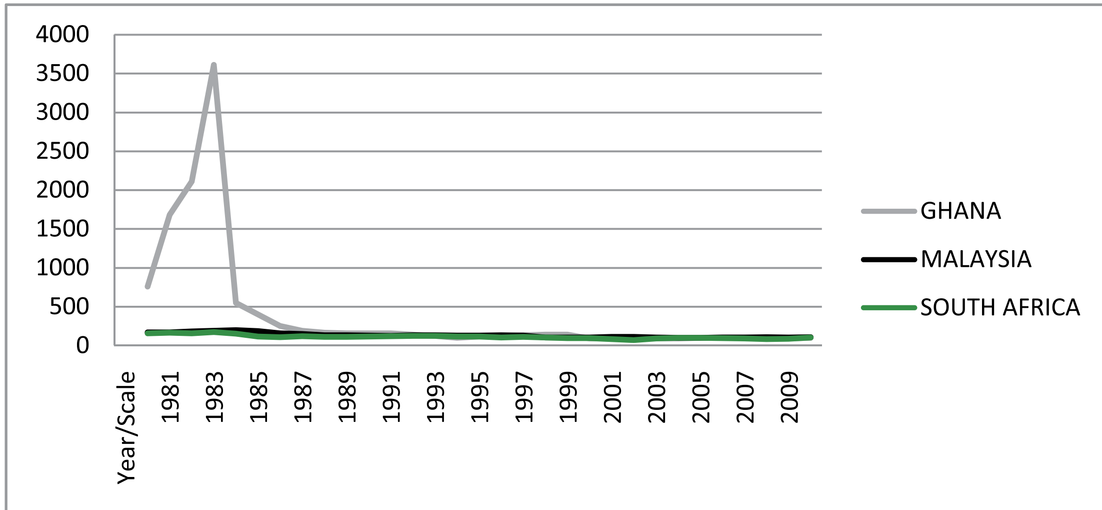
Fig. 3.1.8: Gross National Savings as a % of GDP



Source: World Development Indicators (WDI), World Bank.

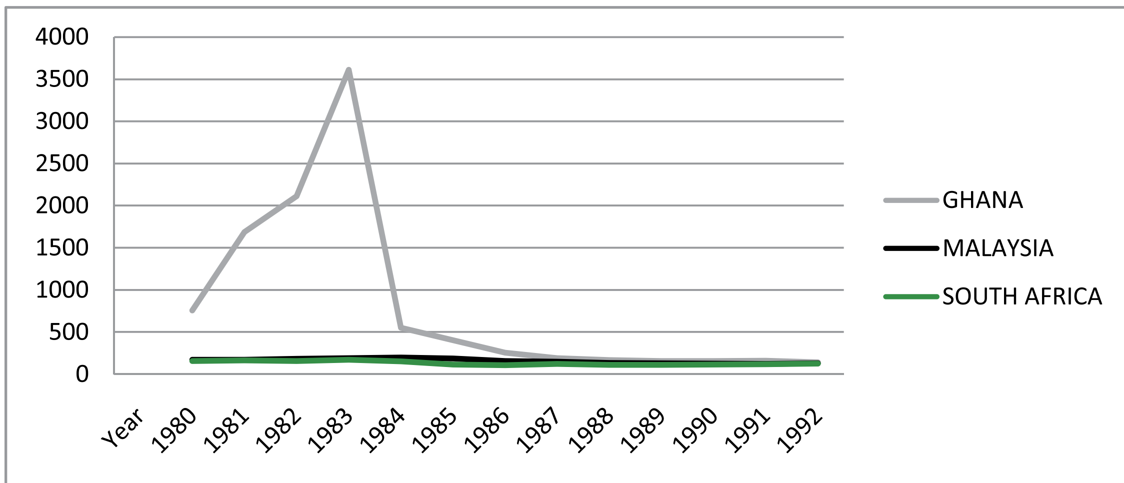
The exchange rate can be used as an instrument of economic growth if appropriately aligned to boost competitiveness. Fig. 3.1.9a shows that Ghana maintained a more appreciated exchange rate compared with Malaysia and South Africa during the review period. This was the case especially during the early part of the period, from 1980-92, compared to the latter period, 1993-2010 as shown in Fig. 3.1.9b and Fig. 3.1.9c. An appreciated exchange rate reduces an economy's competitiveness and stifles growth, which Ghana suffered during for the most part of the review period.

Fig. 3.1.9a: Real Effective Exchange Rate Index (2005=100)



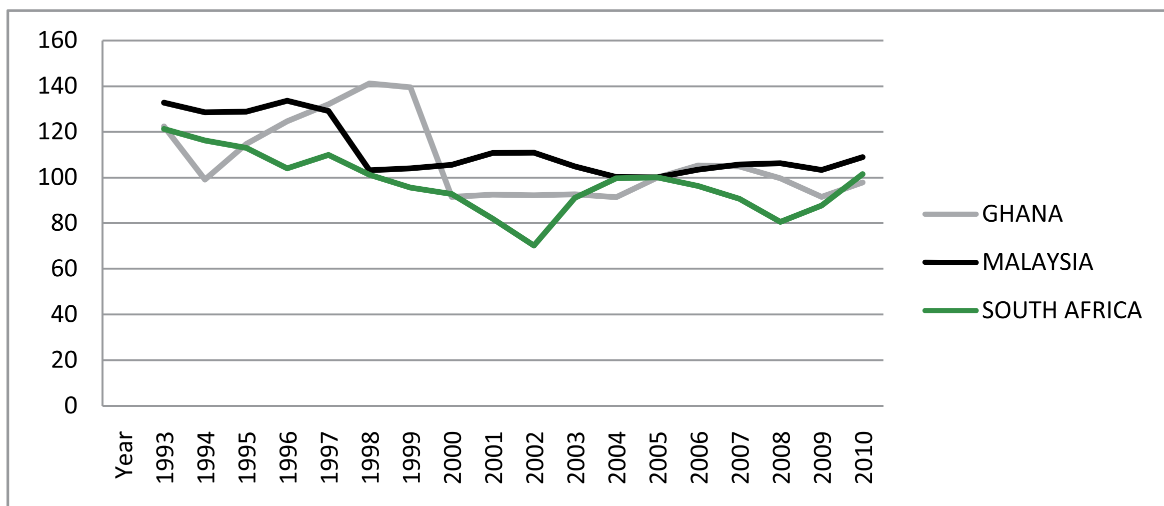
Source: World Development Indicators (WDI), World Bank.

Fig 3.1.9b: Real Effective Exchange Rate Index (2005=100) from 1980 – 1992



Source: World Development Indicators (WDI), World Bank.

Fig. 3.1.9c: Real Effective Exchange Rate Index (2005=100) from 1993 – 2010



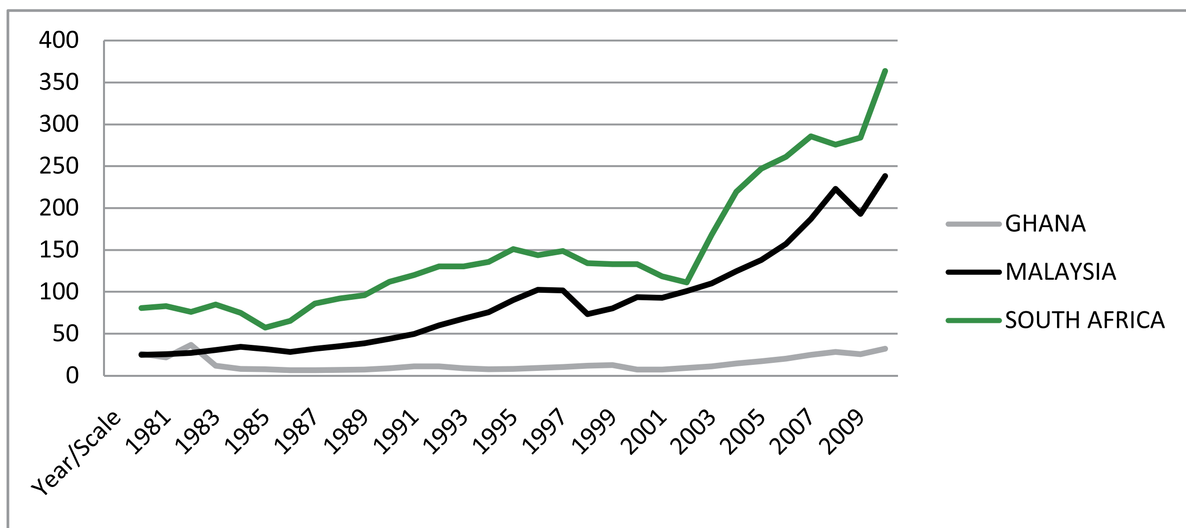
Source: World Development Indicators (WDI), World Bank.

3.2 The Real Economy

We now turn to the real economy and compare the performance of aggregate GDP and its components—agriculture, industry, and services—for the three countries.

In nominal terms, Ghana's GDP increased from about $8 billion in 1984 to $32 billion in 2010 (see Fig. 3.2.1). Over the same period, Malaysia's nominal GDP rose from $35 billion to $238 billion, and South Africa's from $75 billion to $364 billion. These figures show the relative sizes of the three economies and how they have evolved over time. Nominal GDP is, however, not very useful for international comparisons for the reason that it is influenced by domestic prices. Thus, all things being equal, a country with higher inflation rates will have a higher nominal GDP. To address this problem, real GDP is compiled, where the price influence is discounted by valuing economic activity at prices of a selected base year.

Fig. 3.2.1: GDP (Current Price) in USD Billions



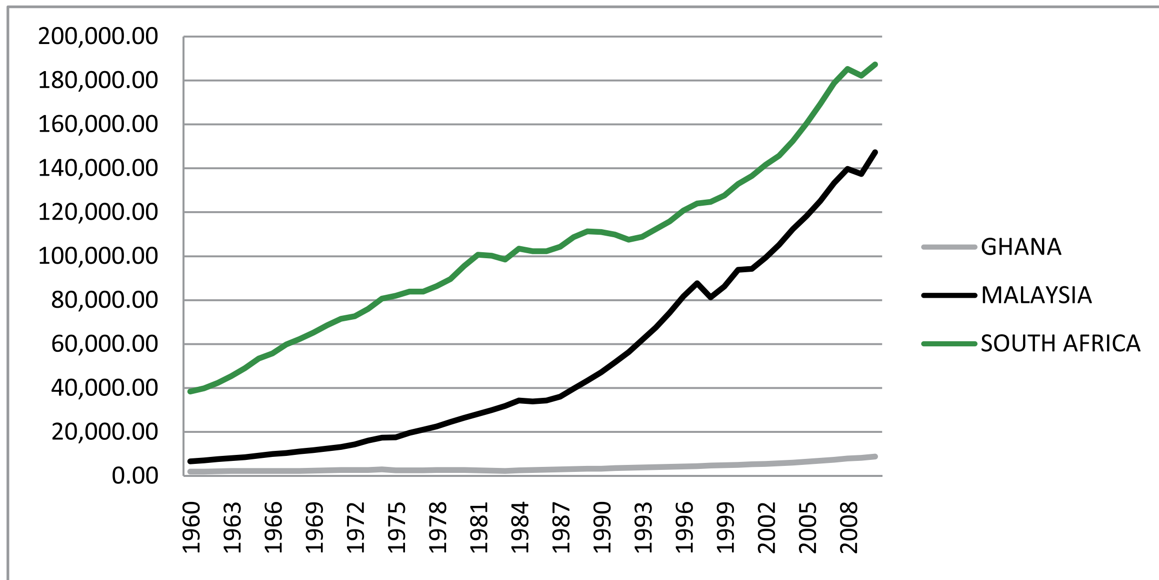
Source: World Development Indicators (WDI), World Bank.

Fig 3.2.2 below shows real GDP figures computed in constant 2000 prices for the three countries.[7] Ghana's real GDP increased from $1,900 million in 1960 to $8,700 million in 2010, showing a 4.6-fold increase. Comparatively, Malaysia's increased from $6,631 million to $147,250 (a 22.2–fold increase) and South Africa's from $38,336 million to $187,234 million (a 4.8–fold increase). Fig. 3.2.2 confirms that Malaysia's real GDP accelerated the most and Ghana's the least. South Africa's GDP was much larger from the beginning, but its acceleration during the review period was moderate.

[6] We prefer to leave out the 1980-83 figures as they may be heavily distorted by the high exchange rate overvaluation during the period.

[7] It needs to be pointed out that real GDP figures may vary depending on the methodology used. The IMF and World Bank compile real GDP figures based on purchasing power parity (PPP) and the Atlas Method respectively. These methods may lead to different results. Therefore, for international, comparisons, it is important to use the same source.

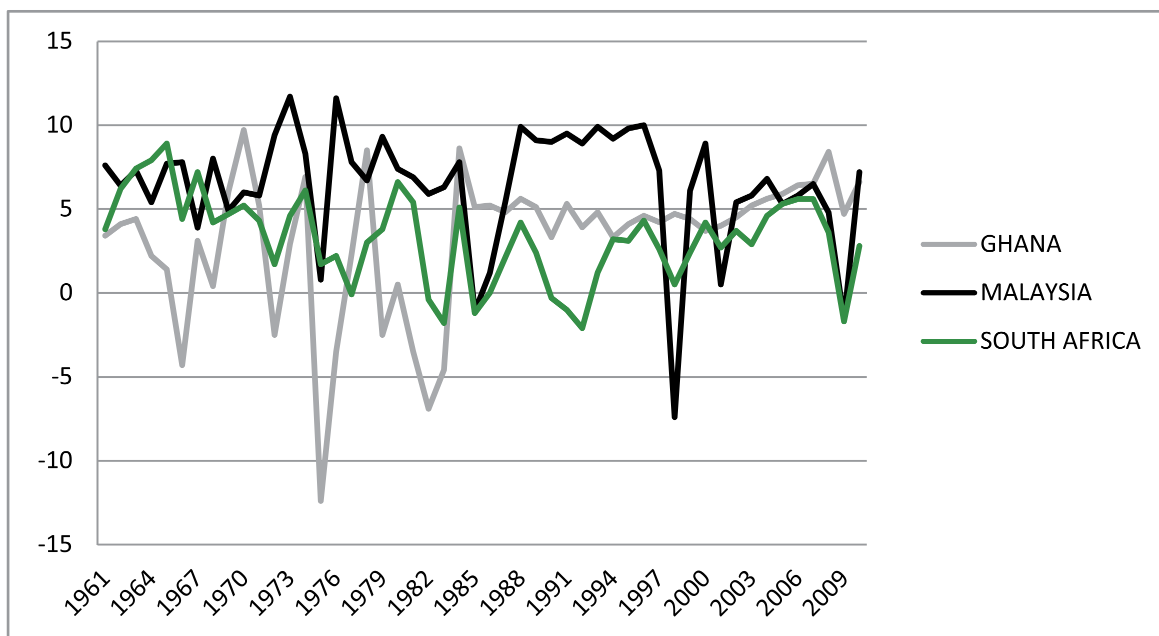
Fig. 3.2.2: Real GDP (Constant 2000 Prices) in USD Billions



Source: World Development Indicators (WDI), World Bank.

Fig. 3.2.3 show annual real GDP growth rates. Clearly, for the period as a whole, Malaysia showed more stable and higher rates of growth, averaging 6.5 percent for the period. For Ghana, growth during 1961-83 was very erratic, with large positive and negative swings. Growth stabilized positively during 1984-2010. The average growth during the entire period was 3.2 percent, the lowest among the three. South Africa' growth was also erratic but generally positive, averaging 3.3 percent for the period. Relatively, South Africa was the most mature economy from the beggining and, as is usual, had the least capacity to grow further. Since Ghana and Malaysia, however, started at almost the same levels of development, they had similar growth capacities. But clearly, Malaysia grew, on average, twice as fast as Ghana annually. Compounded over the entire 1960-2010 period, this translates into a huge difference in growth performance.

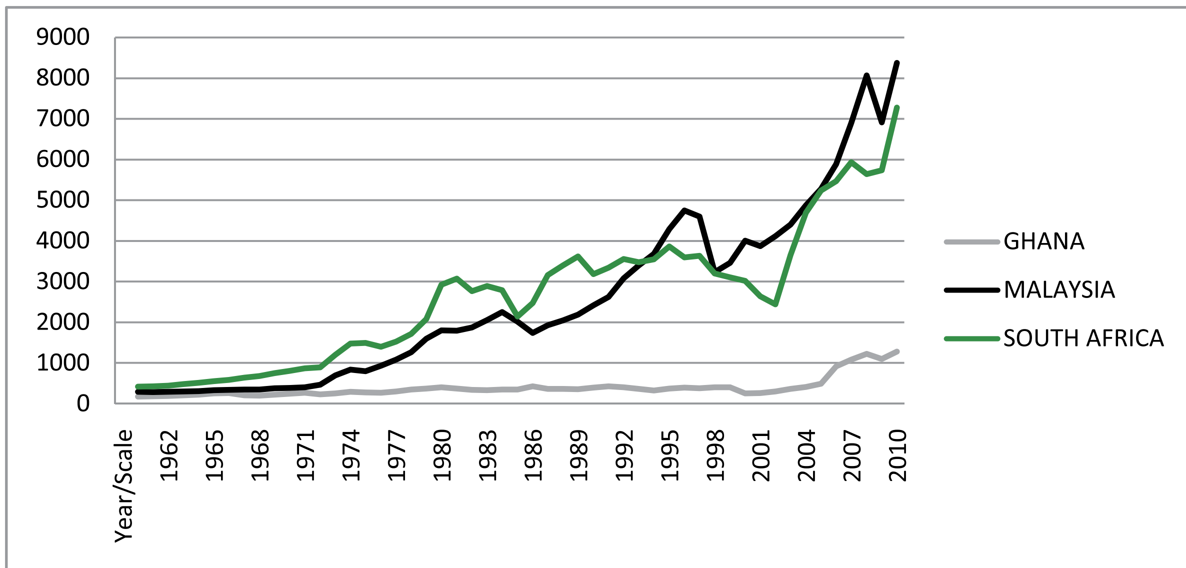
Fig. 3.2.3: GDP Growth Rate



Source: World Development Indicators (WDI), World Bank.

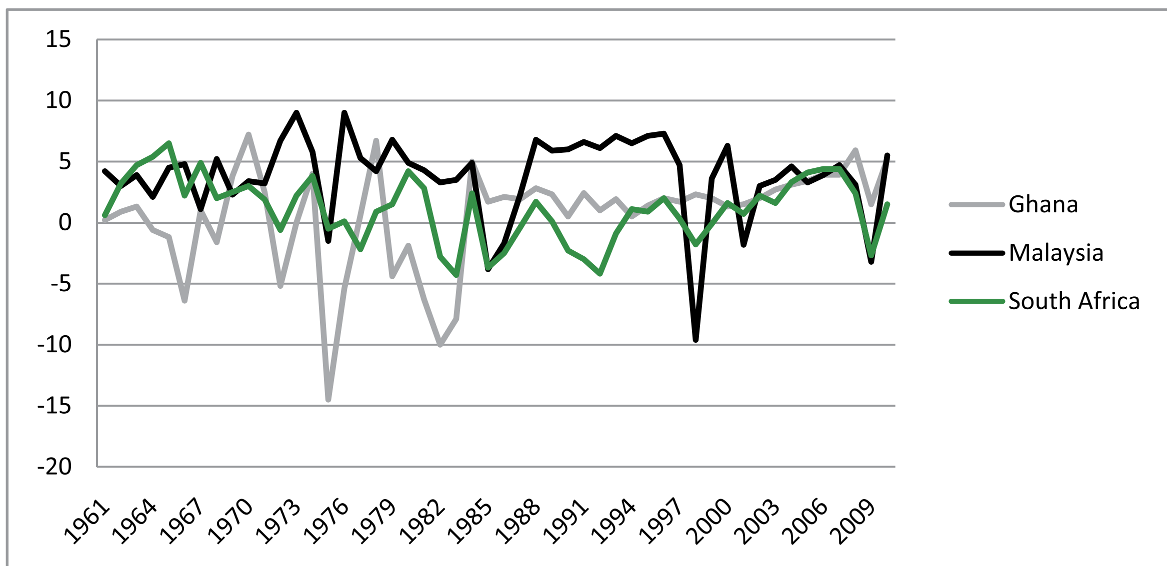
With the more erratic and slower growth of Ghana's real GDP, its per capita GDP increased from $180 in 1960 to $1,283 in 2010, showing a 7.1 fold increase (see Fig. 3.2.4). Comparatively, Malaysia's increased from $299 to $8,373 (a 28.0-fold increase), and South Africa's from $422 to $7,275 (a 17.2-fold increase). The slower growth of Ghana's per capita is further depicted by Fig. 3.2.5, which track annual growth rates in per capita GDP. Following the pattern of real GDP growth, Ghana's per capita GDP growth was quite erratic during 1961-83 before stabilizing during 1984-2010. The average annual growth during the entire review period was only 0.6 percent, which was only a small fraction of Malaysia's (3.8 percent) and about half of South Africa's (1.1 percent).

Fig. 3.2.4: Per Capita GDP ($US)



Source: World Development Indicators (WDI), World Bank.

Fig. 3.2.5: Per Capita GDP Growth Rate

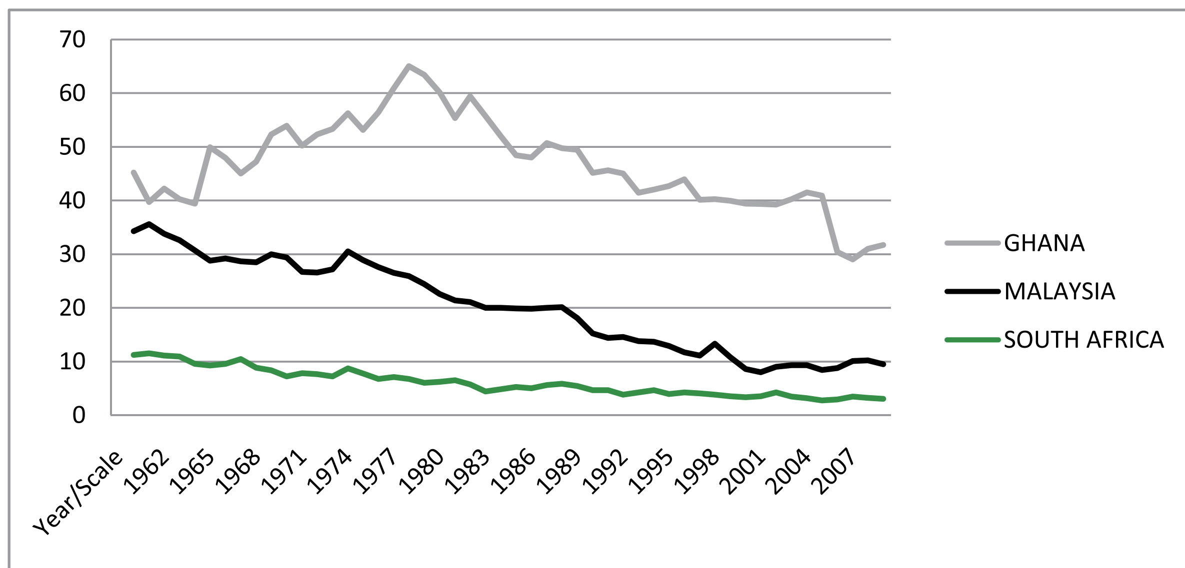


Source: World Development Indicators (WDI), World Bank.

In the course of a country's development, the sectors of the economy—agriculture, industry, and services—undergo transformations. The primary agricultural sector tends to be dominant in the pre-industrial stage of development, but as development takes hold, rising productivity of the sector allows resources tied to it to be released to other activities in industry and services. It is, therefore, usual to see the agricultural sector's share of GDP decline over time. Meanwhile, the secondary industrial sector tends to grow and increase its share of GDP, and then the tertiary services sector follows in increasing importance, "servicing" industry and agriculture. While the transformation from agrarian to industrial to a service economy tends to be typical of many countries in their development, actual experiences may differ depending on relative economic endowments and comparative advantages in production and trade.

Let us now take a look at how the economies of Ghana, Malaysia, and South Africa have transformed over the years. We start with agriculture. Fig. 3.2.6 shows that Ghana's agricultural sector has remained the largest as a share of GDP during the entire review period, 1960-2010, suggesting that, in development terms, Ghana has been lagging behind the rest. In trend terms, however, Ghana's agricultural sector has followed a declining path, as expected, just like that of Malaysia and South Africa.

Fig. 3.2.6: Agriculture as % of GDP



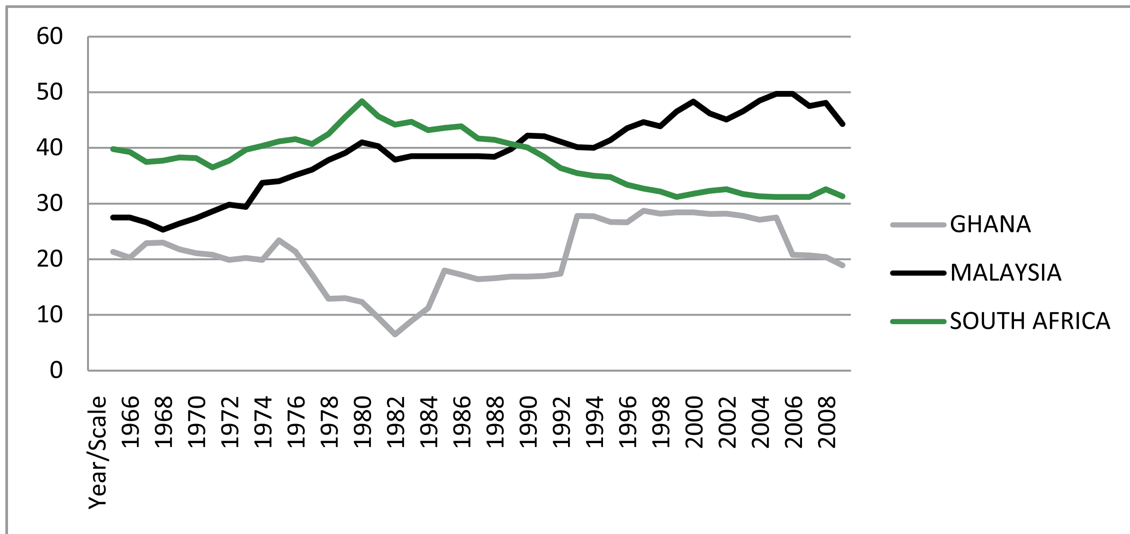
Source: World Development Indicators (WDI), World Bank.

Fig. 3.2.7 shows that Ghana has had the smallest industrial sector in terms of GDP, consistent with its least-developed status. In terms of trends, Ghana's industrial sector (as a share of GDP), after rising from its lowest level in 1982 through 1993, seems to have stabilized during 1994-2003 and declined thereafter. In contrast, Malaysia has had its industrial sector on a generally rising trend throughout the period while South Africa has seen its industrial sector decline from 1980.[8] In terms of core industrial activity, viz. manufacturing, its relative share of

[8] As can be seen below, services took over.

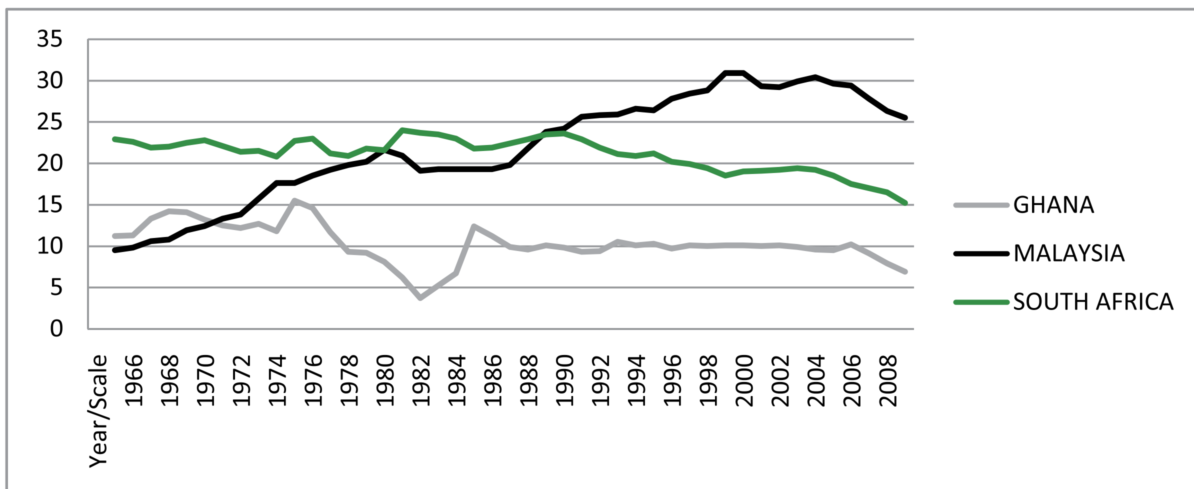
GDP for Ghana has not only been much smaller, but it has equally stagnated as depicted in Fig. 3.2.8. In fact, during the entire period, 1965-2009, Ghana has seen its manufacturing sector as a share of GDP shrink from 11.2 % to 6.9%, while Malaysia's expanded from 9.5% to 25.5%.

Fig 3.2.7: Industry as % of GDP



Source: World Development Indicators (WDI), World Bank.

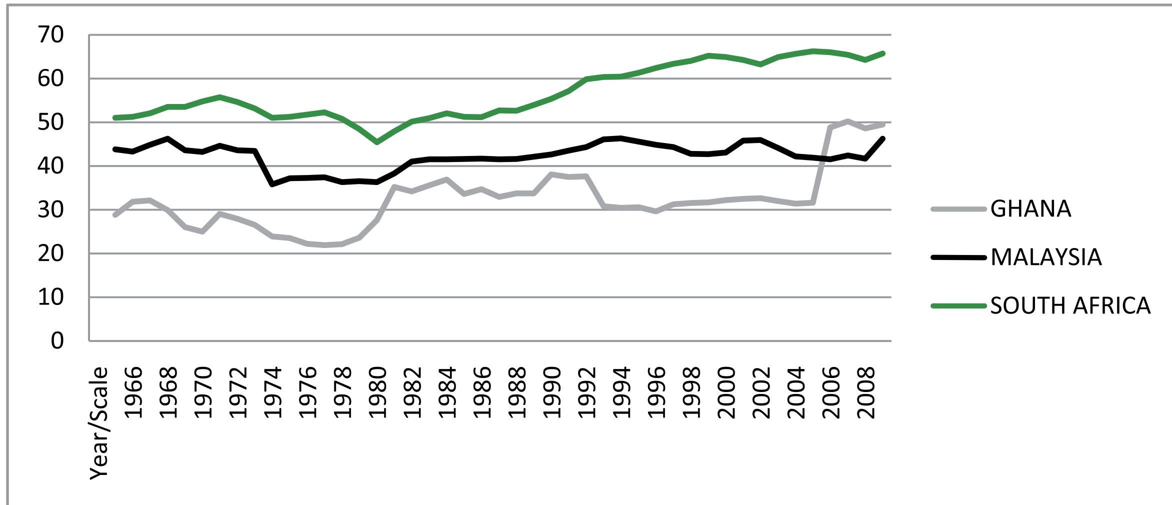
Fig. 3.2.8: Manufacturing as % of GDP



Source: World Development Indicators (WDI), World Bank.

For the services sector, Ghana's has been the smallest in terms of GDP through to 2004, followed by Malaysia, with South Africa having the largest (Fig. 3.2.9). Since 2005, however, Ghana's services sector has risen sharply to overtake Malaysia's in terms of share of GDP.

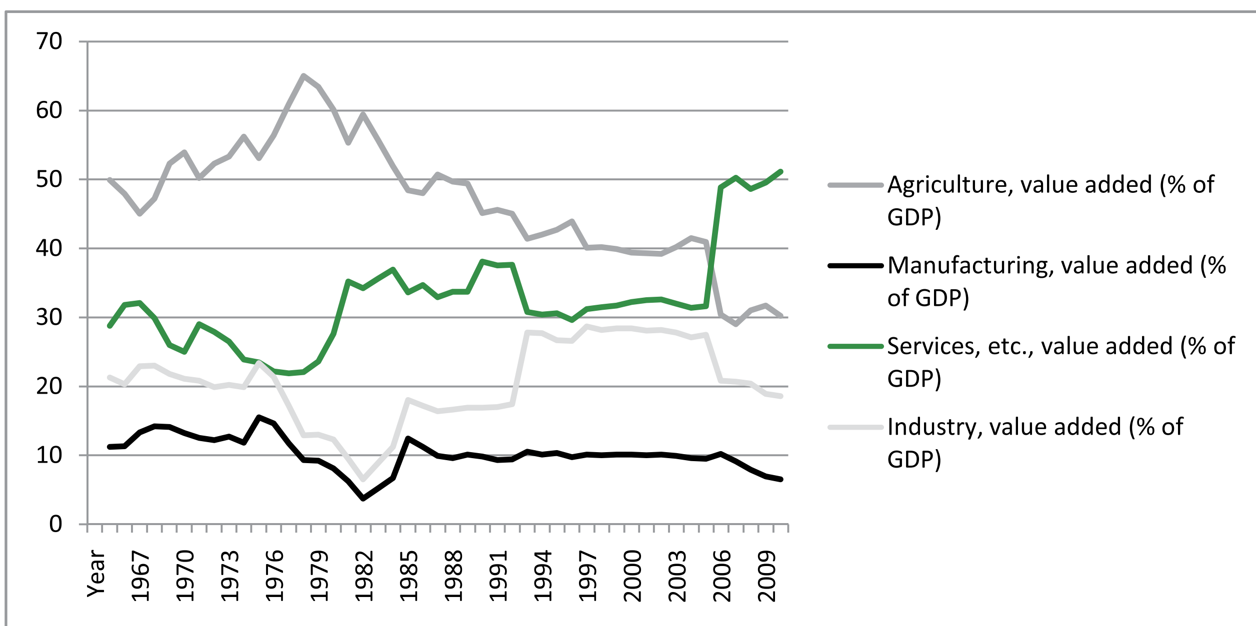
Fig. 3.2.9: Services as % of GDP



Source: World Development Indicators (WDI), World Bank.

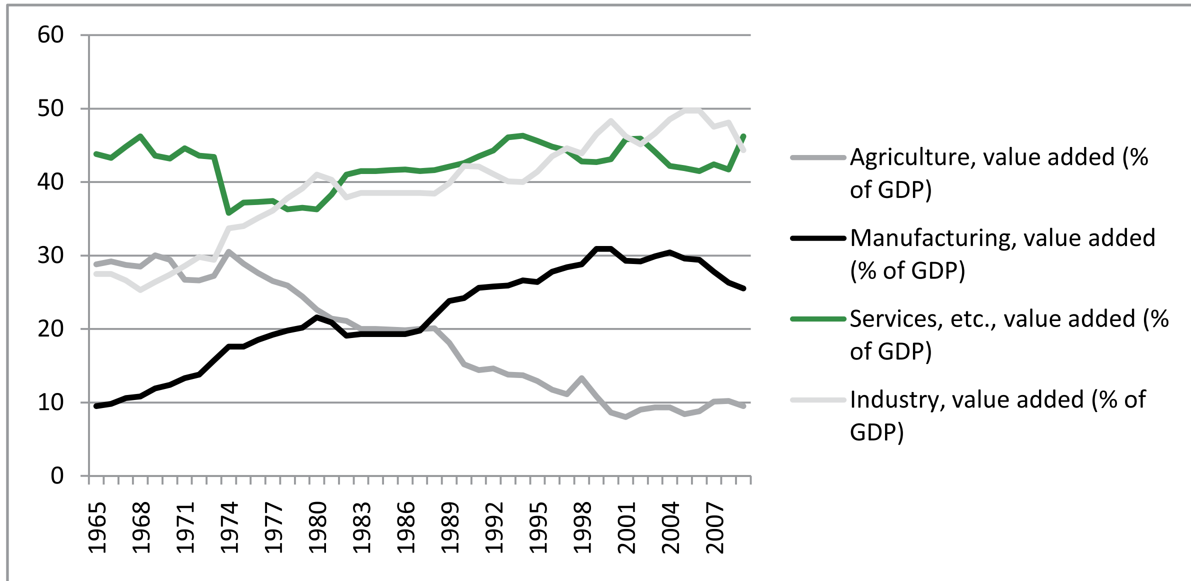
Fig. 3.2.10 shows movements in the relative shares of agriculture, industry in general, and the manufacturing component in particular, and services for Ghana. As already described above, what is dramatic about the transformation of Ghana's economy has been the relative stagnation—and even decline recently—in the relative share of industry (in general) and manufacturing (in particular), and the recent ascendancy of the services sector to become the largest sector. Comparatively, Malaysia's industry and manufacturing component continuously increased their share of GDP until recently when they have witnessed some decline (See Fig. 3.2.11), while the share of services remained relatively stable. South Africa, on the other hand has the largest services sector, which has continued to increase largely at the expense of industry (see Fig. 3.2.12).

Fig. 3.2.10: Ghana: All sectors as % of GDP



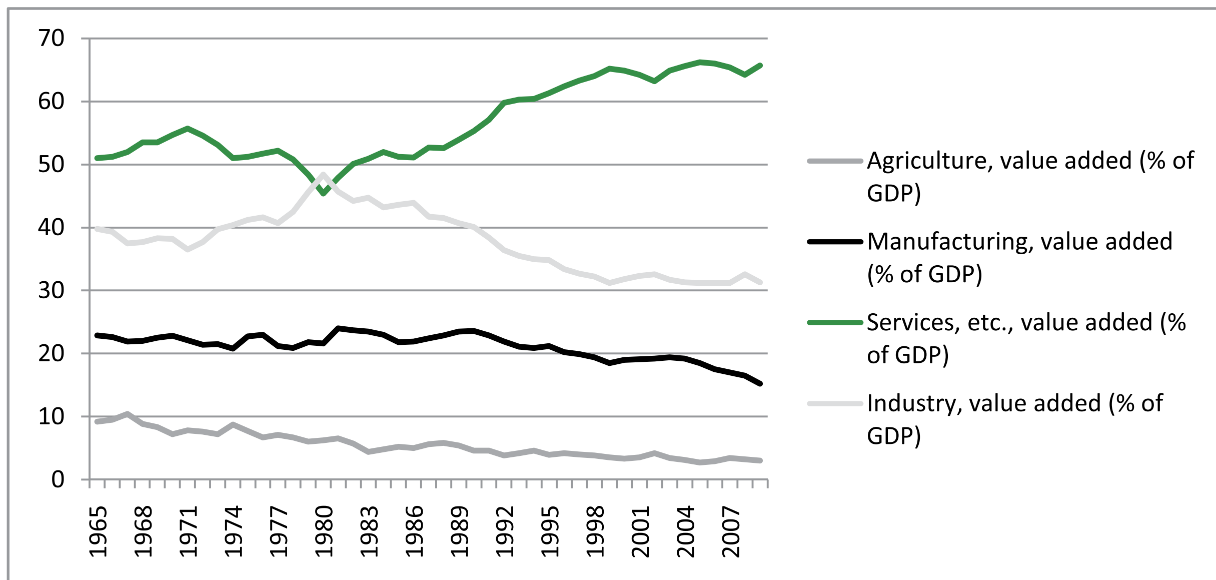
Source: World Development Indicators (WDI), World Bank.

Fig. 3.2.11: Malaysia: All Sectors as % of GDP



Source: World Development Indicators (WDI), World Bank.

Fig. 3.2.12: South Africa: All Sectors as % of GDP



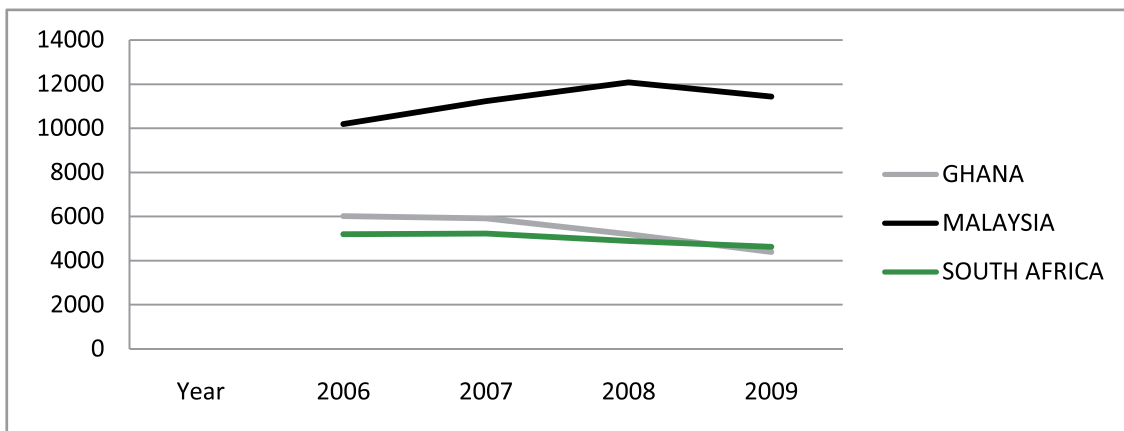
Source: World Development Indicators (WDI), World Bank.

What we take from the transformations in the three economies is that Malaysia's model appears to be more of the norm and probably the best example for Ghana. In other words, in the course of development, Ghana's industry and services should be growing strongly and increasing their share of GDP largely at the expense of agriculture. Agriculture should actually be growing in absolute terms, but productivity gains in the sector should lead to resources tied to the sector being released for use in industry and services, and the relative size of agriculture should decrease over time. Ghana's agricultural share of GDP has been decreasing as expected but not fast enough, implying that productivity remains low. This is evidenced in Fig. 3.2.13 below. Disappointingly, we are seeing the relative demise of industry (in particular, manufacturing) and a blistering pace of growth of the services sector. The growth of services is not

bad in and of itself, but this should have been happening in tandem with growth of industry for long-term sustainable development. The fact is that industry is the real and more durable sector—and indeed the bedrock of the economy—while the services sector is more vulnerable to shocks.[9]

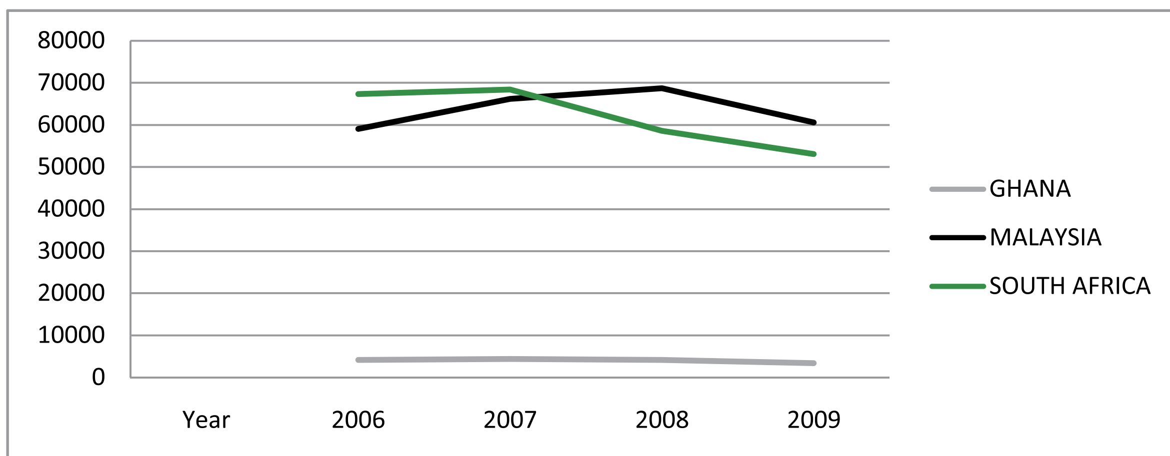
Figs. 3.2.13, 3.2.14, and 3.2.15 show 'value-added', a measure of productivity, in agriculture, industry, and services in the three comparator countries. In agriculture, Ghana's value-added compares favourably with that of South Africa—which is a bit surprising—but is less than half that of Malaysia, indicating the superiority of Malaysian agricultural productivity. In industry, Ghana's value-added is only about 1/15th of Malaysia's and South Africa's. (Fig. 3.2.14). Ghana's manufacturing sector is even less productive compared to industry as a whole (Fig. 3.2.15). For services, Ghana's value-added/productivity is only a fraction of that of Malaysia and much less than that of South Africa. With Ghana's services sector emerging as the largest sector of the economy, its low value added/productivity constitutes a drag on the economy.

Fig. 3.2.13: Agriculture Value Added/Productivity ($US Million)



Source: World Development Indicators (WDI), World Bank.

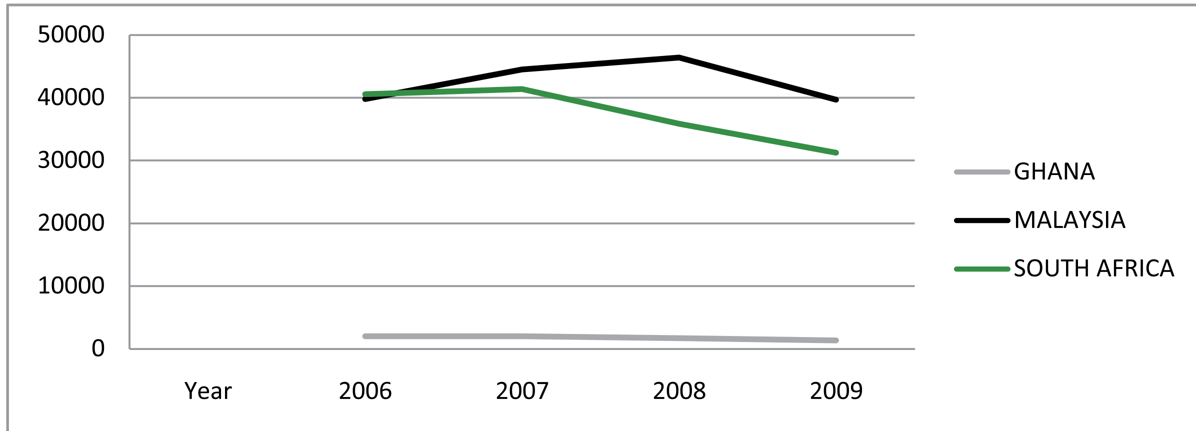
Fig. 3.2.14: Industry Value Added/Productivity ($US Million)



Source: World Development Indicators (WDI), World Bank.

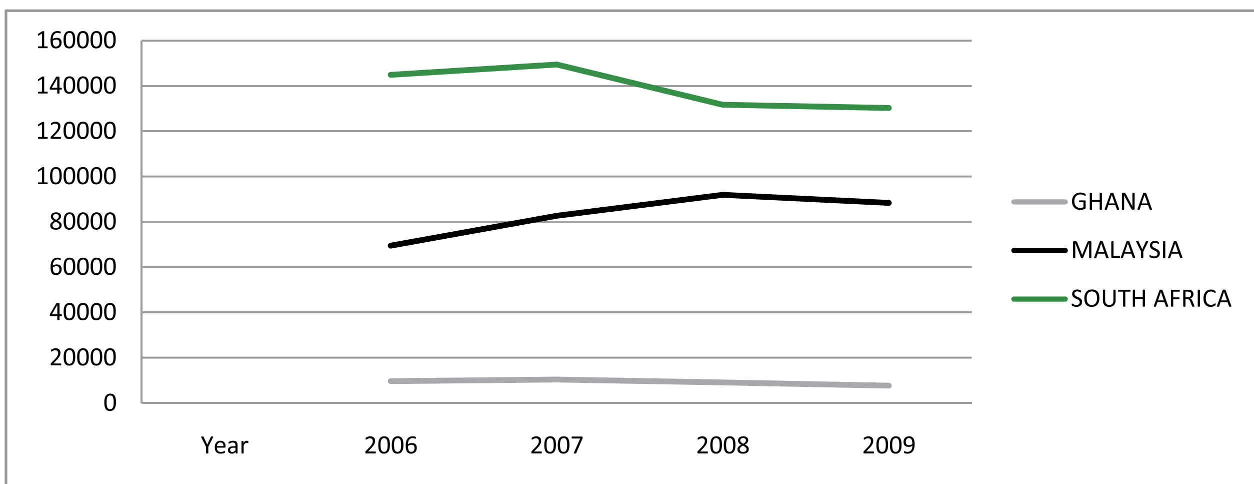
[9] Recent near-collapse of the service-economy of Iceland points to how fragile and vulnerable an economy dependent on services is.

Fig. 3.2.15: Manufacturing Value Added/Productivity ($US Million)



Source: World Development Indicators (WDI), World Bank.

Fig. 3.2.16: Services Value Added/Productivity ($US Million)



Source: World Development Indicators (WDI), World Bank.

3.3 The Financial Sector

The financial sector plays an important role in the economy in serving as a conduit for savings and investment and, thereby, supporting the real economy. The role of the financial sector in this regard is fostered by the level of financial intermediation and deepening. Measures of financial intermediation and deepening include "banking density," level of private sector credit, and the size of monetary aggregates relative to the economy.

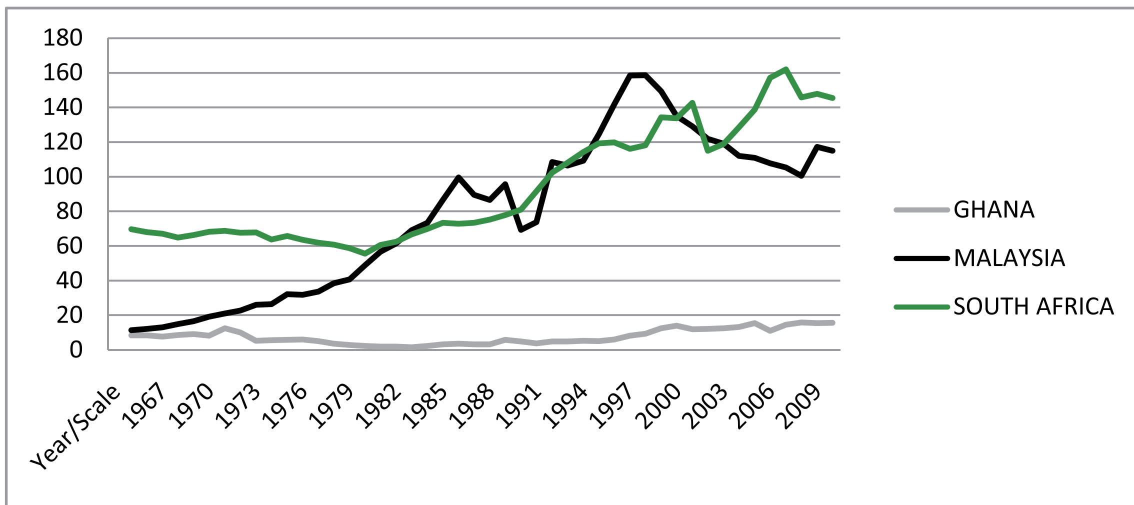
A snapshot of banking density for the three economies in 2009 shows Ghana trailing both Malaysia and South Africa (Table 3.3.1), implying Ghana provides the least per capita access to financial services. In terms of credit to the private sector also, Ghana trails both Malaysia and South Africa (Fig. 3.3.2), implying that the private sector in Ghana, supposedly the engine of growth, is most constrained in this respect in contributing to growth. Further, Ghana has the lowest money supply-to-GDP ratio of the three countries (Fig. 3.3.3), confirming its financial shallowness. Thus on all three counts, Ghana has the lowest level of financial intermediation and deepening. By deduction, Ghana's financial sector has the least capacity to facilitate savings, investment and growth.

Table. 3.3.1: Banking Density

	GHANA	MALAYSIA	SOUTH AFRICA
Indicator	Com. Banks	Com. Banks	Com. Banks
Unit	per 100,000 adults	per 100,000 adults	per 100,000 adults
Year 2009	4.4	11.6	8.0

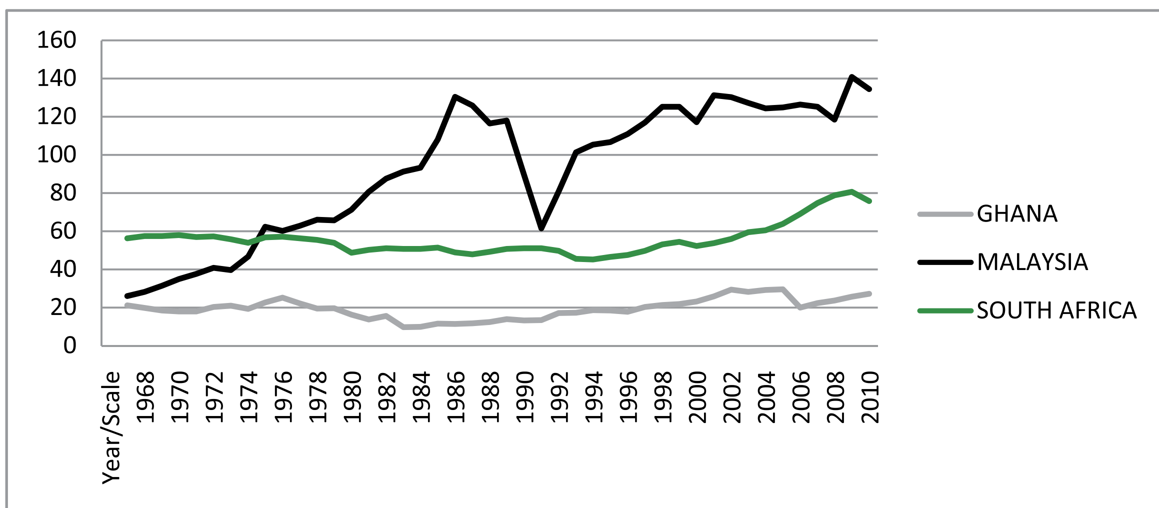
Source: World Development Indicators (WDI), World Bank.

Fig. 3.3.2: Domestic Credit to the Private Sector (as a % of GDP)



Source: World Development Indicators (WDI), World Bank.

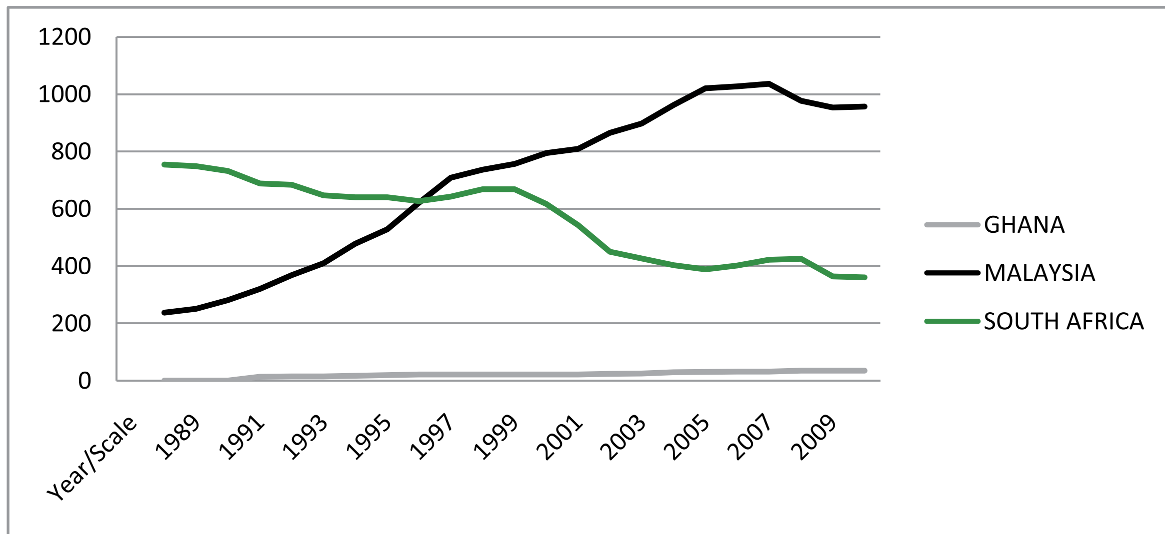
Fig. 3.3.3: Money Supply as a % of GDP



Source: World Development Indicators (WDI), World Bank.

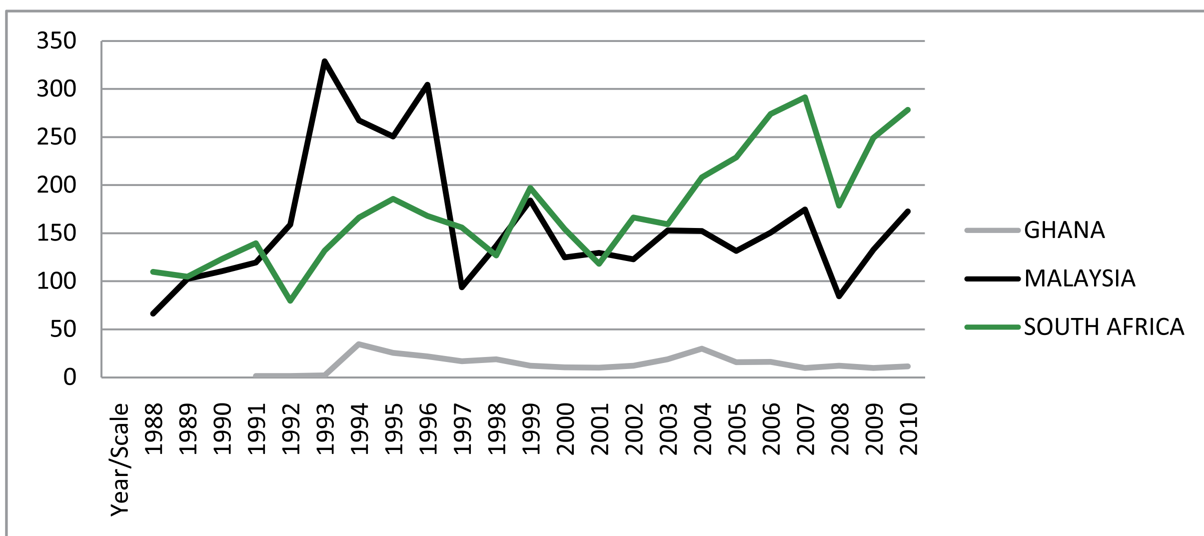
While the banking sector usually provides shorter-term resources to support economic activity, the stock market serves as a vehicle for mobilizing long-term capital for investment to generate economic growth. Ghana has had the smallest and least developed stock market of the three countries. This is depicted in Fig. 3.3.4 and Fig. 3.3.5, which show the number of listed companies and market capitalization on the Stock Exchanges of the three countries. Therefore, of the three countries, Ghana has the least capacity to mobilize long-term capital for investment in support of economic growth.

Fig. 3.3.4: Stock Market: Listed Domestic Firms



Source: World Development Indicators (WDI), World Bank.

Fig. 3.3.5: Stock Market Capitalisation



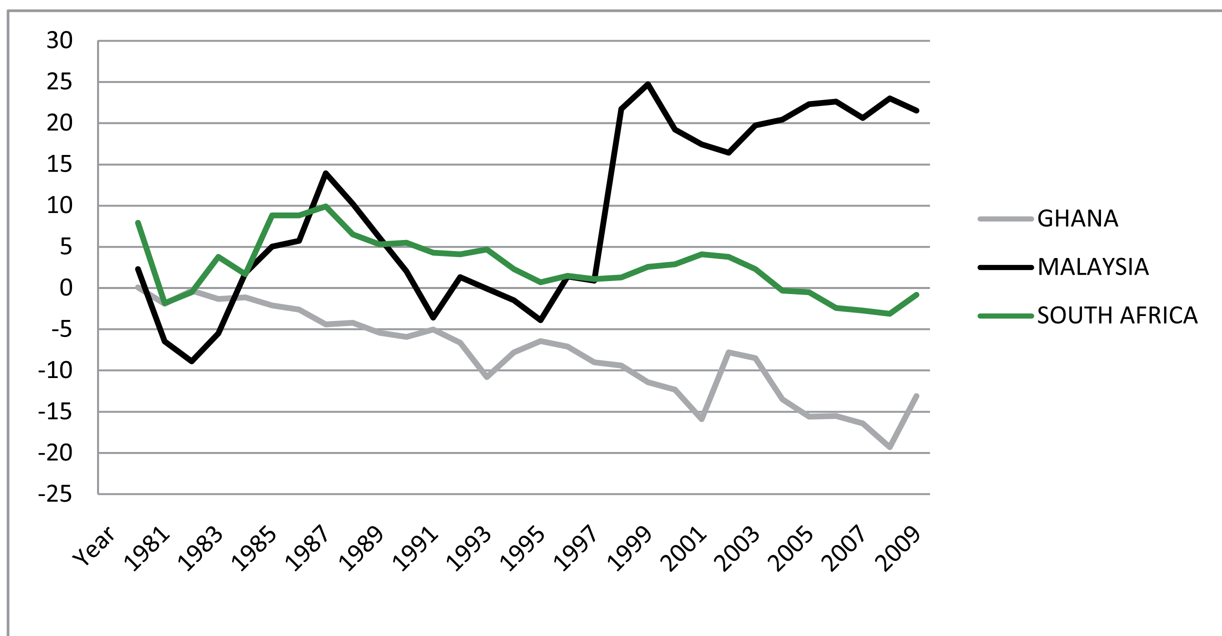
Source: World Development Indicators (WDI), World Bank.

3.4. The External Sector

In this section, a select number of external sector indicators are used to assess the relative soundness or performance of the three economies. The selected indicators are: balances in external financial transactions, levels of external debt, FDI flows, and stock of international reserves.

Fig. 3.4.1a show the relative sizes of the trade balances for the three countries. For the review period, Ghana has had consistent and growing trade deficits, as its imports exceeded and grew more rapidly than its exports. Comparatively, Malaysia has had generally positive and growing trade surpluses, while South Africa also has had generally positive but more modest trade surpluses.

Fig.3.4.1a: Trade Balance as a % of GDP



Source: World Development Indicators (WDI), World Bank.

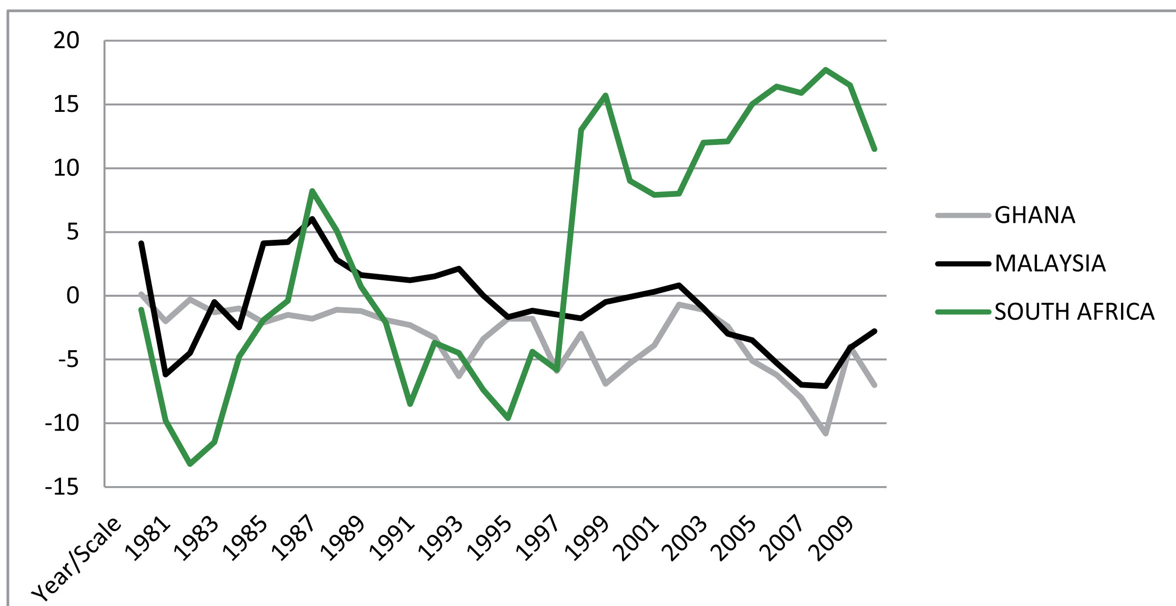
Fig. 3.4.1b shows an enlarged graph of Ghana's trade.

Fig.3.4.1b: Ghana: Trade Balance As % of GDP

Source: World Development Indicators (WDI), World Bank.

In terms of the current account, again Ghana has had consistent and growing deficits, reflecting deficits in its services account in addition to the trade account (Fig. 3.4.2). Malaysia has had fluctuating current account balances, but they were generally better than Ghana's. South Africa, on the other hand, has had more widely fluctuating current account balances through 1996 and thereafter consistently high surpluses. Ghana's large trade and current account deficits are a source of concern. The external imbalances reflect a high import demand, driven by lack of adequate local substitutes, in the face of a diminishing manufacturing sector that cannot compete with cheaper imports that often benefit from home subsidies. They also reflect an exceptionally-high Ghanaian appetite for foreign goods, influenced by Western culture and a growing middle class. The effect is constant pressure on the international reserves and the exchange rate.

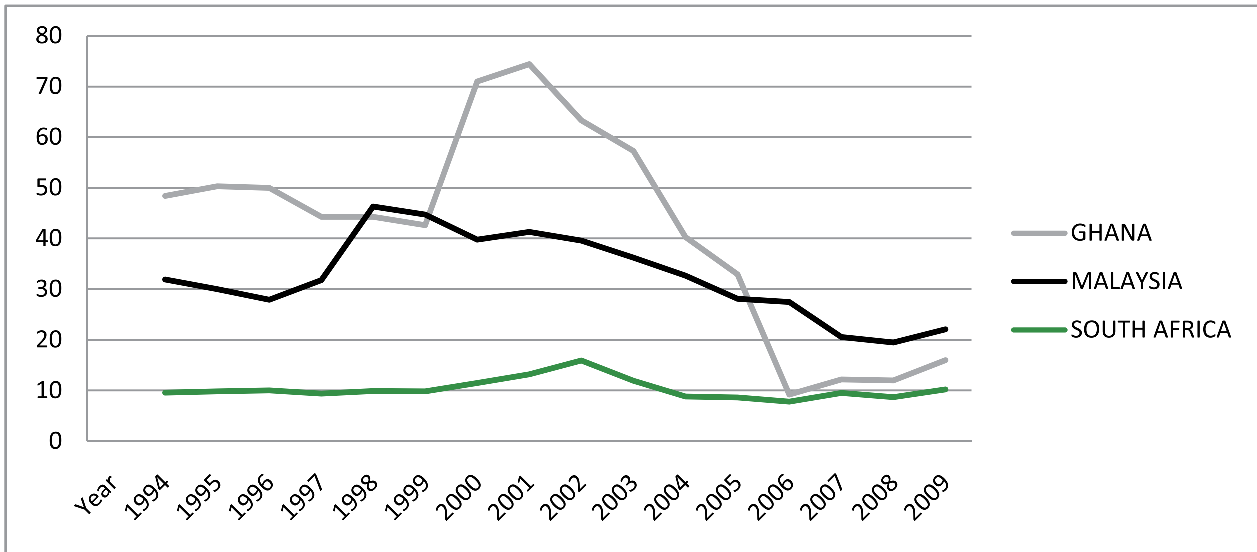
Fig. 3.4.2: Current Account Balance as a % of GDP



Source: World Development Indicators (WDI), World Bank.

In terms of external debt, Ghana has had the highest ratios relative to GDP among the three countries through 2005. Relief from HIPC in 2004 and MDRI in 2006 caused Ghana's debt ratio to dip sharply below that of Malaysia, although it still stayed above that of South Africa, which has had the lowest debt ratios among the three countries for the review period (see3 Fig. 3.4.3 below). Ghana's higher debt ratios would of course imply higher servicing costs that take resources away from development priorities.

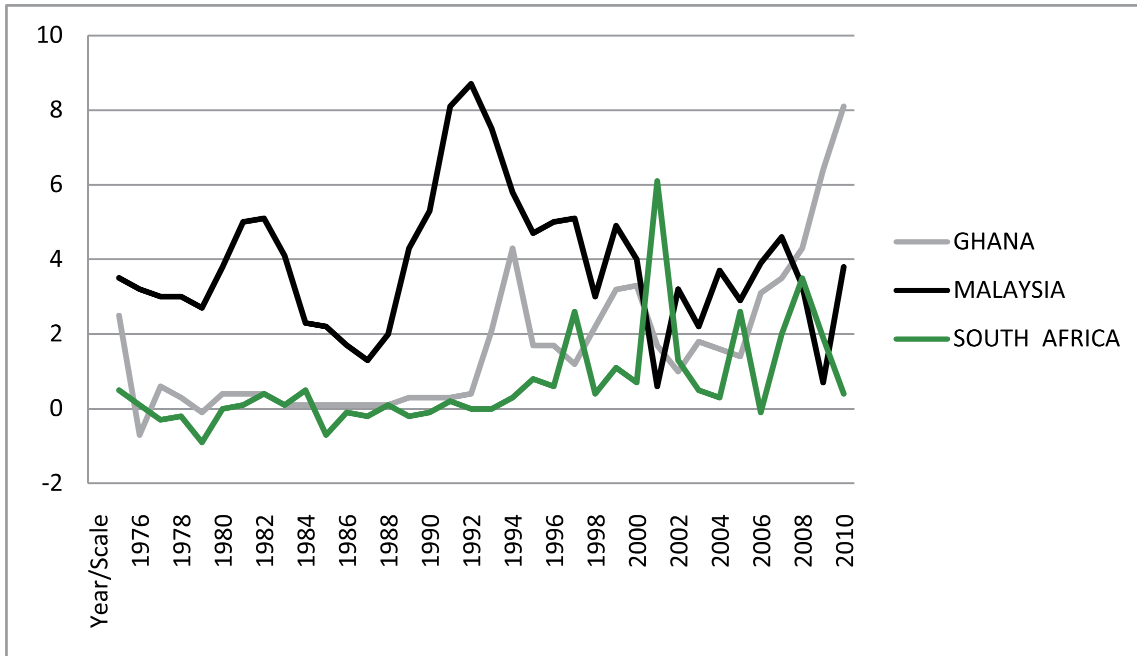
Fig. 3.4.3: External Debt (as a % of GDP)



Source: World Development Indicators (WDI), World Bank.

In terms of net FDI flows as a ratio of GDP, Ghana has had generally positive but low net inflows through 1992; since then net inflows picked up significantly. Comparatively, Malaysia has had much higher positive net inflows for the review period. South Africa, on the other hand, has had low and unstable net flows through 1993, after which it recorded positive but fluctuating net inflows (Fig. 3.4.4). What we can take from these figures is that Ghana for a long time lagged behind at least Malaysia in terms of net FDI inflows, which must have contributed to its inferior growth performance.

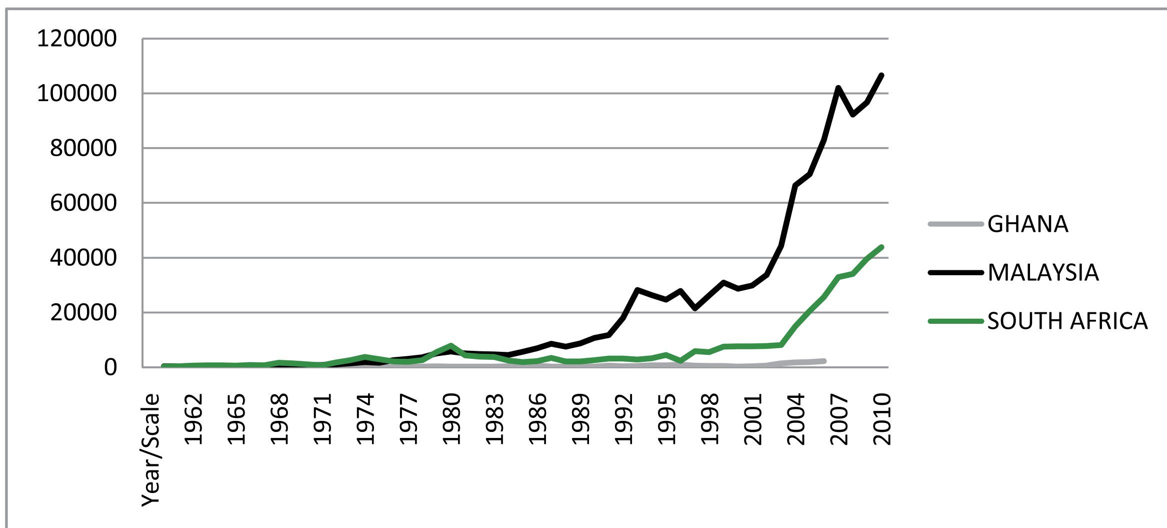
Fig 3.4.4: Net FDI Inflow as a % of GDP



Source: World Development Indicators (WDI), World Bank.

In terms of international reserves, while the three countries started from nearly the same levels in 1960, with roughly about US$300 million, by 2006, Ghana's had reached only US$2.3 billion, while Malaysia's had risen to US$82.9 billion and South Africa's to US25.6 billion (Fig. 3.4.5).

Fig. 3.4.5: Total Reserves Including Gold (Current USD millions)

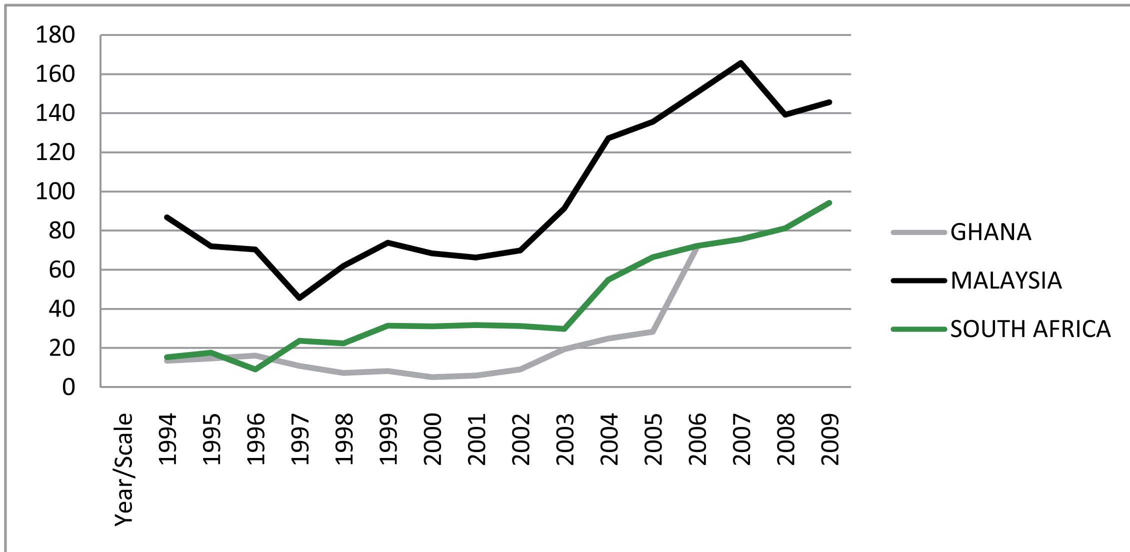


Source: World Development Indicators (WDI), World Bank.

There are no hard and fast rules regarding reserve adequacy. Generally, countries with less flexible exchange rates and those prone to shocks need to maintain higher reserves. We use two measures of reserve adequacy here: cover for external debt and cover for imports. In terms of the former—external debt cover—Ghana has had the lowest, while Malaysia has had the highest (Fig. 3.4.6). In terms of

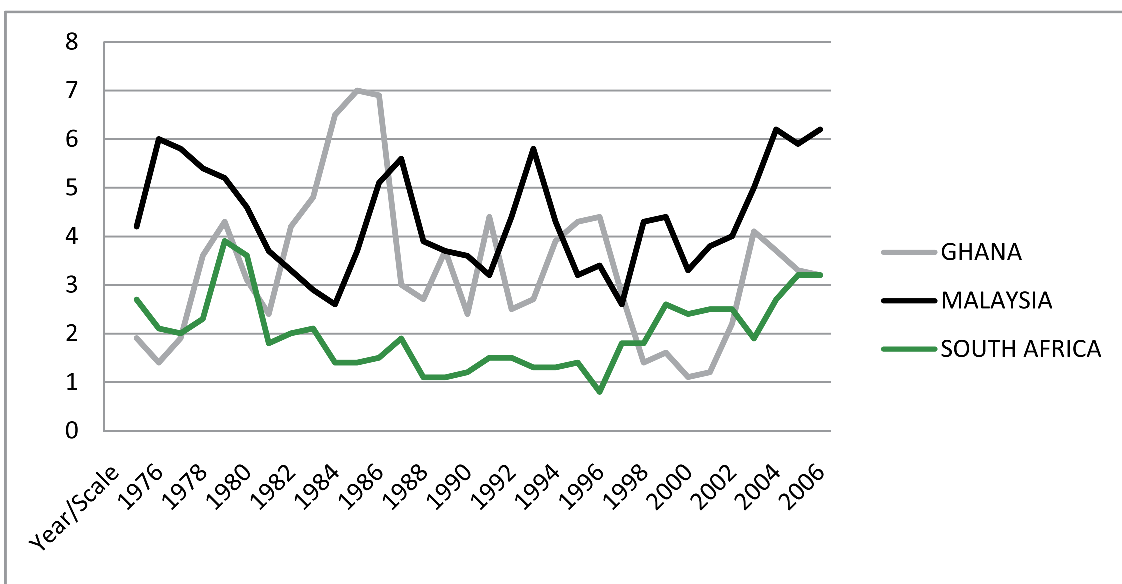
the latter—import cover—Malaysia has had, on average, the highest, followed by Ghana and South Africa in that order (Fig. 3.4.7). The import cover is the most common criterion used to measure reserve adequacy. And here a rule of thumb is that about 4-6 months of import cover is ideal.

Fig 3.4.6: Reserves as a % of Total External Debt



Source: World Development Indicators (WDI), World Bank.

Fig 3.4.7: Total Reserves as a % of Months of Import



Source: World Development Indicators (WDI), World Bank.

3.5. Competitiveness

In this section, we look at the three countries' competitiveness, which determines ability to attract investment and to carry on economic activities efficiently in order to foster growth. Various indicators may be used to measure competitiveness, including: institutions; infrastructure;

macroeconomic environment; health; education; goods market efficiency; labour market efficiency; financial market development; technology; market size; business sophistication; and innovation. Since several of these indicators are being assessed in other sections of this paper and the second paper that is to follow, we limit the assessment here to a few of them.

A broad overview of the relative competitiveness of the three countries based can be found in the 2011-12 Global Competitiveness Index Report. Box 1 provides a summary of the results from the Index for the three countries (relatively to previous year's performance) as well as relevant excerpts from the Report itself.

Box 1: The Global Competitiveness Index, 2011-12

Country	GCI 2011-12		GCI 2010-11 rank
	Rank/ 142	Score	
Ghana	114	3.65	114
Malaysia	21	5.08	26
South Africa	50	4.34	54

Ghana is ranked 114th in 2011-12, the same as in the previous year. The country continues to display strong public institutions and governance indicators with relatively high government efficiency, particularly in regional comparisons. Some aspects of its infrastructure are also good by regional standards, particularly the state of its ports (66th). Financial markets are also relatively well developed (61st). On the other hand, education levels continue to lag behind international standards at all levels, labour markets continue to be characterized by inefficiencies, and the country is not harnessing new technologies for productivity enhancements (ICT adoption rates are very low). Finally, Ghana suffers from macroeconomic instability (it is ranked a low 139th in this pillar), with the government running high fiscal deficits and building up significant debt; the country is also experiencing high, albeit improving, inflation.

Malaysia gains five places to reach the 21st position, registering improvements across the board. The country's progress is particularly noteworthy in the institutions and macroeconomic environment pillars, as well as in several measures of market efficiency. Among the prominent advantages of this strong and consistent performance are its efficient and sound financial sector - which places among the world's most developed, just behind Singapore and Hong Kong – and its highly efficient goods market, ranked 15th. In addition, its macroeconomic situation has improved markedly over the past year to reach 29th place, even though the country continues to run a budget deficit of about 5 percent of GDP. As it moves towards becoming more innovation-driven, Malaysia will need to improve its performance in education and technological readiness. In the latter dimension, the country places a low 44th, with room for improvement in technological adoption by both businesses and the population at large. In terms of higher education and training (38th), improving access remains a priority in light of low enrolment rates of 69 percent (101st) and 36 percent (66th) for secondary and tertiary education, respectively.

South Africa moves up by four places to attain 50th position this year, remaining the highest-ranked country in Sub-Saharan Africa and the second-placed among the BRICS economies. The country benefits from the large size of its economy, particularly by regional standards (its ranked 25th in the market size pillar). It also does well on measures of the quality of institutions and factor allocation, such as intellectual property protection (30th), property rights (30th), the

accountability of its private institutions (3rd), and its goods market efficiency (32nd). Particularly impressive is the country's financial market development (4th), indicating a high confidence in South Africa's financial markets at a time when trust is returning only slowly in many other parts of the world. South Africa also does reasonably well in more complex areas such as business sophistication (38th) and innovation (41st), benefiting from good scientific research institutions (30th) and strong collaboration between universities and the business sector in innovation (26th). These combined attributes make South Africa the most competitive economy in the region. However, in order to further enhance its competitiveness, the country will need to address some weaknesses. South Africa ranks 95th in labour market efficiency, with rigid hiring and firing practices (139th), a lack of flexibility in wage determination by companies (138th), and significant tensions in labour-employer relations (138th). Efforts must also be made to increase the university enrolment rate of only 15 percent, which places the country 97th overall, in order to better develop its innovation potential. In addition, South Africa's infrastructure, although good by regional standards requires upgrading (62nd). The poor security situation remains another important obstacle to doing business in South Africa. The business costs of crime and violence (136th) and the sense that the police are unable to provide protection from crime (95th) do not contribute to an environment that fosters competitiveness. Another major concern remains the health of the workforce, which is ranked 129th out of 142 economies – the result of high rates of communicable diseases and poor health indicators more generally.

Source: Global Competitiveness Index Report, 2011-2012

Clearly, according to the GCI, Ghana lags far behind both Malaysia and South Africa in terms of competiveness, with some of its weaknesses highlighted. We examine the countries' relative competitiveness by considering a few specific indicators.

In terms of the umbrella criterion, ease of doing business, which embodies several indicators, Ghana ranked 60 among 183 countries surveyed in 2010, compared with 23 for Malaysia and 36 for South Africa (Table 3.5.1). In 2011, Ghana's position worsened to 63, while Malaysia's improved to 18 and South Africa's to 35

Table 3.5.1: Ease of doing business

	GHANA	MALAYSIA	SOUTH AFRICA
Indicator	Ease of doing business index	Ease of doing business index	Ease of doing business index
Unit	1=easiest to 183=most difficult	1=easiest to 183=most difficult	1=easiest to 183=most difficult
2010	60	23	36
2011	63	18	35

Source: World Development Indicators (WDI), World Bank.

In terms of time required to start business, however, Ghana ranked first among the three countries for the almost entire review period, 2005-2011 (Table 3.5.2).

Table 3.5.2: Time Required to Start a Business

	GHANA	MALAYSIA	SOUTH AFRICA
Indicator	Time required to start a business	Time required to start a business	Time required to start a business
Unit	days	days	days
2005	18	37	35
2006	18	37	35
2007	15	31	31
2008	13	20	22
2009	12	18	22
2010	12	17	22

Source: World Development Indicators (WDI), World Bank.

In terms of time required to export, Ghana was generally behind Malaysia but ahead of South Africa (Table 3.5.3).

Table 3.5.3: Time to Export

	GHANA	MALAYSIA	SOUTH AFRICA
Unit	days	days	days
2005	47	17	30
2006	21	17	30
2007	19	17	30
2008	19	17	30
2009	19	17	30
2010	19	17	30
2011	19	17	30

Source: World Development Indicators (WDI), World Bank.

Table 3.5.4: Time to Import

	GHANA	MALAYSIA	SOUTH AFRICA
Indicator	Trade: Time to import	Trade: Time to import	Trade: Time to import
Unit	days	days	days
2005	55	14	35
2006	42	14	35
2007	29	14	35
2008	29	14	35
2009	29	14	35
2010	29	14	35
2011	29	14	32

Source: World Development Indicators (WDI), World Bank.

For the time required to connect electricity, Ghana again fell behind Malaysia, but was ahead of South Africa (Table 3.5.5).

Table 3.5.5: Time Required to Connect to Electricity

	GHANA	MALAYSIA	SOUTH AFRICA
Indicator	Time required to connect to electricity	Time required to connect to electricity	Time required to connect to electricity
Unit	days	days	days
2009	78	51	214
2010	78	51	214
2011	78	51	226

Source: World Development Indicators (WDI), World Bank.

4. Summary of Results and Conclusion

Indicators related to the domestic macroeconomy, the real economy, the financial sector, the external sector, and competitiveness have been used to assess Ghana's MIC status compared with Malaysia and South Africa.

On macroeconomic performance, the paper finds that Ghana has lagged behind Malaysia and South Africa. Ghana has had, amongst other things, higher rates of inflation, higher budget deficits, larger external imbalances, higher public debt-to-GDP ratios, and more overvalued exchange rates. On the other hand, Ghana has had lower national savings and investment ratios. Ghana's poorer macroeconomic performance has contributed to its inferior growth performance compared to Malaysia and South Africa. Ghana's GDP growth rates have been lower, as have been its per capita GDP growth rates. As a result, it took Ghana a very long time to raise its per capita GDP to MIC levels.

In terms of real sector performance, Ghana generally has fared poorly compared to Malaysia and South Africa. Ghana's industrial sector in general and the manufacturing sector in particular have witnessed sharp declines. Agriculture's share of GDP has declined, as expected, but at a slow pace. On the other hand, the services sector has grown strongly, emerging in recent years as the lead sector of the economy. Malaysia's transformation has generally been more or less in line with orthodoxy in the sense that the shares of industry and services in the economy have increased rapidly and continuously as the relative share of agriculture has declined. In terms of productivity, Ghana has fared much more poorly in industry and services compared with Malaysia and South Africa, and in agriculture compared with Malaysia. The sharp increase in Ghana's services sector, the relative decline of its industry and its low agricultural productivity do not portend well for the country's long-term sustainable development. Remedial policy interventions would be required to redress the imbalance.

Ghana has trailed both Malaysia and South Africa in terms of financial intermediation and financial deepening. Ghana has had the lowest banking density, the lowest levels of private sector credit, and the lowest money supply-to-GDP ratios. Thus, on all three measures of financial intermediation and deepening, Ghana has performed the poorest. The deduction is that Ghana's financial sector has had the least capacity to facilitate savings and investment, and support the economy's growth.

Ghana has lagged behind both Malaysia and South Africa as far as external sector performance is concerned. Ghana has had much larger trade and current account imbalances, the highest external debt-to-GDP ratios, and the lowest net FDI inflows relative to GDP. These factors have exerted a drag on Ghana's economic growth.

Ghana has trailed both Malaysia and South Africa in terms of competitiveness. Both the Global Competitive Index (GCI) report for 2011-12 and World Development Indicators (WDI) report on Ease of Doing Business for 2011 ranked Ghana far below Malaysia and South Africa. Ghana's relatively low competitiveness has been a drag on investment and on the country's growth.

The key inference from the foregoing results is that, while Ghana's per capita GDP after rebasing may have risen to MIC levels, the country still lags behind major MICs in terms of general economic performance. Major policy interventions would, therefore, be needed to boost Ghana's economic performance and MIC status.

Above all, it is important for Ghana to create conditions that will support mobilization of higher levels of resources for investment in order to raise its rate of growth. More specifically, macroeconomic stability should be consolidated by reining in budget deficits to help sustain low levels of inflation, exchange rate stability, and lower credit costs. This will foster an environment conducive to investment and economic growth. The fiscal consolidation process should not entail mere retrenchment of expenditure, which could have output and employment costs. It should involve, on the one hand, reforms to broaden the tax base and increase the revenue effort, and, on the other hand, prioritization of expenditure by curtailing non-priority recurrent spending in favour of development and social spending that would spur growth. The contribution of the financial system to economic growth should be bolstered through reforms to deepen the system so as to foster savings mobilization and competitive allocation of credit. The economy's overall competiveness needs to be boosted through policies that buttress macroeconomic stability and financial market development, as mentioned above, as well as foster education, health care, infrastructure development, technology development, and business-friendly institutions. Further, industrialization and exports, the bedrocks of the economy, should be directly promoted, including through provision of subsidized credit, marketing-support systems, and other relevant infrastructure. This will allow Ghana not only to raise its growth rate but also to close its large external financial gap and, thereby, reduce the incessant exchange rate depreciation and vicious circle of aid dependency and external indebtedness.

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