AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523
BIBLIOGRAPHIC INPUT SHEET

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Batch 46

1. SUBJECT CLASSIFICATION	A. PRIMARY TEMPORARY
	B. SECONDARY

2. TITLE AND SUBTITLE
Ghanaian industrial strategy, some problems for the 1970's

3. AUTHOR(S)
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4. DOCUMENT DATE	5. NUMBER OF PAGES	6. ARC NUMBER
1971	52p.	ARC

7. REFERENCE ORGANIZATION NAME AND ADDRESS
Tufts

8. SUPPLEMENTARY NOTES *(Sponsoring Organization, Publishers, Availability)*

9. ABSTRACT

(INDUSTRIALIZATION R & D)

10. CONTROL NUMBER	11. PRICE OF DOCUMENT
PN-AAC-902	
12. DESCRIPTORS	13. PROJECT NUMBER
	14. CONTRACT NUMBER CSD-1929 211(d)
	15. TYPE OF DOCUMENT

AID 590-1 (4-74)

Ghanaian Industrial Strategy: Some Problems for the 1970's

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Fourteen years after independence and five years after the ouster of Dr. Nkrumah, the Ghanaian economy continues to be plagued by a number of unyielding problems. (For the relevant data, see Table I.)

1) The failure of the economy to achieve a sustained high rate of growth which would permit substantial increases in *per capita* income;

2) a low saving rate, clearly insufficient if development is to become self-sustaining; and continued rapid increases in consumption, both private and public;

3) persistent increases in prices.[2]

Manufacturing was the one major sector that continued to grow rapidly throughout the 1960's. (Table II & III) In analyzing Ghana's industrialization, we shall assume that there is overall agreement on the need for some industrialization. The reasons for industrialization for many of the LDC's have been listed elsewhere and need not be repeated here. We shall also assume that one of the major constraints on industrialization is the lack of availability of foreign exchange. In determining Ghana's industrialization strategy, the main arguments presented in this paper are twofold:

1) by putting Ghana's industrialization efforts in a historical setting, both in terms of other LDC's and Ghana itself, to show that

Ghana by the early 1970's arrived at "a moment of truth" in terms of policy directions, and

2) to demonstrate that in Ghana, just as in many other LDC's, there was no, and at the present there still is no, satisfactory approach towards identifying "suitable" industries. Moreover, in the absense of some market mechanisms, the identification of "suitable" industries is virtually impossible and that, in the decade of the 1960's, the market mechanism--through a variety of controls--has been rendered completely ineffective. Identification of "suitable" industries has not been found easier by the introduction of an implicit exchange rate for the overvalued official exchange rate, if one assumes that the cedi is overvalued by some 35 to 50%. It will be argued that since the establishment of "suitable" industries has not been accomplished by past plans and programs, they are essentially not necessary. (This, of course, applies only to the manufacturing sector.) The synthesis of the historical setting with the Ghanaian status quo at the end of the 1960's will provide the basis for the recommended industrialization strategy of the 1970's.

If one examines the post-independence developments in Ghana in a historical context,[3] there is a great temptation to treat Ghana as a "special case." In many senses, of course, Ghana is a special case; and regarding industrialization alone, Ghana might be so considered for at least two reasons. One is the 1961 to 1965 experience, when Ghana attempted to industrialize rapidly via the public sector[4] and the other is the efforts at Ghanaization of the business sector since 1968.

However, a handful of other countries have had similar experiences, and Ghana has more in common with most features of the standard development model than differences. In the subsequent discussion, therefore, we shall minimize the impact of the industrialization strategy on both the public sector corporations and on the Ghanaization policies because, it will be argued, these two aspects can be taken care of within the context of an optimal industrialization strategy as special cases.[5]

Putting Ghana into a historical development context will be done via illustrations of two models; one by Chenery and Taylor and the other by Dudley Seers.

Ghana's Industrialization in the Overall Less Developed Country Setting

Chenery and Taylor concluded after a three-pronged empirical analysis that, as development progresses,[6] uniform patterns exist in the structure of the economies. (Ghana, which was not included in the sample, would have been included in the small-country category as it has a population of between 9 and 10 million.) Chenery and Taylor also divided their small-country sample into industry and primary-oriented countries. Had they included Ghana, they would have classified it as a primary-oriented country, because of Ghana's resources in cocoa, minerals, and timber. This distinction is important because they found that the small primary-oriented countries develop their industries proportionately less rapidly than either the large or small industry-oriented countries. Ghana's 1969 per capita GNP was about $250. Substituting these data into Chenery and Taylor's Figure 3, the share of industry in GDP would be about 15 percent.

In 1969 Ghana's share of industry (manufacturing and construction) was 12.5 percent.[7] Actually, the Chenery-Taylor data shows wide inter-country variations. For instance, for small primary-oriented countries with a per capita GNP between \$200 and \$300, the range for industry's share in GNP is 11.7 percent in Malaya to 19.7 percent in Colombia.[8] Incidentally, those African countries that were included in the sample invariably ranked low in their shares of industrialization, regardless of their country classifications.

Chenery and Taylor also used their disaggregative approach in analyzing changes in the industrial structure. Their conclusion is compared with the Ghanaian experience.

	Chenery-Taylor[9] Small Primary-Oriented	Ghana, 1969[10]
Early Sector (food, leather, textiles)	50%	45%
Middle Sectors (non-metallic minerals, rubber, wood, chemicals, oil refining)	18%	33%
Late Sectors (clothing, printing, basic metals, paper, and metal products)	32%	22%

The two patterns show some differences; primarily, it is the relatively low share of the early and late sectors and the high share of the middle sectors in Ghana. This departure from the "average" pattern is due partially to the existence of the timber industry, but mostly to some large-scale public investment in the industries of the middle sectors. After public investments ceased to be made--by early

1966--the industries in the early sector registered the fastest growth.

To further put Ghana into a historical development context, we now turn to the model of Seers.[11] (See Table IV.) I arranged Seers' "stages" into a schematic form, adapted it to Ghana, and updated and expanded it. It is fairly clear that Ghana, around the early 1970's, is in the stage of a "Closed Economy: Difficult Import Substitution." (The "closeness" applies only to the manufacturing sector.) It has an overvalued currency, low savings rate, and a high capital/output ratio. Most of domestic demand can be satisfied by local manufacturers; new opportunities for standard import substitution--essentially manufacturers for the domestic market--are rapidly disappearing. Most important, at least for this analysis, is that the control system in which both the government and local industry came to have substantial vested interests is under unmanageable administrative strain. The crucial question for Ghana's economic policy makers is whether or not they will both be able and willing to move from the second "Closed Economy" stage to "Export Diversification" and if the answer is in the affirmative--when? Whether or not Ghana will make this transition is, based on historical evidence, not at all "determined." Latin American countries, for instance, by and large moved deeper and deeper into the stage "difficult import substitution" in the last 25 years, have not entered the stage of "export diversification," and have gotten into serious difficulties by so doing. Other countries, mostly in Southeast Asia and the Far East, notably Japan, Korea, Taiwan, Hong Kong, and Singapore, moved rapidly into the stage of export diversification. Which pattern should Ghana, or is Ghana likely to, follow? In terms of economic performance, of course, the "Japanese" model is clearly more successful than the Latin American model. Does it follow from this that Ghana will attempt to follow the Japanese model? Not necessarily, though there are some tentative indications that it might. The reasons why it should, what the obstacles and incentives are, and how it ought to be done is the suggested industrial strategy for the 1970's.

Seers' model was intended to be a categorization of development steps for descriptive purposes; the interpretation that the process of development is as "determined" as these steps seem to imply is mine. The burden of my argument is that "bad" import substitution almost inevitably follows "good" import substitution unless a drastic policy reversal takes place, say, like in Japan to diversify exports. It is my contention that export diversification is not necessarily a function of import substitution. This can be seen not only in the Seers' model and in the Latin American experience but also in the following section on Ghana's industrialization.

Comparative Advantage: Theory and Practice

In theory, the identification of suitable industries is simple; i.e., those products which make intensive use of the abundant factor of production should have a comparative advantage. This theory, regrettably, has proven to be of little value in explaining the pattern of industrialization around the world. After a thorough empirical investigation, Michaely concluded that specialization in manufactured goods "may well be as much a result of accidental historical development--such as the role played by individual firms--as of the availability of certain factors of production in their broad definition."[12] One of the difficulties, at least with the physical capital version of the comparative advantage theory, is that both capital goods and their financing are very mobile internationally while other key inputs, i.e., skills, technology, management and externalities, are considerably less mobile.[13]

The theoretical framework for answering the question, i.e. what are the suitable industries for Ghana, has been provided as far back as 1953 by Arthur Lewis.[14] Lewis' model starts out by stating the obvious industrialization strategies facing LDC's, Ghana included:

a) Processing for export primary products which were previously exported in crude state;

b) manufacturing for the home market, i.e., import substitution; and

c) manufacturing for export, often based on imported raw materials.

As Lewis saw it, the difficulty with processing for export was that less developed countries are in an unfavorable position; it is difficult to import the superior technology which the consuming countries have. The exception to the above generalization would be those products where there is both a weight loss in manufacturing and the transport cost is high, relative to the value of the product. In the Ghanaian context, such an industry is timber; timber manufacturing grew rapidly until 1965. After 1965 the timber industry declined both relatively and, somewhat in absolute terms, mostly due to factors which are outside the economics of the industry itself but not outside of economic policy affecting timber. Other processing industries, which either have been developed in Ghana or are in the process of being developed, are soap manufacturing from vegetable oils, cigarettes from tobacco, some vegetable and fruit canning or juice making, and the manufacture of bricks from clay.

The processing of primary products, i.e., cocoa, soap, and cigarette manufacturing and canning, are all usually capital intensive. All capital equipment has to be imported, therefore, the saving via manufacturing is not a great as may appear. However, the growing of the raw material, i.e., cocoa beans, oil palms, tobacco, tropical fruits, and vegetables, is labor intensive. Thus, processing these products for export, particularly if the processed products represent a net addition to agricultural exports is a most favorable course. Limes, for instance, grow well in Ghana, but there had been no export market until a plant was put up to ure Rose's Lime Juice.[15] Processing in this instance adds to both the agricultural and industrial output.

Another potential avenue to industrialization would be the standard import substitution situation in which a heavy raw material is used in the process of manufacturing a material locally available, such as water in beer or clay and limestone in cement, or where the finished product is bulkier than the material from which it is made, for instance, furniture.

The process of industrialization can be well observed from the activities of the largest trading company in West Africa, the United Africa Company (UAC).[16] By the late 1950's, UAC in West Africa was involved, in addition to the processing of agricultural exports, in a number of breweries, cement works, metal goods, textile mills, thread factory, cotton spinning, plastic extrusion, packing materials, a furniture plant, a number of bicycle assemblies, radio and television set assemblies, using imported component parts. Bedford trucks were thus assembled in Nigeria beginning 1959 and in Ghana in 1960. According to UAC's feasibility report the savings in freight and certain other charges outweighed the higher cost of assembling vehicles in West Africa instead of in the United Kingdom. (Such plants usually do not benefit the economy of the country, at least not in relatively small countries like Ghana in terms of the implicit exchange rate.)[17] The second step was the establishment of consumer goods manufactured partly or wholly from local raw materials; i.e., textiles, shoes, soap, cigarettes, beer, mineral water, and plastics. The final step was the manufacturing of building and construction materials; i.e., cement and pre-stressed concrete products locating these plants (in Nigeria) near the deposits of the main raw materials--clay, limestone, and coal.

Evidence for the differential rates of return on equity of UAC's investment can be obtained from the ranking of UAC investments according to profitability. UAC's "new-type" investments, i.e., breweries, textiles, and vehicle assemblies, were clearly more profitable than were its "traditional-type" investments in trading, shipping, and timber. (See Table V.)

Actually, the process of import substitution works less smoothly than the Lewis and/or UAC strategy seem to imply.[18] The implication of the strategy is that, when the market reaches the size where an optimum size plant can economically be located, an investor will appear and invest in such a plant. Such an implication does not correspond to reality. Kilby shows for Nigeria[19] that the plants were frequently located well after that market size had been reached, which would have allowed the locating of an economical size plant, and usually in answer to a competitive threat. In (former British) West Africa this means, essentially, that the large trading companies protected their import markets via local manufacturing.

It is logical to expect the trading companies to be the first and largest investors--and other than some "enclave" investment--this is exactly what has happened. To begin with, the trading companies had, and still have, one great advantage over their competitors--intimate knowledge of the local market and established marketing connections with it.[20] Moreover, the trading companies rapidly discovered that jumping on the import substitution bandwagon is more profitable than importing. In the import business, the profit margins usually are lower, as more likely than not there is competition. In manufacturing, on the other hand, the new investor either establishes a protected or a monopoly position, or frequently both, either through increased duties or quantitative restrictions with an increase in the profit margins. The import substitutor will sell at a higher unit profit and will supply the whole market, capturing his ex-competitor's shares. Thus the import substitutor, under these conditions, has little to lose and much to gain.

Size of the Market

The main impetus for industrialization--other than processing primary products for export--is manufacturing for the home market; i.e., import substitution. This is the juncture at which the size of the local market becomes crucial in determining what is feasible within a given

LDC, in this case, Ghana. Since standard means of determining the size of the market available for import substitution is to examine the quantity and composition of imports, we shall first present these data for Ghana; secondly, we shall examine the limitations of this approach.

Imports by End-Use, 1969/1970[21]

		N¢ Millions
Non-durable Consumers' Goods:		
Food, Drink, & Tobacco		45.4
Textiles & Clothing		25.8
Others		27.7
	Total	98.9
Durable Consumers' Goods:		
Private Vehicles & Accessories		8.5
Other		8.4
	Total	16.9
Raw and Semi-finished Materials:		
For Food, Drink, Tobacco, Agriculture		33.5
For Mining & Manufacturing		93.0
For Construction, Durable Producers'		36.7
	Total	163.2
Producers' Equipment		97.2
Fuel & Lubricants		23.2
	Total Imports	399.4

One would of course need more detailed import data (which is available) coupled with feasibility studies of those industries where import substitution possibilities exist (which are not available) to determine the size of the local market which the domestic industry can feasibly attain. Using the data given in the above table as a guide to matters of magnitude, one can conjecture that the following imports are not likely to be locally produced in the next decade or two: durable consumers' goods, capital equipment, fuel and lubricants (unless oil is found in Ghana) and, at least half of the raw and semi-finished materials which totalled N₵ 190 million in 1969/1970. If, for illustration's sake, we assume that two-thirds of the remaining imports can eventually be manufactured (or grown) locally, there is scope for further import substitution--within the implicit exchange rate of the overvalued cedi--to the extent of N₵ 140 million based on the 1969/1970 import experience.

More likely than not, however, measuring the size of the market via looking at the level of imports understates the potential size of the market; practically all imports into Ghana bear a tariff, which by virtue of its raising the price to the consumers reduces the size of the market. (Tariffs are, of course, necessary both to ration foreign exchange and to raise revenue.)

Ghana Percent Nominal Tariff Rates by End-Use Groups[22]

	1966	Jan./June 1968
Intermediate Groups:		
Tobacco Industry	135.8	114.1
For Consumer Goods Industries	16.3	12.1
Unprocessed Raw Materials	9.6	6.0
Semi-Processed Intermediate Goods	13.0	8.5
Highly Processed Intermediate Goods	21.6	19.6
For Capital & Intermediate Goods Industries	8.9	6.3
Unprocessed Raw Materials	9.3	3.4
Semi-Processed Intermediate Goods	14.9	5.0
Highly Processed Intermediate Goods	6.9	8.4

Consumer Goods	48.1	22.8
Basic Necessities	24.1	3.6
Ordinary Consumer Goods	54.8	27.8
Luxury Goods	128.4	60.7
Consumer Durables	25.0	18.7
Capital Goods	2.3	4.0
Machinery and Equipment	2.0	3.6
Transportation	4.0	6.0
Fuels and Lubricants	226.3	97.8

There are additional factors which do limit the size of the market. Since there is an import control system, many goods are physically not available in the required quantities. Lifting this quantitative restriction, and abolishing the tariffs, would certainly increase the size of the market. It is hazardous to guess by how much, but due to the postponed consumer demand and the excess industrial capacity such an enlargement (of the market) might well be substantial. The other factor that could substantially enlarge the size of the market is the "income effect." As shown in the introductory section, per capita real GNP did not increase after 1962 and declined after 1964. If there is a reversal in this trend the income effect will bolster the market size. Other than the trend in per capita real GNP, such a reversal may have a more than proportionate affect on demand because of a) fairly good transport system which gets goods distributed relatively cheaply all over Ghana, b) an apparently relatively even distribution of income--though no actual data is available, and c) in household expenditures, particularly in the rural areas, a relatively small proportion goes for housing and food, thus leaving a high propensity to spend for manufactured goods--imported or locally made.

The (small) size of the Ghanaian market puts a limit on industrialization. Among the obvious ways to enlarge the "market" is to export. Ghanaian exports of manufactured goods in 1968 are estimated to about \$2.7 million;[23] i.e., less than 1% of total exports. Another way of enlarging the size of the market is via economic integration or the creation of customs unions. The efforts at the creation of a West African Common Market--however desirable this objective might be--are, at this point, unpredictable. In a recent review on integration among LDC's, the West African Common Market received no mention.[24]

The Impact of Import Substitution

The effect of import substitution depends on a) the share of imports of raw materials and semi-processed intermediate goods in the total material inputs, b) the share of the cost of expatriate managers and technicians in the total labor cost, c) the degree of capital intensity of production--virtually all capital goods being imports, d) the share of the investment that is made by foreigners, e) the efficiency with which the plant is operated, and f) on the "suitability" of the industries selected. In the initial stages of industrialization much of the import substitution is done via foreign investment, operated by expatriate staff on the top level, capital intensive--that is one reason why foreign investment is needed with its technology and staff--and using a relatively high proportion of imported raw materials as inputs. Under these circumstances, the impact of import substitution [illegible] tion is small, negligible or, not infrequently, negative. There is an additional reason which re-enforces this effect. Firms newly established in LDC's operate less efficiently than similar firms in the industrialized countries. Given the high import component of this type of production, inefficiency means foreign exchange spending. Thus import substitution is effective only when the efficiency of LDC's industrial production is increased.[25]

Part of the increased efficiency can be achieved through better utilization of capacity. However, due to the small size of the Ghanaian market, Ghana will have some industries which even at full capacity will not be efficient--either because of the subeconomic size of the plants, or, if an economic size plant is built, the capacity will often exceed the existing (domestic) demand. Thus, there will be upward pressure on locally manufactured prices, and import substitution frequently results in pressure on the balance of payments.

In quantitative terms, the record of the 1960's is impressive regarding import sbustitution. "It is the Government's intention that as early as possible the country shall produce within its borders a very high proportion of all the goods and services that are consumed here."[26] By 1969, Gross Output in Manufacturing was about N₵ 263 million,[27] almost all of it going into the local market. But it is far from clear what the net foreign exchange savings were at an appropriate implicit exchange rate.

Available fragmentary evidence indicates that much of the import substitution resulted, at best, in negligible net foreign exchange savings. Any improvement discernable can be attributed to higher utilization of capacity which occurred in recent years, mostly in response to Government policy.[28] Of complimentary assistance was the increase in supplies of imported raw materials as many of the plants were built to operate on imported raw materials. But the record of increasing supplies of domestic raw materials has thus far been very disappointing because the stagnating agricultural sector simply does not produce enough of them at reasonable prices.

Some Institutional Constraints

One of the major constraints on "suitable" industrialization was economic policy itself. One cannot help but be impressed with the apparent similarities between the thinking of New Dealers in the United States and government officials in the LDC's. Consciousness II--as "reformism" has been relabeled--"saw an America where organization predominates and the individual must make his way through a world directed by others." Society will function best, according to Consciousness II, "if it is planned, organized, rationalized, and administered."[29] According to Reich, Consciousness II failed in the United States--(a view not entirely shared by the author of this paper). But how has "reformism" fared in the LDC's in general, and in Ghana in particular, regarding industrialization?

I, alas, have many doubts with respect to the potential adequacy of the market as, obviously, conditions of a "perfect" market will not necessarily be approximated. Yet, my faith in the usefulness of shadow pricing, benefit-cost ratios, and other techniques is also shaky, and the experience of Ghana, as indeed of many LDC's, did little to increase my faith in these techniques. I obviously do not argue for complete governmental indifference. At this juncture and after a decade of controls it is my judgment, though, that industrialization would benefit from some benign neglect by the

To begin industrialization in 1947, the then Colonial Administration created the Industrial Development Corporation (IDC) to "secure the investigation, formulation and carrying out of projects for developing industries in the Gold Coast."[30] Between 1948 and 1953, it reported that "most of the loans granted in the past have gone to individuals for the furtherance of projects which are only of secondary importance to the economy.[31] After 1953, the timing coinciding with the aforementioned report of Arthur Lewis, the IDC moved to a) set up fully-owned companies, and b) joint state-private companies.

The IDC was liquidated in 1962; at that time, it had 22 fully-owned and 9 jointly-owned companies. While many of the joing enterprises were profitable, "only 8 of the 22 fully-owned made profits."[32] In 1962, the Ministry of Industries was established to take over the promotion of industrialization; the Capital Investment Board (CIB) and the National Investment Bank (NIB) were set up in 1963. But a Capital Investment Report notes that "a financier who wishes to place investment in any potentially viable project he can lay his hands on in Ghana is invariably given a list of projects which means nothing to him."[33] Regarding the CIB itself, it never has had an effective mechanism with which to examine the "suitability" of the investment proposals submitted to it.[34] Yet, a CIB annual report states that, for the fiscal year 1967/1968, "the total foreign exchange savings and earnings to be generated by projects approved is about N₵ 2.3 million when the projects are at their initial stages of production and N₵ 5.8 million at full capacity production."[35] Maybe so, however, it is not at all clear that it is so. For one, as mentioned above, the CIB has no effective mechanism to determine foreign exchange savings--as no audit of the concession policy has ever been undertaken; for another, if one examines the list of projects that were approved by the CIB during the last five years, such savings are far from evident.

The projects on the list can be broken down into three groups: agro-industries, textiles, and others. Almost all of the domestic cloth and garment requirements are already being satisfied from existing manufacturing facilities; it is not clear why additional textile industry needs to be attracted via concessions. In the agro-industry category, the biggest is Food Specialties, a joint enterprise of NESTLE and NIB to manufacture tinned milk and a milk-food beverage. Almost every item of production is imported. Hitherto, Ghanaians drank milk prepared from powdered milk with a low cif price. Food Specialties, according to some tentative calculations, using an implicit exchange rate, will prove to be a foreign exchange loser. (At full capacity, the factory will employ 250 persons.) The "other" industries, Kabelmetal and the Match factory, then, are enterprises with a potential for foreign exchange savings.[36]

The National Investment Bank, during its seven years of operation invested a total of N₵ 25.6 million, made up of loans, equity participation and guarantee obligation. Distribution of these loans and other obligations over the spectrum of industry has been as follows:[37]

Food Industry, N₵ 5 million, for milk, livestock, maize, rice, and vegetables.

Fishing, N¢ 4.8 million to the State Fishing Company.

Housing and Construction Materials, N¢ 4.5 million.

Cocoa Industry, N¢ 4.7 million to the (State) Fibre Bag Manufacturing Corporation.

Garments, N¢ .6 million.

Industrial Raw Materials, N¢ .7 million, for the growing of tobacco, cotton, and kenaf.

Electrification, N¢ 1.6 million.

Transportation, N¢ 1 million, 50 buses for the State Transport Corporation.

Shipping, N¢ .2 million to Black Star Line.

Other, N¢ 2.5 million, hotels, pharmaceuticals, printing, phonographs, plastics, and sawmilling.

The largest single project financed by the NIB in the private sector is the Food Specialties, discussed above. Total investment of the first phase of this joint NESTLE-NIB project is estimated at N¢ 2.3 million.[38]

Institutional constraints, on the policy level, include the import licensing system and the 180-day credit system. It is not necessary to review in detail the import licensing system as the system is, fortunately, undergoing a revision with the 1970/1971 Budget. However, the system covered, up to recently, much of the country's imports and still covers, at end 1970, about half of all the imports. In the industrial sector, the licensing system required three steps with the Ministries of Industries, Trade, and the Bank of Ghana before the license was issued. There seems to be scant justification for this procedure, yet it persists. Much of Ghana's imports are financed by a 180-day credit system; importing on a cash basis is permitted only under exceptional circumstances. It has been estimated that imports under the 180-day credit system cost at least 15 percent more than they would under a cash system.[39]

Other major policy constraints on industrialization are the overvalued exchange rate, the low savings rate, and the high ex post incremental capital output ratio (ICOR). Detailed discussions of these would lead this paper into the realm of macro policy, instead of concentrating on industrial strategy. A listing of some of these constraints is, however, necessary. The result of the overvalued exchange is, of course, to cheapen imports vis-a-vis domestically produced products. What alternatives the Government has and how it has attempted to cope with this problem will be discussed under import liberalization.

"Ghana's marginal domestic savings rate for 1966-1969 was 33rd among 38 LDC's."[40] Not an insignificant reason for this phenomenon is that the domestic interest rates--both to lenders and borrowers--are too low. Regarding lenders, the 1970-1971 Budget increased the interest rate paid on savings from deposits from 2.5% to 5.0%[41] With an average rate of inflation of about 5.0% the new "real" interest rate is now nil, as against the hitherto existing negative rate. The "Sector Studies"[42] report calculated the marginal "real" rate of return on investment at about 15%, or, taking into account the rate of inflation, the marginal nominal rate of about 20%. In order to attract significant savings, the rate paid on savings should be doubled or tripled--with or without inflation. Regarding the borrowers, the interest rates paid to banks are also low, with the result that a dual credit market is created. At the now prevailing low interest rates, loans are available only to prime customers. Non-prime customers are not able to get bank loans at all because the one-rate structure does not allow the banks to compensate for risks. Like the import licensing system, this rigidity does nothing for increased efficiency; rather, it gives oligopolistic profits to the prime customers.

"Ghana's incremental capital-output ratio (ICOR) for 1966-1969 was second highest, at 9.0, among 38 LDC's. The ratio for Tanzania was 3.1, for Kenya 2.9, for Ethiopia 2.8, and for Uganda 2.1."[43] (ICOR is, of course, somewhat misleading in a country which is not growing. Or, expressed differently, the high Ghanaian ICOR is another way of stating the low capacity utilization of the economy.) ICOR was 6.7 for 1960-1967 period, comprising 4.3 for 1960-1963 and 12.4 for 1964-1967.[44] Such fantastic ICORs are due to faulty project selection, as well as the institutional and policy constraints discussed above. The combination of overvalued currency, low interest rates, various concessions available through the CIB on the importation on equipment result in investments in capital-intensive production techniques. Investments outside the industrial sector had, generally, long gestation periods--or failed to generate even secondary benefits and an above-average share of them were in the social sectors. Regrettably, past ICORs are not satisfactory guides of future ICORs. Clearly, in Ghana the volume of investment undertaken was more than adequate; but its quality was not, nor was the set of policies which should have obtained a better utilization of the investment. What the future ICOR for Ghana will be depends both on the quality of past investments--which, at least in the industrial sector, are not as bad as they are generally assumed to be--and the set of policies which will, or will not, make better use of existing investments. It also depends on the absence of certain linkages which makes Ghana a discrete economy. In the absence of a detailed study of the structure of the economy, which is not available nor the data on which such a study could be based, the extent of the missing linkages are not obvious. Certain considerations are, however, clear. One is that some investments could, potentially, have great impact on the economy by filling in the missing linkages; the other is that the chances of finding the ivestments for the missing linkages would be greatly improved by the (re)introduction of some market forces in the economy. Considering the past high ICORs, it can be asserted that neither planning nor policies have apparently, so far, located these linkages. With a proper mix of policies, it can be argued that future ICORs are likely to be low exactly because the past ICOR was a high as it actually was.

Overseas Debt Policy

Ghana's overseas debts amounted to more than N¢ 500 million by the end of 1969. As of 1964, about 82.5% of all debts were in the form of suppliers' credits with an average maturity of 5 years. Because of three rounds of reschedulings and the contraction of new debts on concessional terms, the share of suppliers' credits was, by the end of 1969, about 60%.

Shortly after the coup, the Government assumed full obligation for the debts contracted by the Nkrumah Government but reserved the right to examine the validity of the debts. Such examination never took place nor was Ghana able to meet its debt payments. As a consequence, Ghana and her creditor countries have concluded, so far, three rounds of reschedulings: in December 1966, in October 1968, and in June 1970. All three reschedulings were only for about 3 years each and the rescheduled payments bear interest rates of 5.5 to 6.0%. After the last rescheduling, the Government made it known to its overseas creditors that while it appreciates the relief granted during the July 1970 reschedulings "it has strong reservations on a number of essential matters which we hope will be finally resolved at the renewed debt talks scheduled for this time next year."[45] What the reschedulings amounted to so far is that Ghana is paying, among others, for bribes passed out and inflated prices charged and is repaying this "principal" at about 6% compound rate of interest.

In balance of payment terms, provisional 1969/1970 figures[46] indicate that Ghana paid debt servicing of N₵ 57.1 million and received N₵ 58.3 million in long-term aid commitments. In other words, for all substantive purposes, it received no aid at all. Moreover, virtually all the N₵ 58.3 million is "tied" aid and, therefore, as has been demonstrated elsewhere, is more expensive than is "untied" aid. Consequently, the "real" value to the economy of aid commitments is less than the indicated NC 58.3 million. Finally, while all of Ghana's debt payments represent a loss to its balance of payments, not all the aid it receives represents balance-of-payments support because almost all of it is project aid, in one form or another; and with the exception of U.S. PL 480 shipments, none has been program aid. To the extent to which aid does not represent immediate balance-of-payments support, Ghana continues to contract debts, occasionally on projects which have low priority.

What should Ghana's debt strategy be? Basically, there are three options,

a) repay the debts,

b) "examine the validity of the debts" and act accordingly, or

c) continue with the present practice; i.e., reschedule the debts bi-annually.

Debt payments, of course, have to be considered in the overall balance-of-payments setting. There are two ways that Ghana could service its debts, either through higher export earnings or through increased aid. The quantity of Ghanaian exports stagnated during the 1960's; the high export values received during 1968-1970 were due to the cyclical rise in cocoa prices. Cocoa prices are on their way down again and, after three years, the expected export earnings are below their 1968-1970 levels. Beginning in 1967, there was an increase in long-term aid commitments. Aid disbursements, however, reached a plateau in the late 1960's and from this source, little appreciable relief can be expected. During the "donors' club" meeting in December 1970, the sixth such meeting since the ouster of Dr. Nkrumah, it was noted that Ghana needs domestic and external resources well above those available at present. However, the meeting failed "to agree on a formula for increasing aid to counterbalance the drain on foreign exchange earnings in loan repayments."[47] If the sum of exports and aid disbursements increase by 6% annually, this would suffice only to pay the interest on the accumulated debts. If the annual increase is greater, Ghana could either use the additional receipts for development or gradually to retire the debt. If the annual increase is less, the outstanding debt will increase even if Ghana does not contract any new obligations.

Debt strategy alternative a) must be eliminated, so it seems, because Ghana will be unable to meet both its debt payments and development requirements--whatever the willingness of the Government to do so.

Alternative b), in one way or another, would result in the reduction of the debt burden. Legal, political, and moral implications aside,[48] this course is preferable only if it results in a preferred arrangement over c)--discussion of which follows.

Concerning c), the past three reschedulings failed to solve two fundamental issues; namely, the increase of net aid inflows and the reduction of the total size of the debt. As shown earlier, aid barely exceeds debt payments in quantity terms; considering the "tied" nature of aid and its project orientation, net aid is smaller than are debt payments. Therefore, unless Ghana can accomplish these two objectives, c) is not in its interest.

What are the chances of Ghana being successful in its future debt renegotiations? If past experience is any guide, it seems evident that a great deal more needs to be done if c) is to continue as a viable alternative. In terms of Ghana, the strategic question is whether it wants to be the first country to "examine the validity of its debts," or whether it thinks itself better off to bide its time and wait until another country, preferably a major debtor, comes to the same point Ghana is today and then follows suit.

A major question, of course, is the pasture of the IBRD. The IBRD is for honoring all debts, understandably, since its funds derive from the world's capital markets and any faltering in debt repayments would, theoretically, impair its ability to raise funds in this manner. However, Ghana has no medium-term debt with the IBRD--or with the U. S. for that matter. Therefore, Ghana's debt "re-examination," if it ever comes about, would not affect the IBRD. In fact, the situation at present is that some of the IBRD, and much of U.S. aid, goes not into development but into repayment of the debt accumulated under Dr. Nkrumah and into the Treasuries of Western European countries. None of this is, of course, in the interest of the IBRD.

A major difficulty with the bi-annual debt reschedulings is that it involves "heavy costs in terms of uncertainty, pre-emption of scarce management and professional skills, and the inability of the debtor to formulate long-term plans and policies. . . .We (the Pearson Commission) recommend that debt relief operations avoid the need for repeated re-schedulings and seek to re-establish a realistic basis for development finance."[49] The first two reschedulings saw the IMF representatives in the chair; the 1970 debt negotiation was chaired by the IBRD, and so will be the one already announced for 1972.

The final point is that unless something is done about the debt, aid, or both, the Ghana Government may use the debt situation as an excuse to take some bold and, possibly painful, policy measures and may continue to blame the country's stagnation on the external debts. This is neither in the interest of Ghana, the IBRD, nor any of its creditors.

Partial and Eventual Return to an "Open" Economy

Ghana, according to our analysis, is in the stage of a "Closed Economy; Difficult Import Substitution" having passed through the stage of "Easy Import Substitution." The licensing system, allocating scarce foreign exchange--originally set up presuming that the government has the ability to make efficient allocations, has come under severe administrative strain. "The bureaucratic machinery of Government simply does not have the technical information, the commercial knowledge or the management sense to substitute its own preferences for the decisions of a host of individual industrialists and investors, based on their assessment of market opportunities, without causing much dislocation and economic waste."[50] (During the life of the licensing system, there was, and most likely still is, the tendency to "give them something because they got something last year.") The road arriving at this recognition was neither easy nor short. (Nor was it so in the subsequently successful case of Korea. It took a while to recognize that "the controls that were inhibiting the economy's growth could be and must be relaxed.")[51] It began with the devaluation of the cedi in July 1967, by 30%. Spare parts, pharmaceuticals, and insecticides were put on Open General License (OGL) accounting for 4% of total imports. Subsequently, additional items which in 1968 accounted for 20% and in 1969/1970 about 33% of total imports were put on OGL. The 1970/1971 budget extended the OGL coverage to an estimated 55-60% of total imports.

From 1967 till the 1970/1971 budget, there were either no or negligible import surcharges on OGL. Under the 1969/1970 budget, the import surcharges averaged 3.5-5.0%. With the cedi overvalued by about 30-50%, the smallness of the import surcharge not only lost the Government significant revenue, but failed to "ration" foreign exchange. Import surcharges were raised in the 1970/1971 budget to an average of about 25%.[52] With the duties and sales taxes already in existence, the 1970/1971 surcharges, for the first time since licensing began in Ghana, adequately compensates for the overvaluation of the cedi. (This amounts, of course, to a partial devaluation of the cedi, particularly if coupled with export bonuses. Since the cedi is overvalued, this is obviously a policy measure in the right direction!)

The combined effect of increasing the items under OGL and the imposition of a reasonable surcharge results in the shift of hitherto accruing monopoly profits from the importers and manufacturers to the Government. "About mid-1969 it was noted that the disturbing feature, (however,) is the marked increase in (manufactured) prices. It is difficult, without more careful analysis, to explain the increase in prices. It would seem, rather, that a fall in prices would have been more consistent with a situation of increased output, little or no increase in employment and lowered costs on imported materials. A possible explanation is that the increase in value added represents mainly increased profits, which consist largely of a transfer of revenue from Government to the manufacturers."[51] Protest, therefore, against the new set of policies was not long in coming. The Ghana Chamber of Commerce, the Ghana Manufacturers Association, and individual industrialists talked about the "general feeling" of 100 industries that might be forced to close and that the Government policy is a "scare to indigenous manufacturers." Others said that the "trading situation" is being changed from a seller's into a buyer's market."[54] The Government has, so far, stood its ground.

Export Diversification

The liberalization of the import trade with the concommitment effect on domestic manufacturing is the necessary, if not sufficient, condition for export diversification. To promote exports, the Government needs to subsidize them--at least initially. Efforts in export promotion have, so far, lagged behind import liberalization. Export promotion involves both price and marketing considerations. In 1969 the Government established an Export Company and an Export Promotion Council and announced the strengthening of its overseas Trade Missions. In the past, Ghanaian efforts to promote exports via Government organizations did not produce satisfactory results. This need not always be the case; successful export countries, Japan, Korea, and Taiwan, did and are making efficient uses of their overseas trade missions. Other possible arrangements include making use of the trading companies. More than 12 years ago, UAC suggested that "it is able to promote trade not only within West African countries but between one country and another."[55] If it would be Ghana's policy to retain a part or most of the export trade in Ghanaian-owned firms, such an arrangement with the trading companies could be concluded for a limited period of time. One cannot help but have the view that the marketing constraint, which is an institutional one, on exports is at least as serious as is the price constraint due to both the overvaluation of the cedi and the favoring of import substitution over export promotion. Yet, one hears hardly any discussion of the marketing constraints. Coming to grips with it will require a political decision based on courage because it is likely that, at least initially, foreign trading interests might be involved. Since the overcoming of the marketing constraint is much less clear cut than most macro policies, part of the governmental courage will have to be reserved for a period of trial and error after the initial arrangements have been made. In many instances, marketing is probably a more important factor than any other, including the inexpensive labor costs in most LDC's. For one, distribution costs are higher than labor costs in a number of products. For another, successful, or unsuccessful, marketing determines production schedulings. Since most modern industries are capital intensive, the operating costs accruing to capital are, more likely than not, more important than are the level of wages.

Also, in 1969 the Government announced that a) firms exporting 25% of their total production will be entitled to a rebate of 50% of their total company tax liability, those exporting between 15-25% will get a rebate of 33.5% and those exporting between 5-15% will get a rebate of 10%, b) firms which surrender more foreign exchange in a given year than they did the previous year will be entitled to a bonus of 10% of the incremental foreign exchange which they surrendered, c) exporters will receive (additional) import licenses equaling the import content of their exports and d) since exports bear no local tax, the exporter is entitled to a "draw-back" on that portion of the production that went into exports.[56]

However, a year later, it was suggested that "so far very few applications have been received when considered in relation to the volume of Ghana-made goods which we all know are on sale in the markets of neighbouring countries." . . .(Also that) "the export bonus scheme which the Government decided to introduce last year has not yet been put into effect mainly because Ghana's international obligations. . .have presented difficulties in the way of reaching agreement on a scheme."[57]

Regarding the measures announced in 1969, the procedures generally proved to be so involved that the potential exporters ignored the opportunities. In the 1970/1971 budget the administrative arrangement for exports have been simplified by centralizing them at the commercial banks.

The Government also hopes to resolve the legalities of the proposed export bonus scheme in its negotiations with the IMF. Until such an agreement is reached no additional moves on export subsidization are likely to be announced. The 10% foreign exchange bonus, announced in the 1969/1970 budget does not seem sufficiently rewarding to exporters considering that the cedi is overvalued by a multiple of that bonus.[58] In Korea and Taiwan export bonuses that more than compensated for the overvaluation of the currency were instituted in the initial phase of the export diversification. Up until the 1970/1971 budget, the Government did not have adequate new funds with which to subsidize exports. However, after the introduction of the import surcharge, part of the monopoly profits now accrue to the Government and these funds can now be used to finance the export bonuses.

Since 1967, an increasing quantity of Ghanaian manufactured goods are being smuggled out of the country. These goods include, among others, textiles, clothing, shoes, household utensils, and plastic items. In terms of quality such a trade, however illicit, indicates that the quality of these Ghana-made goods are of acceptable standards. By making exporting less cumbersome administratively and by granting export bonuses there is little reason why the Government could not capture the foreign exchange earnings that now accrue wholly to the smugglers. (Smugglers also escape Ghanaian taxes. Next to the foreign exchange advantages of smuggling; however, this is a minor consideration.)

With a set of policies, i.e., internal "openness" and a properly valued exchange rate--which can be established with export bonuses--

Ghana seems to be in good position to export. An IBRD study indicates that non-traditional, minor exports perform better than others and a strategic factor is the "smallness" in the external market.[50] Ghanaian-made industrial goods fit these criteria. (The trouble with agricultural and raw materials diversification is that it usually represents a shift away from comparative advantage. Moving into manufacturing exports seeks out new potential comparative advantages.)

An Open Economy for Ghana? If so--when?

Ghana's industrialization effort fits fairly well into the overall scheme of development which is applicable to most LDC's. Once a country starts to industrialize, it is difficult for it to avoid slipping from the stage of "Easy Import Substitution" to the stage of "Difficult Import Substitution," although there are countries which managed to pass from the "Difficult Import Substitution" stage to the "Export Diversification" stage. Admittedly, most LDC's sink deeper and deeper into the "Difficult Import Substitution."[60]

If, hopefully, Ghana manages to move into the "Export Diversification" stage, it will achieve significant growth for about the first time in a decade. It has been pointed out earlier that, with the 1970/1971 budget, the increased use of OGL, and the imposition of sizable surcharges, Ghana has begun its first move toward an "Open Economy." The concomitantly necessary steps regarding export subsidies have, however, neither been significant enough nor have they been implemented to any serious degree. Yet, the trend, which tentatively began with the devaluation of 1967, is generally away from "Difficult Import Substitution."

Whether to continue this trend or not is, mainly, a political and, secondly, an administrative decision. Emphasis on policies rather than plans and projects, will avoid the hitherto excessive concentration on the public sector. Virtually all of agriculture, cocoa, and forestry, and the bulk of fisheries, manufacturing and mining, which comprise the private sector, have been, by default, outside the direct governmental concern. While in mid-1968 the Government called for "close contacts between the planning organization and organizations representing private enterprise (and that) these contracts should be institutionalized"[61] in the Fall, 1970 it was started that "given the lack of time for consultation with the private sector, the programs and projects in this plan (1970-1971) have been confined largely to the public sector."[62]

In terms of policies the Government today is fortunate enough to either know, or know of, the policy tools it needs for further decontroling of the economy; these have been worked out in the last three to for years. They include the gradual elimination of the import licensing system, with the exception of quantitative restrictions on luxury goods, via further moves onto OGL; the continuation of import surcharges with annual revisions thereof to approximate the effect of a floating exchange rate for the cedi;[63] the implementation of the oft-proposed export bonus system; the provision of some institutional arrangement for the marketing of manufacturing exports, possibly with a (temporary) tie-in with the trading companies; and allowing the banks to lend at a schedule of rates according to the risk involved. These tools should also involve a substantial tightening of the Capital Investment Board's concessions policy by providing it with a sizable and competent staff. Such tightening should begin with a detailed audit of the foreign exchange impact of past concessions granted. Until such an audit is completed, new concessions should be granted only with extreme reluctance or with the understanding that the concessions granted are conditional on the to-be-audited validity of the claims made by the investor regarding the foreign exchange savings of the proposed investment. The Government should also make a serious attempt at reaching an agreement with its overseas creditors to avoid the need for repeated reschedulings and, thus, free up its managerial and professional staff for concentrating on development policy. Finally, the Government should place a high priority on abolishing the costly and cumbersome 180-day credit system of imports. With its low level of reserves, the Government cannot afford to abolish the 180-day requirement. It could, however, afford it if it could attain financing of the initial cost of going off this system. Regrettably, donors no longer give direct balance-of-payment support to any appreciable extent, even when it can be demonstrated that the loan could be repaid in about three years. (There are indications that the IBRD is in the process of finalizing a program loan to Nigeria; this would represent a policy departure.) Yet, up until now, the Government has not tried fully to persuade donors to assist in abolishing the 180-day credit system. The Government can also study the policies of those countries that passed into the stage of

"Export Diversification." The techniques are available; the Government needs, in addition to the political decisions, an administrative apparatus that will implement its policies.

The question might be most appropriately raised that, if the desirable policy direction is clear and the techniques available, why have these policies not been adopted earlier or why is there any doubt that they will be adopted? One answer is that there is less risk in continuing with existing policies than in changing the course of the economy and in Ghana, as everywhere, there is a premium on risk aversion. Another reason is that, disappointing as the economic performance has been, there has never developed in Ghana a sense of crisis regarding this situation. Ghana is still a fairly prosperous country by African, and most Asian, standards and none of the more obvious symptoms of underdevelopment--hunger or malnutrition, a poor infrastructure, and social services--are present. It is not possible to forecast how long the people are prepared to accommodate themselves to a stagnating standard of living; but obviously, it is much longer than it would be in Europe and the United States.

An impetus for some dramatic action might well be provided by the forecasted falling cocoa prices and their impact on the budget and the balance of payments. This impact may approximate a "sense of crisis" and if such a "sense" is developed it will take the Government considerable courage to hold its course and continue to move away from administrative controls. Courage will be necessary, as there is an obvious lag between the re-allowance of the play of market forces and the visible beneficial effects on the economy. The length of the lag will depend, to an appreciable extent, on the implementation machinery. In the LDC's, including Ghana, the road from a Plan or a Budget to implementation is long and bumpy. By gradually decontrolling the economy and by slowly eliminating the vested interests in the controls, the Government automatically shortens the distance between its policies and their implementation and, therefore, their effects on the growth of the economy.

Footnotes

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[2] _One-Year Development Plan_, July 1970-June 1971, Accra, Ghana Publishing Corporation, September 1970, p. 11. For a summary of developments, see Tables I-III and the commentary on the Tables.

[3] Words of caution should be introduced here. For one, it is too

early to render a historical judgment on Ghanaian industrialization. For another, the "standard" economic model fails to accomodate the goal of economic independence by altering the structure of the economy. It should be noted, however, that, so far at least, the post-independence developments in Ghana indicate that the governmental plans and programs managed to produce neither foreign exchange savings nor economic independence to any appreciable degree. The policy guide between 1961 and 1966 was "to reduce our colonial produced economic vulnerability by lessening the dependence on mono-crop farming. . . ." In the trade-off, Nkruman, probably unconsciously, chose control over growth. Kwame Nkrumah, Africa Must Unite, New York, F. A. Praeger, 1963, p. 108. For For two critical views on the usefulness of theory on development, see C. D. Goodwin, "Economic Analysis and Development in British West Africa," Economic Development and Cultural Change, July 1967, pp. 438-451 and D. Rimmer, "The Abstraction from Politics," Journal of Development Studies, April 1969, pp. 120-204.

[4]Some results of this attempt were analyzed in my paper, "The Role of Suppliers' Credits in the Industrialization of Ghana," Thirteenth Annual Meeting, African Studies Association, Boston, October, 1970, Proceedings of ASA, Shifman Center, Brandeis University, Waltham, Massachusetts and Economic Development and Cultural Change, (forthcoming).

[5]I am in the process of completing papers on the (Ghana) public sector corporations and the Ghanaization of business.

[6]Hollis B. Chenery and Lance Taylor, "Development Patterns: Among Countries and Over Time," The Review of Economics and Statistics, November

1968, pp. 391=416. See also United Nations, *A Study of Industrial Growth*, New York, 1963, p. 32.

[7]*One-Year Development Plan*, *op. cit.*, Table 2-1, p. 2.

[8]Chenery-Taylor, *op. cit.*, Table II, p. 414.

[9]Chenery-Taylor, *op. cit.*, Figure 6c, p. 413 at $240 P. C. GNP.

[10]*One-Year Development Plan*, *op. cit.*, p. 78. Both sets of data adjusted to take care of "other" industries, not included.

[11]The Table on General Scheme of Development is based on Dudley Seers' "The Stages of Economic Development of a Primary Producer in the Middle of the Twentieth Century," *Economic Bulletin of Ghana*, Accra, 1963, VII, 4, pp. 57-69. See also Gustav Ranis, "The Second Post-War Restructuring," Yale University, no date, mimeo.

[12]M. Michaely, "Patterns of Trade," *International Encyclopedia of the Social Sciences*, New York, MacMillan Company, 1968, Vol. 8, p. 110.

[13]D. B. Keesing, "The Impact of Research and Development on United States Trade," *Journal of Political Economy*, February 1967, pp. 38-48.

[14]W. A. Lewis, *Report of Industrialization and the Gold Coast*, Government Printing Department, Accra, 1953. See also Raymond Vernon and Louis T. Wells, Jr., "Some Proposals for Ghana's Industrialization Policies," Harvard University, *Economic Development Report*, #134, September 1968.

[15]Y. S. Brenner and H. T. M. Wagenbuur, *Lime Farmers*, University College of Cape Coast, Cape Coast, 1969.

[16]United Africa Company, Statistical and Economic Review, "Redevelopment; An Aspect of Development in Tropical Africa," April 1963, pp. 1-38 and "Industrialization in West Africa," *Ibid.*, September 1959, pp. 1-41.

[17]J. Koopman and M. J. Sharpston, Accra, typed, 1967.

[18]Peter Kilby, *Industrialization in an Open Economy; Nigeria 1945-1966*, Cambridge, The University Press, 1969, pp. 53+.

[19]*Ibid.*, Table 10, p. 54.

[20]See P. T. Bauer, *West African Trade*, Routledge & Kegan Paul Ltd., London, 1963. Even in a small country, like Singapore, much investment was "defensive." See H. Hughes & Y. P. Seng, ed. *Foreign Investment and Industrialization in Singapore*, Madison, University of Wisconsin Press, 1969.

[21]*Economic Survey, 1969, op. cit.*, Table 6-5, p. 35.

[22]William F. Steel, "Ghana Imports and Tariffs 1966 and Jan./June 1968," Harvard University *Economic Development Report*, #141, August 1969, Table IV, pp. 72-73.

[23]*Economic Survey, 1968, op. cit.*, Table 23, p. 52. Most of the manufactured exports went to other African countries, excluding Egypt which imported cocoa, timber, and crude rubber. However, an additional but undetermined quantity of manufacturers were smuggled out of Ghana.

[24]F. Kahnert, P. Richards, E. Stoutjesdijk, & P. Thomopoulas, *Economic Integration among Developing Countries*, OECD, Paris, 1969.

[25]W. F. Steel, *Import Substitution Policy in Ghana in the 1960's*, Cambridge, MIT, September 1970, doctoral dissertation, pp. 97-101. On this point, see also Peter Newman, "Capacity Utilization and Growth in Ghanaian Nonagriculture, 1955-1975," Baltimore, Johns Hopkins University, April 1970, mimeo. Newman found that at the end of the 1960's, the non-agricultural sectors operated at about 80% of the 1960 utilization. Not

more than 60% manufacturing utilization for 1965 was reported by M. K. Brenya, "Survey of Manufacturing Enterprises," Accra, Bank of Ghana, 1966, mimeo.

[26]Imoru Egala, (Minister of Industries), Parliamentary Debates, Accra, November 1, 1963, p. 525.

[27]One-Year Development Plan, op. cit., p. 78.

[28]"Priority will be given to ensuring economic use of existing capacity before making additions." Two-Year Development Plan, op. cit., p. 55.

[29]Charles A. Reich, The Greening of America, New York, Random House, 1970, p. 59 and p. 70.

[30]Gold Coast Industrial Development Ordinance, Accra, Government Printer, 1947, section 3 (1).

[31]Annual Report of the IDC for 1953, Accra, 1954.

[32]Annual Report for 1960/1961 of the IDC, Accra, 1962.

[33]Capital Investment Board, Annual Report & Accounts, for the Year Ended June 30, 1967, Accra, 1968, p. 6.

[34]Ibid., for Year Ended June 30, 1968, Accra, 1968, p. 11 states that "the main problem facing the (CIB) administration is still the recruitment of personnel of suitable calibre to fill vacant positions."

[35]Ibid., p. 8.

[36]For a description of a maximum use of tax concession policy, see H. C. Barton, Jr., Puerto Rico's Industrial Development Program, 1942-1960, Cambridge, Harvard University's Center for International Affairs, 1959/1960, especially pp. 15-17.

[37]Statement by the NIB Chairman presented for the Year Ended December 31, 1969, Accra, 1970, pp. 4-5.

[38]NIB _Annual Report_, for the year ended December 31, 1968, Accra, 1969, p. 29.

[39]M. J. Sharpston, Accra, typed, 1968.

[40]Cited by M. Roemer, "Comparative Economic Performance, 1966-1969," September, 1970.

[41]J. H. Mensah, _op. cit._, p. 733.

[42]R. A. Nathan and Associates for the Ministry of Finance and Economic Planning, Accra, 1970.

[43]Roemer, _op. cit._

[44]Norman L. Hicks, "Debt Rescheduling and Economic Growth in Ghana," USAID Mission to Ghana, Accra, 1969, p. 12, mimeo.

[45]J. H. Mensah, "Budget Speech, 1970/71," _Parliamentary Debates_, August 25, 1970, p. 737.

[46]_One-Year Development Plan_, _op. cit._, Table A-1, pp. 39-40.

[47]_West Africa_, London, January 2-8, 1971, p. 17.

[48]For two examples of these implications, see K. Manu, "Ghana's Foreign Debts," _The Legon Observer_, May 8, 1970, pp. 8-9 and "Re-examination of Contracts," _West Africa_, July 18, 1970, p. 791.

[49]_Partners in Development_, New York, Praeger, 1969, p. 157.

[50]J. H. Mensah, _op. cit._, p. 753.

[51]Charles Wolf, Jr., _Book Review_ of 'Practical Approaches to Development Planning; Korea's Second Five-Year Plan," _Journal of Economic Literature_, March 1971, p. 98. See also, P. W. Kuznets, _The Korean Take-Off_, New Haven,

Yale University, Economic Growth Center, Discussion Paper No. 109, January 1971.

[52]J. H. Mensah, op. cit., p. 752, and subsequent announcements by the Controller of Imports and Exports, Accra, November 1970.

[53]Two-Year Development Plan, Annual Report on Plan Implementation, for the First Plan Year from July 1968 to June 1969, Republic of Ghana, Accra, January 1970, pp. 21-22.

[54]West Africa, October 17, 1970, p. 1221. See also op. cit., September 12, 1970, p. 1045-6 and p. 1048.

[55]UAC, op. cit., September 1959.

[56]J. H. Mensah, Budget Statement for 1969-1970, Ministry of Finance, Accra, 15 July 1969, pp. 17-19.

[57]J. H. Mensah, 1970-1971, op. cit., pp. 739-740.

[58]In the spring of 1971 a bill was introduced in Parliament by which manufacturers will be paid a 25% bonus on exports, Standard Bank Review, London, March 1971, p. 17.

[59]B. A. de Vries, "The Export Performance of Developing Countries," Finance and Development, March 1968.

[60]See, for instance, Joseph Grunwald, "Some Reflections on Latin American Industrialization Policy," Journal of Political Economy, July-August, 1970, Part II, pp. 826-848, especially 838-840.

[61]Two-Year Development Plan, op. cit., p. 20.

[62]One-Year Development Plan, op. cit., p. 8.

63"Playing an important part in Brazil's export gains is the "crawling cruzeiro" introduced in August 1968. Under this flexible-parity plan the cruzeiro is devalued by small amounts at fairly frequent intervals. In 1970 the cruzeiro was adjusted downward in value nine times for a total devaluation of 12%. The effect is to offset the adverse effects that inflation would exert on Brazil's trade." Annual, or more frequent, adjustments in the import surcharges would accomplish the same purpose. Or, more simply still, Ghana could consider adopting a "crawling cedi." _The Morgan Guaranty Survey_, New York, May, 1971, pp. 17-18.

TABLE I

The Economy of Ghana, 1960-1969

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Index No. of GNP[1] at 1960 prices (1960 = 100)	100.0	103.2	108.7	111.6	114.7	115.5	116.2	118.4	118.8	119.3
Index No. of Per Capita GNP at 1960 prices (1960 = 100)	100.0	100.7	102.8	102.8	102.8	100.7	97.9	97.2	95.7	95.9
Gross Fixed[2] Investment as a % of GDP (at 1960 prices)	20.3	20.5	17.7	20.5	20.4	22.9	18.8	13.8	13.2	16.4
Public Cons. Exp.[3] as a % of GDP (at 1960 prices)	10.0	10.6	11.1	11.9	12.4	15.1	15.7	17.3	18.9	19.0
Govt. Deficit[4] N¢ Millions		58.9	94.8	96.3	75.9	77.6	37.6	57.7	69.2	7.3
Balance of Payments[5] Deficit N¢ Millions	95.7	150.7	81.2	131.0	97.0	230.2	128.7	86.6	51.5	50.2
Govt. For.[6] Liabilities (Yr. End) N¢ Millions		16.3	25.5	38.3	346.8	378.4	395.3	484.0	494.3	NA

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[1]Economic Survey, 1968, Central Bureau of Statistics, Accra, August, 1969, Table 2, p. 18. Subsequent 1969 data from Economic Survey, 1969. See also Developments in the Ghanaian Economy Between 1960 and 1968, Accra, June 1969, Ghana Publishing Corp.

[2]Ibid., Computed from Table 4, p. 20.

[3]Ibid.

[4]Ibid., Table II, p. 117, N¢ - .98¢.

[5]Developments, op. cit., Table 4, p. 11.

[6]Economic Survey, op. cit., Table 13, p. 38.

TABLE II

The Manufacturing Sector

	1962	1964	1966	1969
Share of Value Added of Mfging in GDP[1]	5.2	6.9	7.3	8.7

	1965	1967	1969
Value Added in Mfging (In 1965 Constant Prices)[2]	100	124	153

Selected Industries' Share in Total Value Added, 1969

Food[3]	Beverages[4]	Tobacco[4]	Textiles	Garments & Shoes	Wood Furniture Paper	Chemicals & Metals	Other
9.4	13.0	15.8	9.6	6.5	16.3	12.2	17.2

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[1]Source of all raw data, unless specified otherwise, is Industrial Statistics, 1958-1959, 1962-1964, 1965, 1966, and 1966-1968, Central Bureau of Statistics, State Publishing Corp., Accra, various dates. 1969 data obtained from One-Year Development Plan, Ghana Publishing Corp., Accra, September 1970, pp. 76-78. Data refer to firms employing 30 people or more.

[2]The Volta Aluminum Company is excluded from the data as it performs an essentially processing function.

[3]of which 4.0% was cocoa butter.

[4]value added overstated due to the inclusion of excise taxes.

TABLE III

Value Added/Gross Output in Manufacturing

1965	1967	1969
0.58	0.57	0.52

Value Added by Type of Ownership 1968

%

State	Joint State-Private	Private
17.6	18.0	64.4

Value Added by Nationality of Ownership 1968

%

Ghanaian	Mixed	Non-Ghanaian
24.6	29.4	46.0

Value Added by Nationality of Non-Ghanaian Ownership 1967

Europe and Americas	Middle East	Asia	Others
67.8	14.5	7.1	10.6

TABLE IV

General Scheme of Development

Open Economy In Its Pure Form	Open Economy Under Stress	Closed Economy Easy Import Substitution	Closed Economy Difficult Import Substitution	Export Diversificati
High foreign exchange reserves Few import restrictions Low tariffs Rising exports Income elasticity of demand greater than unity	a) Exports stagnating b) Independence coupled with political demands	a) Active government policy for rapid development b) Import restrictions c) Administration is created to operate controls and acquire vested interest in such controls d) Running down of reserves e) Deficit financing	a) Backward and forward linkages by establishing industries to make intermediate products & light capital goods b) Domestic demand can basically be satisfied from local manufacturers c) Import restriction system under great administrative strain d) Low savings rate e) Overvalued currency f) Capital/output ratio high and projects have long gestation periods	a) Limits of viable import substitutic have been reached b) Only alternative for industrial expansion is exports c) Decontrol of the economy d) Export subsidies
ana, 1945-1954	Ghana, 1955-1960	Ghana, 1961-1966	Ghana, 1967-	Ghana, yes or no? If yes, when?

TABLE V

The Ranking of Major United Africa Company Investments According to Profitability

	1966	1967	1968	1969	1970
Breweries	excellent investment	most profitable	did better still	another good year	excellent
Technical and motors[1]	continued to do well	continued to do well	another good year	outstanding year	exceptionally well
Textiles	much less profitable; loss in Nigeria	profits recovered sharply	another good year	another satisfactory year	excellent results
Department stores and chemists	profits maintained	improved results	did well	little less profitable	generally profitable
Timber[2]	profits fell	adverse results	unprofitable and loss	very much better	excellent
Shipping	small loss	very difficult year	improved results[3]	much improved	many problems

[1]Vehicle assembly and motor sales and service.

[2]Poor results incurred, in Ghana, because of fiscal and other Governmental action and shipping difficulties and, in Nigeria, because of the civil war and shipping difficulties. 1967 results also affected by the fall in the demand for timber and its price.

[3]On a reduced-size fleet.

Source: Unilever, Report and Accounts, 1970, 1969, 1968, 1967, and 1966, London.

APPENDIX

Table I shows that the real rate of growth of the economy has slowed to a virtual crawl since 1964. Real per capita income has declined annually since 1964, except for a negligible increase in 1969. Public consumption expenditures' share in total GDP increased from 10% in 1960 to 19% in 1969; conversely, fixed investments' share in total GDP has declined since 1965 (first upturn was registered in 1969). The Government ran a deficit every year in the 1960's; the first year the size of the deficit was brought down was 1969. Ghana had a balance-of-payments deficit every year in the 1960's; these deficits were financed 1961 to 1965 through contraction of sizable foreign debts. The debts continued to grow after 1966, partially due to the contraction of some new debts--virtually all of them on concessionary terms--but mostly because the three reschedulings of the suppliers' credits contracted for in 1961 to 1965 reduced annual service charges but increased the total debt.

Manufacturing accounted for 5.2% of GDP in 1962 and 8.7% in 1969; real value added in manufacturing increased by about 50% between 1965 and 1969. (These and subsequent data on manufacturing are summarized on Table II.) During the same period, manufacturing employment increased by only 27%. The slower increase in employment as compared to value added is characteristic of most LDCs. In addition to increases in productivity, the differences in these trends are due both to the capital intensive processes inherent in most new plants and to the shifts in the use of the labor force. The timber industry, which is the most labor intensive of the major industries, stagnated; fast growing industries have been food, textiles, chemicals, and metals.

The ratio of value added to gross output is a rough measure of the degree of local processing. For total manufacturing, this ratio has declined since 1965. (Table III.) The industries primarily responsible for the decline are wood and paper, where the degree of local processing declined since 1965; and the chemical and pharmaceutical industry, both of which grew very rapidly since 1965 and have a low degree of local processing.

The bulk of the Ghanaian-owned manufacturing capacity is fully state-owned; a part of it is owned jointly by the state and private enterprises. Government policy since 1966 has been that, for the time being, "no additions of new industries to the state sector are contemplated."[1] It is likely that the state sector will continue to grow in the short run because, due to past policies, capacity utilization generally has been lower in the state sector than in either the joint state-private or in the private sector. With the expected increase in the capacity utilization in the state sector enterprises, the share of state-ownership in total manufacturing value added is likely to increase. (This assumes no, or little, new investment in private or jointly-owned industry.)

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[1] Two-Year Development Plan, Mid-1968 - Mid-1970, Accra, Ghana Publishing Corporation, July 1968, p. 59.

Foreign influence in Ghanaian manufacturing is still dominant. Assuming a 50-50% ownership split between Ghanaians and foreigners in the mixed enterprises, the share of foreign ownership of Ghanaian industry was about 60% in 1968. (Virtually all of Ghanaian industry was owned by foreigners in 1960, and the growth of Ghanaian-owned and mixed enterprises grew particularly fast after 1965.) The percentage of ownership by Europeans decreased sharply; conversely, Taiwanese and Hong Kong Chinese, recent arrivals in Ghana, registered gains in percentage of shares owned by non-Ghanaians, as did the Lebanese, who bagan to switch from trading to manufacturing.

Much of the Ghanaian-owned "manufacturing" is in small enterprises and is outside the available statistical coverage; i.e., value added by firms employing 29 persons or less. According to one estimate,[2] these small enterprises produce 33% of the value added while employing 86% of the labor force. Were these data accepted at their face value, one would have an average value added per person engaged which is both below the minimum wage and the per capita income; but the results are more a statistical phenomenon than a reflection of the real world. In actuality, the data involves a labor force which is employed only part time, and/or employees who are family members, and apprentices who pay for their training rather than receive payment for their work.

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[2]Working Paper on Income Originating from Manufacturing in Ghana, Central Bureau of Statistics, 1968, mimeographed, restricted circulation.