GHANA 'S OIL DISCOVERY AND THE PARADOX OF THE RESOURCE CURSE: LESSONS FROM NIGERIA AND INDONESIA

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ABSTRACT

Oil has its own effect on an economy. While it is suppose to be a 'blessing, empirical evidence reveals that it has become a 'curse' in most countries of the south. This study investigates Ghana's preparedness for the new found oil and how it can avoid the curse through the lens of institutions. It suggests a new label for the model from 'resource curse' to 'resource impact' to truly reflect the positive and negative consequences of resources.

Drawing lessons from a comparative study of Nigeria and Indonesia, it argues that the development of institutions and states and the commitment to pursue prudent macroeconomic and fiscal policies redeemed Indonesia from the curse and plunged Nigeria in it. It therefore concludes that Ghana as a model of democratic governance stands to succeed in managing the oil resource well if it sustains these gains and pursues growth-led economic policies.

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I thank God for the gift of life and grace to complete this thesis. May His Name be praised?

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DEDICATION

To my nephew, Jona.

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LIST OF ABBREVIATIONS AND ACRONYMS

GDP	Gross Domestic Product
OPEC	Organisation of Petroleum Exporting Countries
HDI	Human Development Index
FDI	Foreign Direct Investments
NIC	Newly Industrialised Countries
HPI	Human Poverty Index
NNPC	Nigerian National Petroleum Corporation
MNOC	Multinational Oil Companies
PC	Producers Communities
IMF	International Monetary Funds
EITI	Extractive Industries and Transparency Initiative
MDG	Millennium Development Goal
CHRAC	Commission on Human Right and Administrative Justice
BNI	Bureau of National Investigations
GNPC	Ghana National Petroleum Corporation

CHAPTER ONE

INTRODUCTION

1.0. Context of Research

Ghana[1] is at the threshold of becoming an oil producing country. On June 2007, a large quantity of commercially viable oil was discovered at the country's western coast of Cape Three Point. The oil field has been named Jubilee[2] and is estimated to produce over 120000 barrels of oil per day by 2011with $1 billion in revenue to government each year (Gary, 2007:2). The discovery has been greeted with mixed reaction. While the nation is cognisant of the immense benefit of oil to reducing poverty and accelerating development, it is also preview to the consequences of oil-abuse to the socio-economic and political stability of the country.

The country however is not new to the extraction industry. It is home to numerous minerals notable among them includes gold, diamond, manganese and bauxite (Ross, 2001). Yet, it has not excellently managed and sufficiently utilised these resources to improve rural lives and accelerate growth. The oil discovery and its production are therefore a test case for Ghana and present critical concerns for the nation's body politics.

The new found 'black gold' comes in the wake of extensive research which reveals a high level of correlation between natural resources and underdevelopment (Sachs et al,

[1] Ghana is a former British Colony and the first country in the sub Saharan Africa to gain Independence

[2] The field is name as such because it discovery coincided with the nation's 50years anniversary

1995). This study has become popularly known as the 'resource curse' [3](Auty, 1993). It is noticeable within the context of Africa that all the oil producing economies suffer from 'the paradox of plenty amidst poverty' where in the abundance of resources, there is evidence of abject poverty and want. Classic examples include Gabon, Angola, Nigeria, Sudan and Chad where the abuse of resources has led to conflict, insecurity, bad governance and collapse of institutions (Collier and Hoeffler, 1998 and Ross, 2001a, 2003).

Ghana however, stands apart in many respect from most of African's resource-abuse nations. It commands an enviable record of macro- economic stability and enjoys a strong civil and press freedom. As Gary (2007) argues, Ghana is "a model country in terms of macroeconomic and political stability, investor friendliness, good governance and efforts to reduce poverty…" (Gary, 2007:6). The World Bank reports that "overall poverty has declined from 52 percent in 1992 to 28 percent in 2006"[4] and calls Ghana "one of the best performing economies in Africa"[5]. This assertion offers a hint into the country's relative economic prosperity.

Furthermore, unlike most of it neighbouring peers, the oil discovery comes at a time in history where the country is performing well relative to its historical dictatorial past[6]. It therefore stands to reason that if democratic governance is necessarily a precondition for avoiding the oil curse, then all is well for Ghana. On the contrary, oil wealth can undermine democratic governance thus, presenting a case test for Ghana. This research

[3] This is basically the situation where natural resources which are suppose to be a 'blessing' turns out to be a 'curse'.
[4] http://go.worldbank.org/C9GR27WRJ0
[5] http://go.worldbank.org/C9GR27WRJ0
[6] For further reading, see http://www.cddghana.org/documents/Briefing%20Paper%20Vol.%209,%20No.%203.pdf, http://www.cddghana.org/documents/Briefing%20Paper%20Vol%209.%20No.%201.pdf

draws attention to how Ghana can develop institutional firewalls against the resource curse. It draws lessons from a south-south comparative study of Nigeria and Indonesia.

1.1. Research Hypothesis

This thesis proceeds on the hypothesis that Ghana is likely to overcome the resource curse because of its robust democratic institutions and stable macroeconomic policies. This research therefore aims to verify the validity and veracity of the hypothesis.

1.2. Relevance of Research

The thesis takes cognisance of the strong relationship that exist between oil extraction and underdevelopment. It discusses Ghana's relative prosperity and good governance achievements yet highlights the greatest test facing the country as it prepares to become an oil producing economy. The importance of bringing home the contextual challenges Ghana is likely to encounter as oil producing economy and the opportunities available for managing it well makes this research more urgent. It makes recommendations for government of Ghana on the best policy practices to overcome the resource curse.

Similarly, it offers policy alternative that will enrich the country's policy environment and debate as the nation designs a policy framework to guide the oil industry. It will contribute to the existing literature on the resource curse. The thesis will however be a hybrid of academic and policy study and will greatly benefit Development Practitioners and students of Public Policy and Political Economy.

1.3. Theoretical Background

The term ‘resource curse’ was first coined by Auty (1993) to explain why resource-rich countries fail in the abundance of plenty as opposed to resource poor countries. The study has however gain popularity among scholars. Though popular, the concept is not a proven phenomenon (Wright et al 2004 and Alexeev et al 2008) and remains contestable within the academic literature. The theoretical debate however is divided into two namely economic interpretation and politico- institutional analysis.

This thesis surveys the theoretical strands within the resource curse and narrows the debate to politico-institutional analysis. Under this framework, the institutionalist school that suggest that quality institutions interaction with resources produce a blessing will occupy this research (Tornell and Lane 1999; Mehlum et al. 2006 and Karl 1997). It however highlights opposing schools of thoughts that neutralises the role of institutions in resource curse (Sachs and Warner, 2000 and Murshed, 2003) and those that views quality institutions as negatively affected by resources (Collier and Hoeffler, 2004 and Ross, 2001b).

It argues that the economic ontological interpretation of the resource curse is limited in its explanatory force. It pays little attention to politico-institutional analysis which is central to explaining the resource curse. The research addresses this slippage through the prospect of Ghana’s oil find.

Furthermore, the generalisation of the model’s result is problematic and misleading. This is evident in the time bound and methodological limitation of the research. Yet, apostles of the resource curse advocate a universal identity with strong empirical evidence to support the assertion that a causal relationship exist between natural resources and underdevelopment. On the contrary, there is compelling empirical evidence of natural resources leading to industrialisation and economic boom. This is succinctly captured by Maloney (2002) who argues that "…there is little long term evidence that natural resources abundant countries generally underperform… [Rather] natural resources have played an integral role in the success of many successfully industrialised countries" (Maloney, 2002:1). This thesis argues for context specific approach which tackles issues on case- by- case basis.

This brings into perspective the suggestion for a change of name from 'resource curse' to 'resource impact'. The 'impact' is the outcome that determines whether resources has become a 'blessing or a curse' (Stevens, 2003).This is all-encompassing and will harmonise the various theoretical strand within the literature. It can be concluded that the problem is not with natural resource per se but the arrangement that surrounds its extraction and how it is use.

1.4. Methodology

This research draws on qualitative materials from published and unpublished papers, and official and unofficial government documents. It complements the existing sources with expert interviews. It grounds the research discourse in comparative study of Nigerian and Indonesia providing lesson-drawings for Ghana.

The choice of this comparative study is informed by the similarities shared by both countries. Both countries have legacies of oil wealth with historical colonial past. The 'stateness'[7]of both countries is fragile with a culturally heterogeneous population. Yet,

[7] This term is coined by Karl to explain the lack of statehood in developing countries as a result of colonialism.

Indonesia avoids the ‘curse’ while Nigeria gets trap in it. An investigation into the distinct outcomes in growth performance will offer significant lessons for Ghana.

The case study however presents contestation of best practices against bad practices. It investigate factors that accounted for the differences in outcomes using benchmarks such as transparency and accountability, institutional capacity, political will and better policies. This will provide lesson-drawing for Ghana on how best to maximise oil revenue for development and enrich the resource literature with a south-south experience.

1.5. Limitations

It is worth stressing the limitation of this research. Some relevant secondary materials will be difficult to access. Besides, the work would have benefitted extensively from quantitative data collection but this could not be possible due to time and resource constraint. To overcome the limitations, I will be as objective as possible by double checking my facts. I will rely on extensive secondary and semi-primary data.

1.6. Organisational Structure of Thesis

The thesis is divided into five chapters:

Chapter one will provides introductory information of Ghana oil find, define the problem and detail the research hypothesis, aims and objectives, central thesis, theoretical review, methodology and organisational design.

In Chapter two, I review the literature surrounding the resource curse weaving the various theoretical elements together and developing a strong analytical framework for the research.

The third chapter investigate the Nigerian and Indonesia cases. In the fourth chapter, I provide a brief detail account of the state of Ghana's oil and offer an expository appraisal of the case studies by linking the theory to empirical evidence and drawing practical lesson for Ghana.

I conclude in chapter five with a summary of relevant findings and practical recommendation for government of Ghana and other relevant bodies and students of both Policy Studies and Political Economy.

CHAPTER TWO

THEORETICAL DEBATE ON THE RESOURCE CURSE

2.0. Introduction

This chapter critically examines the literature on the resource curse. It reviews the current knowledge and debate within the thesis drawing on divergent and convergent views and addressing gaps and slippages. It demonstrates that the resource curse offers a new dimension to understanding the how resource-abuse leads to underdevelopment. This adds to the mainstream knowledge in development economies and political- economy. It however identifies the controversies surrounding the empirical evidence of the resource curse and the challenge in arriving at a common cause. It questions the model's generalisation, argues for a case specific approach and suggests a change of name from 'resource curse' to 'resource impact'. It evaluates the institutional strand of the resource curse and concludes that quality institutions embedded in better governance overcomes the resource curse.

This literature review is necessary for the following four reasons:

Firstly, it dissects the resource curse literature bringing out the distinct theoretical strands and synthesizing them within the framework of this research.

Secondly, it manifests the bias econometric interpretation to the thesis with little emphasis on politico-institutional challenges to the resource curse. It argues that in as much as economic matters, politico-institutions matters most. The thesis addresses this gap.

Thirdly, it develops the institutional perspective to understanding the resource curse which will provide a theoretical framework to situate this research.

Finally, it takes on the question: is there a resource curse theory? And to what extent does this theory holds true in practice. The answering of this question will enhance the theoretical foundation of the resource curse.

2.1. The Resource Curse: Poverty In The Midst Of Plenty

The discourse on 'resource curse' first appeared in the seminal work of Auty (1993) and revolutionalises a new wave of thinking of resources. Rooted in comparative case study of resource-poor countries surpassing resource-rich countries, the concept has gain increasing popularity in the academia and among development practitioners. It however owes much to the work of Gelb (1989) who first hinted the relationship between resources and underdevelopment. Auty's work is highly praised as 'one important finding in development economics' (Mehlum, et al., 2006) but it risk selective bias. Selecting highly performing East Asian developmental states whose development trajectory is unique and different from other countries of the south and generalising the conclusion is untenable.

Finding a strong empirical evidence to substantiate the negative relationship between natural resources and GDP performance has preoccupied the intellectual community (Auty, 1993 and Sachs and Warner, 1997). Though empirical results are contested, the resource curse has generated huge interest among variety of disciplines. The model is categorised into two main strands namely the economic interpretation and the politico-institutional analysis.

2.2. Economic Interpretation to the Resource Curse

According to the economic school of thought, natural resources lead to poor GDP performance. Auty (2001) reveals that "…between 1960 and 1990, the per capita incomes of resource poor countries grew between two to three times faster than those of the resource abundant countries" (Auty 2001:3). Gylfason (2001) also observed that between 1965 and 1998, the GDP per capita on average for the OPEC countries decreased consistently by 1.3% each year. These findings strongly support the assertion of resources contributing to poor GDP performance. Though convincing, I argue that the results are less robust than has been claimed and it is incomplete. It partially explains why those economies find themselves in that situation and omits other key explanatory variables.

The thesis of Sachs and Warner is however, credited for establishing a strong correlation between natural resources and growth from 1970 to 1990 (Sachs and Warner, 1995, 1997). It sampled ninety-five (95) resource rich developing countries and concludes that

> "…the curse of natural resources is a demonstrable empirical fact even after controlling for trends in commodity price…Almost without exception, the resource-abundant countries have stagnated in economic growth since the early 1970s, inspiring the term 'curse of natural resources' [and considers it as] a 'reasonably solid fact' (Sachs and Warner, 2001:828, 837).

The findings however suffer from many problems. In the first place, it is time-bound and sensitive to the chosen period and does not offer the true state of the economy of these countries before 1970s. It is evident that resource-endowed countries were performing better than resource poor countries before the 1970s (Auty, 2001a; Wright et al, 2004 and Steven, 2003). A more nuanced understanding of how resource endowed developing countries performed before and after the oil crisis in the 1970s would have put their research in perspective

Secondly, it is fraught with statistical and methodological bias. The case selection is bias towards resource-rich countries of the south with omission of resource rich countries of the North such as Canada and Australia where natural resources became central to their industrialisation (Mahoney, 2002). Other equally important variables such as institutions evolution, climate and nature of state were not factored into the results. Stijins (2001) notes that “the story behind the effect of natural resources on economic growth is a complex one that typical growth regressions do not capture well” (Stijins 2001:1). The point of view expressed here is that the problem is not with the natural resource per se but other exogenous and endogenous arrangement around its extraction and usage.

Thirdly, the generalisation of the findings and conclusion is inaccurate. It omits other compelling empirical evidence contrary to their case. It creates little room for context. It must however be admitted that it found Mauritius and Malaysia to be the only two resource rich developing countries that has “sustained even two percent per annum growth during 1970-1980” (Sachs and Warner, 1997:27). Mahoney (2002) however argues that “growth processes take place across the very long run and probably cannot be convincingly summarized by cross section regressions of one highly turbulent 20 year period at the end of the 20th century (Mahoney, 2002:1).

A potent argument that emerges against the economic interpretation of resource curse hypothesis is the assertion that the absence of natural resources would have been worse for developing countries than it is present (Pessoa 2008 and Davis, 1998). Without natural resources, what would have been the growth rate of most developing countries where the non-oil sector is still underdeveloped? It can be noticed that the growth rate of these countries has appreciated incrementally with the discovery of natural resources than when it was absent.

Apart from the controversies surrounds the empirical findings, contentions exist on the causes of the 'curse'. While some attribute it to economic factors such as Dutch disease and price volatility, others view it as a politico-institutional deficiencies shrouded in rent-seeking, bad governance and policy failures. This section investigates the economic root causes of the 'curse'.

2.2.1. Dutch Disease

The shrinking of the manufacturing industry in the advent of oil and gas recovery in what has become popularly known as Dutch Disease[8] has become an explanatory factor in the resource curse. Hirschman, (1958) argues that manufacturing sector creates 'forward and backward linkages' and facilitates 'learning by doing' externalities (Matsuyama, 1992) as opposed to natural resources lacks positive externalities. This generates contraction in the former sector which decreases profitability, high inflation rate, and currency appreciation (Stevens, 2003:13). It becomes more problematic in

[8] The term emanates from the shrinking and contraction of the manufacturing industry in the Netherlands as a result of the gas discovery which led to the appreciation of the real exchange rate. The idea and meaning has however broadened to "encompass all of the negative macro-economic effects associated with the resource curse" (Stevens, 2003:11)

environments where neo-classical competitive market conditions are absent (Sachs and Warner, 1995, 1999; Sarraf and Jiwanji, 2001 and Auty, 1994).

It is however difficult to make out the exact nature of Dutch disease from other extraneous factors as drought, famine and aid inflows Auty (1994) opined that evidence is scarce to prove that a strong manufacturing industry will have positive impact on the whole economy. Stijins(2001) buttress this assertion that statistical evidence are weak in relation to a decline manufacturing sector negatively affecting growth and learning by doing. I argue that most developing countries already possess a weaker agriculture sector and the non-oil sectors are constrain not only by natural resources but lack of technology and natural disaster. In sum, the Dutch disease is limited in its explanatory force.

2.2.2. Price Volatility

Similarly, natural resources such as oil, minerals and gas are very volatile and susceptible to global relative prices and fluctuation which in most situations is unpredictable and unstable. Resource endowed economies that depend heavily on primary export risk difficulty designing prudent monetary and fiscal policy over a long period of time. This dampens investor's confidence in the economy due to the uncertainty that surrounds the market (Sachs and Warner, 1999 and Stevens, 2003).

On the contrary, the idea of declining terms of trade inhibiting development and investment is empirically and theoretically contested (Toye, 1987; Stevens, 2003 and Mikesell, 1997).The avowal by Sachs and Warners, (1998) that windfall revenues that accrue to resource-rich countries will be consumed rather than invested is debatable.

The next section provides insight into politico- institutional interpretation of the resource curse. It investigates the various strands within this camp and concludes that it is the first point of contact for analysing the resource curse.

2.3. Resource Curse and Institutions

The politico-institutional interpretation centres on political and institutional nemesis. Tracing the role of institutions in resource curse, Mehlum et al (2002) establishes a strong correlation between quality institutions and resource blessing. Unlike their critics who neutralises the role of institution in the resource curse debate (Sachs and Warner, 2000; Murshed, 2000; Gylfason and Zoega, 2004) and those who view institutions as an intermediary links(Colliers and Hoeffler, 2000:26 and Ross,2001), the institutional optimist camp contend that institutions play a defining role independent of resources in explaining the resource curse.

This school argues that the quality of institution and its decay is not necessarily a function of resources. The curse is evident only in countries with weak institutions. It distinguishes between "producer friendly institutions, where rent-seeking and production are complimentary activities and grabber friendly institutions where rent-seeking and production are competing activities" (Mehlum et al, 2002:1). It assumes that rent-seeking is inevitable in the event of natural resources but the quality of a country's institutions determine the outcome of this cancerous activity on the economy.

Lane et al (1996, 1999) offer empirical case study example from Nigeria, Venezuela and Mexico to support the claim that grabbing institutions lead to significant abuse of oil revenues. It is noticeable that where resource abundance collides with grabber's institutions, growth is limited and where producing friendly institutions interact with resource abundance, phenomenal growth is registered. It is however difficult to point out which institutional structure best promote or restrain the resource curse. It is silent on which institution matters in this development.

Institutional pessimist however postulates that institutions play an intermediary role and are negatively affected by resources. Apostles of this school argue that resources can break or build institutions and in most cases destroy institutions. Colliers and Hoeffler, (2000) argue that "the extent of primary commodity export is the largest single influence on the risk of conflict" (Colliers and Hoeffler, 2000:26).Resources create room for rent-seeking which divert revenues from national development programme to selfish and parochial interest. This leads to corruptions, underdevelopment, civil unrest and insecurity and turns resources from 'blessings' to curse'. In the end, it collapses institutions and economy and produces bad governance.

Other explanation of the 'curse' shift attention from institutions to bad policies and governance deficit. Lal and Myint (1996) attribute 'policy failure' through bad decision to the 'curse' which contrasts with lack of statehood in most resource- rich countries (Easterly et al, 1997). The large revenue windfall tempts government to make bad decisions through ad-hoc and piecemeal policies that is protectionist in nature and not friendly to open trade. Auty (1994) attributes the cause to "entrenched urban groups with vested interest in rent-seeking behaviour" (Auty, 1994:18). The challenge of state formation however compels resource-rich countries to depend heavily on natural resources rather than on direct tax. This becomes problematic when rentier states grows on rent rather than bargaining with other states and organised groups (Karl, 2007). It affects government's accountability and responsibility to the citizenry.

Oil has however been singled out and described as a "'honey pot' … raided by all actors, foreign and domestic, regardless of the long-term consequences produced by this collective rent seeking" (Karl, 2007:2). The upshot of this that the cause of the 'curse' is both local and global and has to do more with the international arrangement that surrounds oil regime. I share with the findings of Karl and contend that studies should focus on how domestic and international actor's interaction shapes the outcome of resources.

Another strand analyses the resource curse from the nature of regime or state. There is the developmental state where states develop through a competent and independent technocratic elites and predatory states where cliental and parochial interest of politicians and coalition forces leads to state collapse and underdevelopment. In the latter, Auty (2001) suggest that the absence of better macroeconomic policies and bloated public service locks the economy in a 'staple trap and stifle competition and creativity.

Critics have attributed luck to the avoidance of the 'curse' by developmental states. To them, these states lack the capacity to develop given their unique circumstances (Mkandawire, 2001 and Temple, 2001). Cobbe (1999) for instance, contend that Botswana success was "a consequence of luck and the presence of the right personalities in the right places at the right times" (Cobbe, 1999:133). This preposition is however indefensible as it fails to recognise the active role of institutions and technocratic in the economic growth.

In sum, no matter what advice and solution economists, policymakers and other development partners attribute to the resource curse, the onerous responsibility and final decision rest with the political. The type of government and the policies it designs is the centripetal force around which resources become either a 'curse' or 'blessing' and this depends on the institutional- capacity.

The inconsistency in empirical findings of the model has widened the debate on the validity of the resource curse and questions its theoretical foundation. This development reinforces the suggestion for a new label. Stevens, (2003) advocate that 'resource impact' is a more appropriate term than 'resource curse'. The outcome will determine whether resources have become a 'blessing' or a 'curse' (Stevens, 2003:9-10). Following Steven's point, I assert that 'resource impact' is very comprehensive and all-embracing label that will safeguard the resource curse thesis from hasty generalisation and incoherent empirical and theoretical evidence.

2.4. Curing the Resource Curse: Theory and Practice

Ross, (2001) and Vernon, (1971) recommend that leaving the resources in the ground will be the easiest cure for the 'curse'. It will avoid the conflicts, bad governance and poverty that has characterised many resource-rich countries. This solution however, is too drastic and unsupportive as the curse is not the natural resource per se but arrangements that surrounds its extraction and usage.

Oxfam report (2001) and Auty, (1994) have suggested the adoption of related trade policies and commitment to diversification can insulate countries from the curse. Governments should move away from dependence on natural resources and diversify the non-oil sectors while pursuing open-market policies with the outside world. Countries that have avoided the curse trend on this path.

Furthermore, stabilizing spending and creating revenue fund has been recommended by other leading scholars and development partners (Gelb,1988; Mikesell,1997;

Usui,1997; Hausmann,1995 and Oxfam America,2000).The stabilization of spending will reduce inflation while the fund will "insulate the economy from large revenue windfall"(Stevens, 2003:21), stabilize the economy and provide asset for posterity. This solution has however not worked in all situations as the example of Chad manifest abuse of funds by government.

On the politico-institutional dimension, better governance through transparency, accountability, probity, pragmatic policies and devotion to institutional continuity and capacity-building will enable countries survive the 'curse' (Collier and Hoeffler, 2004, 2005; Karl, 1997, 2000, 2005; Ross, 2001a). Besides, investing in human resource to develop new technologies in this field can turn the 'curse' into 'blessing'.

2.5. In Conclusion

The literature review has exposed the complexity associated with the resource curse hypothesis. It has explained the diverse theoretical strands and regards the diversity as enriching to the enlargement of the model. I have demonstrated the potency of the model which has become the first point of contact for analysis rather than the exit for scholars of all discipline who wants to understand the paradox of the resource curse.

This chapter has highlighted the contested nature of the model, the inconsistency of empirical evidence and the absence of universal consensus on the model. I have argued that a more nuanced understanding of contextual country case-by-case approach based on historical and institutional evolution and level of stateness will greatly enhanced the resource curse theorem. It has suggested a change of name from 'resource curse' to 'resource impact' to enlarge concept's explanatory power, reduce avoidable criticisms and facilitate a stronger integrated theory. This view is also shared by Stevens' (2003).

It has demonstrated that there is a missing element in understanding the resource curse. The economic ontological interpretation of the ‘resource curse’ which has occupied centre stage as the starting point of analysis is a mistake. As Stiglitz, (2004) succinctly argues “abundant natural resources can and should be a blessing, not a curse…what is missing is the political will to make it so” (Stiglitz, 2004:1). The degree of political will and institutional capacity is vital to overcoming the ‘curse’.

The literature study identified theoretical remedies to the ‘curse’ namely better governance and quality institutions as crucial to achieving the economic solution such as good policies and diversification of economy. It is evident that an understanding of the interplay of “how economic factors shape institutions and how institutions shapes economic factors” (Alayli,2005:1) will lead to the design of efficient and effective policies that will mitigate the effect of the ‘curse’ and turn it into a ‘blessing’.

This section has set in motion the conceptual framework and analytical tools for this research study. It has offered the lens through which the case study can be tested. In the next chapter, I present the comparative case of Nigeria and Indonesia which provide insights into how the theory will be synthesised into the empirical cases.

CHAPTER THREE

COMPARATIVE STUDY OF NIGERIA AND INDONESIA

3.0. Introduction

This section presents the comparative case of Nigeria and Indonesia mapping out paths of convergence and divergence. It investigates the discrete economic performance of both countries and identifies political factors, institutional challenges and policy dynamics as central to the variations in growth.

The choice of the two countries for comparative study is timely and instructive. It is a south-south study with shared similarities in areas of population, cultural diversity, colonial past, resource wealth and nature of regimes. Despite the closeness, Indonesia and Nigeria achieved different economic growth. Indonesia turned the oil resources to 'blessing' while Nigeria abused its oil wealth. The unique story of the cases offers lessons for Ghana which share similar politico-institutional and historical path dependency.

3.1. Indonesia and Nigeria: Common Identities.

The politico-historical account of Indonesia and Nigeria runs parallel to each other. Both countries have a chequered history of military and dictatorial rule for three decade. The authoritarian regimes collapsed concurrently in both countries in 1998[9]

[9] The Suharto New Order regime of Indonesia and the General Sani Abacha's regime of Nigeria

marking a transition to democracy (Lewis, 2004). The transitions were however, internally generated rather than externally pressured.

Similarly, Nigeria and Indonesia share a history of colonial past with the British and Dutch respectively. This created a culturally heterogeneous society made up of distinctive tribal and ethnic group. This affected nation-building and institutional structures and fuelled potential opportunity for conflict. Both countries boost of huge population with two-hundred and thirty-seven million, five hundred and twelve thousand (237,512,000) for Indonesia and one-hundred and thirty-eight million, two-hundred and eighty-three thousand (13828300) for Nigeria respectively[10].

Economically, the countries are rich in oil resources which serve as the main source of state revenue. They are rentier states and enjoy OPEC membership. Both economies have been subjected to external shocks and prices hikes especially in the 1970s, 80s and early 90s (Rosser, 2003).

Notwithstanding, both countries achieved different growth rate by the close of the 1990s. The next section addresses the reasons surrounding the variation in economic performance.

3.2. Indonesia: Surviving the Resource Curse

3.2.1. Politico-Institutional Factors

Rosser (2004) identifies victory of counter-revolutionary forces over communist and radical nationalist forces as key to explaining Indonesia resource success. The New

[10] http://www.mongabay.com/igapo/world_statistics_by_pop.htm

Order government replaced the Sukarno government which was under a 'Guided democracy[11]'. The latter system was subject to intense rivalry between the military and the Communist party (PKI)[12]. The victory of the former over the latter created room for the adoption of liberalisation policies that re-integrated Indonesia into global capitalists system.

Indonesia operated a system of personalised, centralised government characterised by neopatrimonial rule (Clapham, 1982). It created "an authoritarian corporatist regime based upon a dominant political party (Golkar), an electoral system closely managed by the regime, a set of mass organisations intended to contain major social groups and a formalized political role for the military" (Lewis 2004:6). Though authoritarian, the government successfully merged clientelist interest with technocrat direction. It suppressed opposing elements and built 'a set of relationships and institutional guarantees' (ibid: 6) to contain uncontrolled interest groups. This channelled rents activities towards development and accounted for the resource success.

Karl (1997) asserts that unlike Nigeria where oil discovery coincided with state formation, Indonesia developed features of distinctive state before oil started pouring into the economy. This feature was prominent in two main areas; first, Indonesia government assembled competent and autonomous technocratic and economic team that provided better policies and continuity to policy-making. Secondly, the

[11] The Guided democracy was a presidential system of government that replaced the parliamentary system of government after 1945

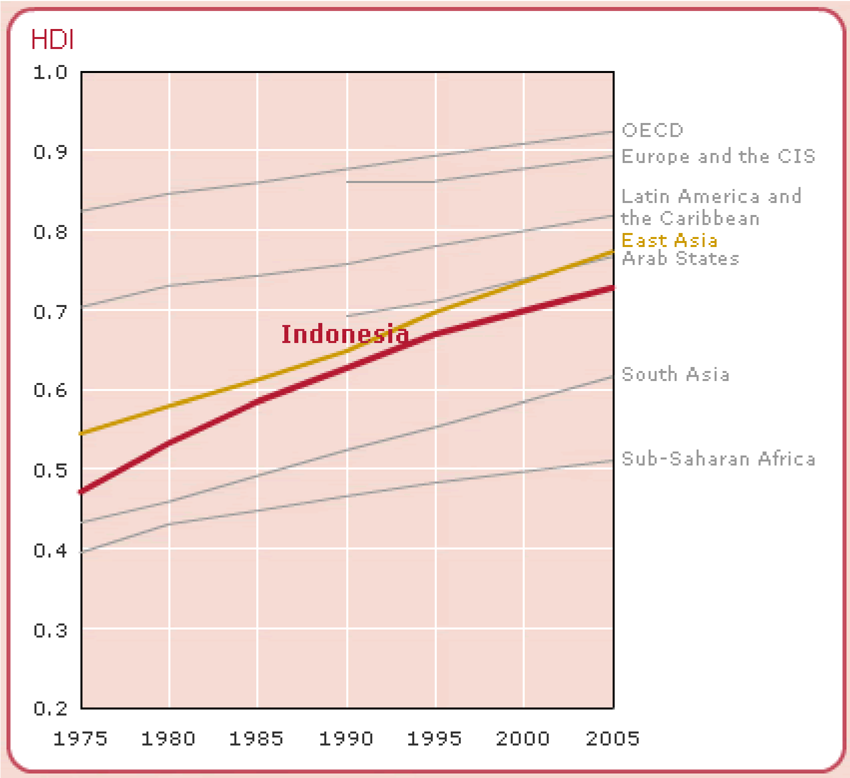
[12] In the late 1950s through to the middle 1960s for instance, the PKI-led trade union took over many large foreign enterprises belonging to the Dutch, the British and the Americans. It was influenced by the cold war. The army later stepped to regain control of the enterprises sparking opposition from PKI classed-based peasant workers (Anderson, 1983:485). The military intervention aimed to halt "the agendas that communist and radical nationalist elements had promoted" (Rosser, 2004:14 ; Robson, 1981:23)

government diversified the economy with priority to agriculture and pursued a policy of food sufficiency in rice (Karl, 1997: 210).

Eifert et al (2002) suggest that Indonesian government was part of a 'reformist autocracies' who perceptively viewed economic growth as basis for legitimacy and managed to "sustain long decision horizons and implement developmental policies" (Eifert et al, 2002:26). These policies were driven by independent 'competent and politically insulated technocratic elites' (Rosser, 2004:10). The institutional capacity provided the catalyst for the successful policies. It however suffered from institutional continuity which later created cracks in the existing institution.

The strong leadership of Indonesia "placed longer run considerations of the national interest above the interests of political and business clients…" (Booth, 1992:327). Though Booth's preposition is contested, the government simultaneously enriched themselves while offering development with the oil wealth. The 2007/08 HDI[13] index on human poverty indicates a HPI-1 value of 18.2 which pitched Indonesia at 47th among a selection of 108 developing countries[14].

[13] Human Development Index
[14] http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_IDN.html

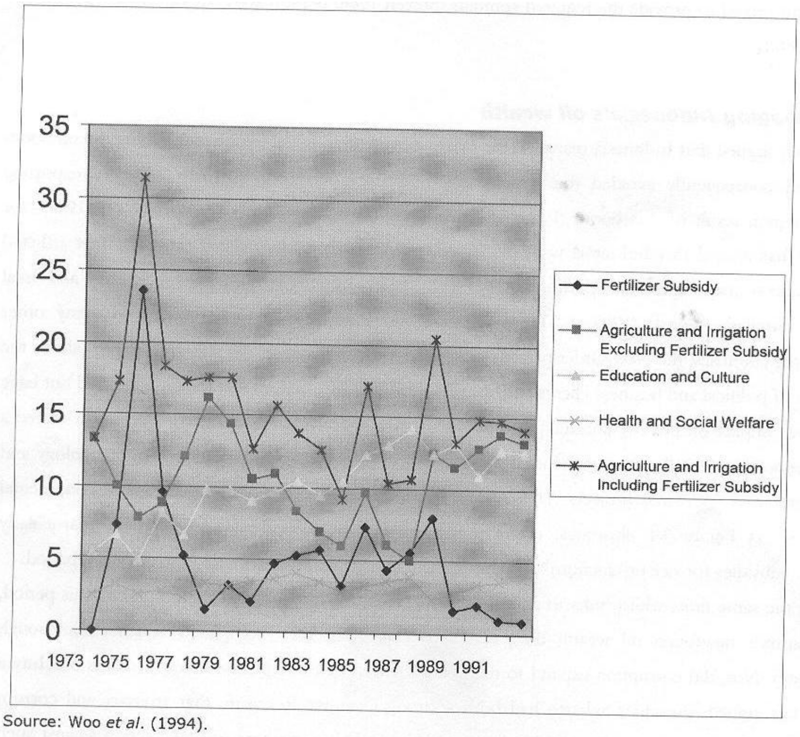


Source: Indicator Table 2 - HDR 2007/2008

3.2.2. Economic Policies and Strategic Location

Economically, the government pursued trade liberalisation agenda rooted in sensible macro-economic policies. Indonesia opened its economy to the global market, encouraged competition and attracted investors into non-oil sectors of the economy. This enabled Indonesia to diversify its economy and create a separate fund for the oil. It minimised spending and balanced the budget avoiding the Dutch disease. Through better macroeconomic and fiscal policies, Indonesia achieved an average growth rate of seven percent (Usui, 1997).

The government economic diversification programme centred on the manufacturing and agriculture sector. The manufacturing industry surpassed oil as main foreign exchange[15]. On the agricultural sector, government committed to rice production and strived for food sufficiency. It viewed this as central to reducing poverty and saving foreign exchange. The International Rice Research Institute was therefore established to produce high yielding varieties of rice in the 1960[16]. Figure.1 shows government expenditure with agriculture and education receiving more attention than health.



Source: Woo *et al.* (1994).

On the investment front, Indonesia received large amount of donor support and western investment through the Inter-governmental Group on Indonesia (IGGI). Woo et al (1994) observed that between 1967-1971, IGGI gave out over $US2million in aid support to Indonesia. The capital inflows boosted the economy and stabilised Suharto's government against the Soviet Union. The government introduced the foreign

[15] As at 2002, oil and gas sector accounted for 21%of total exports, wood products, 3%; non-oil mining, 7% and other industrial products, 65%. Available online at http://www.bps.go.id/sector/ftrade/export/table2.shtml accessed on 15May, 2009.

[16]Supported by the Rockefeller Foundation, Ford Foundation and the US government.

investment law in 1967 to attract more investors and capital and established "'lock-in' mechanism of policy stability… fiscal checks and an open capital account" (Lewis, 2004:4). It increased FDIs which reached US$ 6million by 1996.

Table 1 shows foreign investment in Indonesia, 1967-1995.

	1967–1975	% of Total	1976–1985	% of Total	1986–1995	% of Total	1967–1995	% of Total
USA	491.7	12.4	770.3	7.4	5971.7	4.7	7233.7	5.1
Japan	953.4	24.0	2429.9	23.5	16419.5	12.9	19802.8	14.0
NICs Total	543.4	13.7	1027.7	9.9	39228.6	30.8	40799.7	28.8
Hong Kong	336.3	8.5	842.1	8.1	12214.0	9.6	13392.4	9.5
Singapore	95.0	2.4	39.1	0.4	13051.4	10.3	13185.5	9.3
South Korea	94.4	2.4	70.8	0.7	6203.9	4.9	6369.1	4.5
Taiwan	17.7	0.4	75.7	0.7	7759.3	6.1	7852.7	5.5
UK	35.9	0.9	228.1	2.2	11940.7	9.4	12204.7	8.6
Netherlands	157.1	4.0	253.3	2.4	3065.2	2.4	3475.6	2.5
Total	**3970.5**	**100.0**	**10349.8**	**100.0**	**127204.5**	**100.0**	**141524.8**	**100.0**

Notes: (i) Figures are cumulative totals and are in millions of $US; (ii) Figures for 1967–1975 are to February 1975 rather than December as is the case for the figures for 1976–1985 and 1986–1995.
Source: Indonesian Financial Statistics, various editions.

As indicated on the table, the US government was a major foreign donor for Indonesia and introduced a Generalised System of Preference[17]. This system enabled Indonesia to withstand the collapse of the international price shocks in the 80s and shifted from import–substitution to export –oriented industrialisation (Rosser, 2004). Apart from western capital inflows, Indonesia strategic geo economic environment opened up economic opportunities for the country. The Plaza Accord 1985 with Japan removed all quotas on export of capital and Indonesia became a manufacturing based for cheap Japanese good. The collapse of the international oil crisis coincided with the inflows of manufacturing investment through the East Asian NIC currency appreciation

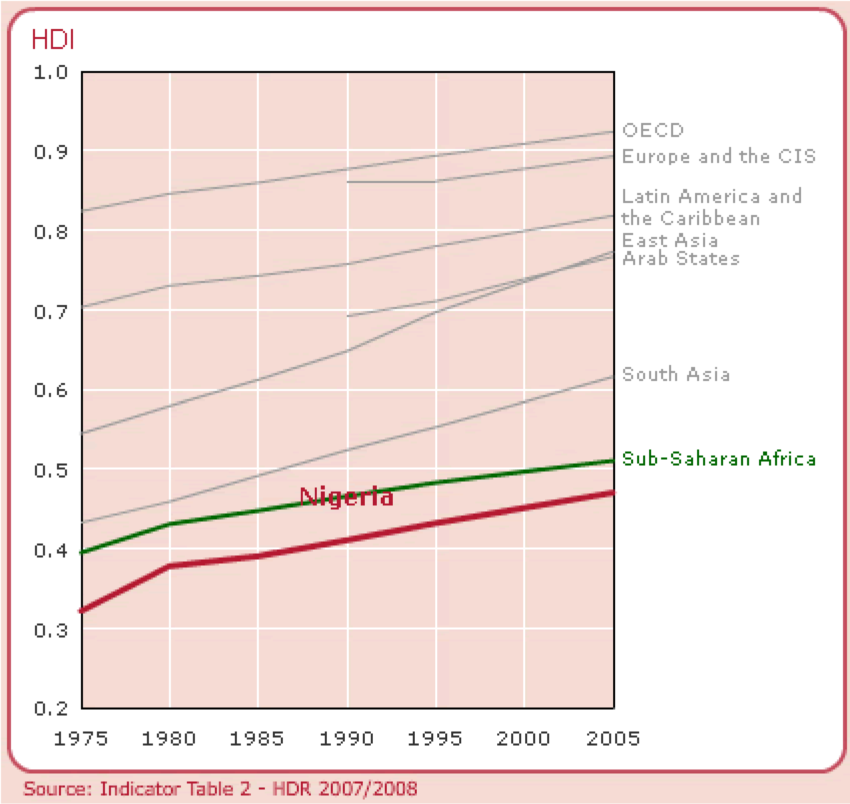
[17] It was a trade policy that aims to encourage trade between US and Developing countries. It had various benefits such as quota free import and export among others

which provided “alternative sources of investment to drive economic growth” (Rosser, 2004:17).

In sum, Indonesia was a capitalist state with strong local and international coalition’s ties which created the enabling environment for private capital accumulation (Rosser, 2004). It strengthened its institutions and enhanced property right and security of contracts. In addition, the government devoted to improving human resource.

3.3. Nigeria: The Story of Resource-Abuse

The case of African’s largest and world’s eleventh producer of oil is a tragic story of resource curse. Despite the estimated US$350 billion oil revenue generated between 1965 to 2000 (Subramanian, 2000), Nigeria’s “annual per capita income [is] $1,400 is less than that of Senegal which exports only fish and nuts” (Mahmud, 2009:3). On Table 3 of 2007/08 Human Poverty Index, Nigeria recorded a HPI-1 value of 37.3 ranking 80th among 108 developing countries.



3.3.1. Politico-Institutional Weaknesses

Nigeria political landscape has been characterised by incessant military interventions for decades with fragmented political elites divided by on tribal, regional and political lines (Lewis, 2004:4). The regimes became typified of centralisation of power, corruption and neopatrimonialism. General Abacha for instance created a predatory state that exploited, and polarised Nigeria. He monopolised rent and plundered state fund to the tune of US$4 billion (Onyeukwu, 2007). Repression and corruption became a common feature of the military regimes with parochial political interests overriding broad national interest.

Karl (1997) reveals that Nigerian's institutional development coincided with oil wealth. This corrupted the institutions and left a fragile predatory state. Nigeria became susceptible to rent-abuse and institutional capturing by factional coalition interest. It polarised the country and increased political patronage. Property right and security of contracts became uncertain and dampened investor's confidence (Lewis, 2004). The functions of NNPC[18] was politicised and bureaucratic ineptitude affected technocratic policy making and institution-building. Besides, Nigeria suffered from volatile geo-political and regional environment which became anaemic to trade and investment.

3.3.2. Economic Structure and Policies of Nigerian Governments

The economy became oil monoculture with little interest for economic diversification. Government received an estimated "95% of foreign exchange and more than three-fourth of revenues… from crude oil" (Lewis, 2004:15). This resulted in the collapse of the agricultural and manufacturing sector. It exposed Nigeria to global price shocks and affected government ability to meet its obligations.

Correspondingly, the failure to pursue trade liberalisation policies created path dependence in the economy that promoted collective rent-seeking by private and public actors with state elites (Lewis, 2004:21). Military regimes were not successful in their structural reform programmes with the Bretton Woods Institutions[19]. This affected the economy's resuscitation and integration into the global market. Incentives to attract

[18] Nigerian National Petroleum Corporation engages in exploration and refining of petrochemical products and marketing them. See http://www.nnpcgroup.com/corporate-profile/about-nnpc

[19] In 1993 for instance, Babangida regime in collaboration with Bretton Wood's institutions embarked on fiscal and monetary policies such as liberalisation and privatization in a bid to resuscitate the economy. But it partially failed due to politicisation and implementation weakness not discounting institutional deficits and timing of reform.

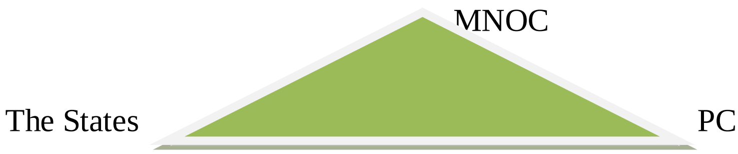
investors and large FDIs were minimal. Besides, government was not consistent with prudent macroeconomic and fiscal policies. This created excessive spending and borrowing in the system which affected the balanced of budget.

3.3.3. Distributional Challenges and Violence

Distributional challenges heightened the ethnic and political violence in the country. The absence of robust institutions coupled with "the opaque fiscal administration and large off budget" (Lewis, 2004:17) created dissent and tension among producing communities. Producing communities like the Niger Delta[20] resorted to kidnapping and violence to raise awareness of their plight and demand greater share of the oil wealth. The divide and rule tactics by regimes fuelled tribal and political strife and stagnated economic growth.

Mahmud (2009) argues that the oil wealth is been exploited by both local and international officials. He identified a triangular institutional relationship among Multinational Oil Companies (MNOC), Producers communities (PC) and the state (Triangle 1) to explain the cause of Nigeria's oil curse. It is rooted in collective rent-seeking by State and MNOCS which leads to oil trap' and destabilise Nigerians politico-economic stability (Karl, 2007). The neglect of the producer communities creates the incentive for conflict and violence

[20] Not only does it suffer from poverty and underdevelopment, the environment and land is not sustainable for any agricultural work. In fact, it remains the poorest and least developed region of Nigeria.



Source: Mahmud, 2009

3.4. In Conclusion

Nigeria and Indonesia are resource-endowed countries that share common socio-political and institutional identities. Their path of convergence is best exemplified in the population size, strata of society, source and type of resources and democratic deficit which marked them as unique countries with common challenges and opportunities. Both countries contended with institutional and distributive challenges which affected the authoritarian regimes and ushered in a period of democracy which is still unstable.

The section has highlighted the divergent economic performance registered by both countries. The Indonesian government established a system that placed long-term national interest over parochial individual interest. This was opposed to the predatory nature of the Nigerian state which was characterised by exploitation and lack of developmental-oriented leaders and technocrats.

It has demonstrated that Indonesia diversified their economy by investing in agriculture and education. This enabled them to avoid the Dutch disease and other negative economic effects associated with over-reliance on oil. In contrast, Nigeria couldn't develop the non-oil sector and this negatively affected the economy.

It has shown two rentier states which have a legacy of oil and faces similar challenges of resource windfall emanating from global price changes and yet Indonesia achieved poverty reduction and economic growth of seven percent through the adoption of sound macro-economic and fiscal policies while Nigeria failed in this regard. The collapse of the authoritarian regimes in both countries in 1998 has demonstrated the political and institutional weakness of rentier states and such regimes.

The paper has manifested the strategic regional location of Indonesia which provided its market, access to foreign capital and investments. This is contrasted with the volatile regional setting of Nigeria which is not conducive to investment.

The next chapter evaluates the comparative study and its application to Ghana. It draws theoretical and policy lessons that will shape the research problem.

CHAPTER FOUR

AVOIDING THE RESOURCE CURSE: CHALLENGES AND OPPORTUNITIES

4.0. Introduction

Chapter four critically analyses the comparative study integrating theory into available empirical evidence to achieve the research problem. It offers contextual background information of Ghana's oil industry which is crucial to the empirical and theoretical investigation. It presents challenges and opportunities of resources through comparative study of Nigeria and Indonesia, drawing lessons for Ghana. It identifies better policies, strong political will, robust but flexible institutions, better governance, economic diversification and trade liberalisation as central to curing the resource curse. It argues that in as much as economic matters, the political and institutional is ultimate in determining the success or abuse of resources. It investigates the cases with sensitivity to Ghanaian context.

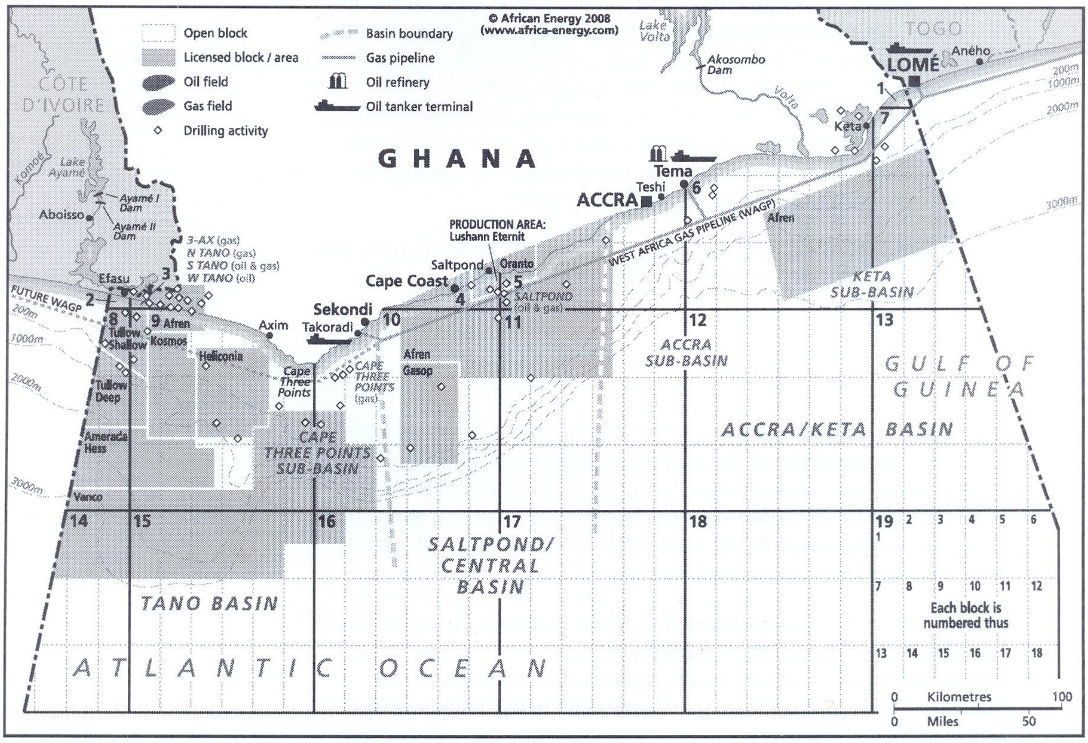
4.1. Background Information of Ghana and Its Oil Industry

4.1.1. Ghana's Oil Discovery in Perspective

The recent oil finds is a deep offshore field located at Cape Three Points and within Ghana's coastal hydrocarbon exploration belt (map.1). The Jubilee find is reputed to be one of the largest discoveries in Africa and contains significant oil and gas reserve. The oil and gas reserves are estimated between 600 million and 1.2 million and 800 billion respectively (Oxfam, 2007:19-25).

Map1.Ghana: Hydrocarbon Exploration

Source: African Energy

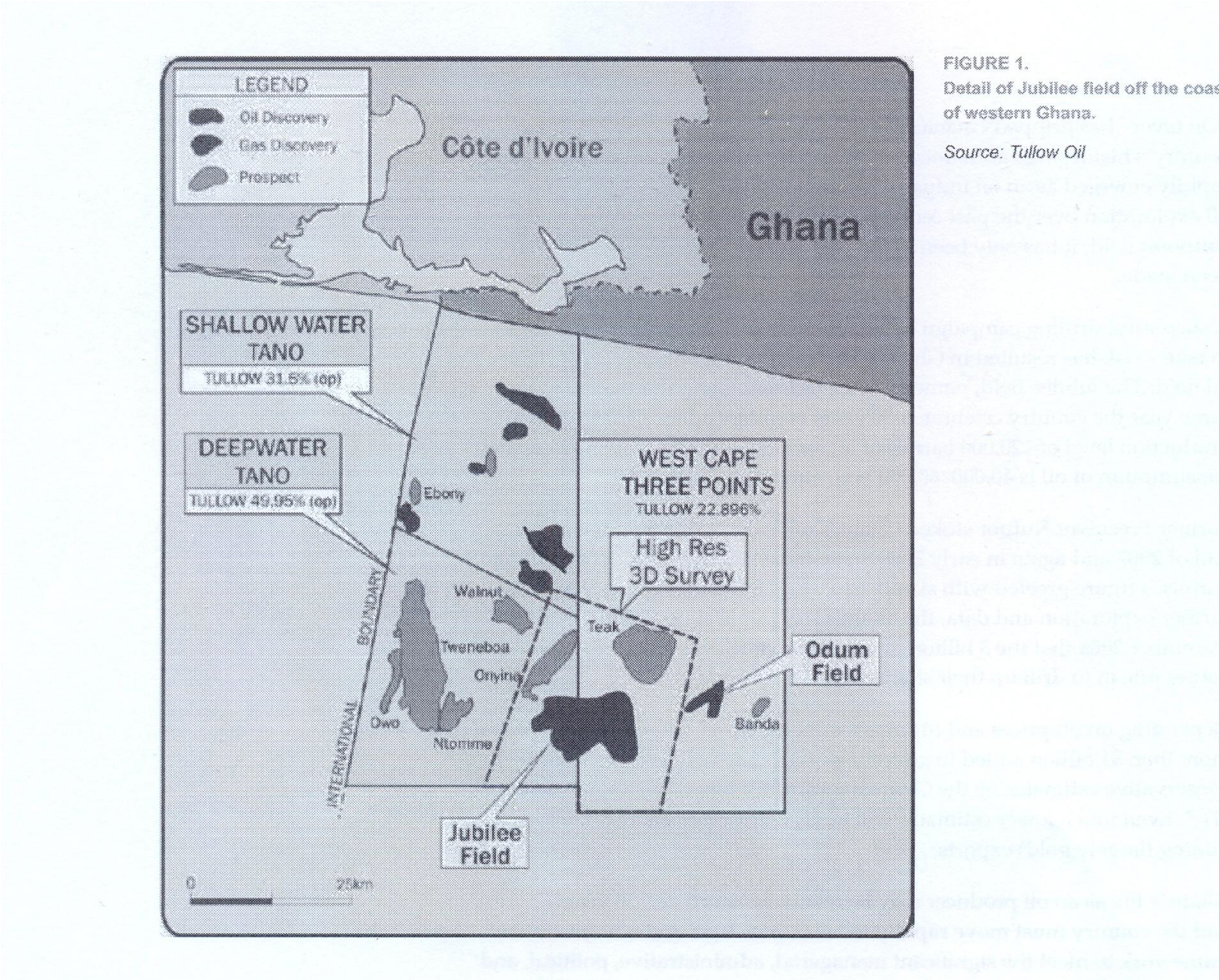


The discovery of the Jubilee field has open the floodgate for further positive findings such as Mahogany 3 and Hyedua 2 wells located within the deepwater Tano blocks[see map 2]. Leading oil companies includes Kosmos Energy and Tullow Oil Companies[21] with an upsurge rush in application for exploratory licensing[22]. The offshore field discovery however is presumed to be capitally intensive and expensive. The IMF predicts that it will cost $2.7 billion to start-up the Jubilee field[23].This present a challenge to the survival of the oil companies in Ghana.

[21] Others include Anadarko Petroleum Corporation, E.O Group, GNPC, Ker Corporation (Norway), Sabre Oil and Gas Ltd (Source: African Energy, Upstream. Available at http://www.gnpcghana.com/home/)

[22] Application for exploratory licenses increased from an average of four per year to forty-one (41) after the new oil found (African Energy, No. 147, October 4, 2008, pp.3).

[23] Others have estimated between $3billion to $4billion for the first phase of the project (Oxfam,2007:26)



Map 2. Ghana's Jubilee Field off the Western coast

4.1.2 Economic Profile of Ghana

The oil discovery and active exploration interest in the country's coastal belt come at a period in history, the country is experiencing steady economic growth[24]. Recent economic achievements which span from 2000-2007 includes increase GDP growth rate from 3.7 percent to 6.3 percent, reduction in external debt from $6.3billion to

[24] The World Bank in its briefing paper in August referred to Ghana's economy as one of the best performing economies in Africa (Source: http://siteresources.worldbank.org/IDA/Resources/IDA-ghana.pdf.

$2.6billion and stabilisation of Ghana's cedis against major international currencies[25]. Inflation went down from 40.5 percent to 10 percent[26] and the nation is held to be ahead schedule in achieving the MDG target of halving extreme poverty. It is the second country on the continent to raise Eurobond on the international bond market with a $750 million sale[27].

Notwithstanding the achievements, Ghana's economy is primary commodity driven with greater disparity and inequality between north and south and rural-urban (Oxfam America, 2007). Most of the recent growth is demand-led rather than supply driven and this artificially stimulates growth as government borrows and spends[28].

4.1.3. Governance and Democratic Success

Ghana has a commendable governance records. It is credited for conducting successive democratic-elections[29], possessing active civil society group and vibrant independent media and institutions of better governance. It has progressively performed above the 50th percentile six dimensions of Worldwide Governance indicators[30]. On Transparency International Global Corruption Index 2008, Ghana scored 67 out of 180 countries (Oxfam America, 2007:7).

[25] Ministry of Finance and Economic Planning, Republic of Ghana, "Ghana's budget statement for 2008," www.mofep.gov.gh/budget2008.cfm

[26] Bank of Ghana, "Statistics: Inflation," www.bog.gov.gh/index1.php?linkid=174

[27] The other country is South Africa. Ghana sees huge demand for debut 10years Eurobond," Reuters, Sept.27, 2007.

[28] Interview with Bright Simons of IMANI Think Tank, Ghana

[29] Since the return to multi-party democracy in 1992, the country has enjoyed uninterrupted civilian rule for 16years and experienced successive democratic elections and transfer of power. The latest success is Ghana's fifth democratic election which was held on the Dec.7th2008 and successfully transferred power from the ruling NPP to NDC (Source:Oxfam:2007:6)

[30] The World Bank Institute's Worldwide Governance Indicators(between 1996-2008) six dimension of governance are as follows: government effectiveness, control of corruption, regulatory, political stability and absence of violence, voice and accountability, rule of law and regulatory quality

Politically, Ghana is stable and peaceful with a history of strong multi-party democracy. Donors and others view the country as African exemplar in “macroeconomic and political stability, investor friendliness, good governance and effort to reduce poverty” (Gary, 2007:6). Still, oil wealth has the tendency to corrupt democratic values and this makes it imperative to assess how the available empirical evidence can provide escape lessons for Ghana.

The next section appraises the comparative-study of Nigeria and Indonesia in light of the research problem. It presents empirical evidence to substantiate the relevance of political will and quality institution to curing the resource curse.

4.2. Macroeconomic and trade-related policies

This thesis aims to examine the extent to which politico-institutional analysis through the lens of institutional quality leading to resource ‘blessing’ contributes to mitigating the resources curse.

It begins on the premise that better policies are central to achieving economic wealth and avoiding resource curse. The commitment to getting policies right is determined by the quality of institutions. This is dependent on the ability of the system to promote policies that induces growth and restrains political elites. Lal and Myint (1996) points out that the curse is attributed to ‘policy failures’ through bad decisions. Evidence from empirical case demonstrates Indonesia adopting pragmatic policies that favoured producers and investors and limited government’s oversight control and management of the oil. The regime delegated policy issues to an international technocratic team and provided security of contracts and property rights to investors through a stable alliance with producers.

Nigerian governments however played a dual role of technocrats and distributors of resources. It interfered and politicised NNPC functions which resulted in bad decision-making through ad-hoc and short-sighted policies. Property rights and security of contracts was uncertain and unreliable (Karl, 1997). In effect, enforcing property rights and security of contracts and allowing technocratic team the independence to function and design better policies is crucial to overcoming the curse

Currently, Ghana has a functional legal code on property rights and security of contract. This should be sustained and improved as exhibited in Indonesia It must however, separate the mix role of GNPC[31] as a commercial and regulatory entity which is susceptible to political interference. The split of function will build the institutional capacity of GNPC to function effectively and minimise the political interference in technocratic activities as happened in Nigeria.

This analysis further reveals trade liberalisation policies playing a defining role in the discrete economic performance between the two countries. Indonesian's open market policies integrated the economy into the global market and attracted private interest and investment into the non-oil sector (Karl, 1997). In contrast, Nigerians suffered from effective policy-making and implementation of trade policies even though it was encoded in the laws.

Ghana already has a vibrant market economy[32] and will gain substantially like Indonesia if it continues in this process. It must however be committed to promoting and engaging the private sector and strengthening its institutional capacity to design better policies irrespective of vested interest.

[31] Ghana National Petroleum Corporation was established to take care of Ghana's hydrocarbon resources. It undertakes exploration, development and production of petroleum production in Ghana. See http://www.gnpcghana.com/home/

[32] www.mofep.gov.gh/budget2008.cfm

Furthermore, Usui (1997) advocates sensible macroeconomic and fiscal policies as crucial in overcoming the 'curse'. This involves stabilizing spending to ensure steadiness in growth. Ghana will gain substantially from Indonesia's experience where independent and competent technocratic team pursued gradual adjustment and demand management policies that balanced the budget, cut down on wasteful spending and fought exchange rate appreciation (Gillis, 1983:18). This is opposed to Nigeria's situation where this was absent.

Ghana's continuous pursuance of pragmatic macroeconomic and fiscal policies and reducing spending will inject austerity and discipline into government expenditure and fiscal spending that would sustain the economy against the resource curse.

The creation of revenue fund is central to avoiding the curse. It insulates the economy from large revenue windfall and inflation challenges and stabilises revenue (Stevens, 2003:21). Empirical evidence reveals that Indonesia established a successful fund which insulated the oil revenue from the main economy and stabilised the economy against global fluctuation oil revenue. Nigeria however, couldn't manage with a fund and exposed the economy to global fluctuating oil revenue and excessive borrowing.

Presently, Ghana's budget lacks absorptive capacity for extra money that exceeds $300 million per year (Gary, 2007).This makes the establishment of revenue fund relevant to Ghana. It will avoid the fate suffered by Nigerian and benefit from Indonesian's success. The fund would however, be better managed by independent professional management team rather than government (Stevens, 2003). Such funds even though are inconclusive of overcoming the curse, it is central in Ghana's context to stabilising the budget and spending system.

Auty (1994) and Ross (2001) attribute the absence of diversification in monoculture economies as an explanatory variable in their poor performances. Available evidence showcases the contraction and neglect of the agricultural and manufacturing industry as result of the oil monoculture economy in Nigeria. In contrast, Indonesia attracted investors and investment into the agricultural and manufacturing sector and achieved food-sufficiency with an annual growth rate of 4.2 percent in rice production between 1968 and 1978 (Pinto, 1987:429). In sum, economic diversification expands the domestic tax base and sustains the economy.

The situation in Ghana is not so different from Nigeria. It heavily relies on primary commodities. Yet the country is making steady progress in trying to diversify its economy in the service, tourism and information technology sector (Oxfam, 2007:8). This process should be diligently sustained irrespective of oil revenue as exhibited by Indonesia. There should be deliberate policy directing FDIs and private investors into the non-oil sectors especially the agricultural sector[33]. This will stabilise the economy against over dependence on oil wealth and fluctuating resource revenue and provide additional revenue to the state.

4.4. Foreign Direct Capital and the Financial Crisis

. Karl (1997) argues that 'stateness' deficit and absence of a capital-base for petro-states affect their capacity to attract investment and managed resources well. The empirical evidence reveals that Nigerian's fragile state couldn't attract large amount of FDIs and Western funding. It was worsened by the volatile regional geo-political setting which was unfavourable for investments and investors. In contrast, Indonesia

[33] This sector employs significant number of Ghanaian population and provides the nation with its highest foreign revenue in cocoa production.

strategic regional setting and developmental-oriented state managed to attract large amount of FDIs and western funding. Investment flows was crucial to Indonesian economic revival "following the collapse of the international oil-prices in the mid-1980s" (Rosser, 2004:16).

Currently, the global economic meltdown has made it increasingly difficult for MNOCs and governments to source for international funding and attract FDIs. Ghana enjoys a lot of donor support and funding with a relative amount of FDIs. This has recently dropped due to the current financial crisis[34]. Ghana is faced with the challenge of attracting large amount of FDIs and western funding into the oil and non-oil sector. The oil drilling companies has been seriously hit by the crisis compelling Tullow Oil Company to auction its stake in the jubilee oilfield[35]. The expensive nature of Ghana's offshore oil field has raise doubt on the total share of oil revenue to government. The government should improve laws on foreign investment while maintaining prudent socio-political and economic policies.

The next section further analyses the comparative study with a focus on the role of institutions to shaping the outcome of resources

4.5. Institutional Restructuring and Natural Resources

Mehlum et al, (2002) suggest that the quality of institution determines the outcome of resources to the economy. The 'curse' is evident only in countries with weaker institutions. The latter institutions lack the capacity to promote growth and restrain abuse. Available evidence demonstrates that Nigeria had a weaker grabbing institutions and this became prominent when oil began pouring into the economy. This led to large

[34] Ghana's 2009 Budget (Source; http://topics.myjoyonline.com/ads/budget2009.pdf)
[35] http://news.myjoyonline.com/business/200905/29966.asp

scale corruption, neopatrimonialism, power and distributional struggle. In contrast, Indonesia developed producer-friendly institutions which induced growth and development. Government managed to balance clientele interest with national interest and ensured that corruption does not overburden the market to achieve development.

Ghana however has a strong civil society and press freedom. Besides, there exist governance institutions that facilitate transparency and accountability (Oxfam America, 2007). This is different from the authoritarian regimes of Nigeria and Indonesia. Yet, this is not enough. It should commit to deepening its administrative and institutional capacity to provide checks and balances and reduce abuse of rent.

The demise of authoritarianism and the return to democracy by both countries in 1998 reinforces the argument of institutional pessimist that correlation exists between institutional decay and resources (Robinson et al, 2005 and Collier and Hoeffler, 2004). But the extent to which resources can erode institutional gain is dependent on the quality of institutional design. The challenge however will be which 'institution matters' in achieving resource blessing? An institutional design that promote growths and stimulate transparency and accountability, enforce property rights and engages the public[36] will contribute to surviving the curse.

Ghana unlike Indonesia and Nigeria is characterised by multi-party rule in a stable political environment. The present challenge is for the institutions of governances such as state agencies, parliament, the media, civil society and anti-corruption agencies to improve their capacity and take collective responsibility of the oil revenue for the common good.

[36] The public includes the citizens, civil society groups, development partners, the media, NGOs and other relevant interest groups and associations

The analysis of Nigeria and Indonesia suggest pervasive rent-seeking in the body politics. It is a structural and systematic weakness inherent in petro- states and practiced by both domestic and foreign competing interest groups. According to Mehlum et al (2000) rent is inevitable in resource extraction. What is important is the type of existing institution that will either turn the rent-seeking activity into 'blessing' or 'curse'. Empirical evidence demonstrates that Nigeria abused rents and produced economic stagnation while Indonesia robust leadership in Indonesia successfully turned rents into economic growth. In conclusion, rent-seeking is evitable in resource extraction but how it is managed can either turn it into corruption and economic stagnation or wealth creation and growth.

Ghana is not immune to rent-seeking. It is part of the socio-political fabric of the society though not so pervasive (Mbaku, 1992). The oil wealth will test the political will and institutional capacity to contain rent-seeking and channel it for development. It will demand government's commitment to EITI[37] principle and continues devotion to capacity-building of state and non state institutions. This will challenge government to transparency in all transactions and demand accountability to citizenry while ensuring collective oversight control and spending of oil revenue (Oxfam, 2007:42).

Political leadership and institutional continuity plays a crucial role in determining the outcomes of resources (Karl, 1997 and Rosser, 2004). This is irrespective of democracy. However, economic growth in authoritarian regimes is unsustainable unless it develops institutional capacity that could sustain the growth in the long term. Evidence abounds that robust leadership in the developmental state of Indonesia pursued growth-led policies. These gains however collapsed during the Asian crisis

[37]Extraction Industries Transparency Initiative is global multi-stakeholders voluntary initiative that recognises accountability and transparency as fundamental to avoiding the resource curse and engages government, the public, development partners and oil companies to achieve it. Ghana is a member.

which is attributable to absence of institutional continuity. Nigeria predatory state however moved the economy from ‘collapse to malaise’ with deterioration in institutions (Lewis, 2004). In effect, effective leadership without devotion to institutional continuity will lead to short term growth.

The lesson for Ghana is that having democracy is not enough evidence of resource success. But the commitment of government to pursue growth-led policies and commit to institutional continuity and capacity-building will translate ideology into effective policies for successful resource management.

The distribution challenge of resource benefits in petro-states contributes considerably to social unrest, political and ethnic strife and violence (Lewis, 2004).The lack of functioning institution to effectively coordinate and allocate resource benefits is the bane of petro-states. In the analysis of Nigeria and Indonesia, unfair distribution formulae has resulted in militant formation in producing regions demanding greater share of resources and fuelling the ethic and political violence. Nigeria boost of the Niger Delta violence while Indonesia struggles with the Aceh and Irian Jaya islanders.

Ghana has already seen signs of agitation from the oil communities’[38]. The resource communities must receive a fair share of the oil revenue and development. Government’s record of regulating mining industries environmental impact is worrisome. It must equip and resource the Environmental Protection Agency (EPA) to meet the challenges of offshore oil development. There should be resolution mechanism in place to settle conflict that might arise between fishing industries and companies.

[38] The oil communities are mostly fishermen and few farmers

4.6. In Conclusion

Lessons through the analysis have revealed that Ghana stands to overcome the 'curse' if it strengthens its institutional-capacity, pursue growth-led policies and remain unwavering in its democratic governance. The empirical evidence has pointed out that the development of institutions before the advent of oil revenue positioned Indonesia to better manage the oil revenue than Nigeria where oil revenue coincided with institutional evolution. Institutional capacity will therefore determine the extent to which political ideology and effective policies translate into economic growth.

The comparative study has highlighted architectural design of the state and ideological inclination of political elites as key to promoting or constraining resource-abuse. The formation of the state in Nigeria demonstrates a predatory state that was characterised by frequent political changes and divide and rule tactics as opposed to the developmental state of Indonesia, where the reformist autocracy enjoyed uninterrupted political leadership and adopted long term developmental agenda embedded in prudent policy and fiscal stability. Though Ghana's government is not autocratic, the devotion to sustaining the democratic and stability gains and the commitment to pursue long-term development agenda is pivotal to avoiding the curse.

This chapter has demonstrated that building adaptable and flexible institutions that promote growth and restrain coalition interest is fundamental to surviving crisis and stabilising the economy. The collapse of authoritarian rules in Indonesia and Nigeria and the transition to democracy re-emphases the essence of quality institutions to resource 'blessing'. Institution that encourages transparency and accountability and reduces rent capturing by coalition interest is essential for surviving the curse. It must be rooted in institutional continuity and capacity building. The inspiration for Ghana pivots on institutional restructuring and capacity-building of state and non- state actors to obtain collective responsibility and oversight responsibility on the oil resources. The need for public accountability and avoidance of government secrecy in the oil transactions will contribute to Ghana's resource blessing.

It has established through the analysis that the pursuance of trade liberalisation and economic diversification policies accounted for the stark variation in economic performance by both countries. Indonesia managed to practice an open market policies and shifted attention to the development of non-oil sector. Nigeria however became heavily dependent on the oil revenue and neglected the non-oil sector. Ghana would however benefit if it continues the diversification process and sustain the market-related policies.

Finally, the analysis in this chapter has reinforced the indispensability of sound macroeconomic, monetary and fiscal policies to surviving the resource curse. Indonesia success is tied to fiscal and monetary discipline which was absent in Nigeria. Government of Ghana should strengthen the revenue collection agencies and cut down on spending while pursuing sensible macroeconomic and fiscal policies.

The final chapter will conclude the thesis offering key theoretical and empirical findings and practical recommendation for practitioners.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

5.0. Introduction

The concluding chapter presents academic findings and policy recommendation of this research. It summarise the research findings and suggest recommendations for government of Ghana and practitioners of the field of political economy.

5.1. Theoretical Findings

The research has highlighted the significance of political and institutional interpretation to understanding the resource curse. The institutional arrangement surrounding the natural resources and the type of political decisions goes to a greater extent to determine the success or failure of oil resources. It has demonstrated the essence of the interplay of economics and institutions to avoiding the curse but argues that the resource curse leans more to governance issues than macro-economics. For if the politico-institutions is right, the economic will follow.

The study has manifested the absence of universal consensus on the resource curse and the contestation on the viability of resources as either a curse or a blessing. It has suggested that the fierce debate on the available evidence and the weakness on a common theoretical framework will be minimised if the title of the concept is changed from 'resource curse' to 'resource impact'. The latter will verify the potential of resources to either become a blessing or a curse.

The methodological and time constrains and the temptation to generalise findings has made it imperative for a case-by-case approach. This provides a nuanced understanding of the contextual conditions prevailing in a particular locality and draws specific conclusions based on the findings. It broadens the interdisciplinary nature of the concept and enriches its theoretical foundation Resources are not cursed but the arrangement and policies surrounding them either leads ‘curse’ or ‘blessing’.

5.2. Empirical Conclusions

The empirical findings have provided evidence to the discrete economic performance achieved by Indonesia and Nigeria. Indonesia pursued prudent macroeconomic and fiscal policies together with trade-related policies to avoid the ‘curse’. It cut on wasteful spending controlled exchange rate appreciations and opened its market to the global economy. This stabilised the economy, injected competition and attracted direct foreign capital into the non-oil sector of the economy. Nigeria on the otherhand, embarked on wasteful spending and excessive borrowing with little importance to sensible macroeconomics and trade related policies. This collapses the economy and led to resource-abuse.

The empirical evidence has demonstrated the pursuit of economic diversifications as fundamental to avoiding the curse. Indonesia developed the agricultural industry and committed to food- sufficiency. Nigeria however shifted from food exportation to food importation by neglecting the agricultural sector. The policy to attract private sector investment and interest into other sector of the economy paid off for Indonesia as against Nigeria.

The empirical analysis has highlighted institutional growth and capacity-building as a distinctive feature accounting for the diverse trend path of growth registered by both countries. Nigeria couldn't establish robust institutions before oil revenue poured into the economy. Property right and security of contract was not enforced. The grabbing institutions led to resource abuse. Indonesia however, developed producing-friendly institutions before the advent of oil revenue and guaranteed property rights and security of contracts through independent technocrats and informal alliances with key producers.

The ability of the centre to manage and control rent is crucial role in determining resource success or abuse. The state is surrounded by diverse interest groups that compete to either capture rents or gain from it. The capacity of the centre to balance and satisfy the distinct coalition interest while maintaining national and development agenda is dependent on the type of state and level of institutional capacity. A developmental state as opposed to predatory state with strong institutions will perform better with resources than the latter. Indonesia belonged to the former and succeeded while Nigeria exhibited features of the latter and failed.

5.3. Policy Recommendation

With the lesson drawn from comparative analysis above and based on Ghana's unique local conditions, the following recommendations though inconclusive are central for government, MNOCs, development partners and civil societies if Ghana wants to overcome the resource curse;

Institutionalising Accountability and Transparency: Ghana should subject the oil sector to EITI scrutiny and provide it with legal codes to make it mandatory for public disclosure. There should be regular publication and disclosure of all transactions, agreements and petroleum—gas payments. The Freedom of Information Bill should be quickly passed into law to offer the public access to government information and bolster public confidence in the state. Institutions of transparency and accountability should be resourced and strengthened to function independent of government.

Improving the Capacity of Anti-corruption Institutions: Anti-corruption institutions such as CHRAC, Serious Fraud Office, the BNI, the Police and the Judiciary should be financially and humanly resourced and independent to be effective in the discharge of their duties. The Judiciary should perform their duties impartially and the legislative laws should provide appropriate punishment for corruption. The Whistle Blowers Bill should be passed quickly to allow individuals to report cases of corruption to appropriate institutions for action to be taken on them. The media should monitor and actively report on government activities. The anti-corruption institutions should possess more power to prosecute corrupt practices.

Establishing Legal and Regulatory Framework: Ghana must move away from the ad-hoc and piecemeal legal and regulatory laws on the petroleum sector. It should develop robust legal and regulatory laws to fill the gaps in upstream and midstream sectors and govern production and exploration. A moratorium on new exploration licenses should be enacted as government strengthens it legal and regulatory laws. GNPC should be an autonomous entity to enhance its functions and duties.

Strengthening Civil Society and Other Third-State Actors: Civil society groups and other third-state actors should actively monitor and engage the government by promoting national dialogue. It should criticise, suggest, publish government dealings and activities and keep the public updated on events in the oil sector. Civil society groups should build capacity and develop expert knowledge to effectively functions well[39]in the oil sector.

Deeping Governance and Building State-Capacity: Government should sustain the current multi-party democratic gains and strengthen the process of governance. The capacity of government agencies, ministries and departments should be developed through periodic workshops and seminars to keep them updated to the task. Parliament should be institutionally enhanced to have sufficient oversight responsibility over government spending and expenditure. It should develop expertise in the appropriate oil committees to keep the House well-informed and actively play their role well.

The Creation of Oil Fund: Ghana's budget and spending system has the challenge of absorption capacity and cannot absorb extra revenue beyond $250-300million[40].This makes it necessary for the creation of oil fund to absorb the additional revenue from the oil. The fund will help sustain the economy from large revenue windfall and inflation as government invest outside the economy and stabilise revenue (Stevens, 2003:21). It should have a separate arrangement and can take the form that meet local needs. One of such form is the management of the fund by local private financial institutions and meeting government's needs through an agreed arrangement and agreement.

Trade liberalisation and Diversification Policies: Ghana should adopt better policies that minimise the concentration of Dutch disease, and crowding out effect and contract other sectors of the economy. Such policies should improve competition and avoid trade restrictions, fight exchange rate appreciation and accumulate budget

[39] Credit to Bright Simons of IMANI Ghana who suggested this recommendation
[40](Oxfam America, 2007:45)

surpluses, reduce the number of days for setting up business and divert investors and FDIs into non-oil sector. It should sustain its diversification programme and improve on its investment laws to attract private investment and donor funds. In this regard, Ghana Investment Promotion Centre (GIPC) should be institutionally equipped and resourced to play an active role.

Public Financial Reforms and Re-inventing State Revenue Agencies: Government attempts to computerise the Public Financial System through the Public Financial Management Reforms (PFMR)[41] has been lying ideal for over decades. The reform however is urgent in the advent of the oil boom to inject fiscal and monetary discipline into the public financial system. It will strengthen revenue collection agencies, promotes transparency and accountability, improves public expenditure and avoid wasteful spending. Government should therefore be committed to these reforms to build the capacity of state revenue agencies to meet the demand of the commercial market.

[41] I am grateful to Bright Simons of IMANI Think Tank, Ghana for suggesting and developing this idea. It must be noted that the PFMR includes Medium term expenditure framework, medium term fiscal framework, the computerised financial resolution management system and Budget projection expenditure management system

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