HIS EXCELLENCY DR. MAHAMUDU BAWUMIA,
VICE PRESIDENT OF THE REPUBLIC OF GHANA

- AT THE 3rd ADVANCEMENT LECTURE SERIES
  UNIVERSITY OF CAPE COAST
  ON THE THEME:

“DEVELOPING STRONGER ECONOMIES FOR THE AFRICAN CONTINENT: THE MISSING LINK”,

CAPE COAST, 4TH OCTOBER, 2017
Mr. Chairman
Honourable Ministers of State
Hon. Members of Parliament
Vice Chancellor
Faculty
Staff
Students
Media
Nananom
Distinguished Invited Guests
Ladies and Gentlemen

1. **It is an honour and a privilege to be here with you this afternoon.** I would like to thank the University of Cape Coast for the kind invitation extended to me to participate and contribute to the 3rd Advancement Lecture Series. I bring you greetings from the President of the Republic of Ghana, Nana AddoDankwaAkufo-Addo. In the context of this Advancement Lecture Series, would like to state that the University of Cape Coast (UCC) is, itself, a study in Advancement.
2. UCC was established in 1962 and opened its door in 1963 with 256 students (234 male and 22 women). We have come a long way. In 2015/16 academic year the total student body of 19,353 had 6738 women (about 34.8 percent). UCC has also expanded from the training of teachers to a full-fledged University, now offering medicine and law. I would like to thank those who have led the University and helped build it to today’s UCC. They have done an excellent job.

3. Let me now turn to the topic of this lecture: Developing Stronger Economies for the African Continent: The Missing Link.

4. Mr. Chairman, the question of how countries develop and build strong economies is one that has preoccupied economists since the days of Adam Smith who focused on an “Inquiry into the Nature and Causes of the Wealth of Nations” in 1776. He wanted to know why some countries are rich and others poor. In this book he espoused the power of free markets in the allocation of
resources to their optimal uses. This is a subject matter that has been researched by economists and philosophers such as Karl Marx, for over 200 years!

a. This question is akin to the search for the holy grail in development economics. Researchers have variously sought to supply the missing links:

- Better schooling, good health, managed fertility, work ethics and discipline of labour force, higher rates of savings and investment, productivity and technological advances are critical.

- Government actions such as taxation, maintenance of law and order, stable and well functioning financial markets, and macroeconomic stability matter a great deal.

b. Peace and social stability as well as institutions are also paramount to building stronger
economies. War and conflicts are disruptive. They destroy wealth created and human capabilities.

c. All of these factors, according to Professor Robert Barro of Harvard University, are of profound importance to everyone concerned with the business of building stronger economies.

5. But this afternoon, in line with the topic of this Lecture, I will focus broadly on only one missing link in developing stronger African economies: Building the Productive Capacities of nations. The argument I will espouse is that countries with stronger productive capacities build stronger economies. I will draw on experiences of Singapore, Switzerland, Norway, and Mauritius to make a number of points. And I will conclude that strong economies are built on the back of strong, and steadily expanding productive capacity of nations on the back of sound economic governance.
History of Africa’s economic growth performance

6. Mr. Chairman, Africa’s economic growth performance historically has been driven by resource exploitation and exports of unprocessed raw materials.

   a. The consequences of this dependence on raw materials are as follows:

      • First, our economies are vulnerable to commodity price shocks. Sudden and unanticipated declines in prices of our commodity exports trigger revenue shortfalls and undermine our ability to implement budgets and to manage our public finances.

      • Second, the low value addition to both our agricultural products and mineral resources means

         o our exports are of very low income content and

         o we lose the opportunities to create jobs by processing our raw materials.

      • Third, by exporting our raw materials we are unable to use these natural resources as the
basis to industrialize and to expand productive capacities.

The combination of these four consequences means that we have non-resilient, weak and undiversified economies.

**Low Productive Capacities and Development Traps**

7. Although Ghana for example graduated from Less Developed Economy status to Lower Middle Income Country (LMIC) status in 2007, the recent fall in world commodity prices (of oil, minerals, and cocoa) remind us how vulnerable our economy is to external shocks. We are faced with the risks of being trapped in this LMIC status if we don’t push our productive capacities beyond the mere extraction and exports of raw commodities.

8. In fact, like many countries in sub-Saharan Africa, there is the danger that Ghana’s (as well as other African countries’) rapid population growth (about 2.2 percent per annum, twice the global average of 1.12 percent)
and our demographic dynamics (about 58 percent of the population below 25 years) alone can push us back into a low income development trap because our reliance on natural resources exploitation alone, and our low productivity agriculture will just not be enough to lift average incomes.

**Ultimately strong economies are built on the back of strong, and steadily expanding productive capacity and on sound economic governance.**

9. Economists have a tool of analysis called the *Production Possibilities Frontier* (PPF). This is a simple yet powerful tool of long-term growth analysis. In its basic form, this model describes the limits of every economy’s productive capabilities. It tells us the maximum of goods and services that an economy can produce given its endowment.

10. One of the most important questions in first year economics is: What are the factors that expand the frontiers of a country’s production possibilities
frontier, therefore the ability to produce more goods and services? Common answers include new discoveries of natural resources, improved human capabilities, increased savings and investment, improved infrastructure, and increased technological innovations. All these factors contribute to building stronger economies.

11. The World Economic Forum reports annually on Global Competitiveness Index developed by Professor Xavier-Sala-i-Martin of Columbia University. The Index reports on how nations are doing on the factors, policies and institutions that determine the level of nations’ productive capacities. It is an indicator of how the productive capacities of nations are changing to make economies stronger or weaker.

12. The Report’s findings are startling. With all our natural resource endowments, with all our farmlands, Africa’s potential to building stronger economies dims considerably compared to countries which don’t have these natural endowments but have pushed harder in
building their productive capacities. **So what is Productive Capacity?**

13. **The United Nations defines** productive capacity as the “set of capability factors that enable countries to produce more goods and services”, and to do so efficiently, at least cost and of highest quality. It is the combination of human capabilities, natural resources, physical and environmental assets, technological assets, institutional assets that determine the level and the path of a country’s growth; its ability to produce goods and services and enough to improve the well-being of the population.

14. Building productive capacity boils down to three things:
   a. Developing the depth and quality of human capabilities;
   b. Developing technological capacity in our production processes – at home, at the office and in industry
c. Cultivating the rule of law, high policy and institutional capabilities of government.

*Let me expand on these.*

15. Developing human capacity is the first step in building skills, knowledge and creative capabilities. It is intrinsic to individuals’ means to higher incomes and more rewarding careers. The American, Canadian and European higher education are noted for their reputation in research capabilities, in invention and creativity. Higher education is also intrinsic to the success of nations. The obsession of countries like the United States, Canada, Germany, Mauritius, Singapore, South Korea and Taiwan, among others, with developing their human capital makes so much sense and that is how they are transforming their economies.

16. For a continent with about 41 percent of its population below the age of 15 years and 60 percent under 25 years, developing the skills and knowledge capacity of children and teenagers in Africa is a matter
of urgency if we are to change the course of our economic history.

17. Second, developing technological capacity, much of which depends on our human capacity in scientific thinking is the second pillar to building productive capacities and stronger economies. Germany’s industrial machinery, Japanese scientific thinking and industrial spirit account for their productive capacities. Technological progress is generated by the emergence of new ideas and it is borne out of quality education.

18. Quality education stimulates thinking. It nurtures creativity. Creativity, in turn drives technology and innovation. Any nation that cannot create new ideas, that cannot develop risk-taking entrepreneurial class will never lead the march of progress. In fact, that nation may not even be able to follow the leaders in the catching-up process because its citizens cannot even imitate innovation. This is why some countries are good at copying while others cannot even copy successful models.
19. Look at what creativity and technology can do. Bill Gates of Microsoft in 2016 had net worth of about USD 85.6 billion (more than the GDP of Ghana which is about $40 billion). Mark Zuckerberg, computer programmer and internet entrepreneur, in 2016 has net worth of about USD 71 billion. In 2016, only Nigeria, Egypt, South Africa, Algeria, Sudan and Angola had GDP in excess of USD 70 billion, thanks to their mineral, oil and gas resources. The combined net worth of the two technology giants of nearly USD 157 billion in 2017 is exceeded by only Nigeria (USD 537 billion), Egypt (330 billion), South Africa (266 billion) and Algeria (165 billion). The comparisons are staggering if you divide these numbers by the millions of their population.

20. Some have wondered whether we can build stronger and resilient economies by pushing harder on science, mathematics and technology than by exerting efforts in finding more minerals, oil and gas. That is a question for all of us to answer.
21. In 2006, the World Bank set up a Commission to study countries that have managed to build their economies since 1950. Headed by the Nobel Laureate Michael Spence, the Commission released its finding in 2008 and observed that

"In all cases of sustained, high growth, the (successful) economies have absorbed know-how, technology and more generally knowledge from the rest of the world. These economies did not have to originate much of this knowledge, but they did have to assimilate it at a tremendous pace. ...Knowledge acquired from the global economy is thus the fundamental basis of economic catch-up and sustained growth."

The Japanese understood this very well following the collapse of the Tokugawa isolationist regime in 1867.

22. Empirical evidence also shows that development and maintenance of the rule of law, developing policy capabilities of government, the institutional capacity
and high quality of governance is the important third pillar in building stronger economies.

Mr. Chairman, I would now examine three case studies on Singapore, Norway, and Mauritius.

23. The Singapore Story: The country with no natural resources, no farmland, but is obsessed with human capital development and productivity. Singapore moved from labour intensive economy in the 1960s to skills-intensive in the 1970s, technology-intensive in 1980s, innovation-intensive in the 1990s to knowledge-intensive at the turn of the millennium.

24. It has grown from its traditional role as a regional seaport (its only non-human natural asset) to an international manufacturing and knowledge intensive services center. Singapore’s wealth is based on skills, knowledge and technology in its politically stable environment. Its per capita income has grown from $533 in 1965 to $40,920 in 2010 and $52,090 in 2016.
Ghana’s GDP per capita in 1965 was $266 and in 2016 was $1513.

25. When it comes to global competitiveness and the determinants of long-term growth, Switzerland, Singapore and the United States have remained the top 3 economies 6 years running. (World Economic Forum). The highest ranking Africa country, Mauritius, was 45th among the list of 138 countries, followed by South Africa (61st), Rwanda (58th), Botswana (63rd), Ghana (114th) and Nigeria (125th). In 2016, Singapore topped improvements in higher education and training, one of the top efficiency enhancers in South Asia and the Pacific. Singapore also runs one of the world most efficient public institutions.

26. Switzerland: According to the World Economic Forum, Switzerland possesses one of the most fertile innovation ecosystems. It mines no gold or diamond or for that matter any of the earth’s rare minerals and has no cocoa farm. But Switzerland combines conducive policy environment and first class infrastructure with
academic excellence and unmatched capacity to attract the best talents. It adds value to our raw cocoa and turns it into chocolate. It imports and refines crude oil and exports the finished products profitably to many countries, including Nigeria. Ghana is Switzerland’s largest trading partner in Africa (importing gold and cocoa from Ghana)

27. The Norwegian Story: From fishing to oil and gas, Norway has emerged as a global agent in oil and gas technology. On the back of good governance, stable democracy, and efficient management of its petroleum resources, Norway has emerged as one of the most diversified, and wealthiest economies in the world with very high and sustainable standard of living.

28. The Mauritius Story: Mauritius has progressed from a “three pillar economy”—sugar cane, tourism, and textiles—into a modern strong economy revolving around agriculture, manufacturing, financial sector, ICT, real estate and hospitality to become a “knowledge intensive island”.

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29. It has had one of the most impressive growth in per capita GDP over the forty-year period since the 1970s in Africa. Its GDP per capita more than tripled in 30 years from 1981 to 2010. According to *African Transformation Report, 2014 published by the African Center for Economic Transformation*, Mauritius owes its remarkable economic performance to sound economic governance, steady reforms to sustain long-term growth, effective State-business relations, capable institutions, stable democracy, a good legal system, and macroeconomic discipline.

30. Mauritius has been improving its position in international indexes for the rule of law, investment, and ease-of-doing business. The island is first in Sub-Saharan Africa on the Rule of Law index. It has earned international recognition as a safe and trusted jurisdiction. The government intends to transform the island into a regional ICT hub by constructing technology parks and diversifying into software, and
disaster recovery centers. In Mauritius, education is free from kindergarten to university.

31. Mr. Chairman, what is clear is that these countries continue to develop their human capital through higher education and training. Norway has done so to complement their natural resources endowments. Others have done so to compensate for their lack of natural resource endowments. Their productive capacity is built on efficiency enhancers and innovation, strong and capable institutions of governance and stable governments.
What about Ghana?

The Ghana story in building stronger economy: Performing below potential and Trapped in “Low-Middle Income Status”

*Structural Weakness*

32. From the time of independence, we inherited a colonial economy. Our production system, infrastructural development and transport network, banking services, and even our education system were all organized to serve colonial needs and excluded the majority of the population.

33. The multiple structural weaknesses of our economy, our vulnerabilities to external shocks, the infrastructural bottlenecks and the constraints on private sector activities are all well known.

34. Our dependency on raw commodity exports, the lack of diversification, low adoption of technology in our
production activities on the farm and in our offices further underscore our weak productive capacities. Farm productivity is low. Industrial labour productivity is also low compared to comparable South Asian countries.

35. **Recent pathways:** Ghana has since 2000 gone through 4 medium-term development plans: 2 generations of Poverty Reduction Strategies and 2 generations of Ghana Shared Growth and Development Agenda. These were very much in line with the Millennium Development Goals (MDGs). Immediate poverty reduction, reducing hunger, ensuring access to education, health and basic social amenities took center stage in these efforts.

36. But the global financial crisis of 2008/09, the ensuing economic downturn and the fiscal shocks to the entire global economy, together with the recent fall in commodity prices, once more have exposed the weaknesses and vulnerabilities of our economies.
37. A joint United States-Ghana Government study entitled “Ghana Constraint Analysis” published in 2011 observed that continuing our business as usual approach to development will not deliver for us the “Asian-Miracle” type of transforming our economy even with the discovery of oil.

38. Take another example. In 1960, South Korea’s national income per head was nearly the same as Ghana at about $183. By 1980 South Korea’s income per head was 4 times more than Ghana’s $411. By 2015, South Korea’s income per head was nearly 20 times more than Ghana’s. Keep in mind that South Korea has no mining, no oil, no major agricultural exports, and it is highly populated in a small territory.

39. Their high technology boom, automobiles, shipbuilding, steel and rapid development owe much to their rigorous education system, a highly motivated and educated population, and the collective focus and determination to build stronger economy that is inclusive.
Developing our Capacity for a Stronger Economy.

40. Mr. Chairman, what we have learnt from our past and the lessons from others worldwide must inform our paths to building a stronger, resilient, and inclusive economy. The idea of inclusion is critical. It represents a paradigm shift from the past where most of our population were excluded from fully participating in the economy or realising their full potential. Our view is that if you exclude most of your population in the manner we have done in the past, you will not be able to build a strong economy except for a few.

41. Historically, many Ghanaians have been excluded from schooling (because of inability to pay school fees), bank accounts, unique identification, addresses, health care, agriculture, infrastructure such as water, roads, toilets, etc.

42. So our strategy is to strive for INCLUSION to build our productive capacities. This strategy has however got to
be underpinned by a commitment to fiscal discipline and macroeconomic stability to be sustainable.

Developing human capabilities and capacity

43. Mr. Chairman, despite the massive growth in the tertiary education sub-sector since the early 2000s, the enrolment ratio in our tertiary education sector remained low compared to other African countries. As a result we are witnessing an increasing army of uneducated 15-25 year olds, with little to no skills of work and therefore unemployable. For a country with nearly 20 percent of its population in this age group, this group of young people represent a worrying undeveloped human productive capacity, and with time they could become “our potential wasted assets”.

44. Our approach to building a stronger economy must begin with the ambition and commitment to intensify the development of our human capabilities. The recently introduced Free SHS signals government determination to ensure that the greatest number of our young people gain access to pre-university
education. We cannot advance in technological innovation, we cannot take advantage of technology transfer and adoption, and we cannot nurture entrepreneurial skills without an inclusive access to education.

45. Education for all is imperative in a world of rapid technological innovations. It is inconceivable that children should be denied access to education at the early age of 12 simply because of their financial circumstances. Enriching our human capital must begin early if the young are to develop their skills of work, gain knowledge and deepen their thinking and creative skills for enterprise and innovations.

46. It is also for this same rationale that we are restoring the teacher and nursing training allowances this month and next.

47. We are not only providing access, but in line with Sustainable Development Goals (SDG goals) #4 and #5, we are also emphasizing quality education and gender
equality. In the long run, building the human capacity in this way, nurturing creative minds, is the first step to building a generation of innovative entrepreneurs and problem solvers in all aspects of our life, including how we manage our natural resources.

48. In a September 2017 UN Report titled “In School but Learning Nothing” there were some troubling observations. Six out of ten children and teenagers in the world are failing to reach basic level of proficiency in learning. In Sub-Saharan Africa about 88 percent of children and teenagers enter adulthood without the proficiency in reading and comprehension. In Mali the number is 93 percent. In Japan it is only 1 percent.

49. We should worry about the quality of education of the future movers of the economy’s productive capacity and possibilities frontier. We should worry about the quality of those we graduate and certify to go and teach our children.
Building Science and Technological Capacities

50. The vision for Africa in Agenda 2063 launched by the African Union is that at least 70 percent of all high-school graduates go on to have tertiary education, with 70 percent of those graduating in subjects related to sciences, mathematics and technology. We must build our science and technological capacities because we live in a world of science and rapidly changing technology.

Building Infrastructure Capacity

51. Mr. Chairman, part of the missing link of productive capacity has to do with our infrastructure constraints in energy, transportation, communication and utilities. You cannot build productive capacity with dumsor. Electricity drives our everyday applications of innovations in science and technology. At home, in the workplace in the public and private sector, in agriculture, and in health, our production capacities depend in large measure on access to power. We must work hard to keep the lights on securely and efficiently.
52. Our goal is to have renewable energy as the primary source of power for our homes, offices and certainly for all public facilities. It is for this reason that our government has announced a policy of no more power purchase agreements (PPAs) for thermal power plants. Henceforth we will only sign PPAs for renewable energy.

Building the capacity of our seaports-Mimicking Singapore

53. Mr. Chairman, in the past 4 months, government working jointly with the private sector and other stakeholders have reviewed the institutions, processes and systems of our air and sea ports. We realized that our seaports, especially, remain as under-utilized assets, first, as catalyst for trade and growth, and second, as sources of revenue mobilization. This has to change if we are to expand our trading capacity, build up our competitiveness in facilitating trade in the West African sub-region, serving the landlocked countries of Burkina Faso, Niger, and Mali.
54. We are innovating our port processes and systems. We have since September 1 this year gone paperless at the Tema port to keep abreast with global standards in world trade. And we didn’t have to re-invent the wheel. We are taking advantage of technology transfer and knowledge diffusion from some of the leading ports and customs management in the world. We are implementing a series of reforms at the ports to ease the cost of doing business, to strengthen and to make the most out of our ports as national assets.

Building Institutional and Governance Capacity

55. Mr. Chairman, Another area of building a strong economy is in institutional and governance capacity. We are doing this through information and communication technology (ICT). And we have strong intentions of harnessing ICT towards enhancing our institutional and governance capacity.

56. Four such initiatives are noteworthy.

- First, is the institutional reforms in registering businesses, and license renewals. We are in the
process of introducing online registration of businesses and we expect to launch this month.

- Second, is the introduction of **Digital Address System** with unique postal codes for every location within Ghana. With the help of modern technology, we are leapfrogging the most advanced countries in the world as far as addressing is concerned.

- Third is the introduction of **National Identification Cards**. Both the Address System and the NIA are being rolled out this year.

- Fourth is the introduction of the inter-operability of payment system in the financial sector for a more inclusive financial system. Having an interoperable payments system between banks, mobile operators and other financial and non-financial sector players enables people to make payments to anyone else in a convenient, affordable, fast, seamless and secure way with one account. Payments for our buying and selling will be made far more easier throughout the country. Interoperability is key to financial inclusion. Thankfully, Ghana will launch an interoperable payment system in November this year.
Next year, the paperless approach will streamline applications for passports, visas (we are moving to e-visas), construction and other permits, and drivers’ licenses). In fact, once we complete the national ID card process, you will no longer need to fill an application form for a passport since the data required will already be available.

Can you imagine how much productive capacity we lose in the time spent applying for a passport, drivers license, finding someone’s house, applying for a building permit, bank account, etc?

57. For government, there are substantial benefits of these measures for the management of the economy and in all aspects of decision-making and planning. They help in better targeting in the delivery of public services whether it is in education, health and other social services in line with the three fundamental SDGs (#1 to reduce poverty, #2 to eliminate hunger, and #3 to ensure the good health and well-being of citizens).
58. Finally, building these types of information infrastructure should also help expand the tax base of the economy, increase domestic resource mobilization to leverage private capital to support development process. Improved domestic revenue mobilization is paramount to building stronger economies. A robust domestic revenue mobilization is the most sustainable way to create fiscal space to finance much needed infrastructure and other developments.

59. Expanding productive capacity in Agriculture is key. The Planting for food and jobs program with access to seeds and fertilizer by farmers has been a success. We expect a bumper harvest this year notwithstanding the challenge of the fall army worm. Also, a Marshall Plan in agriculture with additional attention to roads and irrigation will be the focus of the 2018 budget. Furthermore, the one village one dam program in the three northern regions will be launched this year.
60. Building productive capacity in industry is also fundamental. We must add value to our raw materials to start with. One District One Factory initiative as well as strategic anchor industries like pharmaceuticals, petrochemicals, textiles will help drive industrialization by the private sector.

61. The Infrastructure for Poverty Eradication Programme (IPEP), where we have decided to decentralize the capital expenditure budget by allocating the equivalent of one million dollars per constituency for infrastructure in rural and deprived communities along with the Zongo Development Fund are intended to broaden the base of the productive capacity, making our economic building stronger and more inclusive.
Summarizing: Anchors to developing stronger economies.

62. A country can attain LMIC status by tapping into its natural resource endowments, by undertaking appropriate market and financial sector reforms, by opening up external trade opportunities, through good macroeconomic management and through good and stable governance.

63. But global experience is that the continued march to full middle income and further to high income economy is possible only when the country has put in place national mechanisms to building productive capacity.

64. On the basis of our natural resource endowments – minerals, hydrocarbons and commodities, Africa has always been a continent with hope and potential. But if these were the only drivers of developing stronger economies, Korea, Mauritius, Singapore and Switzerland would have had little to no potential for growth. Angola, Congo, Nigeria and Mexico, would have
been some of the strongest economies in the world. And Ghana with all its natural resources would not be lagging too far behind. History has taught us differently.

65. Key for us going forward are:

- Building our human capital and capabilities. The days of schooling for schooling sake, the “chew, pour pass and forgot” syndrome are over. Free SHS is not a bargain for low quality.

- You have a role to play as a University. Nurturing and stimulating creative thinking, undertaking basic research in problems confronting society and informing public policy making are the least we should expect from Universities. Universities cannot decouple themselves from tackling the challenges in society. Universities must see themselves as also at the heart of helping to build stronger economies and stronger societies.
• Whether it is in the humanities, social sciences, physical sciences and mathematics, quality education is the bedrock of our problem solving skills, of our creative thinking and generator of ideas.

• Leapfrogging technological innovations to the future, finding new ways of doing things are the hallmarks of innovation and productivity.

• According to the World Economic Forum, at the dawn of the 4th Industrial revolution era, technology and innovation are increasingly driving development and a source of building stronger economies.

• Developing stronger economies requires transforming agriculture and food systems if we are to cope with the pressures of population growth, demographic dynamics and food security.
• Developing stronger economies also requires good governance and protecting the social and economic opportunities of citizens. It also requires a change in our attitude in the way we deal with our common wealth. Those who steal from the common wealth through embezzlement and corruption undermine our collective ability to build stronger economies because they distort incentives for work.

66. As a country, we must ask and answer three simple questions in our attempt to building stronger economies. (I am asking you to attempt all questions).

a. Do we want to remain a resource-based economy, extracting and exporting our diminishing resource endowments?

b. Do we wish to depend on the generosity of others through aid?

c. Or do we want to be a knowledge-intensive and innovation-based inclusive economy?
The vision set out by President Nana AddoDankwaAkufo-Addo has answered these questions for us. We want a Ghana in which we add value to our raw materials. We want a Ghana beyond aid. We want to build a knowledge based economy. To do all of these, we must build our productive capacity as a nation: This is the missing link to building strong economies in Africa.

Thank you for your attention.

God Bless our Homeland Ghana.