

## **CEPA signals threat of “Dutch Disease”**

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The Centre for Policy Analysis (CEPA) has cautioned against the country ignoring early signs of the “Dutch Disease” as it prepares to transition from a cocoa economy to an oil economy.

The “Dutch Disease”, a concept that describes the relationship between an increase in the exploitation of natural resources of an economy and a decline in other productive sectors like manufacturing and agriculture, threatens as Ghana prepares to become an oil producer.

The country is expected to produce between 120,000 and 200,000 barrels of crude oil daily starting from the last quarter of the year, and it is estimated about US\$1.1 billion will be earned by government annually as income from oil production.

“The current appreciation of the Ghana cedi (GH¢) against major currencies (namely, the US dollar, the euro and pound sterling) indicates early signs of the “Dutch Disease”- a variant of the “resource curse,” CEPA revealed.

It also added that the trend has been largely influenced by investors’ confident expectations about the prospects for Ghana as an oil economy. This is evidenced in the strong interest in Ghana’s US\$ 750 million Eurobond instrument on the international financial market.

CEPA identified as some of the threats: a strong currency, leading to a loss of price competitiveness of domestic products in international trade; an initial squeeze on profits; then to loss of market share; and finally to cutbacks in domestic production and job losses.

On the import side, CEPA fears that cheap imports - another effect of rising exchange rates - will displace the market for made-in-Ghana substitutes, leading to a collapse of such domestic productive activities with consequent job losses.

The think-tank therefore advocates effective management of the exchange rate if oil is to enhance Ghana’s growth prospects, and if Ghana is to avoid the ills of the “Dutch Disease”.

This means Ghana should use management of the cedi as a tool to maximise exports and employment as China does - through implicitly subsidizing its exports while taxing its imports.

Another measure to control the problem is to invest government revenue including oil windfalls in education and key infrastructure to boost the competitiveness of non-oil sectors. This will prevent any possible decline in those sectors and help generate growth and jobs.

According to CEPA, these interventions ought to be well-thought out and executed efficiently so that the expected gains can be realised. It also called for a collaborative effort among the citizenry to identify those infrastructural gaps in the economy that urgently need to be filled.

CEPA's call is also informed by the need for Ghana to learn from the experiences of other African oil producers which felt the negative repercussions of windfalls in foreign exchange earnings on other productive sectors of their economies.

Ghana therefore has to learn from the history of the oil resource and guard against these challenges which lie ahead.

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