

THE SOCIOECONOMIC IMPACT OF THE DISCOVERY OF OIL ON THE
PEOPLE OF CAPE THREE POINT IN GHANA

By

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This Thesis is presented as

partial fulfillment of the requirement for the degree of

Master of Science in International Cooperation Policy

GRADUATE SCHOOL OF ASIA PACIFIC STUDIES
RITSUMEIKAN ASIA PACIFIC UNIVERSITY, JAPAN

September 2011

ABSTRACT

For oil economies, higher oil prices are expected to be a blessing rather than a curse. Bringing the oil to the surface and then getting it to a market, however have major environmental, economic, social, cultural, and health impacts (Edoigawerie & Spickett, 1998). The harmony between significant oil wealth and large-scale poverty is certainly a “paradox of plenty” (AfDB, 2009), if not an outright resource curse in itself. The core of this statement is to come up with a system that will create long lasting wealth in the long run rather than short run, as the case of oil boom may bring to a nation, and translate it to capital in the form of human development, financial and infrastructure for a more sustainable livelihood.

This study takes a critical look at the outcomes of oil production on the selected oil economies from Africa, Middle East, Asia; Latin America and the Scandinavia in relation to socioeconomic development of their societies. Three themes were discussed, including; oil economies, Dutch disease and 1973 oil crises and its impacts on socioeconomic development.

The main objectives for this research include: to comprehend the prospects of oil production on the socioeconomic development of the communities in Cape Three Point; to discuss the effect of oil production on poverty reduction; to identify critical problems that would be against the socio economic and cultural lives of the people; to

make recommendations that would inform decision making in safe guarding the peace and harmony of the communities in Cape Three Point.

The methodology was based on secondary data constructed from World Bank database, United Nations Development Program on human development, Organization of Economic Cooperation and Development (OECD), International Monitoring Fund financial statistics and Asia Development Bank, Ghana statistics service and National Accounts Statistics of Norway. Both qualitative and quantitative techniques were employed to construct graphs and statistical tables. The lessons learnt were used to compare with the economic features of Ghana.

The outcomes showed that most African oil economies lagged behind Scandinavia, Middle East, Asia and Latin America in terms of human development. Not much attention was paid to human resource development, the problems of poor training of teachers', high student-teacher ratios, poor quality of textbooks, lack of other teaching and learning equipment and an emphasis on rote learning rather than problem solving are still unresolved. Ghana has great challenges with health sector including the human resource shortages, healthcare financing and lack of multi-sectoral collaboration among the players in the health delivery system. Other outcomes include, fiscal indiscipline, Dutch disease or resource curse, mismanagement, accountability and corruption, lack of agriculture farmlands and land dispute, cultural acculturation, poor community cohesiveness, poor institutional capacity, and poor policy formulation and implementation.

As a way forward, institutional capacity building and its connection with the socioeconomic development are extremely important for Ghana to enhance the relationships amongst production, accumulation of capital and equitable distribution. Consensus building at the design stage around what the oil rents are to be used for and how they should be managed, is the surest way to ensure its proper management. Thirdly, Stabilization Fund (SF) is recommended for both national and the communities with stricter accountability and transparency guidelines. Furthermore, revenue allocation to poverty reduction projects and income distribution is crucial element to expand equality and reducing level of income inequality. Finally, communities should be engaged in more extensive and deeper level of neighbor interaction; the more the residents would have positive evaluations of neighbor relations, the likelihood to feel a sense of community in the communities.

ACKNOWLEDGEMENTS

This thesis would not have been possible without the guidance and the assistance of several individuals who in one way or another contributed and extended their valuable assistance in the preparation and completion of this study.

I am heartily thankful to my supervisor, Professor A. Mani, whose selfless and unfailing support, encouragement, patience and guidance from the initial stages to the final level enabled me to develop an understanding of the subject. It is an honor for me to express thanks to the entire seminar class for their immense contribution and input, as well as, inspiring me on, whilst going through difficult times getting to the later part of this course, indeed, I am grateful.

My gratitude also goes to Professor K. Miyoshi, for his valuable advice and steadfast encouragement to complete this study and to Professor Manopimoke Supachit, for the insights and piece of advice, offered on the topic and for inspiring me on, to complete this research work.

I acknowledge Professor Wei-Bin Zhang for his kind concern, moral support and encouragement regarding my academic requirements and Dr. Arye Mongistu, for his valuable insights and contribution to the study.

It is also worth acknowledging the staff of the Academic Office, especially Ms. Emiko Oonk for being accommodating to all enquiries from me as well as the library staff.

I am also grateful to Mr. Viscount Buer, a Deputy Librarian, University College of Education Winneba, in Ghana for his expert advice and encouragement despite the distance, and painstakingly e-mailed me the information I needed.

My deep appreciation goes to the Japan/World Bank Secretariat, who offered me the scholarship for this study. I am also grateful to Joseph Quashie, Fareh Abdulkadir, Edward Osei Yaw and the rest of my colleagues whose criticisms and input have reshaped the final outcome of this work.

Last but not the least, my sweet wife, Juliet Derdo Sackitey, and the rest of my family.

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LIST OF ABBREVIATIONS

AfDB- Africa Development Bank

AIDS- acquired immune deficiency syndrome

BP- British Petroleum

ECLAC- Economic Commission for Latin America and the Caribbean

EITI-Extractive Industrial Transparency Initiative

GDP- Gross Domestic Product

GNPC- Ghana National Petroleum Corporation

GNP- Gross National Product

GPF- Government Pension Fund

ISODEC -Integrated Social Development Centre

MDG- Millennium Development Goal

NICs- East Asian Newly Industrialized Countries

OECD- Organization for Economic Co-operation and Development

OPEC- Organization of the Petroleum Exporting Countries

SAEMA- Shama Ahanta East Metropolitan Assembly

SOEs- State Own Enterprises

SRID - Statistical Research Information Directorate, (ministry of Agriculture Ghana)

UN- United Nation

WHO- World Health Organization

CHAPTER ONE

INTRODUCTION

1.1 Background

One compelling question that faces Ghana at the moment is how to find a way to manage the emerging oil industry for economic growth and social development. In other words what can be done with the revenue of oil discovered so that it becomes a blessing rather than a curse to the nation. One probable answer is to learn from the experiences of oil producing economies and less resourced countries to better manage the oil to improve the socioeconomic development of Ghana. This study takes a critical look at the outcomes of oil production on selected economies represented by Algeria, Angola, and Nigeria (for Africa); Saudi Arabia and Qatar in the Middle East; Indonesia and Malaysia in Asia; Mexico and Venezuela in Latin America and Norway for Scandinavia in relation to the socioeconomic development of their societies.

The observations are carried out with respect to life expectancy, literacy rate, infant and child mortality and unemployment. This comes on the heels of the debate in Ghana on the emerging oil industry and how it can be managed to reduce poverty, as well as, propel the country for an industrial take off. The term socioeconomic landscape shows the apparent capacities of the economy to produce an adequate and growing supply of goods and services in an efficient way to accumulate capital and to

distribute the fruits of production in a relatively equitable manner. In a narrower sense and in respect of impact assessment, the focus is directed towards the countries' achievement at the macroeconomic level, and its relationship with social indicators on individual lives in these countries.

The above countries adopted different approaches in the management of the oil windfall. Majority chose the path of massive state-sponsored-import-substitution-industrialization-model as a means to transform socioeconomic structures of the economy leading to good health, education, and employment. This economic strategy, however, could not meet the expectations of both policy makers and the people. As a result, the countries resorted to painful economic reforms, by opening up their economies for investment. Thus they turned away from the path of a primary commodity driven-economy to a multi-commodity export driven approach for economic growth to enhance socioeconomic development.

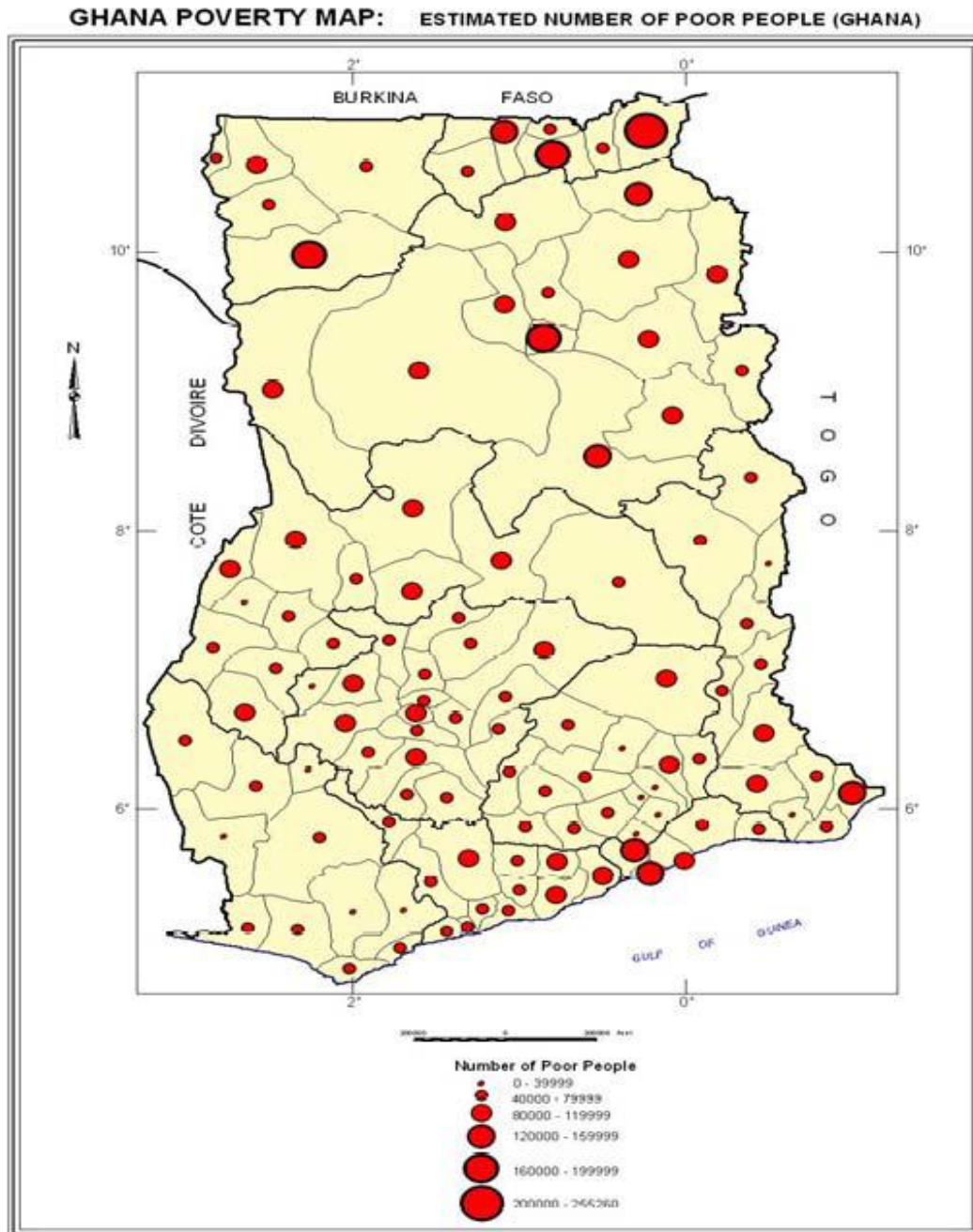
Many researchers such as Wheeler (1984), Leite and Weidmann (1999) and Gylfason (1999), who study about natural resources have suggested that it can be a blessing or a curse to a nation. The resource curse ironically explains that the natural resource abundance causes less growth than the lack of natural resources. Auty and Mikesell (1998), for example, study on natural resources provided empirical evidence that most successful developing countries are resource-less, and that the resource-rich countries averaged relatively slow growth or stagnation during the past three decades. Sachs and Warner (1995) have shown that economies with a high ratio of natural

resource exports tend to have low GDP growth rates. Another aspect of resource curse is that countries rich in resources are more prone to growth collapses than resource-deficient ones (Auty, 2001). Overall, there is strong evidence that states with abundant resource wealth perform less well, than their resource-less counterparts. Even though, (Ross, 1999) intimates that there is little agreement on why this occurs many explanations have been offered to support the reasons why resource rich countries under-perform despite their abundance. Auty (2001) elaborates exogenous and internal reasons, where one of the exogenous explanations referred to the phenomenon of Dutch disease.

1.2 Problem statement

Four out of ten regions in Ghana had more than 40% of their population living in poverty in 1999. The worst affected being the three northern savannah regions (the Upper East, Upper West and Northern Regions). Nine out of ten people in the Upper West; eight out of ten in the Upper East, seven out of ten in the Northern Region and five out of ten in the Central and Eastern Regions were classified as poor in 2005, (Poverty Reduction Paper, 2005). The rest of the regions have four out of ten living in abject poverty (Poverty Reduction Paper, 2005). Among the poor, female headed households formed 52 percent of the total (Poverty Reduction Paper, 2005).

Map 1: Poverty Map of Ghana



Source: www.ndpc.gov.gh

These households and communities live in conditions that are characterized by low income, malnutrition, ill health, illiteracy, lack of access to safe water and sanitation facilities, as well as general insecurity. These conditions combine to keep households and whole communities in persistent poverty. Ghana's living standards survey (2004) has indicated that relative to much touted goals by the government for reducing poverty from 40% to 28%, it does not reflect the realities on the ground. Instead, the extreme poverty has received marginal reduction from about 36.5% to above 28% over the past 20 years, for both rural and urban areas since 1990.

Recent poverty indicators issued in the Ghana's millennium goals progress report (MDG, 2006), showed that the country has managed to halve the proportion of people living in extreme poverty from about 36.5 percent in 1991/92 to about 18.2 percent in 2005/2006 (see Table 1). This means that the MDG's first goal of halving the proportion of the population in extreme poverty by 2015 has been achieved well ahead of target date, thereby making Ghana the first Sub-Saharan African country to achieve this MDG.

Table 1.1: Trends in Poverty Incidence by Region and Location, 1990-2006

Regions	Proportion below the lower (Extreme) poverty line		
	1991/92	1998/99	2005/2006
Greater Accra	13.0	2.4	6.2
Eastern	35.0	30.4	6.6
Western	42.0	14.0	7.9
Central	24.0	31.0	9.7
Ashanti	25.0	16.4	11.2
Brong Ahafo	46.0	18.8	14.9
Volta	42.0	20.4	15.2
Northern	54.0	57.4	38.7
Upper West	74.0	68.3	79.0
Upper East	53.0	88.0	60.1
Urban	15.1	11.6	5.7
Rural	47.2	34.4	25.6
National	36.5	26.8	18.2

Source: Ghana Statistical Services, (2007)

Some progress have been made in the three regions in the Upper East, Upper west, and Northern regions having figures above 38 percent. The rest of the regions have about 6.2 percent to 15.2 percent.

For many Ghanaians, the oil discovery has come in the most opportune time for poverty reduction in poverty stricken communities. Prior to the beginning of oil production, some local farmers have started giving away their farmlands to developers for commercial activities. The expectation is that the oil industry will offer them employment and that they will live a better life than before. Similarly, the

rest of the country especially the youth are also preparing themselves to migrate to the oil mining communities for employment and better life than what agriculture, manufacturing and service sectors provide them. Before inception of the oil production, the oil companies have demarcated 500 meter exclusion zones around drilling ships and a 1,000 meter exclusion zone around the Floating Production Storage Offloading(drilling-ship FPSO.140), making it unlawful for fishermen to fish close to the demarcation.

Already, the Jubilee Consortium that runs the oil drilling and the Navy have managed two incidences with fishing boats, including boats tying themselves to drilling platforms. The government has not made much effort to manage the growing tensions that are gradually building up amongst fishing communities, the oil companies, and local security forces. Secondly, there is no clear demarcation to the restricted zone or rules for joint use of the sea, (ISODEC & Oxford America, 2008). There was another incident with which the Navy has intercepted fishing boats and confiscated their catch for allegedly going too close to oil installations. These incidents attest to the fact that Ghana is gradually bracing itself for real socioeconomic problems in the area.

Local chiefs, opinion leaders and politicians are already laying claim for a “right” to all earmarked benefits. The Ahanta West, Nzema East, and Jomoro Districts are also aligning themselves to the project in this regard. The key interests developed by the

local chiefs was the result of the bad impacts that gold mining has left on the people of Obuasi and its environment in the Ashanti region and Tarkwa in the Western region of Ghana. They are suggesting 10 percent share of oil benefits that would be accrued to the country or treat them as a ‘special case’ in the allocation of the oil benefits. As Asagyefo Ogyeahohoo (one of the traditional chiefs in the coastal community) put it “We will not sit down for the wealth to elude us; we are ready to fight for what rightfully belongs to us” (ISODEC & Oxford America, 2008).

The International Financial Corporation (IFC) has categorized the project in the Jubilee field as “category B”, which means that the project is expected to have limited adverse social and or environmental impact that can be broadly addressed through mitigation measures, instead of “category A”(ISODEC & Oxford America, 2008)

This categorization has raised the eye brow among most Ghanaians as to whether the impact of oil has a correlation with this categorization, and brings to reflection the oil spill in Gulf of Mexico in 2010. It can be argued that the initial development stages of oil in the Gulf of Mexico might have either ‘category A’ (expected to have significant adverse social and/or environmental impacts that are diverse, irreversible, or unprecedented.) or “category B”, but brought untold hardship to three states in America (Louisiana, Mississippi and Alabama). The assessment of the situation in the

three states revealed the degree of the impacts of oil spillage on environmental, economic and social effects on the lives of the people. The widespread nature of the situation has compelled the Obama Administration to force BP to create \$ 20 billion fund for the reparation of the affected people. One cannot but accept the fact that the impacts of oil have no respect to these categorizations.

Experts at the Institute of Economic Affairs, Ghana (IEA 2009) have stated that Ghana has no plan to develop a “strategic environmental and social plan” that would consider the impact of the oil production on the communities and the region as a whole. This study seeks to assess the socioeconomic outcomes of oil producing economies on life expectancy, literacy rate, unemployment and infant mortality and the lessons available for Ghana and the people of Cape Three Point.

1.3 Research Questions

- Does oil production stimulate economic growth?
- How does oil revenue contribute to the quality life of the people in an oil economy?
- Does oil production strengthen social cohesion amongst the people in the host communities as compared to non oil countries?
- What are the problems that are associated with oil production which can affect the socioeconomic lives of the people?

1.4 Objectives of the research

The main objectives for this research are:

- To comprehend the prospects of oil production on the socioeconomic development of the communities in Cape Three Point.
- To discuss the effects of oil production for poverty reduction.
- To identify critical problems that would be against the social, economic and cultural lives of the people.
- To make recommendations that would help in informed decision making in guarding the peace and harmony of the communities in Cape Three Point

1.5 Significance of the Study

The research is expected to provide insights into oil production in relation to GDP per capita income and the socioeconomic development of the selected countries. The relationships between economic growth and literacy rate, infant mortality, life expectancy, and unemployment will provide the basis for Ghana to determine the sort of economic and social strategies that are necessary for the emerging oil industry so as to avoid resource curse.

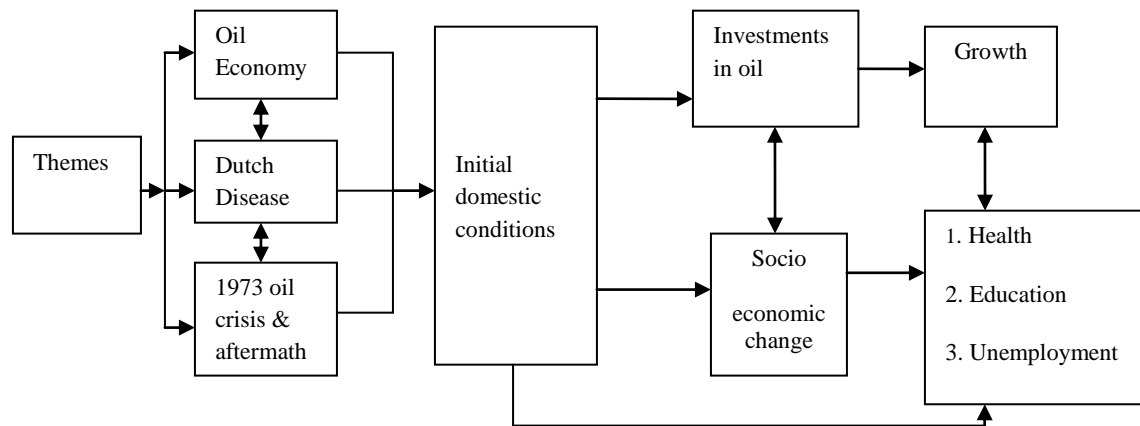
It will also lay to rest the speedy socioeconomic development that policy makers aspire to achieve overnight and channel the course that will prevent ‘one path commodity led growth’, to ‘multiple paths of commodities’ as Norway has done. Those countries that learn how to learn from developed economies, as in the case of Japan and Singapore, in the beginning of their developmental process, have progressively improved socioeconomic lives of their population. It will bring to focus the critical problems that may hinder the socio economic and cultural development of the people. Above all, draw the attention of policy makers on the necessary intervention needed for the creation of good competitive environment for the production of oil, and the need to focus on other sectors rather than oil for poverty reduction.

1.6 Conceptual framework

The conceptual framework for the study is built on three themes. The first theme describes the oil economy, with respect to initial migration and production; the influence of oil on agriculture in the local economy, the land disputes and its effects on poverty using the economy of Norway, Saudi Arabia, Indonesia, Algeria, Iran and Venezuela. The second theme examines the concept of the Dutch Disease with a focus on Botswana and a brief discussion on how it managed the Dutch disease in relation to the diamond industry. The discussion is extended to cover Indonesia and

Nigeria and the economic strategy adopted to manage the Dutch disease. The third theme discusses the 1973/1990 oil crises and the aftermath in managing crises in oil economies. Figure 1.1 summarizes the conceptual framework using the three themes listed above.

Figure 1.1: Conceptual framework



Source: Compiled by the Author

The discussions will focus less on regional groups' levels but more on individual country levels with regards to macro and microeconomic trends. This will bring to bear the performance outcomes of production, accumulation of wealth and its distribution through government policies to improve the socioeconomic lives of the population. The aggregate trends are important for comparison in relation to the variables {health-(infant and child mortality, life expectancy), education- (literacy rate), and unemployment}.

Initial domestic conditions within each of the countries are mostly determined by domestic developments, although they are influenced by external factors. We assume the initial conditions are held constant, rather than trying to explain them, though they are important in the determination of final outcomes. In terms of policy choices and targets, we are particularly interested in economic variables including growth rate and inflation rate, the structure of output and unemployment and links with social characteristics such as infant/child mortality, life expectancy, and literacy rates.

The ability of governments to make and implement policy decisions is also important in a productive economy. Institutional capacity is therefore imperative in the determination of final outcomes. This is seriously considered in the framework. At the firm level, the accumulated learning and productive capacity are elements that governments take into account in overall output (GDP) performance.

The study gives brief analysis on migration as a consequence of investment into oil production. The aggregate output relates to the interactions among the sectors in determining gross domestic production growth of the countries. The uncertainty and volatility of key macroeconomic variables that usually hang on the neck of developing countries is also worthy of examination. The three variables: health, education and unemployment are also necessary for discussion. Health takes a look at infant mortality and life expectancy, which have been problematic for developing economies. Education examines literacy rates of the various countries to discuss the

outcomes. This is not to determine who is doing well or bad, but to discuss the outcomes of some policies implemented by some of these countries.

The growth-accountability framework postulates that the process of growth of an economy depends on the type of technology to be incorporated into the production and employment generation. The conceptual framework takes into account unemployment situation in these countries.

1.7 Scope of the research

This study covers a cross-section of oil economies selected from Africa, Middle East, Asia, Latin America and Scandinavia. Among the African oil economies, Nigeria, Libya, Angola, and Algeria were selected for discussion. The Middle East is represented by Saudi Arabia, Qatar and the United Arab Emirates; Indonesia and Malaysia are used as Asian examples. Norway for Scandinavia and Mexico and Venezuela for Latin America are used. Botswana and Chile were also selected, for their experiences in the production of diamond and copper and the way they managed issues related to the Dutch disease.

For oil producing countries, they were selected on their natural resource endowment, and their strong historical experience in oil production. This is expected to give better understanding of the impact of oil production on their economies. The lessons learnt are compared with the economic outlooks for Ghana. Four socioeconomic indicators

have been selected to determine the outcomes at the macroeconomic levels. They include infant mortality, life expectancy, literacy rates, and unemployment. These variables were used to match up with the performance of rich oil states and rich non-oil states. Each of the themes have different time frame, using the logical framework in Figure 4.1. The first theme, on oil economies, briefly describes the historical experiences of migration from the beginning of oil production in the 1920s and its effects on the other sectors of the economy. It is assumed that the oil production in tandem with other sectors produce aggregate outcomes, which eventually impact on the four variables. The second theme shifts attention to the Dutch disease in the post 1965 periods, when most countries had attained independence and economic decisions are made by citizens relative to the four variables. The third theme focuses on the 1973 oil crisis and its aftermath. This takes the discussion to 2000, when most countries experience turbulence in their growth.

The thesis proceeds to discuss the outcomes in the above themes over the period 1980-2008 in respect of infant mortality, life expectancy, literacy rates and unemployment. The final concluding chapter discusses the lessons with the socioeconomic outlook of Ghana on the variables stated above.

1.8 Organization of the thesis

The thesis has been organized into seven chapters, Chapter one, gives the background and the conceptual framework that underpin the agenda for the research. It also comments on the problem statement, research objectives, research questions and the significance of the research. Chapter two describes the socioeconomic profile of Ghana. Chapter three explores the literature on the impact of natural resources wealth on the socioeconomic development of the people. It also explores socioeconomic breakdowns and the onset of conflicts and finally looks at the natural resource abundance and socioeconomic lives of the people in oil economies. Chapter four explains the methodologies in respect of the theoretical framework, data construction and data analysis. Chapter five addresses the analysis of the data with respect to the themes. Chapter six discusses the performance outcomes in the form of comparison of the themes using the data construction. Chapter seven explains the findings and discusses the recommendations.

CHAPTER TWO

THE SOCIOECONOMIC PROFILE OF GHANA

This chapter discusses the profile of Ghana, in respect of physical characteristics including the location and size, climate, vegetation, natural resource endowment; demographic features such as population and occupation; political administration, economic activities and social characteristics such as education and health; brief features of Ahanta West District (Cape Three Point) by commenting on the social and political administration of Cape Three Point and the geography of hydrocarbon in Ghana.

2.1 Physical Characteristics of Ghana

2.1.1 Location and Size

Ghana is located on the west coast of Africa, about 750 km north of the equator between latitudes 4 and 11.5⁰ North and longitude 3.11⁰ West and 1.11⁰ East. It is bounded on the north by Burkina Faso, east by Togo; west by Cote d'Ivoire and south by the Gulf of Guinea (Atlantic Ocean). It has a total land area of 238,837 sq km that stretches from the north to south and 357 km east to west. Out of 23 million hectares total land area, 13 million hectares (57%) is suitable for agricultural production, and 5.3 million hectares (39%) of this is under cultivation. It also has about 540 km of

coastline. The topography is relatively flat and altitude of 500m, with more than half below 200m. It has highlands and steep escapements in the middle portion towards the east rising to above 800m.

Map 2: Geographical location of Ghana



Source: <http://www.infoplease.com/atlas/country/ghana.html>

2.1.2 Climate

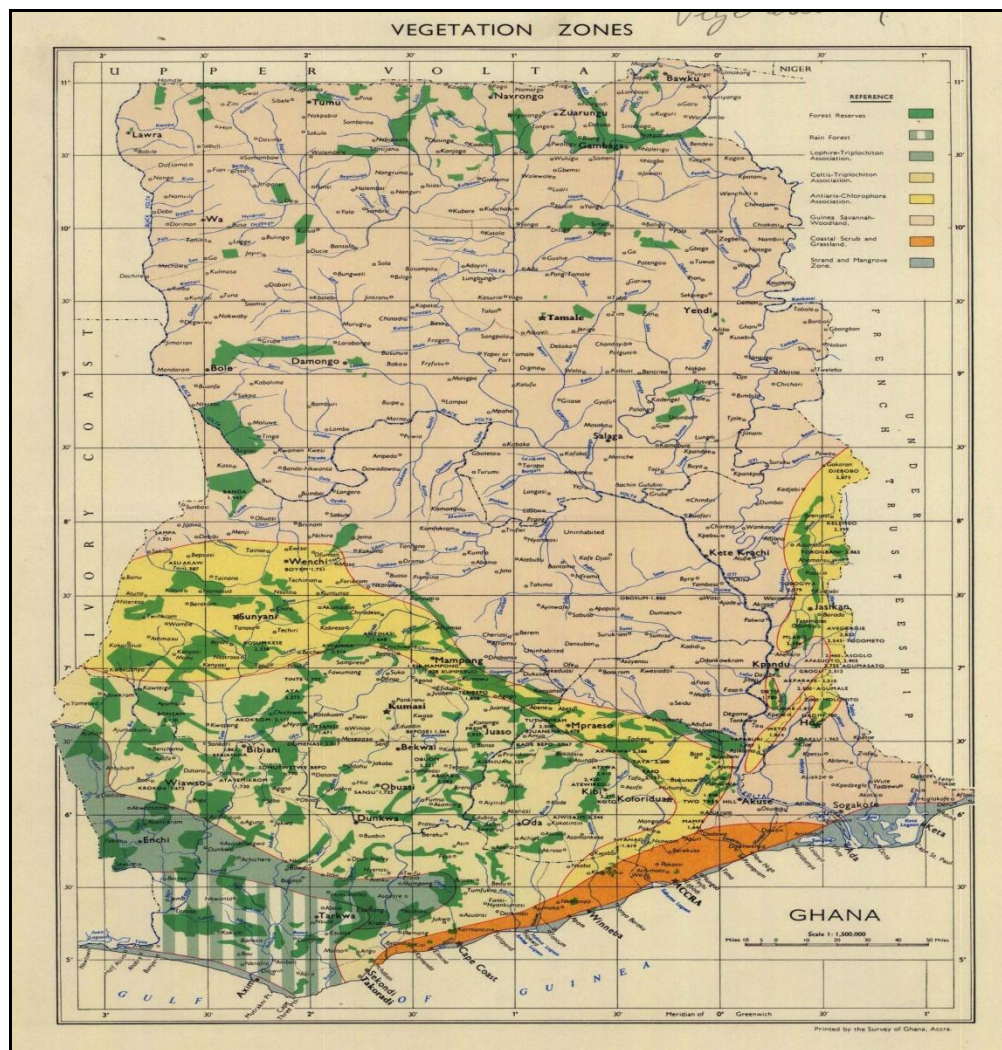
Ghana has two tropical climatic seasons- major and minor. The major season is the period when the country receives rainfall caused by the doldrums (south-west monsoon winds) that move from the Atlantic Ocean into the country in April/May to August. The minor season usually has dry and dusty condition and is caused by the north east trade winds that move from the Saharan desert towards the south, between September to March in each year. The annual rainfall is between 2,250mm to 1,500mm with an average annual temperature of 27⁰C and 30⁰C for both major and minor seasons respectively.

2.1.3 Vegetation

The vegetation varies across the country; south-western to central part of Ghana is covered by evergreen and semi deciduous forests, with tall silk cottons, kolas and hardwoods such as mahogany, odum, and ebony. The north is covered by savanna, with shea trees, acacias, and baobabs. Oil palm is found across the southern to the middle belt upland. Most part of the coastal belt has shrubs and mangroves swamps along the east to the central and part of the western region. There are also sacred forest areas across the country, which are used for religious celebrations and festivals, and are often protected and preserved.

The vegetation for the Ahanta District (Cape Three Points) in the western region is mainly moist deciduous forest, where most trees shed their leaves during the hot and dry season, {a period of rest for the trees}. Rapid growth takes place in the wet season, when the trees are covered with leaves.

Map 3. Vegetation Zones of Ghana



Source: ISRIC World information database, 2004

The vegetation has five different layers. The first layer is the Tree Stratum zone. The Tree Stratum zone contains trees such as oak, beech, maple, chestnut hickory, basswood, linden, walnut, and sweet gum trees, with about 60 feet and 100 feet in height.

The second layer consists of small tree and sapling with young and short trees dominating the vegetation. The third zone is called the shrub layer, some of which are rhododendrons, azaleas, mountain laurel, and huckleberries. The Herbal zone is the fourth zone made up of short plants such as herbal plants and finally, ground zone with club mosses, and true mosses. Logging and farming activities are the topmost factors treating the forest in most part of the district. Cape Three Points has a forest reserve which occupies an area of 51.02 square kilometers.

2.1.4 Natural Resources

Ghana is associated with mineral resources, such as gold, diamond, manganese, bauxite, limestone, iron ore, as well as clay and granite deposits. The recent oil discovery has added up to the existing stock of natural resources available to the country. Extensive forests are seen with a permanent rain forest reserve of 252 km land size. Ghana produces cocoa in large quantities and currently is the second world largest producer of cocoa; and third largest producer of timber as well as, second

largest exporter of wood and wood products to African countries. Other resources include marine fishing, exotic wildlife and exciting natural parks and game reserves.

2.2 Demography and employment characteristics

The 2000 Population and Housing Census indicates that Ghana has a total population of about 18.8 million, of which 11.3 million were economically active with an annual population whose growth rate was 2.7 percent. Labour force (15yrs-64yrs) constituted 8.4 million, about 44.7% of the total population. Out of this number, 50.7 percent of the labour force is engaged in agriculture, {approximately, 39 percent of farm labour force are women}, 33 percent in services and 16.3 percent in industrial sector.

According to the population and housing census 2010 (full report due to be released by Ghana statistical service later in 2011), Ghana has a total population of 24, 233, 431, comprising 48.7 percent male and 51.3 percent female. The population distribution varied across the 10 administrative regions and eco-zones of the country, with 68 percent and 32 percent living in the rural and urban areas respectively. The labour force in agriculture is 56 percent; while services sector recorded 29 percent and 15 percent in industry sector.

**Table 2.1: Distribution of Economically Active Population
and GDP by Sectors (%)**

Year	Agriculture	Industry	Service
1984	61.1 (47.9)	12.8 (19.6)	26.1 (22.1)
1992	62.2 (37.8)	10.0 (25.0)	27.8 (27.0)
1998	55.0 (36.7)	14.0 (25.1)	31.0 (29.1)
2000	50.7 (36.0)	16.3 (25.2)	33.0 (29.7)
2010	56.0 (33.7)	15.0 (24.7)	29.0 (41.6)

Source: Employment figures from GLSS 3&4 and 1984 and 2000
Population Census; GDP figures from Quarterly Digest of Statistics

2.3 Political Administration

The country has 10 administrative regions and 170 Metropolitan, Municipal and District Assemblies. Ghana set out for constitutional governance following the 1992 referendum which gave birth to the 1992 Constitution of Ghana. Since then, the country is gradually emerging as a maturing democratic state after ushering in constitutional rule about 20-years ago. It exercises legislative, executive and judicial independence and ensures freedom of press and electronic media, and ombudsman protects the rights of the citizen. General elections are held every four year for president and the legislature.

2.4 Social Indicators

Since 2000, the adult literacy rate has been increasing. Statistical information from UN Human development database shows that in 2000, Ghana recorded 57.92 percent, which increased to 63.4 percent in 2005. It further increased to 65.02 percent in 2007 and accounted for 65.82 in 2008.

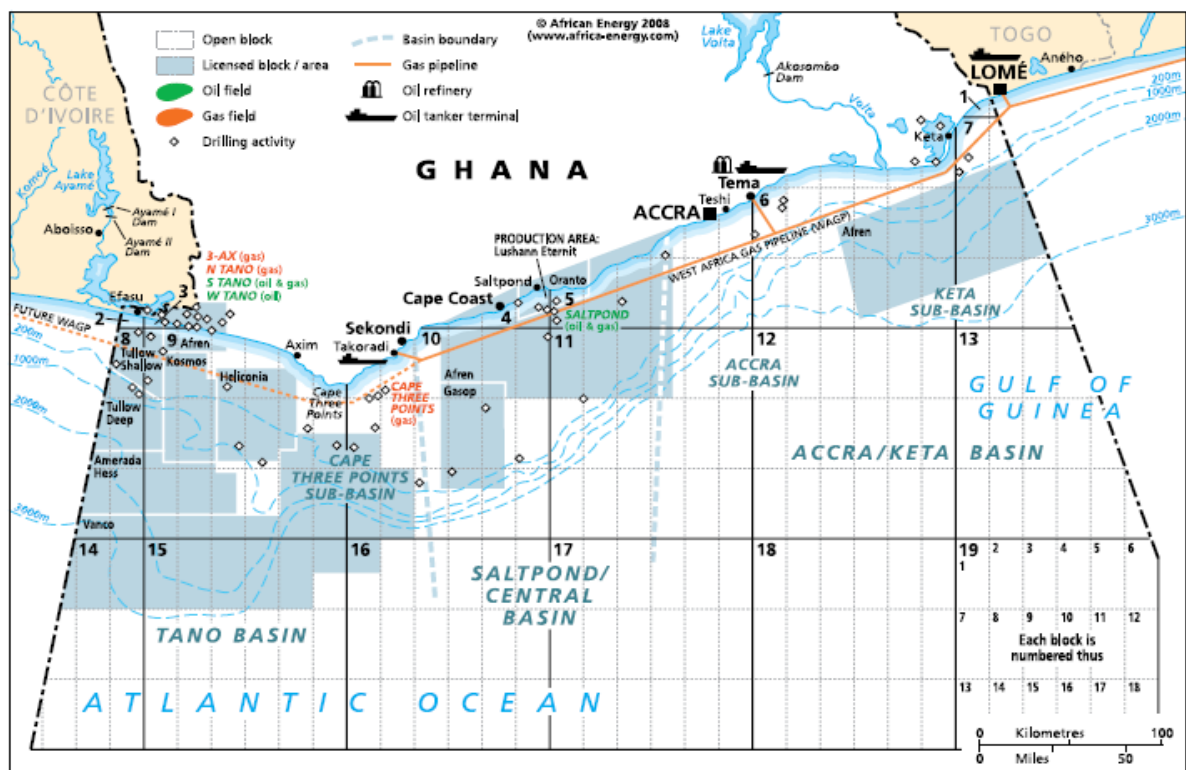
The infant and child mortality rates follow a pattern of a quadratic function, where it fell initially and rose and again falls. Statistics shows that in 1990 the mortality rate was 118, it then fell in a decade to 111 in 2000 and continued to fall in 2005, thereafter rose to 115 in 2007, and finally falls again to 76 in 2008. Life expectancy has not shown much increase as expected. In 1980 it was 53, and this increased to 57.2 and 57.9 for 1990 and 2000 respectively. The figures recorded in 2000 showed a fall to 56.5 and remained relatively constant up to 2008.

2.5 The Geography of oil in Ghana and Cape Three Point

The offshore oil search started in 1898 when an estimated hundred exploration wells were drilled by the British along the coast. At that time, the exploration was limited to certain areas along the coast due to the uncertainty in the nature of the topography as well as the risks involved. After independence in 1957, Ghana carried on the search for oil until 1970 when significant quantities of offshore oil reserves were discovered in Saltpond central basin. In 1983, Ghana proceeded to set up the Ghana

National Corporation (GNPC), to promote exploration and production of oil and other related energy resources in the sector (GNPC, Act 1983). Map 4 shows the general hydrocarbon exploration outlook in Ghana.

Map 4: Hydrocarbon explorations in Ghana



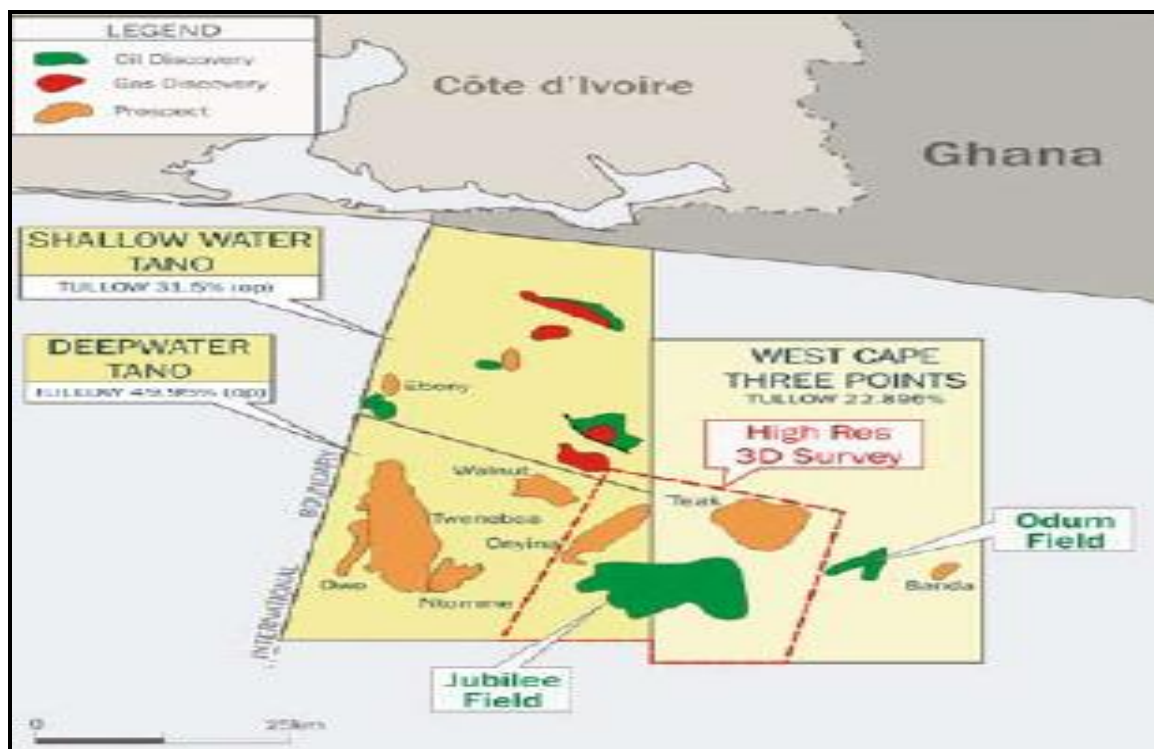
Source: Oxford America and ISODEC, {2009:20}

Other potential sites for offshore oil were explored, which included the Tano river basin, Accra sub-basin and Tano basin. In 1989, about 6,900 barrels per day of oil

was produced in Tano Basin, of which three companies (two American and one Dutch) invested US\$ 30 million into the drilling activities.

A consortium comprising Kosmos Energy, Tullow oil and Anadarko oil were forged in 2005, to explore oil in the western coast of Ghana where oil was struck in commercial quantities at the Mahogany-1 well (Jubilee field) with an estimated oil reserve of about 1.8 billion barrels of oil and 800 billion cubic feet of gas (Tullow oil 2007). Map 5 gives a detailed topography of mining in the Jubilee field.

Map 5: Oil mining in the western region (Cape Three Point) of Ghana



Source: Oxford America/ ISODEC Research (2009: 19)

The Jubilee field overlaps with two oil blocks (see map) in the deep Atlantic waters offshore from western Ghana, approximately 63 kilometers (39 miles) from the coast and 132 kilometers (83 miles) southwest of Takoradi (ISODEC & Oxford America 2009).

The oil production has been implemented in the following phases: Phase I started producing 55,000 barrels per day and about 120 million cubic feet of gas. While in Phase II, it is expected to produce 120,000 barrels per day with about 250 million cubic feet of gas. It has been estimated that the oil production is to peak between mid 2012- mid 2017, with life span of about twenty years (PREM 4 Document Africa Region 2009).

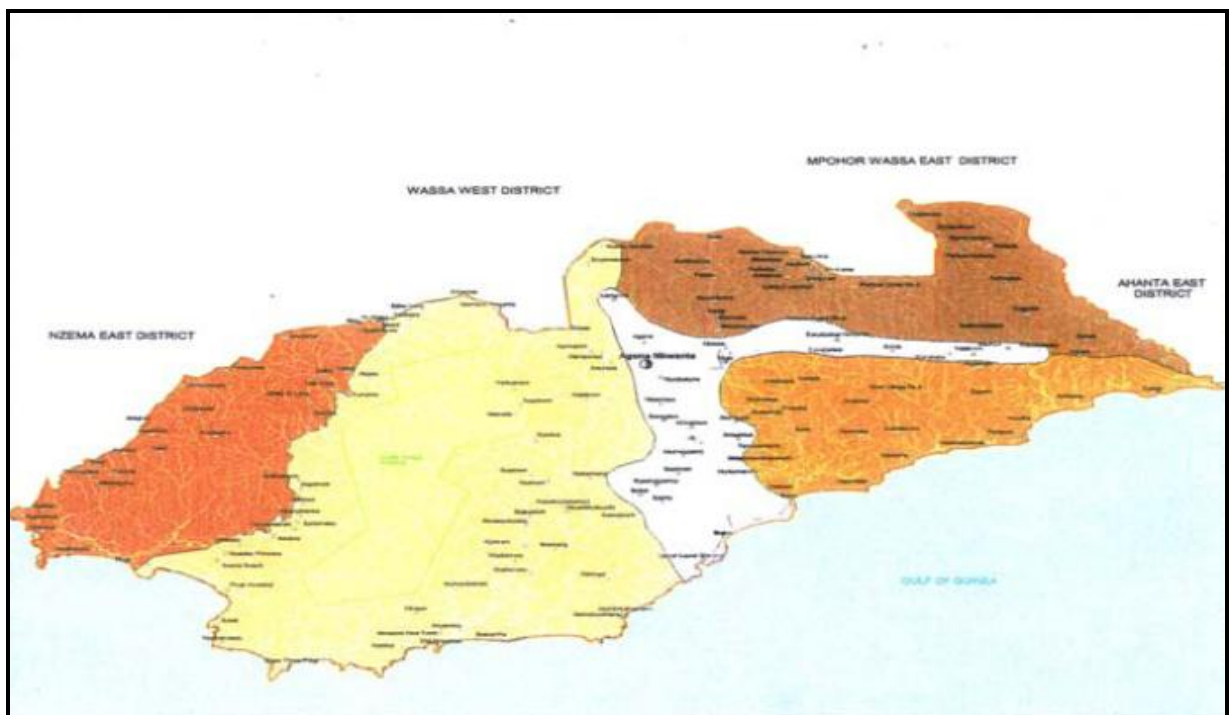
2.6 The feature of Cape Three Point in Ahanta West District

2.6.1 Location and size

Much of Cape Three Points is not prepared for the influx of Ghanaians and foreigners driven by the oil excitement. The communities along Cape Three Points have found themselves open up to be overran by influx of people after 2011. Cape Three Point is located in the Ahanta West District of the western region of Ghana. The District is bounded on the East by the Shama Ahanta East Metropolitan Assembly (SAEMA), on the West by the Nzema East District, and the North by Mpohor Wassa East and

Wassa West Districts and on the south Gulf of Guinea. The District is characterized by double maxima of rainfall in March-July and August-October (about 1,700mm) in the year and a relative average humidity of about 75%. It has a total land area of 591 square kilometers which is occupied by 95,140 people; consists of 48.4 percent males and 51.6 percent females. The broad age distribution consists of 42.6 percent under fifteen years (0-14); 52.3 percent (15-64 years)- the economically active population, and the elderly made up of 5.1 percent.

Map 6: Ahanta West District



Source: Adopted from Ahanta West District Medium Term Development Plan (2006:15).

About 65% of the total population is employed in agriculture. Farming and fishing are the major economic activities undertaken in the District. The rest of the populace is engaged in small-scale trading, and the government institutions and agencies.

Majority of the population are Christians, with traditionalists and Muslims forming a minority in the religious make up of the communities. The widely spoken language is Ahanta; while other languages such as Evalue (Egyambra, Princess Town and Princess Aketakyi) and Fante (Adjua, Funkoe, New Amanful and Dixcove) are associated with the people. There are three (3) paramountcies namely, Busua, Upper Dixcove and Lower Dixcove with the chief paramountcy located at Busua.

In sum, the composition of GDP over the 20 year period from 1980-2000 is dominated by the agricultural sector, followed by the service and industrial sectors. However, the trend changed in 2010 with the service sector contributing 41.6 percent to GDP, and agriculture 33.7 percent and industry accounting for 25.7 percent. The government private sector growth strategy had seen greater investment into the service sector rather than agriculture and industrial sectors of the economy. Infant mortality rate decrease from 115 in 2007 to 76 in 2008; literacy rate increased from 65.02 to 65.82 in 2008; while life expectancy rates increases slightly from 56.5 to

56.75 as shown in the table above. The main natural resources include oil and gas, gold, diamond, bauxite, manganese, limestone, iron ore, as well as clay and granite deposits, with the major export being cocoa and gold.

CHAPTER THREE

LITERATURE REVIEW

This chapter reviews the literature on natural resources endowment in relation to economic growth and development, resource curse and the Dutch Disease, volatility of development, institution building, rent-seeking behaviors, political stability and development. Emphasis is placed on the relationships between natural resources and economic development on one hand and natural resources and quality of life amongst people on the other.

3.1 Growth and Development

The relationship between the natural resource endowment of a country and its economic development is not straightforward. The long-run empirical evidence shows that the availability of natural resources is not a panacea in economic development. There are examples of resource-rich countries that have grown rapidly while others have had only a modest economic performance, for instance, Qatar has rapid growth while Nigeria had had modest growth over the past decades. On the other hand, there are examples of countries which despite having less natural resources have grown at a spectacular pace. A case in point is Japan and Singapore.

Classical economists have assigned a very important role to the impact of natural resources on the growth potential of an economy. Adam Smith (1981) stresses the availability of land as a factor in economic growth. Ricardo and Malthus (1820) were

pessimistic about the availability of natural resources for growth. More recent studies by Hofman (2001) showed that technological advances have increased the productivity of agriculture enormously and that technology and geological prospecting have also increased proven reserves and the yield of mineral resources.

Besides these perspectives, Rostow (1961) sees natural resource endowments as a means that would enable developing countries to make the transition from underdevelopment to industrial “take off”, just as developed countries have done. Australia, the United State, and Canada are examples of such ‘take off’. Balassa (1980); Krueger (1980); Drake (1972) agreed that natural resources could facilitate the country’s industrial development process by providing domestic markets with investible funds.

Sachs and Warner (1995) took the study further with empirical evidence on natural resources and development. They provided a proof based on cross-sectional analysis between 1960 and 1990. According to them economies with a high ratio of natural resource export grew more slowly over the 1980s and 1990s than non-resource countries. In further categorization of natural resources, Isham (2002), for instance, concluded that countries with abundance in a single natural resource grew much more

slowly during the 1980s and 1990s than countries that are rich in diffuse natural resources.

Similar proof by Sala-i- Matin and Subramanian (2004) explains that an abundance of ‘point source’ natural resources was significantly correlated with poor economic growth, but that an abundance of diffuse natural resources was not. Expanding the argument to include individual natural resource rather than collective one, Leite and Weidmann (1999) stated fuel and ores had a more negative effect on growth than agriculture. To affirm this assertion, Ross (2003) found that oil wealth and non-fuel mineral wealth are associated with bad outcomes for the poor but not agriculture resources

In investigating the relationship between natural resources and social development of the people, Davis (1995), for instance, using certain economic and social measures shows that mineral economies performed better than non-mineral economies between 1970 and 1991. These measures include average gross national product (GNP) per capita and improved social indicators such as infant mortality, life expectancy, calorie supply per capita, and human development index.

On the contrary, some analysts who studied the natural resources and development held the view that the outcomes were disappointing. Natural resource exporters suffer from declining terms of trade, volatile export earnings, an enclosed economic

structure and its effect on efficient resource allocation, rent-seeking behavior, and the Dutch disease.

3.2 Resource curse and the Dutch Disease

Researchers who have measured natural resource wealth in terms of either ratio of the countries' natural resource export to GDP or the ratio of countries' natural resource export to total export have shown that there are less apparent and supportive proof of the concept of resource curse. Stijns (2001), for instance, found that when natural resource wealth was measured in terms of levels of production and reserves, it did not establish any significant influence on economic growth.

A number of studies have used non-export-based measures of natural resource abundance (Gylfason, 1999 and Auty, 2001), to suggest that the findings of these studies may be more robust than critics of the resource curse theory have suggested. But the questions of whether these findings are robust to the measurement of natural resource abundance remain unanswered.

Corden (1984) who tries to model this effect put out to show how capital moves away from non-oil tradables as oil booms, putting stress on the overall economy. An influx of foreign capital to the booming resource sector causes an appreciation in the exchange rate. A higher exchange rate raises economy-wide prices, leading to the non-resource tradable sectors to lose competitiveness abroad. Therefore, it is

indefinite to conclude that the ratio of natural resource exports to GDP or the ratio of natural resource exports to total exports are appropriate measures for natural resource wealth.

These methodologies did not exclude depreciation in their computations, which make Neumayer (2004) suspicious about the results of the various findings. Neumayer measured growth in terms of genuine income-GDP minus depreciation rather than GDP, the result upheld that natural resources abundance had a negative effect on economic growth. This was supported by a number of analysts who provided proof that natural resources have negative effect on poverty in relation to World Bank indicators of \$1.65 or \$2 per day (UNCTAD, 2002; Ross, 2003). Similarly, Ross (2003) talked about the effects of mineral wealth on poverty using proxy variables such as life expectancy, infant mortality and prevalence of child malnutrition. Mineral wealth had small negative effects on these variables.

Under certain circumstances, point-source resources such as fuels and minerals intensify rent-seeking behavior. Rent-seeking, according to Lane and Tornell (1999), leads to vicious fiscal redistribution, inefficient capital projects, and corruption. Lane and Tornell identified two main exacerbating traits. The first is the absence of strong legal and political institutions. The second is the presence of multiple power groups, such as parasitic provincial governments, protection-seeking industrial centers and

labor unions, and political patronage networks. These two situations create what Lane and Tornell call a “voracity effect,” where a large resource windfall will generate an increase in fiscal redistribution that is more than proportionate, thereby reducing growth. Guerrilla uprisings in Colombia, Nicaragua, El Salvador, Guatemala, and Peru, as well as Native American riots in Ecuador, Bolivia, Mexico, and Brazil, are examples of voracity effect.

Andrew Rosser (2009:169) argued that most studies attempted to explain the resource curse- particularly those conducted by political scientists that the main problem with natural resources was not the skewed export structure per se but that it creates rents-seeking, thus, excess earnings above normal profits. The effect of these rents to development outcomes is seen as negative and encourages shortsightedness by political elites, promoting damaging rent-seeking behavior, weakening state capacity to regulate and supervise the economy, empowering social elements that are opposed to growth-promotion policies, or encouraging foreign intervention (Rosser, 2006b). It is equally important to recognize that rent provides the basis for making judgments about the reality or otherwise of a resource curse. But most of the researchers such as Herb (2003); Collier and Hoeffler (2005) have used in their studies which so far proved mixed outcomes for the concept of resource curse

Rodriguez and Sachs (1999) model shows an underdeveloped country exceeding its steady or equilibrium state during a resource boom. After the initial rise in income, the growth rate turns negative, and the country converges to its steady state. Resource revenues consumed by the domestic economy will naturally decrease over time, tending to zero. In this way, after a country enjoys the resource boom, it negatively converges to its overshoot steady state. Sachs and Warner's (2005) empirical evidence support this model by finding a negative growth rate associated with natural resource abundance only after an increase in initial wealth.

One important implication is that the observed negative growth is simply the reversion of the positive growth occurring immediately after the boom. Therefore it is a depletion effect, rather than natural resources, that is responsible for the negative growth rates. Rodriguez and Sachs show that if an economy instead invests its windfall in foreign assets that generate a steady stream of revenue, a negative growth rate can be prevented.

3.3 Volatility and development

Humphreys, Sachs, and Stiglitz (2007) narrated the challenges of volatility of natural resource abundance and dependence. They observe natural resources as assets with exceptional volatility. As the price of natural resource is volatile owing to varying rates of extraction and the nature of contracts with multi-national companies, Stiglitz

(2007) and Shaxson (2005) suggested that the effect of these contracts arise from multinationals coercing economies to bear the impact of the income variability. The adverse effects of volatility, amongst other things, include difficulty in making development planning, social spending behaviors sporadically and foreign investor wariness.

The issues of volatility become more problematic when an economy over depends on the natural resource industry for its development activities. Lederman and Maloney (2007) showed that a trade structure which lacks export diversification does not promote growth. This assertion was tested by Sachs and Warner (2005) analysis with the inclusion of a variable for export concentration and intra-industry trade. The findings proved that the negative effect associated with natural resources on growth disappeared when export concentration was present in the computation

Most of the natural resource abundant countries are particularly vulnerable to external shocks, as a result of weak productive linkages that characterize the economy. Hausmann, Rodríguez, and Wagner (2007) show that countries with lower export flexibility which they measure by using an indicator of the density of the product space developed by Hausmann and Klinger(2006) have a harder time recovering from crises caused by export collapses, as it is more difficult for them to move productive resources to a new sector. This is particularly important for resource rich countries as

many natural resources, such as oil, are found to occupy areas of low density in the product space

3.4 Institution and Development

The relationship between institutions and development cannot be overemphasized. The study by Sala-i-Martin and Subramanian (2003) shows a direct causal relationship between natural resources and weak institutions. They asserted that natural resources influence growth indirectly through institutions. Therefore, there is the need for states to have efficient and effective institutions to lead economic growth. But Karl's analysis on institutions indicates that the major petro-states, Nigeria, Algeria, Iran, and Venezuela, had one defining feature: they developed their institutions at the same time that petroleum was discovered and multi-national oil companies entered these countries.

Further examination by Mehlum (2006) provides that institutional quality and construct index based on data from the political risk services further put the institutions into two categories- 'Producer friendly' and 'grabber friendly'. The results show that, controlling for level of education and ethnic fractionalization, the resource curse only hits countries with a lower level of institutional quality

Over the last decade, most of the blame for poor growth rates in resource dependent states has been placed on institutional weaknesses. A number of these explanations actually emphasize institutional interactions. Many have observed that natural resources have huge economic benefits for many countries while appearing not to have helped, or even possibly to have hurt, other countries, suggesting the existence of conditional factors which may be amplifying any effect of natural resources.

3.5 Political stability and development

In finding out whether there was any variation in outcomes across different types of resource economies in different regions after examining data from 113 states between 1971 and 1997, Ross (2001) found that 'a state's reliance on oil or mineral exports tends to make it less democratic; that this effect is not caused by other types of primary exports; that it is not limited to the Arabian peninsula, to the Middle East, or to sub-Saharan Africa; and that it is not limited to small states (Ross 2001:346).

This is consistent with Wantcheken (1999)'s research that a 1 percent increase in natural resource dependence, as measured by the ratio of primary exports to GDP, increased the probability of authoritarian government by nearly 8 percent.

On the issue of political instability, Collier and Hoeffler (1998) stated that natural resource wealth, defined in terms of the ratio of primary exports to GDP, is a strong and significant determinant of the onset of civil war, as it shows curvilinear

relationship among the variables of inception, duration, intensity of war, and the number of battle-related deaths. In a subsequent study, Collier & Hoeffler (2000) upheld the finding by using a better dataset. In a third study in examining the effect of natural resource and civil wars, they indicated that natural resource increased the risk of both secessionist and non-secessionist civil wars and that the former were three times more likely to be associated with natural resources than latter (Collier and Hoeffler 2002).

Another dimension discussed by Reynal-Querol (2002) focused on the difference between natural resources and the onset of ethnic and non-ethnic civil wars. Using data from a sample of 138 countries between 1960 and 1995, he concluded that natural resource abundance was an important variable in explaining the incidence of non-ethnic civil wars and other forms of political violence but not incidence of ethnic wars. Collier and Hoeffler analysis (2005) shows that natural resources continue to exhibit a curvilinear relationship with the onset of civil wars even if a rent-based measure of natural resources abundance is substituted for their original export-based measure. But, they were quick to add that this result is less significant than their earlier finding and that the rent-based measure of natural resource wealth becomes significant, when the original measure of natural resource wealth is included in the regression analysis.

Some have argued that natural resource abundance may also lengthen the duration of civil wars. Doyle and Sambanis (2000) showed this in their research, that natural resource wealth was significantly and negatively correlated with the success of peace-building initiatives. Much as there is a link between the failure of such initiative and the duration of civil wars, one cannot but accept the view (Ross, 2004:341). But Ballentin (2003) argued from a different perspective; he found that natural resources prolong civil wars in a selection of resource-rich developing countries and not in all resource rich countries.

Undoubtedly, the conclusion drawn is for strong institutions that might have direct relations with economic growth. The findings established a strong relationship between natural resource wealth and the beginning and duration of civil wars. This, however, appears to be subjected to the use of a particular civil war database. Scholars who have used alternative lists of civil wars have generally come to different conclusions. One can cite several reasons for this state of affairs, which include the way civil wars are coded on countries and how civil war duration is measured.

In contrast to resource less countries such as Japan and Singapore, land and labour played significant role in their economic development. Total land area per square kilometer per head in Japan in 1950 was twelve times the level in United State, and more than twenty-four times Latin America countries, as showed in the table below.

Table 3.1: Total land area per head of population per sq km, 1950-2010

Countries	1950	1994	2010
Chile	12.3	5.4	0.044
Venezuela	17.3	4.1	0.032
Brazil	15.9	5.3	0.044
Spain	1.8	1.3	0.011
USA	6.3	3.7	0.030
Germany	0.5	0.2	0.004
Japan	0.5	0.3	0.003
Korea	0.5	0.2	0.020
Singapore	0.5	0.2	0.00012

Source: FAO, Production Yearbook, Maddison (1995) and Hofman (2001)

The land size was obviously limited in Japan and Singapore than resource abundant countries. However, they have been able to turn the sea into entry port for the purpose of trade with the rest of the world. As Adam Smith pointed out, sea transport is much cheaper than terrestrial transport which was reason why civilizations and great cities are located along the coast, thus increasing the variety of products available.

As a resource less country, with abundance of labor force at its disposal, Japan managed to utilize the human resources productively to promote economic growth. The labor-driven development led to quicker rise in wages, and hence overall level of living standards for workers than resource rich counterparts (Ozawa,1997).

In contrast, resource rich countries are associated with dependence on primary exports which are subject to low prices in the world market. Natural resource exploitation is also subject to diminishing returns, especially on the part of labor, with skewed income distribution in favor of landowners as against workers who are often trapped in poverty. This is not the ideal condition to kick start of industrialization, since it's often leads to social instability.

3.6 Conclusion

Indeed, many problems exist with regard to dependence on natural resource for socioeconomic development. They are extremely diverse in coverage as well as the methodology, and have resulted in diverse outcomes. In one occasion, some analysts established that natural resource economies performed better than non-natural resource economies to improve social indicators of education, health, malnutrition, life expectancy, whereas others proved otherwise. This shows uncertainty of the findings. With respect to employment, the consensus is that job creation was generally insufficient, to match up with the labour force for speedy economic growth and social development.

On the whole, the literature provided information that natural resources have the tendency to slow down economic growth or associated with negative economic growth as shown by most scholars on the subject. Thus there is no clear-cut evidence to show that natural resource abundance or an abundance of a particular type of resources and various development outcomes are correlated with one another.

Secondly, it exposes the country to the issue of Dutch disease, as influx of foreign capital is channeled to the booming resource sector causing an appreciation in the exchange rate. A higher exchange rate raises economy-wide prices, leading to the non-resource tradable sectors to lose competitiveness abroad.

Thirdly, most of the scholars emphasized that resource extraction (be it logging, oil and gas, mining) often results in economically unstable communities (Fortmann & Huntsinger 1989; Freudenburg 1992; Freudenburg & Gramling 1994). For example, the issue of Colorado twenty-five years ago, when oil shale boom-bust had created economic hardship and social disorder (Gulliford ,1989). And that oil and gas industry is associated with more underemployment than other mining activities, (Slack and Jensen, 2004). Even though Flint and Luloff (2005) argue that resource-dependent communities possess adequate social capital (Putnam, (1995), however, the community structure to protect themselves from the inherent risks associated with natural resource industries, social breakdown are rampant.

Finally, the greater economic diversity predicts lower unemployment rates and greater employment stability, and that areas with high concentrations of employment in unstable industries have higher overall unemployment rates (Malizia & Ke, 1993). Therefore in pursuit of oil growing industry is an appropriate short-term strategy for economic growth and that Long term stability is possible with policies designed to increase economic diversity (Wagner, 2000)

CHAPTER FOUR

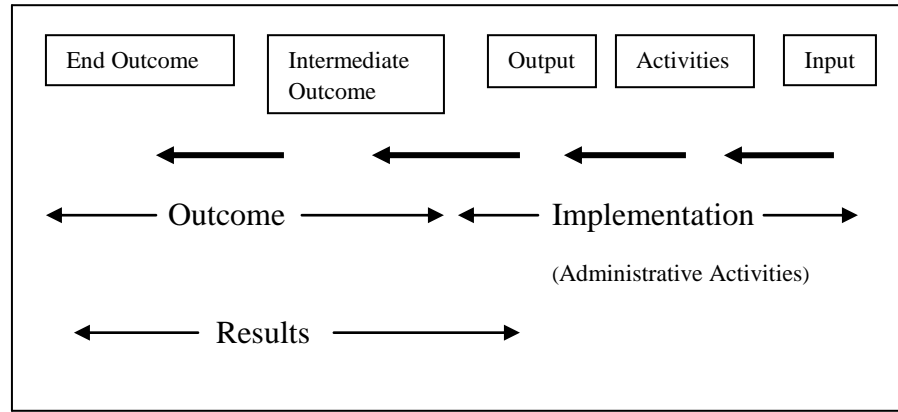
METHODOLOGY

This chapter examines the techniques applied to discuss the research questions posed in chapter one. Data sample and size, and the type of data analysis approach adopted for discussing the data for the three themes including the Oil Economies; the Concept of Dutch disease, the 1973 oil crises and aftermath through to 1990s are provided in this chapter. The outcome variables of child mortality, life expectancy, literacy rate and unemployment have been explained.

4.1. Theory for the Research

For the research to achieve its objectives, the researcher adopted the logical model to evaluate the outcomes of oil production in the selected countries. The logical model of evaluation is a systematic and objective assessment of policy or program, its implementation and results, with the aim to determine its efficiency, effectiveness and impact (Miyoshi 2009: 8). In other words, it is a systematic collection and assessment of information related to the outcomes, operation or process of a policy structure, organization or relationships (Morehouse, 1972; Patton, 2002, Weiss 1998). This follows that the investment into oil production would generate activity, leading to output, and cause immediate outcomes, which eventually would provide end outcomes, as shown in Figure 4.1.

Figure 4.1: Logical Model



Source: K. Miyoshi (2009: 11)

The theory works from right hand side to the left, and at each stage, leaves out an effect in the development processes. The figure 4.2 below explains the meaning in each stage of activity in the processes.

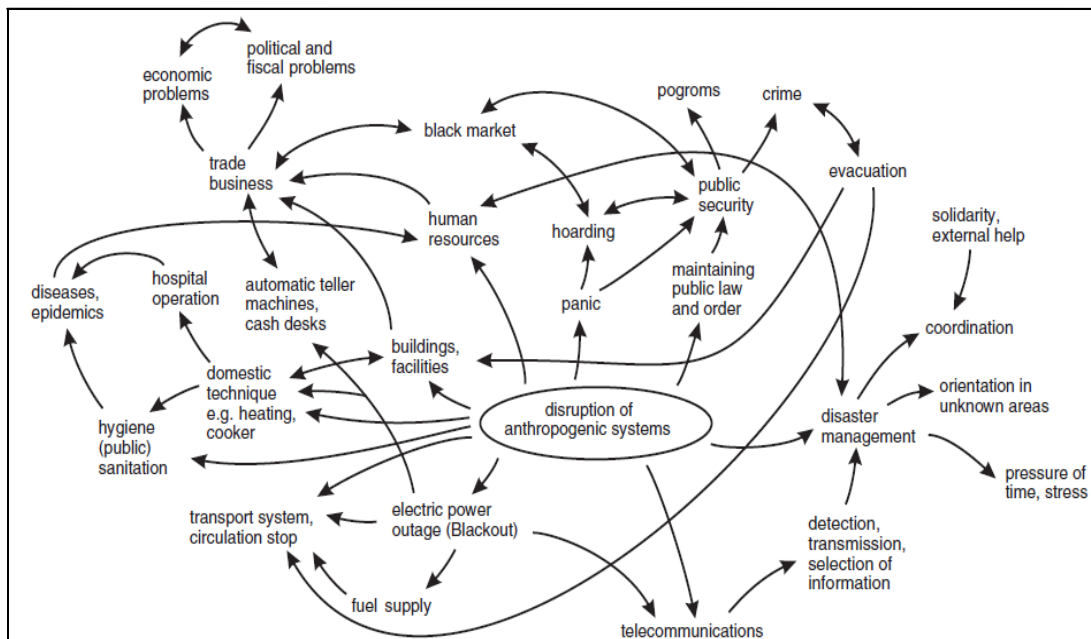
Figure 4.2: Indicators and Measurement of Logic Model

Indicator	Measurement
Input	Financial, human and technical investment
Activity	Execution of policy/ operation of work
Output	Results of completed policy/operation of work
Intermediate outcomes	Immediate change/ direct and indirect effects
End outcomes	Change in society

Source: Compiled by the author

This is applied on the anthropogenic system of socioeconomic connectivity as a means to help fashion the conceptual framework in Figure 1.1 constructed to assess the performance outcomes. The system is characterized by inter-connectivity which facilitates the process of production, accumulation of capital and distribution of wealth. Thus the underpinning concept of the system is a set of elements connected together, which form a whole, rather than properties of its component parts” (Checkland 1981:3). This is illustrated in the figure 4.3 below

Figure 4.3 Socioeconomic interaction net works in anthropogenic systems.



Source: Adopted from Dirk Helbing 2009: 428

An impact is an action taken by individual, firm or government which influences a change in the lives of the people with respect to politics, economy and society. These changes are usually measured in terms of social and economic indicators based on the outcomes of policies. In this respect, the research used the following: level of literacy rate (% age of 15 year and older), life expectancy, infant and child mortality rate (% age under 5 year), and unemployment rate as its end outcomes. In addition, inflation, exchange rate, exports are used in the discussion for the process of determining the end outcomes of oil production by using the variables stated above.

4.2 Definition of variables for the study

Economic growth is defined as a long-term expansion of the productive potential of the economy. Infant and Child mortality refers to the number of infant deaths per thousand live births and children under the age of 5 years. It is measured by the total number of deaths to children under the age of one year for every 1,000 live births and children under the age of five years for every 1000 births. It is used to compare the health and well-being of populations across and within countries.

Life expectancy expresses the average number of years a new born person can expect to live as they experience the current age-specific mortality rates in the population. It is also statistical average, which estimates the equivalent years in full health that a

person can expect to live on the basis of the current mortality rates and prevalence distribution of health standards in the population. (www.who.int/).

Literacy rate expresses the percentage of the people who can read and write above 15 years and older of the total population of the country. Unemployment rate deals with the percentage of employable people actively seeking for work, but out of the total labor force.

4.3 Data construction

The data constructed for the study was generated from World Bank data, United Nations Development Program on human development, Organization of Economic Cooperation and Development (OECD), International Monitoring Fund financial statistics and Asia Development Bank and National Account Statistics of Norway. Aspects of statistical information were taken from researchers who have done similar work in the oil sector, and were improved by this research.

For an oil economy, data was constructed to cover Algeria, Iran, Nigeria, Indonesia, Venezuela, Saudi Arabia and Qatar. Initial migration began in 1921 for Venezuela, 1950s and 1960s in the case of Indonesia, and 1970s for Qatar. Data was also constructed for life expectancy, infant and child mortality, literacy rate, inflation, per

capita health expenditure, per capital education expenditure, and employment. The sample data size involved 12 oil economies in Africa, Asia, Middle East, Latin America and Scandinavia over a period of ten years (1998-2008).

Data was constructed on three countries- Botswana, Indonesia and Nigeria on the sectors (agriculture, manufacturing and service) contributing to total export and GDP growth. The data covers 1965 to 2008, to establish the trends exhibited by the countries.

The objective for this data constructs was to analyze revenues accrued to some selected oil economies, and the impacts this revenue had after 10 years. Data was constructed by using 1984 as the base year, and using 1986 and 1988 to determine the rates of economic growth over the period.

The purpose of this research is to determine the impacts of natural resources on the socioeconomic development of the people. For that matter data was constructed to cover 12 countries for both oil and non-oil countries on life expectancy, infant and child mortality rate, literacy rate and unemployment for the period 1980 -2008.

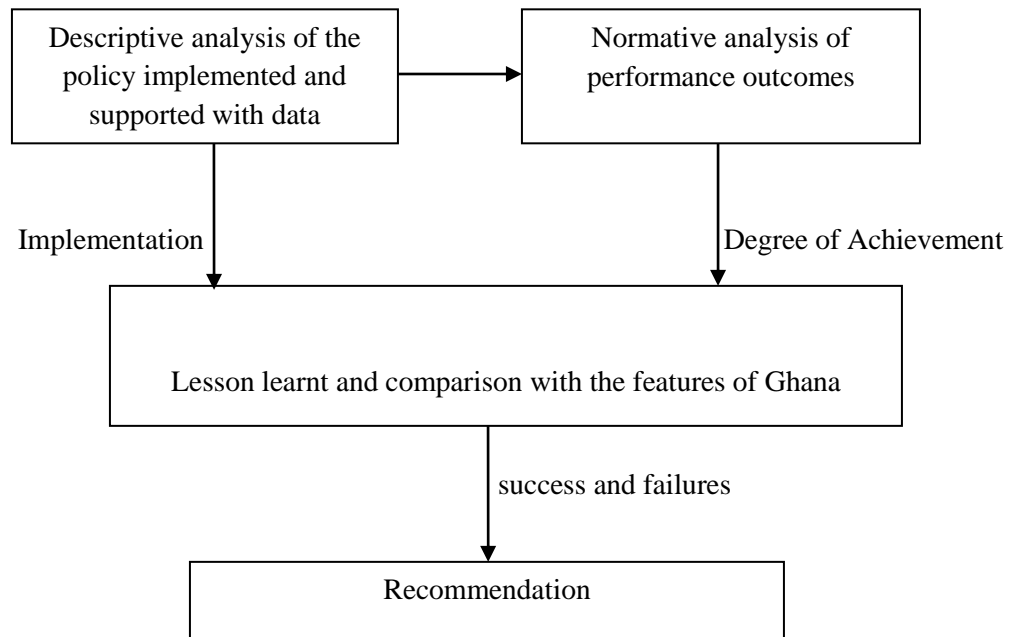
For data in table 5.2 Angola has to be substituted with Gabon to accomplish the objective set out by the table.

4.4 Data Analysis

The analysis involves qualitative and quantitative methods generated from categories of information gathered from the data which was used to construct graph and statistical tables. In some cases, the use of quantitative technique gives better understanding of the interrelation of variables that are difficult to measure. The second step was that the suitable category was selected and positioned within the theoretical framework (Corbin & Strauss, 2007; Corbin & Strauss, 1990, 1998).

The analysis has been divided into three themes for the outcomes of the four socioeconomic indicators that were assessed in the selected oil and non-oil economies. The themes focused on the impacts of oil production since 1960, the concept of the Dutch disease with reference to Botswana, and a comparison with two identical oil economies that have similar features-Indonesia and Nigeria; the 1973 oil shock which increased the windfall for oil economies. In addition, the research offered detailed description of each theme, which was followed by analysis of the data for each of the theme. Of course, all the themes require quantitative trend analysis, in particular the complex interrelation of the variable and the different regimes of governance among the oil economies. The figure 4.4 below summarizes the analysis for the rest of the text.

Figure 4.4 Analysis framework



Source: Compiled by the Author

In some occasion in the analysis, reference was made to Iran, Iraq, Brazil, and Peru as examples to substantiate the subject under discussion.

4.5 Criteria for selection of countries

Given the aim of the study impacts of oil production on selected oil economies, the criteria for the selection was based on the population and GDP per capita in 1960 and 2008, as shown in Table 4.1

Table 4.1 Criteria for country selection

Country	Population 1960	Population 2008	GDP 1980	GDP 2008	% change GDP
Qatar	45,000	824,789	-	77,178	-
U A E	90,234	4,765,000	10,328	58,462	466.1
Norway	3,580,998	4,843,000	30,860	58,714	90.3
S. Arabia	4,074,732	25,520,000	37,581	24,504	-34.8
Angola	5,012,000	17,310,000	-	5,820	-
Venezuela	7,578,904	28,610,000	12,507	12,818	2.5
Chile	7,643,274	16,980,000	5,809	14,432	148.4
Malaysia	8,140,405	24,821,286	5,296	14,215	168.4
Algeria	10,800,000	34,460,000	6,884	8,036	16.7
Nigeria	35,000,000	151,810,000	1,806	2,099	16.2
Mexico	36,939,890	107,550,000	11,304	14,570	28.9
Indonesia	93,996,000	228,580,000	1,474	3,994	170.9

Source: UN Human Development Indicator 2010; World Development Indicators Database 2008 and CIA World Fact book 2010

4.6 Conclusion

- i. The data construction for some of the oil producing economies is difficult to obtain for the analysis, especially data for 1960 to 1980. This has affected the consistency of the data analysis. Thus some of the data began from 1965 while others are from the 1970s and the 1980s.
- ii. As may be found in the data, Angola was substituted with Gabon in table 5.2 for lack of data to accomplish the purpose of the study.

CHAPTER FIVE

ANALYSIS OF THE THEMES

The chapter examines the impact of oil production on the selected economies under the three themes proposed in Chapter one. The first theme discusses the impacts of oil with respect to oil production and migration, and agriculture, and land disputes. The second theme explains the concept of Dutch disease, where Botswana, Indonesia and Nigeria were selected to discuss the Dutch disease. The third theme deals with the 1973 to 1990s period of oil production in selected oil countries in Latin America, Middle East, Asia, and Africa. A summary to conclude the chapter is provided at the end.

5.1 Impacts on an Oil Economy

The socioeconomic impact of oil production on the nation and the community at large cannot be underestimated. Tinker Salas (2009) indicated that wherever oil companies engaged in extractive processes, they tend to repeat certain patterns of socioeconomic and cultural development outcomes. Oil production easily alters and reshapes the existing physical environment and gives rise to new settlements as the operations expand in larger scale, the impact no longer is limited to the area of operation. It spreads to every aspect of the country, directly or indirectly, influencing the socioeconomic and the cultural life of the people. It also has the tendency to break

down regional barriers and change the way host communities define space and their lives, giving different outlooks to the existing economic and social linkages between the new oil producing communities and the rest of the country.

5.1.2 The relationship between oil production and migration

As the literature shows, we can agree that there is direct relation between oil production and migration. Domingo Alberto Rangel (*Los andinos en el poder*, 207) made a representation in a study that migration in Venezuela mostly occurred in both internal and external migration. Internally, migration occurred in densely populated states. In the case of external migrants, they migrated from the United States, Britain, France, China and India, and were driven by the extraction of oil. Communities such as Lara and Trujillo for example, in the early stages of oil production, were found to be densely populated with each of them having 219,000 and 178,942 respectively in 1921 (Salas, 2009).

Similarly, Indonesia's population in East Kalimantan (especially Marangkayu district) was said to be overrun by immigrants, mainly from China, Vietnam, Philippines, and India, after independence in the 1950s and the early 1960s (Tri Nuke Pudjiastuti 2002). Saudi Arabia attracted migrant workers from Egypt, Vietnam, India, China, United State and Britain to the oil communities in Shay bah and Botha oil fields. In Qatar, 65 percent of 111,113 were immigrants in 1970 (Metz 2002);

South Asians (mainly Indians, Pakistanis, Bangladeshis, and Filipinos) made up about 35 percent of the population; Qataris, 20 percent; Arabs, 25 percent; Iranians, 16 percent; and others, 4 percent. Niger Delta of Nigeria hosted migrants from other West African countries.

These migrants not only on account of seeking employment in the oil field but other sectors, including seeking economic and social linkages that is provided by the Province, District or the communities in the mining enclave. These large migratory circuits bring in new cultural practices which reinforce formal and informal ties between provincial, district, the oil communities on one hand and the rest the country on the other.

As oil and its related activities become expanded, labour migrates from agricultural and industrial sectors into the oil industry for better wages. Consequently, agriculture and industry are undermined, given rise to labour shortage and less output and less expansion and eventually slow economic growth. This creates one- path commodity export and economic growth, though such an export reduces the economic power of the traditional communities. The communities tend to the oil industry for non-existing jobs, which demands high skills. Thus 'more labour chasing fewer jobs', as a result labour wage decreases, leading to the reduction in the standard of living. Consequently, social problems such as gangsters, prostitution, abortion, infanticide, divorce and remarriage as normal, homosexuality, adultery and public entertainment full of violent and licentious performances and so forth escalates, making it difficult

for community cohesion. This pattern is repeated in most African oil economies, for many years.

However, in the case of Norway, the economy was not spoiled by one path of economic activity but maintains multiple forms of economic activities such as agriculture, fishing, manufacturing, mineral extraction, iron ore, services. Alan Milward (1992), maintained that the industrial revolution created an industrial sector, a very modern and prosperous sector within the framework of a much poorer and more traditional agricultural sector which had remained an important branch of the economy. Agriculture, fishing and forestry were the traditional occupations of the peasantry, which is the largest employer of the labour force in the country. These occupations accounted for one-third of the total employment in Norway. Social structures and policies put in place before the process of industrialization began probably made negative social effects less effective.

Most oil developing economies started off with massive state-led developmental programs for growth and modernization. They adopted national industrialization programs in large scope, and funded ambitious social and economic projects at the same time. These investments though varied from country to country had little effect in respect of economic growth. Iran for instance, not only focused on heavy industry, but also made huge investments into military expansion (Chaudhry 1999:317-42; Farouk-Sluglett and Sluglett 1977/2001:216-54). Saudi Arabia embarked upon broad

based program of bureaucratic and infrastructure development, modernization of the economic, social and military spheres (Chaudhry 1997:65-100, 135-85). Algeria started with capital intensive industries, whereas Indonesia undertook some sort of balanced growth with attention to the rural and urban development of the economy and administrative machinery (Booth 1999; Campos & Root 1996:64-7).

In assessing all these developmental programs, Norway, Saudi Arabia and Indonesia were driven towards addressing social problems, because they tackled somewhat the needs of the countryside and the cities and aimed to achieve food security, administrative effectiveness and pursuit of macroeconomic stability. The programs (Gelb et al 1988:203-4) addressed the fundamental problems that promote orderliness in the economy through distribution of relatively fair and equitable oil revenue to sectors that enhance growth and development.. Indonesian government built the capacity of the institutions to enhance speedy and easy access to information (Smith 2007:129-32). It adopted a slogan “development, stability and equality”, and effectively managed their inter- relationships which appealed to the public in general.

Iran, Algeria, and Nigeria ignored the rural areas and destabilized the socioeconomic conditions of the rural population. The effects were not only in the short run but also in the long run as well. Algeria took bold steps to undertake land reform to redistribute the land among the peasant farmers, and organized the farmers into

cooperatives with government support. However, the cooperatives were not supported as intended by the government, and most of the farmers were thrown out of business and compelled to search for menial jobs for their livelihood.

The land reform in Iran rather weakened the power of the traditional landed elite which included the Shi'a clergy, and brought about the concentration of land in the hands of the peasantry and thoroughly bureaucratized the rural economy (Lowi 2009). Although tensions ensued between the state and the clergy, the government could not resolve the disputes especially in the oil communities. In addition, farmers were not supported with fertilizers, insecticides, machinery or subsidies to cushion them against high cost of living brought about by oil production. Agriculture was no longer attractive and viable to the farmers, which led to rural-urban migration. Thus most of the rural population (majority of them landless peasant farmers) migrated to other urban areas. Consequently, social and economic problems of the migrants became deepened and unbearable, which complicated the poverty situation in the urban centres.

In the case of Venezuela, land reform was unprecedentedly grabbed by oil companies and regional elites, which caused dislocation of small and medium sized local enterprises (Salas 2009). This action led to reorganization of physical space, which threw away small and medium scale enterprises out of business. Thus the land reform

presented modest adjustments in Venezuela's land tenure system through the 1990s. These factors, combined with the fact that large private tracts of land remained intact in the hands of a few, compounded the problems in the agricultural sector. Over the period, agriculture entered into a steady decline as the oil industry over shadowed all other sectors of the economy.

5.1.3 The reasons behind sectoral performance

Countries, such as Algeria and Iraq (in the 1980s), redistributed their oil revenue in hierarchical fashion where military and government cronies had greater access to oil revenues than the whole country. The redistribution in Algeria was done by 'exclusion and marginalization' of certain social categories. For example, Barbers (minority tribe) were excluded from Algeria's nation, whereas religious traditionalists were co-opted by the state. Shi'a minority received severe discrimination in economic, social and cultural sectors.

Saudi Arabia subsidized wide range of consumer goods and utilities as a means to cushion the people from economic hardship. In addition, it also set up cradle-to-grave social welfare programs' such as pension and social security benefits, public employment, free education and healthcare and scholarships. Social welfare programs were available to all the citizens; 'one could only determine distributional differences

in the area of contracts and gifts, which were accessible to some people', (Lowi, 2009).

In Venezuela, oil companies backed the government of Vicente Gomez but did little in the area of social investment due to relatively weak state institutions unable to implement social programs. Government functions were taken up by oil companies not only in the local level but at state and national level in the provision of infrastructure development including roads, sanitation, water and electrical works, as well as social investment in schools, sports, churches and health facilities, which provided access to the communities.

In a nut shell, the impacts of oil production on the countries are not solely negative, but have positive impacts. Oil industry attracts migrants (both internal and external) into the oil field and introduces new culture into the host communities. It also strengthens formal and informal ties amongst the people not only seeking for employment but seeking for opportunities that the communities offered them. The successful adjustment of the industrial structure for its comparative advantage in Norway implies that rich endowments of natural resources {especially of oil and gas}, may have been important for the achievement of high standard of living.

However, as pointed out above, it is hard to identify such level of development in developing oil economies. Then the performance of the Norwegian economy and economic policy since 1970 after oil discovery may have to be discussed, based on

more or less clear answers to the counterfactual question: what would Norway have looked like without oil? Nevertheless, several scholars conclude that petroleum wealth has been a blessing rather than a curse to Norwegian economy (Torvik 2007; Roed Larsen 2003).

Many oil economies in Latin America, Middle East, Asia and even in Africa have had some level of successes based on what seemed to be rightful decisions made in investing on the socioeconomic development of the population. Social and economic developments are inseparable. Countries that diversify their economies with service-led growth such as Indonesia, Malaysia, Peru, Singapore and Japan, for example, have had high GDP per capita, than the resource dependent Saudi Arabia, Mexico and Nigeria.

5.2 The Concept of the Dutch Disease in oil Economies

The literature on resource curse establishes the relationship between natural resources wealth and development outcomes as negative. This is because resource rich countries have performed poorly in developmental terms. Countries with less endowed natural resources that continue to show strong transformation in their societies through sound economic policies, particularly in macroeconomic and fiscal management. The natural resources dependent countries have not shown such a successful transformation.

The causes of the poor performance of natural resource rich countries are linked to other factors. Rosser's (2006) research findings concluded that the causal mechanism linking natural resource wealth and poor development outcomes is attributed to economic factors. This is because natural resource exporters suffer from decline in terms of trade, volatile export earnings, an enclosed economic structure and the Dutch disease.

The 'Dutch disease' explains the apparent relationship between the exploitation of natural resource and the decline of the manufacturing sector combined with moral fallout. It emphasizes the condition whereby a resource boom leads to appreciation of the exchange rate and makes the manufacturing and other tradable sector less competitive and entangles business interests in investing into the economy. Most of these resource rich economies in Africa, Middle East and Latin America suffered from the Dutch disease. However, some countries such as Indonesia, Malaysia and Botswana have overcome it and managed to provide both rapid economic growth and a certain level of social development.

5.2.1 How Botswana Overcame the Dutch Disease

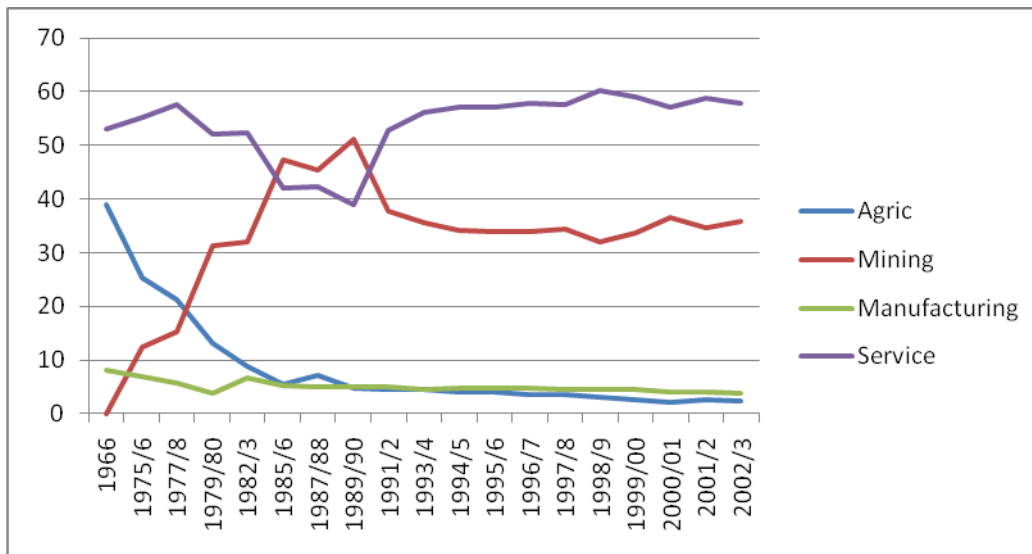
According to Sarraf and Jiwanji (2001), Botswana government adopted what it refers to as sound economic policies and provided good management of its revenues from diamond sales. The government set up a stability fund and saved all the accumulated

revenue in foreign reserves, ran budget surpluses, and put in place policy guidelines as to what, how, and when the accumulated revenue is to be spent. The revenue was to be spent during difficult periods in social development rather than deficit financing. Moreover, the government managed the nominal exchange rate, aligned it with the South Africa Rand to prevent appreciation of the national currency. The economy was diversified, at the same time; as economic measures were put in place to avoid external debt.

The above measures provided the basis for Botswana's economic growth. Figure 5.1 shows sectoral contribution to GDP growth. It follows that the period between 1970-90, shows contribution of mining to GDP increase. It shows continuous rise until it reached its highest level in 1990. Then it started to fall rapidly between 1990-92, after which it leveled off but fell marginally to reach a minimum level in 1999. It rose again to reach about 35 percent in 2003.

The services sector performance fell from the beginning of 1978 to 1990, when there was intense drive for the promotion of the mining sector to lead the economic growth. The curve started to increase, at the period of economic diversification with service sector-led growth strategy, which gives rise to about 60 percent contribution to GDP growth in 1999. It fell slightly afterwards to about 58 percent in 2003. Agriculture and manufacturing sectors contribution were relatively low and remained constant from 1985 to 2003, as shown in the figure 5.1 below

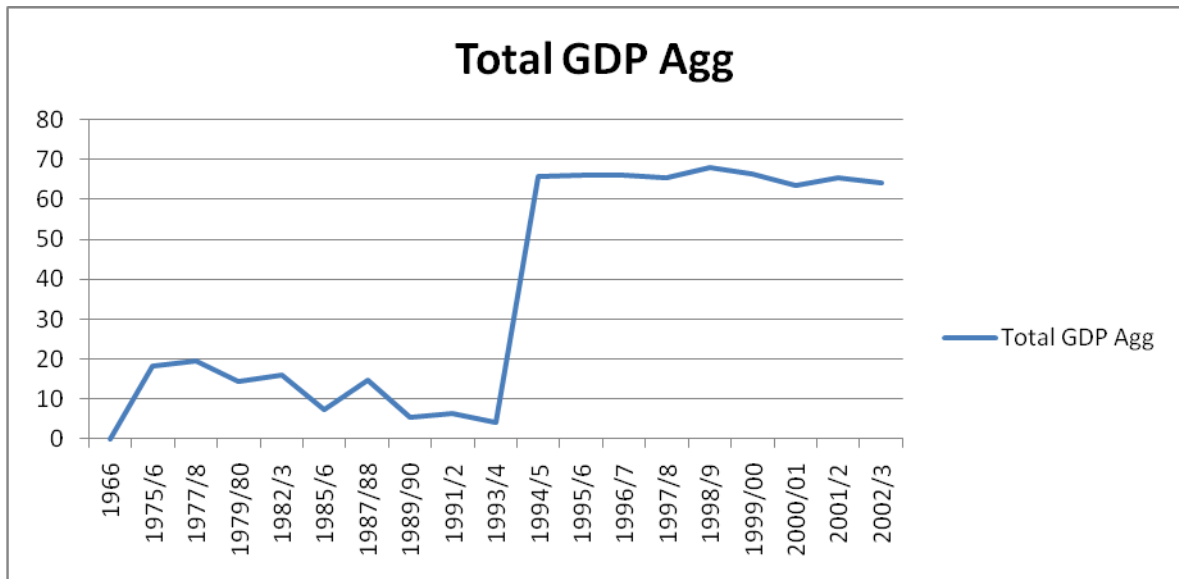
Figure 5.1 Sectoral Percentage Share of GDP & Annual Growth Rates 1966-2003, Botswana.



Source: National Accounts Statistics of Botswana – 1974/75 to 1994/95 and 1993/94 – 2002/03 (Central Statistics Office, Gaborone, March 2000, & September 2000)

At this juncture, it is important to establish the real effects of agriculture, manufacturing and service sectors on aggregate GDP growth to ascertain the impact on the economy. Figure 5.2 shows the trend of sectoral contribution to GDP which excludes the mining sector to total GDP (aggregate)

Figure 5.2: Total GDP (aggregate) GDP excluding Mining, Botswana.



Source: National Accounts Statistics of Botswana – 1974/75 to 1994/95 and 1993/94 – 2002/03 (Central Statistics Office, Gaborone, March 2000, & September 2000)

It is clear from figure 5.2 that during the period on mining-led economic growth, the three sectors were neglected almost completely with growth rate of less than 5 percent. However, the three sectors grew rapidly after 1993, when government diversified the economy and pursue service-led economic growth strategy. Since then, the three sectors contributed significantly to GDP growth. Two factors have been associated with Botswana successes - direct and indirect factors. The direct factors were the adoption of good macroeconomic policies and strong protection of property rights. Botswana adopted strong institutions and good policies after independence and made the people to develop strong interest in these institutions and

policies. The indirect factor was the existence of traditional institutions that encouraged broad-based participation. Prior to the beginning of the mineral development, the state started building effective and efficient institutional structures to facilitate the process of development in all sectors of the economy. By and large Botswana overcame the Dutch disease, as a result of building strong institutions, adopting macroeconomic stability, diversifying the economy and having transparent and accountable governance.

5.2.2 Oil economies and the Dutch disease

Indonesia and Nigeria adopted different approaches to the issue of the Dutch disease. The approach adopted by Indonesia enabled it to overcome the Dutch disease. Indeed, Indonesia performed better on the score of managing the oil resources better than Nigeria. Bevan et al (1999)'s study of the two countries' developmental activities found that between 1960 and the 1990s the condition and hardship of their people had compelled the regimes at that time to adopt different economic models to respond to the political, economic and social structures. Between 1950 to the 1980s, Indonesia experienced turbulent period with food production, which compelled the government to import rice to supplement local production. However, Suharto regime overturned the food deficit, when the government shifted attention to the development of agriculture to increase production and create employment for the populace; he

redefined the role of the military, to perform both social activities and military tasks for the state. As a result, Indonesia attained self-sufficiency in rice production by the early 1980s (Booth: 1999:114). Thus government took proactive steps to respond to the needs of the poor.

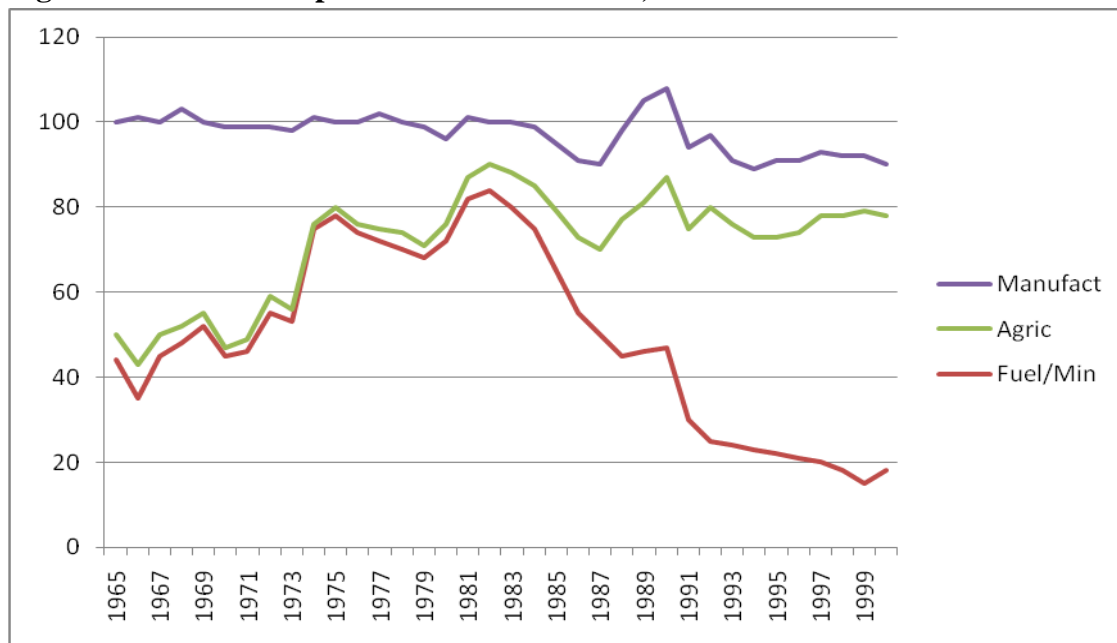
On the other hand, Nigeria failed to diversify the economy from over dependence on the capital intensive oil sector which provided 20 percent of GDP, 97.5 percent of foreign earning and about 81 percent of government revenue (Wokoro, 2010: 328). In addition, subsistence agriculture did not keep pace with the rapid population growth. Furthermore, Nigeria allowed the army to stick to their core business of military activities and resorted to importation of food items to supplement subsistence production. Figure 5.4 shows the sectoral trend for Nigeria.

Second, Indonesia liberalized the economy with Chinese businessmen dominating the front of commercial activities, though exposing the country to some sort of socioeconomic instability. Nigeria, was dominated by businessmen within the country mostly from the south, and due to their dominance, majority of the elites feared that economic liberalization would undermine their position by enriching southern businessmen and hence their political opponents in the south.

On the other hand the ruling elites in Indonesia had no similar concerns about economic liberalization because of the presence of Chinese businessmen not only in the oil industry but also in manufacturing sector of the economy. For this reason the two countries political regimes adopted different approaches in relation to economic liberalization.

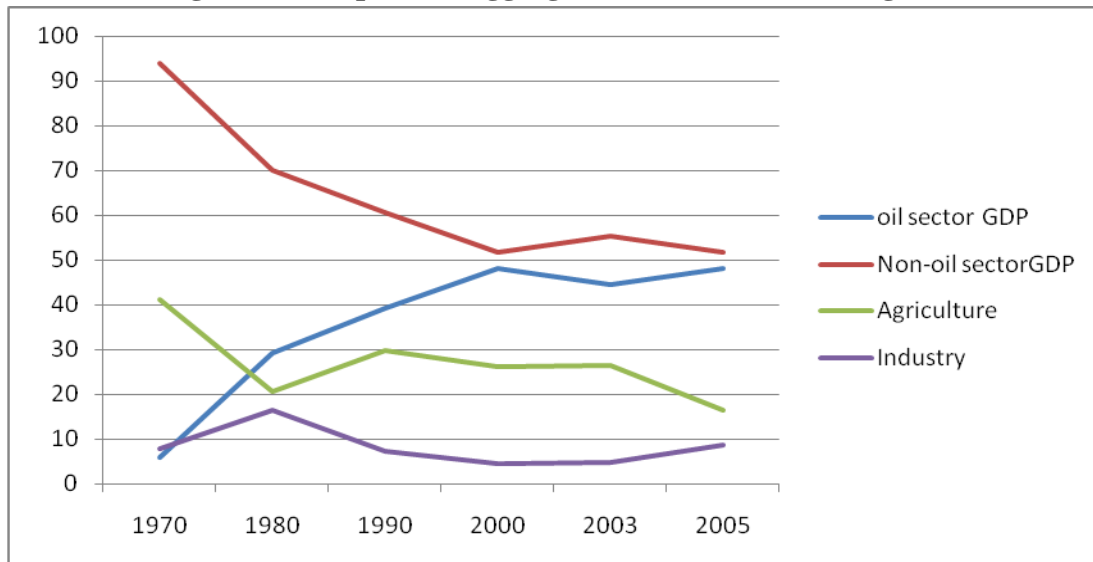
Over time economic liberalization enabled Indonesia to stand up to the threat imposed by the Dutch disease. Figure 4.3 shows the trend of export composition from 1965-1999

Figure 5.3: Sectoral export to GDP -1965-1999, Indonesia



Source: Indonesia Ministry of Finance Bulletin (2000)

Figure 5.4: Exports to aggregate GDP, 1970-2005, Nigeria

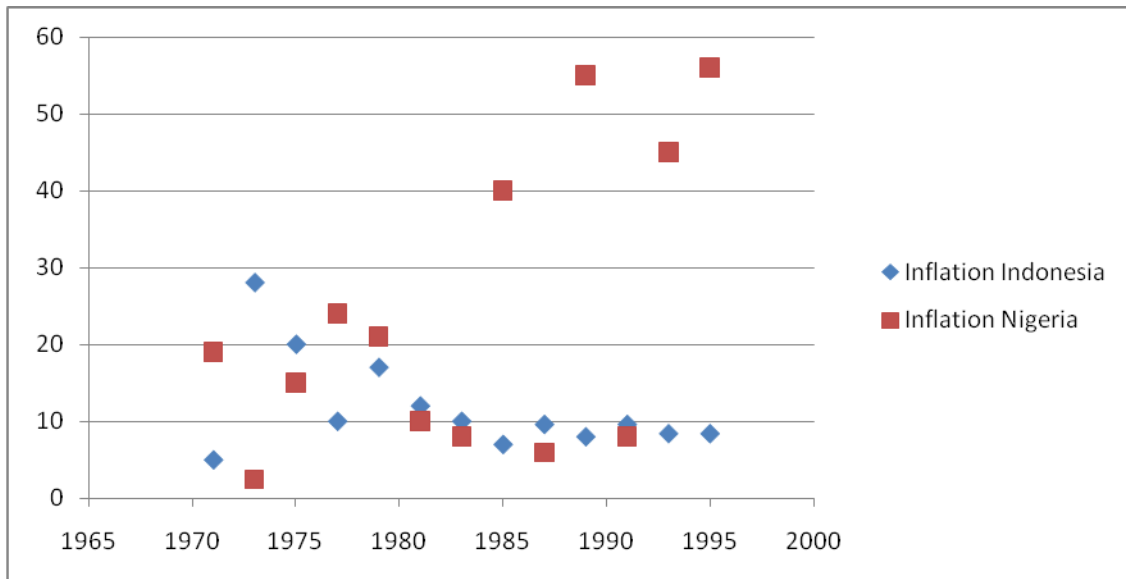


Source: World Bank 2007

Comparing the two nations, we can attribute three factors to the success of Indonesia over Nigeria: first, President Sukarno declared his vision to foster socioeconomic integration with political will during the 1950s and 1960s; and developed strong economic infrastructure in the mid 1960, which resulted in rapid economic growth. These fundamental features marked the beginning of poverty reduction in Indonesia. Nigeria did not show such commitment, to socioeconomic integration and infrastructure development during the period.

The second attribute is the case where Indonesia attached great importance to avoid higher inflation after 1971 as compared to Nigeria which had high inflation above 30 percent between 1985 and 1995. The disperse graph in figure 4.5 shows the level of inflation from 1971 to 1995 between the two countries

Figure 5.5: Inflation rates between 1970 -1995 for Nigeria and Indonesia.



Source: International Financial Statistics & CBN Bulletins &

Wing Thye Woo & Chang Hong, (2009).

The third attribute was the creation of greater trade and foreign investment opportunities for Indonesia than for Nigeria because of the former's greater geographical proximity and historical ties to Japan and the East Asian Newly Industrialized Countries (NICs).

Indonesia also took advantage of its closeness to Japan to adopt, which seemed to be the right decisions to open up the economy for growth. Accordingly, Indonesia changed its economic policies from closed structure to capitalist economic development between 1970s and 1980s. This paved the way for macroeconomic and

fiscal discipline; infrastructure and agriculture development and the pursuit of exchange rate policy suitable to maintain international competitiveness in tradable commodities rather than oil and gas.

In addition, Indonesia received large amount of foreign aid, took advantage of access to European market, to access new technology not only to the agriculture sector but also to other sectors. Above all, it attracted huge foreign direct investment to the manufacturing sector during 1980s and 1990s. This actually prepared the ground for Indonesia to avoid commodity boom, and keep foreign debt abate and able to diversifying the economy.

Although one cannot run away from the corruption during the Suharto regime, the case of Nigeria was worse. The formula for the distribution of oil revenue made politicians to indulge in corrupt practices. 53 percent was allocated to Federal State, 30% -state governments, 10% local governments and 5%- special Fund (Augustine & Anigboh (1998:179). The effect was that oil producing communities had little oil benefits from the billions of dollars generated in oil production. Political leaders could get away with large sums of money in their personal account', Sani Abacha (the former military leader) diverted \$4 billion to his personal account during his five years rule (Wokoro, 2010: 328-330).

In sum, Indonesia and Botswana, provided sound economic management, developed the institutions and diversified the economy. They much relied on the other sectors rather than the mining sectors alone for economic growth and gave way for socioeconomic development in their societies. Indonesia, took inspiration from Japan, Taiwan, and Hong Kong in Asia to shape up its economy, whereas Botswana invested all the diamond's revenue in foreign bonds and security to create revenue stability.

5.3 The oil price shock of 1973

The period 1973 to 1990 is an important period in the history of oil economies across the world, dictated by the quest to amass wealth from the sale of oil. It was engineered by OPEC members who used their control over oil production and influence in the world price setting to increase world oil prices. The oil shocks accorded oil developing economies to record high economic growth rates in 1973, Saudi Arabia grew by 19.7 percent, Mexico 8.4 percent; Algeria 8.5 percent; Indonesia 11.3 percent and Nigeria 9.5 percent. It was regarded as sterling and successful performance by these economies, which influenced the introduction of new economic strategies to improve the socioeconomic lives of their citizens. The successive increase in oil revenue during the period accorded countries to embark upon broad programs for reconstruction and development.

For example, in the period 1974-1985, Venezuela received huge increase in government revenue as a result of oil windfalls. This created a good condition for Venezuela to maintain relatively high levels of physical and human capital investment in the context of a relatively accountable long-standing democratic polity (Abramowitz, 1986) for rapid catch-up (Di John, 2004: 17-23)

Algeria committed itself to the development of social justice, industrialization and building of infrastructure. Saudi Arabia, on the other hand, embarked upon massive infrastructure development across the country; all these initiatives were geared towards improving the well being of the people. The immediate effect on revenue mobilization was tremendous over the period, as shown in Table 5.1 between 1973-75.

Table 5.1: Oil revenue of Selected countries (US\$ billions)

Country/Year	1972	1973	1975
Algeria	0.7	-	3.4
Indonesia	0.4	-	3.9
Iran	2.4	4.1	18.5
Kuwait	1.7	1.9	7.5
Libya	1.6	2.3	5.1
Nigeria	1.2	2.0	6.6
Saudi Arabia	3.1	5.1	25.7
Venezuela	1.9	2.8	7.8

Source: Compiled from Philip (1994:153,173) and Lowi (2009: 89)

The oil shock was crucial for oil economies, which presented new opportunities for development in terms of policy direction, building of institution and distribution of accumulated wealth. The record inflow of revenue to these countries led to oversized government and ambitious public spending. Benefits of this spending in the short run included a massive expansion of public welfare, an increase in employment, and a rise in the standard of living. Countries in the Middle-East offered free healthcare, education, and extensive pensions, while countries in Latin American invested in job creation and subsidized housing and fuel. These unrestrained capital spending embarked upon received negative responses almost immediately. There were problems with the production system, limited capacity in management and infrastructure, inefficiencies, and rising domestic prices.

The economic consequences were apparent, appreciation of domestic currency and unprecedented levels of state spending produced Dutch Disease effects. Local industry deteriorated, making the states even more dependent on petroleum. The government expenditures quickly outpaced the massive oil revenues while income remained high. Foreign capital was easily accessible for the first time due to countries' rent-derived collateral, which led to a huge debt overhang.

The effect of the oil price shock on Algeria for instance was conspicuous, total government revenue declined from 44 percent in 1986 to 24 percent in mid 1990

when the economy maintained its negative growth rate (Aissaoui 2001:10; Amuzegar 1999:235). There were severe socioeconomic dislocations facilitated by high inflation, high unemployment, and shortage of essential goods, which resulted in anti-government riots in 1988 (Lowi 2009: 88-92).

Many of these countries found themselves in a similar situation, as the price of oil fell by 75 percent, over a period of several months. Governments became unstable, from the highest importer, the United State, to least developed countries such as Nigeria and Angola. The immediate solution was to amend spending pattern and develop programs to ensure macroeconomic stability, and to mitigate social effects created by fiscal indiscipline. Across the oil producing states, the capabilities to manage the crises were diverse, if we consider the countries on individual bases.

Table 5.3 assesses the GDP at constant price, GDP per capita purchasing power parity and the percentage change that had occurred over ten years after the price shocks, using 1984 as the base year.

Table 5.2: GDP at constant price, GDP per capita purchasing power parity and percentage change from the base year 1984

Country	1984 (based year)		1986			1988		
	GDP(constant 2000	GDP (PPP) 2000	GDP(constant 2000	GDP (PPP) 2000	% Change GDP(PPP)	GDP(constant 2000	GDP (PPP) 2000	% Change GDP (PPP)
Algeria	1,956	5,894	1,918	5,751	-2.43	1,785	5,417	-8.09
Gabon	4,791	6,937	4,353	6,367	-8.23	3,813	5,577	-19.61
Indonesia	467	1,752	494	1,839	4.97	534	1,978	12.89
Malaysia	2,161	4,820	2,051	4,572	-5.14	2,257	4,973	3.17
Mexico	5,016	7,904	4,754	7,496	-5.16	4,712	7,288	-7.79
Nigeria	298	679	317	754	11.05	327	739	8.80
S. Arabia	10,453	13,616	9,403	11,853	-12.94	8,817	11,231	-17.52
UAE	34,846	33,352	23,643	22,540	-32.40	21,923	20,749	-37.79

Source: Compiled from World Bank database and Lowi (2009)

Evaluating countries on an individual basis, of the eight countries sampled, two countries, Indonesia and Nigeria, have positive percentage change for both 1986 and 1988. Malaysia began with negative 5 percent GDP per capita but managed to turn the negative to positive 3.17 in the two -year period. The rest of the countries left out negative GDP per capita for their economies. Some countries failed to manage the socioeconomic conditions prevailing at that time and had to experience regime change, whereas others who handled the crises well successfully carried out economic reforms to create social and political stability. Saudi Arabia, Malaysia and United Arab Emirates became relatively stable. Nigeria, even though received positive

percentage change in GDP, became unstable, and Babangida led-military toppled an elected Buhari regime in 1986. The question that needs further investigation is what allows some nations to manage their affairs so well in the mists of the oil crises and not to degenerate into chaos and insurgency? Does a regime make a difference in terms of developing the welfare of the people?

The answer to this puzzle is not straight forward, in taking critical study of these economies. Nigeria, for example, experienced political instability in 1979 on the heels of social and economic problems culminating the regime breakdown. Indonesia, in 1998, was also hit by currency crisis, which created political instability, even though it stood well against the oil shocks. In terms of the outcomes, Indonesia had positive outcomes.

Mexico experienced upheaval in 1994 when the insurgency in Chiapas province rioted against the regime following economic hardship, which led to regime change. By the end of 1994, Mexican government devalued the peso by 15.3 percent (Andre Hofman 2000) and plunged the country into economic crises. The response to the policy was immediate; GDP per capita fell over 8 percent in the following year while inflation soared closely to 50 percent.

Mexico enjoyed the benefits of increased oil revenues in the late 1970s, inflation accelerated in 1982 and 1983 when oil revenue declined considerably, which forced

the government to commit to borrowing loans to supplement the revenue shortfall. Such a policy brought the expansion of external deficit and compelled the government to resort to deficit financing and sharp exchange rate depreciations. At the beginning of 1982, the debt crisis increased to the extent that the Minister of Finance had to flow to Washington to announce that Mexico could not fulfill its debt obligations (Hofman 2000).

In 1983, the Mexican government introduced ambitious privatization program to inject capital into the economy, sold state-owned enterprises, and left out few in the hands of government. As part of measures to turn the economy around, the government initiated economic stabilization reform program which consisted of fiscal reform, cautious exchange rate policy, a plan to deregulate, modernize and open up the economy, and social programs which resulted in comprehensive social agreement with the citizens at large.

The outcomes of these initiatives were positive, according to Hofman (2000), inflation went down, with average economic growth rate of 1.1 percent per capita on 1989-94, current trade balance started showing up from deficits, and increase in foreign direct investment.

The effect of the 1973 oil price shock on Venezuela's economy was characterized by political peace and economic prosperity as compared to some neighboring oil

countries which experienced prolonged and debilitating guerrilla conflicts and the legacy of military brutality.

Awash with oil revenue, the government funded impressive mega-projects, new economic ventures and expanded the existing bureaucracy. The resultant effect was that there was tremendous growth in the middle class across the country, which impacted positively on the other sectors of the economy.

In the turn of 1976, the government of Carlos Andres Perez introduced nationalization policy with the aim of cutting down the growing monopolistic power of the oil industry, but, this failed miserably. It did not have much or alter everyday lives of the state and the Venezuelans, putting the nation into difficult situation to meet its social problems faced by the majority of its citizens

Venezuela was hit with debt crises as a result of negative GDP growth recorded in five successive years at the beginning of 1980s, whilst GDP per capita fell over 8 percent at the end of 1983 in the second half of 1980s, the country recovered somewhat upon the implementation of severe adjustment and stabilization program which was designed to reduce macroeconomic imbalances that caused GDP to fall by 8 percent and led to social upheaval. When the austerity measures were relaxed to

include social programs, early 1990s saw a strong recovery of the economy with GDP growth rate of well above 5 percent recorded over the period (Salas 2009).

However, the problems persisted (economic, social and political instability) over time, which caused wide fluctuation in economic performance. The recession which started in 1993 became worst in 1994, fuelled by a crises in the financial system. It compelled the government to opt for the revision of the liberalization policy adopted in 1989. Among the many problems faced by Venezuela there were the consistently huge budget deficits and the continued delay of necessary fiscal and tax reforms.

Algeria was ill prepared to face the challenges of the crisis, especially social conflicts arising from over stretched social amenities such as water and sanitation, congestion in houses, increased crime activities and food shortages. The institutional mechanism to address these problems were completely lacking, giving political leaders the heyday to mismanage the oil revenue. The assertion by Rodrik (1999) that ‘environment where societal cleavages remain deep, while institutions are brittle, narrow, and poorly equipped to manage social conflicts that derive from deep divisions, oil or non oil exporting state is prone to become unstable in the aftermath of a shock that triggers a crises of distribution’

Social groups which were economically poor and excluded in the allocation of oil revenues were not integrated into the nation-state, thus they were hardly hit by the

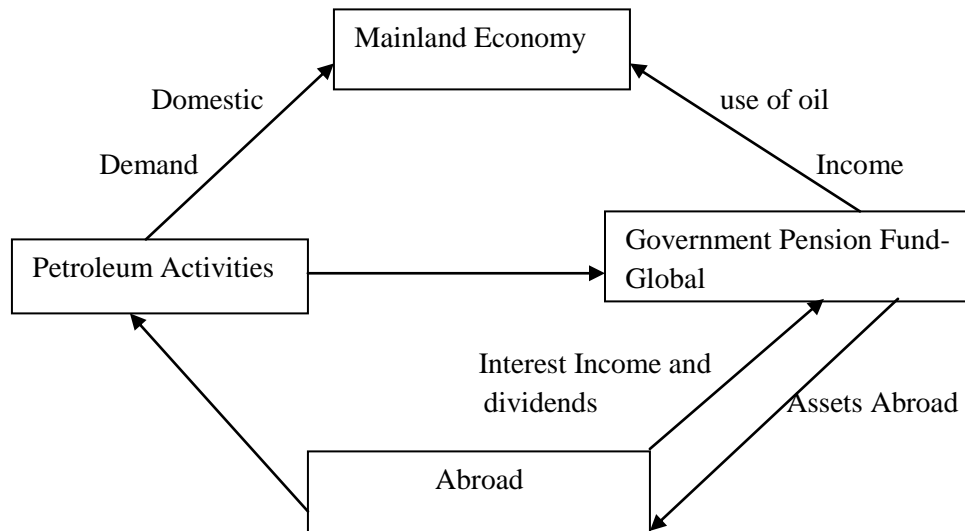
crises. The country's agrarian reform (program) aiming to achieve improved food production was a miserable failure. Large landholdings and redistributed plots were egalitarian among the peasant farmers, and were forced into cooperatives without any support. Productivity could not increase from the average of 3.2 percent per annum recorded in the 1970 (Goumeziane, 1994:56-61), but rather showed continuous decline. As agricultural production failed to keep pace with population growth, the need for food imports intensified (Swearingen 1992: 127). Food self-sufficiency became an illusion to the Algeria. Government was eventually compelled to import more than 60 percent of its food needs to supplement subsistence production by the end of the 1970s.

The five year development plans launched in 1980 could not receive the needed financial support. The plan sought to improve state management of the economy and society in general, with the aim to protect the non-renewable oil endowment, reduce dependency on the hydrocarbon sectors and reorient development away from heavy industry and towards other neglected sectors such as agriculture, consumer goods and social services (Entelis 1988:49). Moreover, the reforms also decentralized and de-concentrated economic decision making and created independence of the huge SOEs that had dominated the economy in the 1970s (Philip 1994: 174-91). The private sector activities increased slightly due to uncertainty of property rights and rule of law. As a result, investors were cautious about the security of their investment after more than a decade of nationalization and anti-capitalist rhetoric.

In contrast, Norway set up Government Pension Fund (Act of June 22, 1990, No 36) into which the Central government's net cash flow from petroleum operations was transferred in its entirety and provided a good management tool for petroleum and gas industry. By the end of 2006, the GPF had accumulated a total amount of 82 percent of GDP (Holmoy 2009: 195).

This achievement came not only by the revenue transferred to the fund, but it was accompanied by guidelines for prudent management. The Government sets up the GPF framework with guidelines to curtail rent seeking behavior by politicians, with more attention on the expansion of social programs. According to Eriksen (2006:7), the guidelines spelt out among other things include the expected real return on the Fund. It means that the Fund serves as a long-term savings for the Norwegian Government to accumulate financial assets to help cope with future expenditures that would be demanded by an ageing population. The flow chart below shows the summary of the guidelines for the management of the GPF.

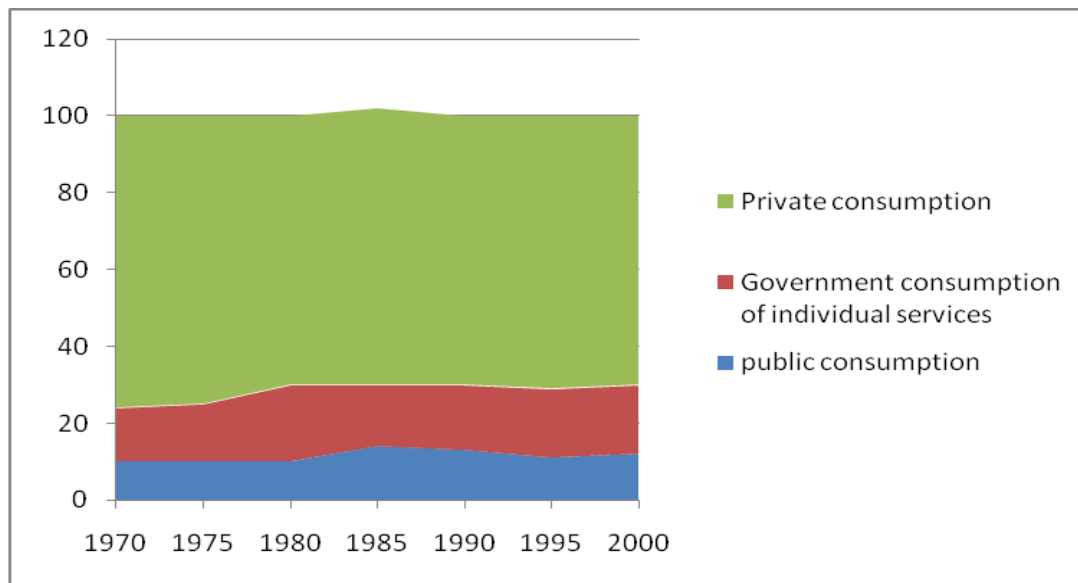
Figure 5.6: The operation of the government Pension Fund-Global.



Source: Adopted from Tore Eriksen, (2006:7)

According to Erling (2004:189), cited from Financing social policy in Norway shows, that the share of government consumption in total increased for social service from about 24 percent of GDP in 1970 to about 33 percent in 2000 (see Figure 5.7).

Figure 5.7: Composition of total consumption



Source: Ministry of Finance (2004) and Erling Holmoy (2009)

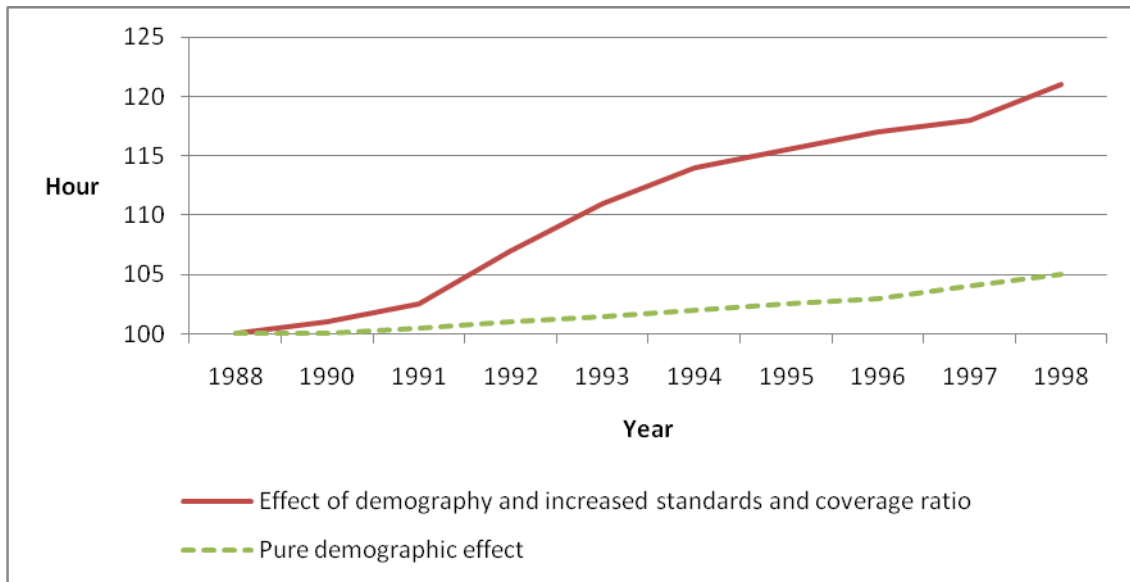
The trend was driven by the increase in individual services provided and finances by the government, including health, social care for the elderly and the disabled (55percent in 2001) primary schools (17 percent), and colleges, universities and other education (21 percent), whilst the public consumption in relation to infrastructure development, public institutions financing remained relatively constant.

The increase in the government consumption of individual services is attributed to increase in both service standards (measured by man-hours per user) and coverage ratios (the number of users relative to the total number of individuals in specific age

groups).The local government provides most of the welfare services at the local level.

The impacts of these services are shown in the Figure below

Figure 5.8: Demography effects on the social welfare at the local government level in Norway from 1988-98.



Source: Erling Holmoy, (2004)

The pure demographic change shows relatively little effect for employment growth in man-hours compared with the effect of increased standards and coverage ratios. The effects started picking up in 1992 and have increased over the past decade. In short socioeconomic stability was achieved through effective and efficient institutions built to deliver social services across the country ,(Erling Holmoy 2004).

5.4 Conclusion

The poor economic performance by the countries over periods of the resources boom underscores the importance of sound macroeconomic policies and strong institutions. The large public investment projects of the 1970s and 1980s, when governance and institutions were extremely weak in most of Africa, Latin America and Middle East, were undertaken with little scrutiny and accountability. The returns on public investment were unacceptably low. Poor macro-economic management of natural price cycles in several African countries resulted in large exchange rate appreciation, eroding the competitiveness of nonoil sectors and high inflation.

Given that most of oil economies leveraged their natural resource wealth to access credit from foreign suppliers and governments, the early 1990s witnessed a sharp rise in external debt, well above 100 percent of GDP in most cases, resulting in unsustainable external debt levels. These macro-economic imbalances (Collier & Goderis, 2007) have eventually called for very painful policy adjustments, such as sharp fiscal contraction, trade liberalization, exchange rate adjustment and debt scheduling.

In addition, with weak institutions including legal systems, there is a higher return on rent seeking behavior and a higher occurrence of crime, corruption, unfair company takeovers and other shady dealings. A resource bonanza thus elicits more rent seekers and reduces the number of productive entrepreneurs. In the long run, profits fall,

resulting in an economy that is worse off. Thus, if institutions are weak and conditions are not favourable, dependency on oil and on other natural resources hinders democracy and the quality of governance' (Ross, 1999; Ploeg 2007).

CHAPTER SIX

COMPARISON OF OUTCOMES

This chapter discusses the macro and micro indicators of the countries with particular reference to stability, low and growth volatility; social policy with reference to per capita expenditure on education, literacy rate, unemployment, infant mortality and life expectancy. This brings together the countries' performance during the period and concluding remarks.

6.1 Macroeconomic Policy Outcomes

As inferred from Chapter Four, oil production, to a large extent, plays a complementary role for GDP growth in the oil economies. This is because it is positively correlated with GDP per capita, though less significant relationship. This is more of a reason as to why, most of the oil economies in Scandinavia, Latin America, Asia, Middle East and Africa took steps to reform their economic structures to improve the socioeconomic lives of their people. The most important factors that determined the impact of oil production in Norway and Nigeria, for instance, go beyond oil production. Macroeconomic policies of the respective countries played a role in their successes and failures. The changes in macroeconomic policies over the last forty years (depending on the country) have been as important as the changes in development models. The 1970s and the early 1980s marked the loose

macroeconomic policy, as fiscal and current account deficits reached alarming proportion of most of the countries.

6.1.1 Stabilization

Since the beginning of 1980 there has been sterling effort by countries to create economic stability. One of such initiative was to reduce inflation to be below 1 percent, and make goods and services cheaper for the population. Monetary policy was formulated by these countries to stabilize the economy. Interest rates were a key instrument of stabilization tool in combination with both floating exchange rates and fixed or semi-fixed schemes. In some countries, between 1980s and 1990s, the exchange rate was primarily used to lower inflation. In other case, it was set in order to maintain international competitiveness and stimulate growth. All these boiled down in creating economic stability and set the tone for social development. The table below shows the trend of inflation that prevailed over the period beginning from 1980 to 2008

Table 6.1: Inflation trends for countries from 1980 to 2008

Country	1980	1985	1990	1995	2000	2005	2008
Algeria	14.1	12.5	47.4	21.8	0.1	1.7	4.9
Angola	46.7	1.8	1.8	2672.2	325.0	22.9	13.7
Botswana	12.1	8.1	11.4	10.1	8.5	8.6	8.1
Indonesia	18.0	4.7	7.8	9.4	3.8	10.5	4.8
Mexico	26.5	57.8	26.7	35.0	9.5	3.9	5.3
Nigeria	9.9	3.2	7.9	72.7	6.9	17.9	12.4
Norway	13.5	5.7	4.4	2.2	2.9	1.8	2.1
Qatar	6.8	1.1	3.0	2.9	1.7	8.8	15.0
Saudi Arabia	4.4	-3.1	2.1	5.1	-1.1	0.6	5.0
UAE	10.1	3.5	0.6	4.4	1.4	5.0	12.2

Source: IMF World Economic Outlook data (2010)

After 1980, the pace of controlling inflation was stepped up by countries such as Saudi Arabia, Qatar, United Arab Emirates and Norway to reduce inflation from 13.5 percent to 1.8 percent over 25 years between 1980 to 2005. Throughout the period Indonesia and Botswana maintained inflation below 18 percent. Nigeria could not maintain the single-digit inflation from 1980- 1990, and instead inflation increases to 72.7 percent in 1995, when fiscal discipline gets out of hand. The country could control inflation thereafter to 12.4 in 2008. Angola had a terrible inflation rate of 2672.2 percent in 1995 when the economy shrunk to its lowest level in the history of the country. Fiscal and monetary measures were introduced to mop up excess liquidity, reduce government expenditure and borrowing, and increase taxes to control the inflation to 13.1 percent in 2008. If we combine the information in Table

6.1 and compare patterns of macroeconomic policy by using inflation in assessing the outcomes across the countries, Norway put up the strongest emphasis on reducing inflation. Not much has been seen in Nigeria and Angola with inflation well above 10 percent in 2008. The rationale may be attributed to political instability and world economic recession over the period.

6.1.2 Low and Volatile Growth

According to conventional wisdom, the process of economic development has something to do with the achievement of sustained growth in GNP per capita. The structural change that gives rise to manufacturing industry and high-income services for national income and employment is principal for development. The structure reform processes in Norway, Indonesia and Malaysia at the beginning of oil production played important role in their economic successes. By and large, they ensured strict discipline in the management of the economy, embraced diversification with outward orientation policies which helped countries such as Japan, Hong Kong, Taiwan, South Korea, Singapore, Malaysia, Thailand, Indonesia and China to achieve rapid economic growth. Singapore, for example, came to record surplus in its current account balance over the time from negative 5.6 in 1980 to positive 25.6 as at the end of 2006 (Chia W. Mun & Sng H. Ying 2009:84). Table 6.2 show the GDP growth rate from 1975-2008

Table 6.2: GDP growth at constant price: 1975-2008

Country	1975	1980	1985	1990	1995	2000	2005	2008
Algeria	10.3	-5.4	5.6	1.3	3.8	2.2	5.1	2.4
Angola	n.a	2.4	3.5	- 3.5	15.0	3.0	20.6	13.3
Botswana	8.5	12.0	7.7	8.8	8.0	5.9	1.6	3.1
Chile	-12.9	7.9	1.9	3.7	10.6	4.5	5.5	3.7
Indonesia	4.9	9.8	2.5	7.2	8.2	5.4	5.7	6.0
Mexico	5.7	9.5	2.2	5.2	-6.2	6.6	3.2	1.5
Nigeria	0.2	2.9	8.3	12.8	-0.3	5.3	5.4	5.9
Norway	4.0	4.5	5.4	1.9	4.1	3.3	2.7	0.8
Qatar	5.9	-1.0	-13.0	-14.6	3.6	10.9	7.6	25.4
Saudi Arabia	0.3	6.5	-4.3	8.3	0.2	4.8	5.6	4.2
Venezuela	6.1	-1.9	0.2	6.4	3.9	3.7	10.3	4.7

Source: IMF World Economic Outlook data (2010)

It can be seen that Chile's -12.9 growth rates in 1975 was the result of stagnated agriculture growth and the promotion of import substitution industrialization which hindered the development of exports and severely restricted external trade options for the economy. The instability of traditional export prices was transmitted to the domestic economy through recurrent balance of payments shocks (Ffrench-Davis and Munoz, 1992). As a result, there was a shift to liberalization of the economy instead of depending on the traditional exports of copper. Private sector led-growth supported by an active fiscal discipline was promoted. The government took active role in the creation of public enterprises. The programs for structural reform that produce social change were promoted, including agrarian reform.

In the case of Venezuela, initially, the GDP growth rate was relatively high in the 1970s, mainly due to the increase of oil revenue accrued to the country at that time. The country went into serious debt crisis in 1980, after which the economic structure was overhauled by liberalizing capital markets, foreign trade, prices, and exchange rates. Venezuela attracted foreign investors after the economy was opened up for demand and supply to determine prices by the former President Pérez in the late 1980s, (Julia Holman, 1996). It recovered in 1990 with a growth rate of 6.5 percent following the overhaule of the economy, but fell sharply to 3.9 percent in 1995. The fall was the result of the popular resistance to deregulation and higher consumer prices in 1993. This undermined the reform effort and derailed the economic reform recovery gains. Following the upsurge of world oil prices, the economy grew by 10.3 percent in 2005 and this provided the basis for Chávez regime to increase spending on health, education and poverty reduction programs.

Botswana experienced rather high GDP growth, reaching above 5 percent between 1980 and 2000, and fell rapidly below 3.5 percent after 2000. Indonesia maintained steady growth after 1990, with GDP growth rate above 5 percent. Other countries had turbulent growth rates during the period: Saudi Arabia, Algeria and Mexico, recorded growth rates above 3 percent over the entire period. Nigeria economy initially grew by 0.2 percent in 1975 and reached its peak in 1990 and fell to 5.9 percent in 2008.

Likewise, Angola recorded growth rates of 2.4 percent in 1980, but the economy grew rapidly in 2005, following the sharp increase of oil prices.

In a nutshell, all the economies suffered low and volatile GDP growth over the period from 1975-2000. However, most of them grew above 5 percent between 2000-2008, with the highest growth rate recorded by Angola of 20.5 percent in 2005, and Qatar 25.4 percent. In terms of inflation, Norway, Qatar, Saudi Arabia, United Arab Emirates and Indonesia were relatively disciplined with their fiscal management as compared to Angola, Mexico, Nigeria and Algeria in the 1980s and 1990s.

In spite of these trends, we cannot use GDP growth alone to draw conclusion over the living standard of the population. Conditions may improve in spite of a stagnated or slow growth of GDP growth of a country. For this perspective, economic and social indicators give a clearer picture of development in the economies. Human Development Index (HDI) gives non-weighted average of three variables: per capita gross domestic income, life expectancy at birth and the level of education (Adam 2010:15)

6.2 Social Policy and Social Expenditure

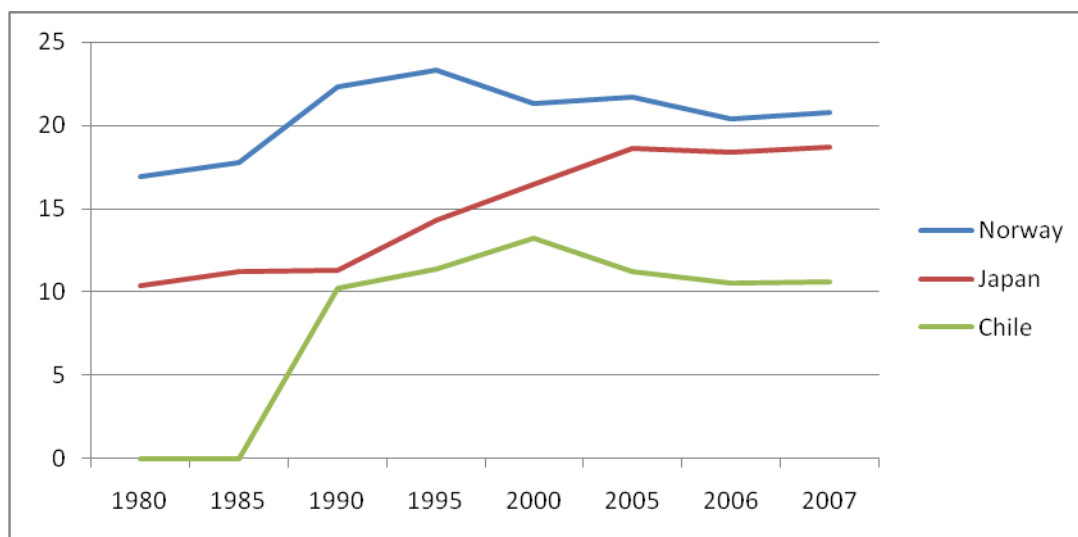
Human development is the centre of every development activity, and is driven by socioeconomic well-being of the people. The population's well being becomes more important and forms integral part of enforcing and shaping the welfare of society.

The principle underlying this idea is to get the government free public resources for social development and move away from the productive activities, where the private sector could do better work. The World Bank's market-oriented policy and the Washington consensus embedded this idea. One of the cardinal principles of the World Bank is investment in the people, including education, health care, nutrition and family planning. In the same vein, one of the ten items in the Washington consensus was adjusting fiscal priorities to give greater attention to health and education. These policies, which form part of the social policy framework, have been accepted, and form an essential way to ensure high productivity and better economic performance while increasing the quality of lives.

The concept of social policy refers to all government interventions that go to improve the welfare of the population. Practically, its definition changes from country to country in terms of scope and the types of activities involved. Generally, it includes health and education, while others may include programs oriented towards particular groups, for instance, labour, elderly, or women, and the handicapped; or to unravel particular problems such as poverty alleviation. For this thesis, we focus on the trend in quantum of the percentage of social expenditure in terms of GDP per capita which is a central component of achieving improved quality life for the population.

Government's overall social expenditure includes a variety of activities that have different effects on economic performance and on the distribution of income and welfare. Governments in Norway, Japan and Chile divide social spending into four categories: education, health, social security and others (including housing subsidies). Education and health are often accorded essential for human capital formation useful for promoting economic development, and are progressively pursued in terms of allocating public resources. The graph below shows the pattern of social expenditure as share of GDP.

Figure 6.1 Pattern of social Expenditure as a percentage share of GDP by Norway, Japan and Chile between 1980-2007



Source: OECD statistics 2009, ECLAC (1999) and Mostaja (2000).

The three countries gave greater priority to the expenditure on social activities in the 1990s. Norway per capita social expenditure has increased from 1980-1990 which

correlated with the GDP growth over the period. Per capita social expenditure decreased in the late 1990s to 2007, when GDP growth contracted over the period, even though, it occupies more than 20 percent of total GDP. In contrast, Japan consistently increased its per capita social expenditure over a decade and maintained steady increase after 2005. Chile's social expenditure as a share of total public expenditure began increasing in 1985 and followed up to 2000. It then declined afterwards. The share in 1990-2000 was generally higher than in 1980-90, but the intra period pattern was more mixed.

6.2.1 Per Capita Expenditure on Education as a percentage share of GDP

Per capita expenditure on education has direct relationship with GDP per capita growth in the oil economies. Considering the countries on individual bases, the GDP share of government expenditure on education in Norway grew at lower rate from 6.3 percent in 1980s to 7.0 percent in 1990, and fell to 6.6 percent in 2000. After 2000, government expenditure increased to 7.0 percent; total expenditure as percentage of GDP fell slightly in 2006 and 2007 as shown in the Table 6.3 below

Table 6.3: Government expenditure on Education (%GDP)

Country	1980	1990	2000	2005	2006	2007
Algeria	n.a	n.a	3.2	2.9	3.6	3.5
Angola	n.a	3.9	2.6	2.6	2.6	2.6
Botswana	5.5	5.8	6.5	9.7	7.9	8.1
Chile	4.5	2.4	3.9	3.4	3.2	3.4
Indonesia	n.a	n.a	n.a	2.9	3.6	3.5
Malaysia	5.7	5.1	6.0	7.5	4.7	4.5
Mexico	4.6	3.6	4.9	5.0	4.8	4.8
Nigeria	3.6	0.9	n.a	2.9	3.6	3.5
Norway	6.3	7.0	6.6	7.0	6.5	6.7
Saudi Arabia	4.3	6.6	5.9	5.7	6.2	6.4
UAE	1.3	1.8	2.0	1.3	1.1	0.9
Venezuela	4.6	3.4	3.6	3.5	3.6	3.7

Source: International Human Development Indicators (2010)

Similarly, Malaysia, Botswana, and Saudi Arabia spend over 5 percent of GDP on education. Within the period the expenditure depicts a fluctuation pattern, or a quadratic behavior for these countries. On the other hand, Nigeria, Algeria and Angola spent less than 4 percent on education. These trends among education spending in all the countries are marked by what Ethan and Carlos (2008) called ‘pro-cyclical’. Thus when economic activity contracted, social spending fell by even more, with a decline in the share of social spending in GDP, and when economic activity expanded, social spending increased.

6.3 Literacy rates

One essential outcomes of investment in educational process is the increased literacy rate. A literate society enables knowledge and skills transfer to families. The tasks for transferring knowledge and skills have shifted from families to formal educational institutions which are undergoing processes of social differentiation (Hardiman and Modgley {1982}). Literacy becomes more and more important for promoting social participation, personal awareness and cultural education. Literate society increases productivity.

Basically, education offers a person not only the right to read, write and do mathematics or sciences, but also includes vocational skills, domestic skills, knowledge of hygiene, knowledge of the science, artistic skills, an understanding of one's social environment, development of personal skills and moral traits. It is expected that a person acquiring these skills would be able to contribute to the socioeconomic development of the society. This thesis considers adult literacy rates for both sexes of 15 years and older as literacy level, and important outcomes of investment in education.

Table 6.4: Adult literacy rate for both sexes 15 and above years old in the eleven countries from 1980- 2008(percent)

Country	1980	1990	2000	2005	2006	2007	2008
Algeria	n.a	49.6	69.9	73.7	74.6	75.4	76.2
Angola	n.a	n.a	67.4	67.4	67.4	67.4	67.4
Botswana	39.9	68.6	68.6	81.5	82.2	82.9	83.6
Chile	91.1	94.3	95.7	96.4	96.5	96.6	96.8
Indonesia	67.3	81.5	81.5	92.0	92.0	92.0	92.0
Mexico	83.0	87.6	90.5	91.6	91.7	92.8	92.8
Malaysia	69.5	82.9	88.7	91.2	91.5	91.9	92.2
Nigeria	n.a	55.4	64.7	70.0	71.0	72.0	72.0
Saudi Arabia	n.a	70.8	79.4	83.6	84.3	85.0	85.6
UAE	53.5	71.2	71.2	90.0	90.1	90.1	90.1
Venezuela	84.7	89.8	93.0	95.2	95.2	95.2	95.2

Source: International Human Development Indicator (2010)

The general trends in the countries at the beginning of 1980 were quite good for Chile, Venezuela and Mexico. However, Countries such as Nigeria, Algeria and Angola performed below expectation, with the resources at their disposal (see table 6.4).

Almost all the countries have achieved literacy rates close to 65 percent by 2000. Although young people spent more time in the education system, by 2008, high proportion of the population has attained literacy rate above 72 percent, except Angola. Beyond this issue is the question of the quality of labour force, African, Middle Eastern and Latin American countries from 1980 to 2008 have had serious problems with the quality of labour force from educational institutions. The problems

were of poor training of teachers', student-teacher ratios, poor quality of textbooks, lack of other teaching and learning equipments, and an emphasis on rote learning rather than problem solving (Adam Szirmai 2010). The situation is particularly serious in Nigeria for 1980s and 90s when large proportion of the work force has only six years of schooling (Onah 1994). In contrast, countries like Norway, Japan and Singapore have efficient and effective educational systems, acceptable teacher-student ratio, modern school teaching and learning materials and teaching tailored to problem solving, which turn out highly skilled labour

6.4 Unemployment

The other important aspect in the labour force had to do with levels of education and experience. The World Bank (2000, Table 3) has indicated that in low-income countries, the labour force grew above 2.4 percent per year, exceeding the average rate of population growth of 2 percent per annum. In the middle income countries the labour force grew by 1.5 percent per annum. On annual basis, more youth are turned out into the labour market in developing economies than in middle income economies. The influx of large numbers of unskilled youth into the labour market caused lower wages and increases unemployment and underemployment, thereby giving rise to poverty. The capacities of the economies are unable to absorb them and hence create socioeconomic problems. Underemployment of labour is a situation

when people work shorter hours than they would prefer to work or when labour productivity is so low that people can hardly earn enough to survive, in spite of working very long hours, (Adam, 2010:157). Table 6.5 below provides the trend of unemployment in the selected countries across oil producing economies.

Table 6.5: Unemployment among selected countries from 1980-2008

Country	1980	1985	1990	1995	2000	2005	2008
Algeria	15.79	16.90	19.8	28.11	29.8	15.3	11.3
Angola	n.a	n.a	n.a	n.a	8.15	11.52	n.a
Chile	10.4	14.9	5.7	7.4	8.3	6.9	7.8
Indonesia	n.a	2.14	2.4	8.95	6.08	11.2	8.4
Malaysia	n.a	6.0	5.1	3.1	3.0	3.5	3.3
Mexico	n.a	n.a	n.a	6.9	5.4	3.5	3.5
Nigeria	n.a	n.a	3.20	2.1	4.7	4.5	4.5
Norway	1.6	5.3	3.4	4.6	3.3	2.5	2.6
Saudi Arabia	n.a	n.a	n.a	n.a	4.6	5.2	5.0

Source: Compiled from World Bank data base & Economic statistical
World Economic Outlook IMF (2010)

Most of the economics are dominated by the informal sector, which contains a wide variety of economic activities, some of which are dynamic and profitable (Gaillard & Beernink 2001). Many people are forced to make a living by engaging in low-productive activities in the peasant agriculture for both urban and rural sector in the economy. In other words, if the economy is unable to respond to the large supply of labour force, it increases income inequality. In the first place, the abundant labour supply weakens the position of workers in relation with owners of capital. Second, income inequality between various categories of workers is also increased. Incomes

of unskilled labourers in low productivity sectors would lag behind income in the informal sector of the economy.

Algeria started off with 15.8 percent in 1980, increased to 29.8 percent by 2000, and unemployment rate decreased to 11.3 percent by 2008. Indonesia economy showed quite resolute progress in 1980s and early 90s with unemployment below 2.5 percent. After 1995 unemployment rate rose above 6 percent through to 2008, as shown in the Table 6.5 above. The unemployment in Chile was 10.4 percent in 1980. It was reduced to 6.9 percent in 2005, and rose to 7.8 percent in 2008.

Surprisingly, unemployment rate in Nigeria was kept below 5 percent riding shoulder high with developed economies, like Norway or Japan or Singapore. In Angola, (though unemployment rate cannot be traced between 1980-2000), the figures after 2000s, shows that unemployment is increasing, with 8.2 percent recorded in 2005 and jumped to 11.5 percent in 2008.

It can be argued that an impact of rapid increase in labour force may operate directly through the labour market. If labour force grows more rapidly than gainful employment, the share of open and disguised unemployment in the labour force increases. Average income per worker decreases, while unemployment and under employment increases among the poor. The influx of labour force will lead to increased income inequality, enhance the numbers in poverty and eventually lower their income.

6.5 Infant and Child Mortality

Child mortality and life expectancy are two separate entities that ensure growth and development. Infant and child mortality refers to the chance of a child dying between the age of 0 to 1 year and 0 to 5 years per 1000 births, WHO (1993). UN Report (2001) and WHO (1993) have it that by average a child born at the end of the twentieth century will live 21 years longer than a child born two generations earlier. This is primarily due to reduction in infant and child mortality. By and large, high infants and child mortality may show the general state of health condition in a country. Table 6.5 presents data on infant and child mortality of the selected oil countries

Table 6.6: Infant and child mortality rates in 1990 and 2008.

Countries	1990	2000	2005	2007	2008
Algeria	64	48	44	37	41
Angola	260	239	227	158	220
Botswana	50	81	36	40	31
Chile	22	11	9	9	9
Indonesia	86	56	46	31	41
Malaysia	18	10	8	11	6
Mexico	45	26	20	35	17
Nigeria	230	207	194	189	186
Norway	9	5	4	4	4
S Arabia	43	23	22	25	21
UAE	17	11	9	8	8

Source: Compiled from World Bank database & 2000 Revision, population data base, and HDI (2008)

It can be noted from the table that individual countries have reduced infant and child mortality rates, with a few attaining single-digits. Norway, as usual, has reduced infant and child mortality from 9/1000 to 4/1000. While countries in the middle income, except Africa and probably Indonesia, were able to reduce infant and child rate from 86/1000 to 9/1000 birth. Nigeria and Angola have reduced it from 260/1000 to 186/1000 over the period. Apart from Norway which shows exceptional case for oil-rich economy in matching up with the resource less like Japan or Singapore, the rest are nowhere near to them in terms of reducing infant and child mortality rate.

So far, Nigeria and Angola have the highest infant and child mortality rates among the resource abundant countries. The factors attributed to these marked difference, comparing to Asia and Latin America, may include lack of improved medical technology- lack of improved curative medicine and the development of effective medicines, which make it impossible to treat disease which were regarded untreatable, for example, 'the antibiotics that are used to combat various infectious diseases. Secondly, poor access to improve water supply, hygiene and sanitation facilities. Thirdly, poor combating in animal carriers of diseases (vectors), other factors include poor nutrition, high illiteracy rate and ignorance amongst mothers and lack of health-care policy' in maintaining child, (Adam 2010:179).

Middle East and Latin American economies have recorded relatively low infant mortality rates as indicated in the Table 6.1. The reason is, they have greater access to improving medical technology, water hygiene and sanitation facilities, to controlling victors that transmit disease such as flies, mosquitoes, worms, slugs, snails or bats to expanding access of women to education and to ensuring balance diet for the children under 5 years.

Advanced economy Norway has access to advance health facilities as a result of investing into advance medical technologies, research and development and so forth to improve the infant and child mortality.

6.6 Impact on Life Expectancy

With the health condition in these countries, life expectancy is compromised. Jean-Pierre Poullier et.al (2002) studied on the pattern of global health expenditure and found that countries that spend little on health have poorer health conditions. Of the 91 countries surveyed, countries that spend \$200 per capita on health are only 47.1 years health adjusted life expectancy. Those who have spent between \$200 and \$850 per person on health, half of them have health adjusted life expectancies between 57 and 62 years. And countries spending over \$850 enjoy health adjusted life expectancies between 67 and 71 years. Though the GDP per capital expenditure on

health cannot be obtained by this research on the economies to find the linkage between health expenditure and life expectancy, Jean- Pierre et al's (2002) research is used as basis for health expenditure to determine the outcomes of life expectancy in this regard.

Table 6.7: Life expectancy, 1980-2008 for Africa, Latin America, and Asia

Country	1980	1990	2000	2005	2006	2007	2008
Algeria	59.6	67.0	70.1	71.7	72.0	72.2	72.4
Angola	40.5	42.0	43.6	45.5	46.0	46.5	47.1
Botswana	60.5	64.2	50.6	50.9	52.2	53.4	54.4
Chile	69.1	73.6	76.8	78.2	78.3	78.5	78.6
Indonesia	54.4	61.6	67.4	69.7	70.1	70.5	70.8
Malaysia	67.0	70.0	73.0	74.0	74.0	74.0	74.0
Mexico	66.6	70.8	74.3	75.5	75.7	76.0	76.2
Nigeria	44.8	44.6	45.9	47.3	47.5	47.7	47.9
Norway	75.7	76.8	78.8	80.0	80.3	80.5	80.7
Saudi Arabia	61.0	67.8	71.1	72.2	72.4	72.7	72.9
UAE	67.5	72.5	76.4	77.1	77.2	77.3	77.4

Source: UN Human development indicators (Feb, 2010) &World Bank database

The implication is that Chile, Mexico, United Arab Emirates, Saudi Arabia, Malaysia and Indonesia have all increased per capital expenditure above \$850, after 1990. On the other hand, Botswana, Nigeria and Angola have spent less than \$200 per person to improve the health status of the population. The divergence between Sub-Saharan Africa oil rich countries and Malaysia, Saudi Arabia, Venezuela continues to increase. The World Health Organization (WHO 2002: table 6) estimates, comparing

life expectancy with health status of the population without AIDS for the year 2000, for example, concluded that on average life expectancy at birth in Sub-Saharan Africa is six years lower than it would have been in the absence of AIDS for males and seven years lower for female. This shows the challenges confronting the health sector in Sub-Saharan oil economies: lack of access to health facilities, poor quality of service, long waiting time for treatment, poor training for doctors, low doctor ratio per patients, lack of medicines for new treatments and lack of physical infrastructure are some of the compelling needs of the people.

6.7 Conclusion

On the whole, economic growth has direct relationship with social spending. Lack of growth occurs when the rate of growth of national income does not exceed population growth, all things being equal. Growth of per capita income will result in the reduction of poverty. Negative growth increases poverty as can be inferred from table 5.2 over some of the oil economies that went through serious problem as a result of negative growth that contracted their economies. Social spending, relative to education and health, are therefore hampered whenever the economy shrinks. Ethan and Carlos (2008) referred it as ‘pro-cyclical’, thus when economic activity contracts, social spending fall by even more, with a decline in the share of social spending in GDP per capita growth, and when economic activity expands, social spending

increases. This linear relationship between economic growth and social spending was common feature among oil economies in Africa, Middle East and Latin America.

Even though this condition exists, Norway has managed its natural resource revenue satisfactorily, and invested into health facilities and health services to improve health adjusted life expectancy of its population, the Middle East, Latin America and Asia have to a large extent improved the health adjusted life expectancy of their population. Sub-Saharan African has not invested enough to improve the health status of the population.

The problem of poor training of teachers', student-teacher ratios, poor quality of textbooks, lack of other teaching and learning equipment, and an emphasis on rote learning rather than problem solving are faced by African, Latin America and Middle East Countries need immediate attention.

The question to avert this trend of economies falling into procyclical condition, The probable window is to create favourable environment for private sector investment, and put emphasis on mobilization of saving and to act as investor where private sector cannot invest due to the huge capital outlay in such ventures. Many countries in East Asia have invested heavily in developing human resource base during the initial stages of economic development and industrial take-off.

The challenges in the health sector, especially, Sub-Saharan Africa oil economies need prompt attention in such areas as lack of access to health facilities, inadequate health personnels, poor quality of service, long waiting time for treatment, poor training for doctors, low doctor ratio per patient, lack of medicines for new treatments and lack of physical infrastructure, which are compelling needs of the people.

CHAPTER SEVEN

CONCLUSION

As per the objectives of the research, this chapter proceeds to discuss the findings or lessons and its implication for Ghana's socioeconomic development and poverty reduction. Finally the thesis makes some recommendations that will go a long way to inform policy makers, as to the sort of policies that need immediate attention and long lasting solution of concerns of the chiefs and people of Cape Three Points.

7.1 Human development and Quality of life

The quality of life for the oil economies varies from one geographical region to another. Those in Africa are worse off compared to the Middle East and Latin American economies, which have had marked improvement in the quality of life for their people over the past three decades. Samuel Preston (1975) who studied the relationship between average per capita income and life expectancy at a given moment in time established that the level of income and the average life expectancy are closely related. The analysis in chapter 6 also proved that life expectancy has positively correlation with GDP per capita, though less significant relationship. This precludes that life expectancy may matter in the determination of improved socioeconomic development of oil economies. Norway has been able to match up high GDP per capita income with high per capital social expenditure and attained high life expectancy for its population.

Oil economies that spent less on social activities as compared to Norway managed to attain medium human development status. The transformation of Chile, United Arab Emirates, Saudi Arabia, and Mexico came as a result of huge investments into health, education and the general well-being of the people. it must be pointed out that (Barlow, 1979; Fogel 1994; 1997; Keyzer, 1993; Mayer, 2001; Mushkin, 1962; Popkin, 1978; Strauss and Thomas, 1998; Walsh,1990; who,1999) re-echoed this position that ‘health and education are important aspects of human capital, and that investments and improvements in them have major positive impacts on economic growth and development’. Therefore, one cannot easily segregate micro-level and macro-level relationships between health, education and economic performances. There is the need to recognize the causal channels through which health and education affects the economic lives and performance of individuals and household, as well as economic development. Investment in health and education promote economic development.

The human development indices for Ghana can be described as ‘staggering’. Ministry of Health statistics (2008) shows that the infant mortality rate, decreased from 133 per 1000 live births in 1957 to 56.6 by 1998 and rose to 77 per 1000 live birth. Again, over the same period of 1957-1998, mortality rate for children less than 5 years old dropped from 147.8 per 1000 live births to 107.6, and increased to 111 by the end of 2006. Life expectancy rates also showed a decrease from 58 in 1992 to 57.1 in 2010. All these can be attributed to low per capita expenditure to the health sector of the

economy. It is not surprising that the former Minister of Health Mr. Courage Quashiga has stated that the greatest challenge of the health sector is the human resource deficit, healthcare financing and lack of multi-sectoral collaboration among the players in the health delivery sector.

Second is the high rate of illiteracy and ignorance. Over the past three decades the illiteracy saw relatively small change from 28.4 to 25.2 by the end of 2008. Furthermore, the increasing gap between fundamental or basic education and formal education is a matter of concern. As compared to the previous system of education inherited from the British when one could easily tell the linkage between fundamental or basic education and formal schooling in the country, current education system has failed to achieve the linkage. Nonetheless, more emphasis is being placed now on formal schooling system than basic education. Slowly, the fundamental or basic education is being relegated to the background with an assumption that formal schooling has subsumed the fundamental or basic education.

7.2 Fiscal discipline

Fiscal policy changes may have effects on macroeconomic outcomes of oil economies in the face of frequent commodity price changes. Bad policy often brings about volatility to the economy. Most of the oil economies have had to deal with the issue of pro-cyclical fiscal discipline. According to Gavin and Perotti (1997), many Latin American countries' fiscal discipline displayed pro-cyclical behaviors. The

reason was that in good periods, spending increases in excess over increases in revenue. The effect was, fiscal position was always not compatible with the cyclical position of the economy. The exogenous change in fiscal discipline or cyclical change runs opposite to what would have been appropriate, given the circumstances. This leads to the reduction in effective management of the economy.

In some instances discretionary spending, as in the case of most African and Latin American oil economies, identifies changes in fiscal variables that are unrelated to economic conditions. These changes, which are usually in taxes or spending during election times either for reelection purposes or because of ideological changes in the government throw away the fiscal discipline. This opportunistic spending causes unnecessary economic volatility which in the long run lowers growth. Norway, Botswana, Indonesia, Malaysia and Chile were fiscally disciplined in managing their economies, have chock successes in economic growth and to a large extent are leaving up to the expectation of their population.

Ghana is prone to both pro-cyclical and volatile fiscal problems that affect oil economies. The revenue from gold, cocoa, diamond and bauxite over the years has faced these forms of fiscal discipline and find them hard to manage. The question is how prepared is the country in the management of volatility that is associated with oil

production if it finds it difficult in providing fiscal discipline for traditional commodities.

7.3 Resource curse and Dutch disease

Even though most of the oil economies undertook massive expenditure during economic boom, African, Latin America, and the Middle East economies had to face challenges with the Dutch disease, the appreciation of the real exchange rate. This is as a result of increasing demand of non-tradable goods and services such as public services, land, housing, construction, local specialties, machine rentals, transportation, processing, and handling, given the limited supply responses and eventually lost export competitiveness. The second reason is the decrease in productivity when more factors get chocked up in non-tradable sectors where potential productivity gains are much limited. The third, of course, is the existence of re-allocation (investments, migrations) and transition costs (lost markets and know-how), which made temporary specialization very costly to the society, (Rose, 2006).

Certainly, the harmony between significant oil wealth and large-scale poverty is a “paradox of plenty” if not outright resource curse in itself (AfDB, 2009). The economies must fashion out a system that will create long lasting wealth rather than short run, as the case of oil boom may bring to the nation, and be converted to capital

in the form of human, financial and infrastructure and more sustainable livelihood opportunities (AfDB, 2009).

For oil economies, higher oil prices are expected to be a blessing rather than a curse. Given credence to the revenue accrued to the countries in the early 1970s as provided by Table 5.1. Most of the countries used the revenue to implement economic policies to promote economic growth and social development. Algeria economy grew by 10.3 percent in 1975 and invested into import substitution industrialization, while Venezuela grown by 6.1 percent, and invested into human resource capacity and institutional development. Saudi Arabia undertook massive and vigorous infrastructure development, Indonesia initiated balanced growth concept for both rural and urban areas. Most of these countries were faced with the issue of the Dutch disease.

Ghana has a large and growing non tradable (non-agricultural) sector, comprising many parts of the public sector and a wide range of private sector. The activities are dominated by construction, finance, and servicing large resource-based extractive industries such as gold, diamond, bauxite, manganese, and remittances and foreign aid. Structural transformation has been slow in the face of low productivity, and hence low export competitiveness. Factor prices like land and labor remain high in comparison with marginal productivity, output increase by marginal. World Bank report on Ghana oil production (2009:11) observed that for the last two decades non-

traditional exports have only grown modestly and not enough to change the position of traditional exports of gold, cocoa and timber whose respective positions have only varied in time with international prices.

The Dutch disease, therefore, serves as a threat to agriculture potential for growth and poverty reduction. With oil revenue coming into the main stream of government revenue, Ghana's economy may tend to discourage commercial agriculture, despite having large track of fertile land for agriculture. Subsistence farming would not be affected, as producers produce to feed the family, however, the reduction in commercial agriculture would weaken rural households 'ability to graduate from poverty. In reference to poverty strategic reduction (2006), in 2005/6, more than 85 percent of Ghana's poor were living in rural areas. There is the threat that with the onset of oil production rural-urban migration mostly of the youth will increase, while labour in agriculture will fall.

7.4 Weak Institutions

The discussion in chapter five indicated that government effectiveness and accountability are positively in correlated, with GDP per capita. Government effectiveness shown by Norway, Malaysia, Indonesia (to a large extent), and Saudi Arabia means government effectiveness and accountability have significant relationship with GDP growth among these economies. The failure of most economic

and social policies has been attributed to constraint of institutional capabilities by the policy implementers themselves, as in the case of Algeria, Venezuela and Nigeria. This issue of institutional capabilities, as observed by Gelb and Turner, (2007), see the problem as a principal agent problem. The revenue and management of the oil resource are done by government on behalf of its people. But, more often than not, lack of clear ownership, roles and responsibility between African political leadership on one hand and their institutions on the other ends up with squandering the resources accrued to the economy. Institutions to either restrain politicians or render accountability to the population either weak or lack the capacity to perform. In addition to the oil companies who conspired with political authority, indulge in rent seeking behavior and corruption. This often rope in increased political patronage and subsequently lower entrepreneurship spirit, lower capacity for investment, increased authoritarianism, and to some extent create civil conflict among tribes and groups especially communities where the oil is extracted.

Ross (1999) provides a good summary of three types of reasons for policy failure:(i) ‘cognitive reasons – resource rents are seen to induce a get rich quickly mentality, resulting in short-sighted policy decisions and excessive spending; (ii) societal reasons – countries often have existing interest groups with significant political leverage on the state who block growth enhancing policies; and (iii) statist reasons – states are free from the need to levy domestic taxes and therefore become less

accountable to citizens since they no longer need either their votes or their taxes and devote rents to guarding the status quo'. Institutional quality construct separated from political forces will put the institutions in an effective and efficient position to perform their activities.

Most political economists such as Bourguignon & Dessus,(2009); Moss & Young (2009) who studied the institutions in Ghana concluded that Ghana was more 'grabber friendly' than 'producer friendly'. The World Bank (2007) recent institutional assessment reaffirmed that with the advent of a multi party system in 1992, Ghana had moved from a positive to a negative outlier in the measure of bureaucratic quality. This means that with the advent of change in government, there was no longer the need to serve the public interest. This wakeup call needs immediate attention if the oil fund is to serve as a blessing rather than a curse.

7.5 Land Reform

Land as a factor of production and an input into the production process has positive correlation with GDP per capita income. This implies that land has a role to play in GDP per capita income of the economy. This is why most of the countries went through land reforms to position agriculture to play its role effectively and efficiently in the economic development; Venezuela, Algeria, Nigeria and (even resource less countries like Japan and Singapore) undertook land reform. Although there were

variations in individual country's land reforms, Japan's land Reform has been seen by many researchers as fairly distributed, and work towards equitable society. However, in countries such as Venezuela, Algeria, Iran, Chile and Nigeria, land reforms have put greater proportion of land in the hands of oil companies, businessmen, bureaucrats, and political leaders (as shown in chapter 5). Thus the reforms provided safe havens for those powerful and influential in the society to manipulate the use of land as well as production activities. Majority of the population were left without land to depend on for the rest of their lives. The result was that the indigenes formed groups, some of which were transformed into pressure groups to fight for their rights to access- land and other mineral resources. For instance, indigenous groups in Ogoni, Ijaw of Nigeria; Kirineri, Nahua, Nanti- Peru; Uwa- Colombia; Karen-Burma and Paumari Apurina, Deni of Brazil are some of the groups formed around oil production.

The current Ghana land reform program being undertaken must work towards social equity. Ghana can take a cue from Japan's land reform where land was relatively distributed somewhat devoid of acrimonies and tension among the local people. It is important to note that Ghana is increasingly showing social disparities and social divisions amongst ethnic and tribal lines, which pose a threat in the face of oil boom. Afro barometer survey (2005), confirmed that the regional inequalities are increasing and the role of ethnic identity seems to be increasing with ethnic grievances rising.

7.6 Mismanagement and corruption

Accountability and control of corruption are positively correlated to GDP growth and significant for economies development. Although accountability and control of corruptions promote GDP growth, not much attention has been given to them by some oil economies in Africa, Middle East and Latin America, as indicates in chapter 5. This premise therefore sides with majority of the researchers in this field of study who provided evidence that ‘natural resource booms often decrease the quality of public spending and encourage rent seeking’ (Ploeg, 2007; Auty, 2001; Auty, 2004; Stevens, 2003). This is because the fiscal resources from resource booms is concentrated in the hands of bureaucrats (most of whom align themselves to politically dominant groups in power) and there is a tendency to promote unwarranted and reckless investment. For example, president Boumedienne of Algeria invested recklessly in the construction of shopping malls, which were eventually owned by bureaucrats and cronies around him (Lowe, 2009:89).

The issue is that natural resource revenues have the tendency to replace more stable and sustainable revenue streams, which worsen the problems of transparency and accountability. Government tends to over rely on the “sizeable” resource revenues, with little emphasis on the non-resource taxes and other government incomes. This provided easy way for governments to dodge the issue of fiscal transparency and accountability that arise when people pay taxes. The danger is that ‘rent seeking

behavior poses significant amount of revenue loss to the economy. Second, it also diverts attention from long-term development goals to maximizing rent creation. Third, it seeks to create extremely powerful lobby groups that are able to block needed economic reforms. Fourth, societies face severe impediments to innovation as a result of the behavior of special interest groups. Fifth, rent seeking makes it more difficult for governments to adjust spending when faced with revenue fluctuations. Finally, rent seeking is equivalent to the creation of monopoly power in an economy and the social costs of such monopolization are higher if the costs to maintain that monopoly are added' (Stevens, 2003).

To date, Ghana has no law that regulates the use of oil revenue (though one is being debated in parliament), or policy guideline for the revenue usage. All the issues around the revenue are political rhetoric by political heads as to how the revenue would be used. The danger is that the country is threading the path of mismanagement and corruption by politicians and bureaucrats as there is no cogent policy guidelines for monitoring and tracking out oil revenue.

The tax system in Ghana like any other developing countries is confronted with numerous problems. It ranges from tax invasion (porous nature of the tax regimes), corruption, attitude of Ghanaians to pay tax, poor capacity of tax institutions to carry out their mandates, poor tax laws enforcement and large informal sector. This

teeming problems steering in the face of the tax system has the greater chance to be enhanced when the oil revenue comes to the main revenue stream. As one official for internal revenue office in Accra stated during preliminary interview, ‘government will pay no attention to tax system and allow the institutions to go to sleep at the end of the day’.

7.7 Political and cultural acculturation

Political instability is negatively correlated but highly significant relationship with GDP per capita income. This implies that political stability plays significant role in GDP per capital growth. Therefore, countries with rich natural resources were more likely to experience failed or slow transitions to democracy. Although the empirical study shows that ‘a one percentage point increase in resource dependence leads to democracy index dropping of 2.15 percent and that resource-abundance were more likely to be authoritarian and experience breakdowns in democracy after the democratic transition’ (Jensen & Wantcheken 2004)

Fundamentally, political instability is often caused by lack of national cohesion, especially where loyalty is particularly oriented to a specific area, group or groups, tribe, ethnic group or family. A classical example is the class, political and racial polarization that has surfaced in Venezuela after the election of President Hugo

Chavez (Miguel Sala 2009:1); Nigeria, Algeria, Iraq and Iran are all rocked by ethnic divisions, which threatens national unity. Second, oil companies often break the culture of the people with impunity, break the stronghold of the old landed elite, stimulates the growth of middle class, reorganize section of the society to suit their whims and caprices, determine local and national policy direction and end up influencing the perspective of the community or the country. Thus they create their own 'kingdoms' with set of rules and regulation against the rules and regulations of the country or communities in which they operate.

A case in point is the oil communities in Cabimas-Venezuela, Niger delta-Nigeria and Angola. Besides, there is insufficient guarantee for human rights, as the military is assigned the role of protecting the operations of the oil companies (thus rule of law is poorly observed).

There is no doubt, Ghana's young democracy has been praised by many as a beacon for Africa, well ahead of South Africa, Botswana and Namibia. All the necessary institutions to represent a democratic state are in place. The legislature, executive and the judiciary are to a large extent autonomous both in body and function, the media operate freely, and there is also Human Right and Administration Justice. But there is the question of capacity and insight into their core function to make these institutions effective and efficient in a democratic environment. Critical assessment reveals that Ghana indeed has a long way to go. It is important to also recognize that

Ghana as a 'nation-state' is being weakened by political force, loyalty, and feelings of solidarity with a common national culture and society is gradually given way to group that one belongs, tribe, ethnic group or family or clan one hauls from. This is dangerous to start with as a nation in the face of oil production and its problems.

7.8. Recommendations and the way forward

7.8.1 Institutional Development and Capacity Building

The institutional set-up and its relation to socioeconomic development are extremely important in the case of Ghana for further enhancing the relationship among production, accumulation of capital and equitable distribution. Institutions provide the incentive structure for which formal rules, constitutions, laws and regulations, and informal constraints, conventions, norms of behavior and self-imposed codes of conduct, and their enforcement characteristics (North 1993).

Ghana faces significant institutional capacity challenges, in terms of socioeconomic capabilities that enhance growth and distribute effective social services. These challenges can be addressed not only within government, but among parliamentarians, judiciary, civil society groups, journalists, and other relevant agencies having direct link to the oil production. They need to be strengthened in order to play useful role in the collective management and oversee the petroleum

sector for the common good. The capacity building should be across board, from GNPC and the yet-to-be-created GPRA; to the Ministry of Energy, Ministry of Finance and Economic Planning, and EPA, and to other government ministries, departments, and agencies. Ghana will need expertise to monitor production costs on the deepwater field, staff in the Internal Revenue Service who can understand the complex calculations in the petroleum agreements that determine the government stake, auditors who can audit oil company books, investment specialists who can understand and help manage potential oil savings or stabilization funds, and so on. Investment in the institutional capacities will help Ghana to avoid early mistakes experienced by Nigeria, Angola and others to increase the revenue that can be used to support poverty reduction programs.

7.8.2 Management of the resource

It is proven fact that real consensus building at the design stage around what the oil rents will be used for and how they will be managed, is the surest way to ensure its proper management. This has been tested by São Tomé which designed inclusive procedures of creating some sort of consensus to the question of what and how to utilize the revenue. First of all it is to identify relevant bodies and sectors including non-oil sectors that the oil production would directly and indirectly have an impact on their socioeconomic lives and to build consensus as to the use of the revenue. This

form of arrangement would hold government and other institutions linked to the windfall management accountable.

For instance, in Indonesia, this required strengthening civil society groups (including the voice of agricultural producers) to express how the new revenues will impact their sector vis-à-vis other better connected interest groups such as those representing big business. There was a broad agreement around equity concerns, particularly the need to stabilize rural economies, and a clear government commitment to invest in local or rural communities. By and large, greater proportion of the funds was, thus, committed to finance community-driven development projects in rural communities, especially agriculture and labor-intensive industry. In the case of Norway, policy makers responded to the demands of a broad-based partnership with non-oil exporters by implementing policies that focused on maintaining the competitiveness of the non-oil sectors during the 1970s and 1980s (Moss and Young, 2009). In Alaska, such a constituency was artificially created through the Permanent Fund Dividend (Moss and Young, 2009).

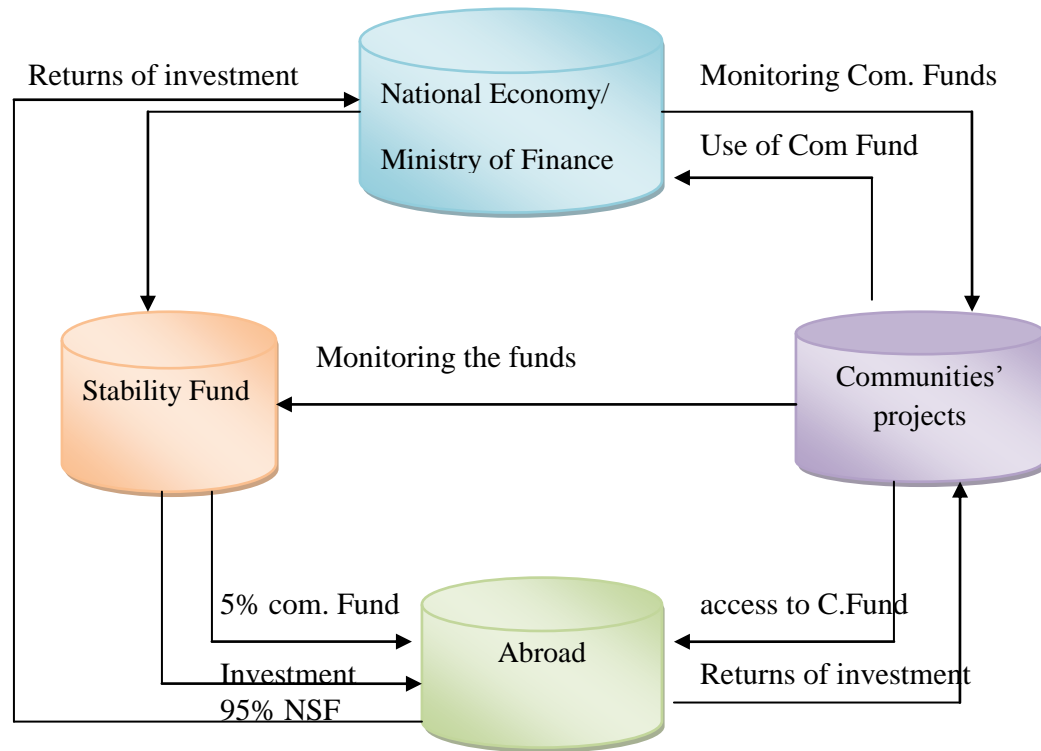
In addition, government should put a mechanism in place to ensure that accumulating funds be put in foreign reserves, to run budget surpluses properly and to manage the nominal exchange rates in such a way to avoid real appreciation of the nation's

currency. By so doing the government can avoid external debt, and create stable economy for diversification to take place in the economy, all things being equal.

7.8.3 Stability Fund

The creation of Stabilization Fund (SF) for oil revenue is more important to Ghana for social and economic stability as Norway, Russia, Venezuela and Botswana have done for their natural resources. The Fund serves as a long-term savings for the Government to accumulate financial assets to help cope with future expenditures that would be demanded by the ageing population. For that reason, it is not advisable to invest in projects which can be justified for their high social returns with low commercial returns (Van Wijnbergen, 2008). This is often the case of a number of African countries such as Nigeria, Algeria, Angola and Guinea Bissau where public investment projects, which were public in nature with low commercial returns, make their implementation unattractive to the private sector. Stability Fund should thus be created and proceeds investment abroad in stock markets and sovereign bonds of non-oil high income countries. Secondly, community development fund should also be created, similar to the national, but in different arrangement for its usage by the communities. The flow chart below is recommended for the creation of stabilization fund for the community

Figure 7.1: The proposed stability Fund



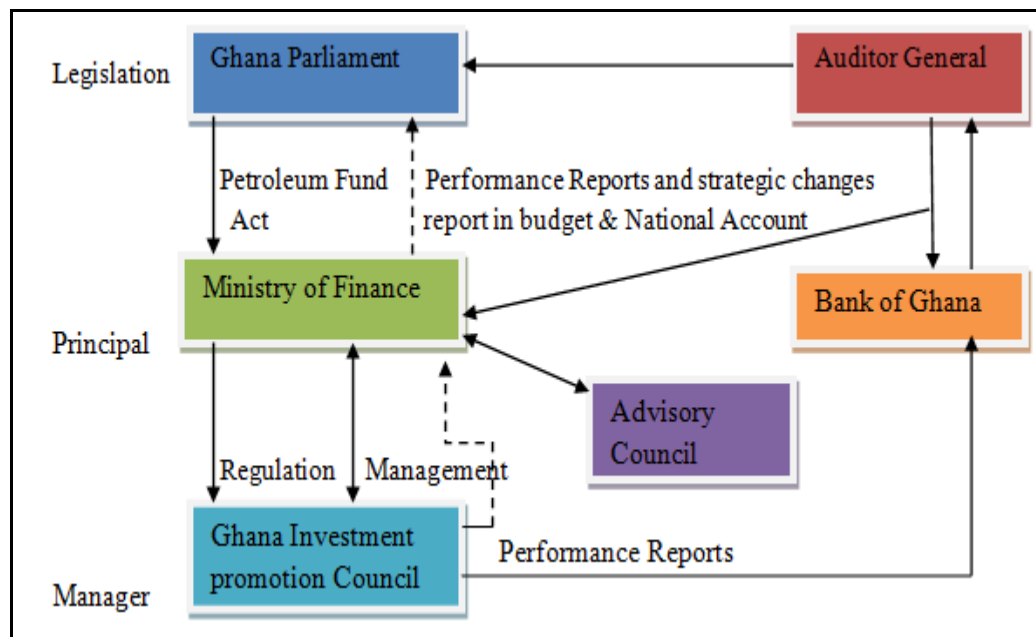
Source: Compiled by author

Secondly, there is the need to decouple transfers of funds from Stability Fund to the budget by equating transfers over an infinite number of years, which will aim at neutralizing price volatility and induce great budget volatility.

Accountability and transparency mechanisms should be built into the institutional frameworks, as shown in (Figure 7.1) above in the absence of strong institutional. Recent evidence by Humphrey's and Standby (2007) suggests that for such funds to

be effectively transparent and accountable, three things are necessary: (i) withdrawal decisions should be regulated by clear rules rather than general guidelines; (ii) key decisions should be made by broad bodies representing the interests of diverse political constituencies; and (iii) there should be high levels of transparency governing their operation. These three points are therefore necessary for the structure below to work effectively.

Figure 7.2 Management of the fund



Source: Compiled by the author

In minimizing risks for politicians' capturing the funds there should be a call for greater social accountability, which cannot take place without economic transparency. It is therefore right for Ghana to improve and implements the Freedom

of Information Act bill, which will re-enforce accountability mechanisms regarding: the publication of reports on revenue and their usage, and the disclosure of bidders' identity and bidding documents. The EITI ++ process by World Bank (2008) which offer assistance in designing contracts, monitoring operations, and collecting taxes would be great benefit. Furthermore, increased transparency should open the door to design a local institutional response to the risk of politician to capture the funds. This should be achieved by ensuring independence judiciary and judgments, freedom of the press. Various experiences from the rest of the World can inspire Ghana, but none of them will become effective if not fully and broadly owned locally.

At the community level efforts should be made to ensure that the tenant of effective participation is strictly observed. Thus freedom to express the views and communication should prevail; individuals can exert and be able to relate to the issues which may arise, be able to establish contact with other persons, exchange views and form social links. Nothing should prevent anyone the freedom to maneuver, physically, psychologically and socially, or constrain to take part effectively in a democratic process in the community.

7.8.4 The role of poverty reduction in improving the human development for the communities

The causes of poverty is multifaceted including inability of the national economy to optimize benefits within the global system, low capacities through lack of education, vocational skills, entrepreneurial abilities, poor health and low levels of consumption through lack of access to capital, social assets and market opportunities. These factors basically consist of government expenditure and can be address by fiscal policy. The way revenue is allocated in terms of poverty reduction and income distribution, is crucial element to an expanding equality and reducing level of income inequality. Government allocation of resources has many competing demands and different objectives, all of which are directly linked to the improving quality of life of the people. One of the ways to improve the conditions in the communities is by income generation and redistribution to improve infant and child mortality, life expectancy, literacy rate and income equality.

Another one is to strive for reducing unemployment and reaching full employment, through allocation of resources to appropriate areas that will expand the activities of the communities rather than contracting or folding their socioeconomic activities. The third objective is the delivery and affordability or access of services both socially and economically to enhance their lives in the communities. All three are important for

socioeconomic development of the communities and can contribute to poverty reduction and inequalities for speedy economic growth.

7.8.5 Redefinition of community

A study of Hui and Kiong (1997:467) to ascertain people's perception of community and sense of belongingness (neighbor relation) found that the more extensive and deeper the level of neighboring interaction engaged in, the more likely the resident is to have positive evaluations of neighbor relations and hence to feel a sense of community in its locality.

The first step in this development of sense of communism is community security. This area requires greater amount of redefining and reworking on the past concepts and understandings. The relative wide apart of these communities from each other even make it more contingent to redefine community life, and to depart from stereotypes and prejudices necessary for development. The perception against the communities as 'narrow-minded' was not acceptable. Open discussion over ethnic, tribal and group differences should be encouraged, which will contribute to the redefinition of community.

The second step is the question of whether the youth would be submissive to the norms of their elders and the value systems of the community. Over the years,

community norms and values were the underlined threats for the community's well-being, sense of stability and security which all ethnic groups aligned themselves for coexistence. Government should develop moral-education programs which focus on the basic components of community security which should constitute the underlying basis for social contract. There should be moral education program that tries to provide for a common social expectation and understanding between the individual and the society. The government should adopt multi-tribal, multi-religious approach, by devising a mechanism by which each religious group could participate in the formulation of the program, especially in the area which touches on their moral or religion tenets. Given this mechanism, it would need only the joint concern of the various communities for swift action and agreement. This will serve as the basic structures for social input into policy making. The ability of the government to coordinate and control the participating parties like the case in Singapore, as well as, the ability of the parties to accept one another on equal terms will be indispensable in this regard. This implicit trust should be the foundation of community belonging, which should enhance social integration and ensure higher level of community security and cohesion.

In safeguarding communities' needs, the following should be a priority to government

- i. Strengthen district institutional structures (like that of Norway), roles and procedures for prioritizing and coordinating investment in support of comprehensive and integral community development.
- ii. Strengthen the ability of the district assembly to undertake coordination of development planning process to stimulate communities' development.
- iii. promote community participation as an integral part of planning and implementing projects at the communities
- iv. Progressively provide comprehensive economic and social services and infrastructure in support of transformation of the communities' economy
- v. Inject dynamism in the public sector in support of community and private sector initiatives
- vi. Set up mechanisms at the community level to assist the private sector, particularly small-scale enterprises to identify opportunities for initiative and investment
- vii. Set up agricultural service and industrial technology transfer agencies as first step to organizing and providing assistance including advice on credit facilities, and
- viii. Making sure that all economic and social activities conform to environmental conservation and improvement.

7.9 Conclusion

The study of the impact of oil production in some oil economies in Africa, Middle East, Asia and Latin America highlights significant policy choices in the determination of socioeconomic outcomes. It has demonstrated that the Dutch disease or resource curse, mismanagement and corruption, conflicts, poor land reform, lack of cultural acculturation, poor community integration as a result of oil companies creating their own 'kingdoms' with their own set of rules and regulations, as opposed to the norms and values of the people, poor institutional capacity, poor policy formulation and implementation and poverty will pose challenges to the socioeconomic development of the communities and Ghana as a whole.

But these challenges can be solved somewhat by the policy choices that leaders make through institutional arrangements that they construct and rely upon. Japan and Singapore provide good models for Ghana. This is because with less natural resources these countries adopted the appropriate policies that enabled them to improve their societies. They provide a carbon copy for both developed and developing economies in Asia. Ghana has no excuse but to take a look at what others have done.

Ghana has come very far, if one recounts the historical narrative that traces the socioeconomic interaction between economic policy choices as against structure and agency in the implementation of policies. We can conveniently link the challenges and constraints to the delivery of future outcomes to the doorstep of the institutional development. The point to note is that macro and domestic structural variables interact to determine the socioeconomic development of the society. As pointed out by Rotberg (2004:25), “institutional fragilities and structural flaws contribute to failure, but those deficiencies usually hark back to decision or actions by men”. Through the interaction amongst the choices we can make and provide structures that can produce positive outcomes that every Ghanaian is wishing for.

Taking a trajectory of Africa’s oil exporting countries, from the beginning of oil production through the period of oil shock to date, matching up with the socioeconomic development in these economies raises more questions than answers. They are characterized by poor fiscal discipline, poor taxation and saving mobilization, mismanagement and corruption, conflicts, and lack of participation in development processes. Investment in political, social and economic institution and redistributive measures may be good strategy to adopt for the developmental needs of the communities and the country as a whole. Hence, it may be appropriate and more contingent to consider the above recommendation and implement them in full.

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