What Ghana’s current ranking on the Global Competitiveness Index means for its development

by IMANI News Room - Sunday, September 21, 2014


The World Economic Forum (WEF henceforth) has recently published the 2014-15 edition of its Global Competitive Index (GCI) which is a well-trusted spatial comparison of economic competitiveness. The credibility of the GCI stems from its comprehensive nature in the use of over a hundred indicators to produce complete annual analyses of the competitiveness of over a hundred economies around the world. Since its debut in 1979, the GCI has caused many -and rather important- dialogues among policy-makers, business leaders and other members of civil society which makes it an import index for stakeholders of the Ghanaian economy. It is important to note that this comprehensive tool measures the macroeconomic as well as the microeconomic foundations of national competitiveness.

Ghana has been ranked 111th out of the 144 economies analysed in the Index. Additionally, Ghana attained a score of 3.71 on a scoring scale of 7 maximum. This year’s ranking of 111 comes as an improvement in the competitiveness of the Ghanaian economy as the Ghanaian economy was ranked 114th in the 2013 report - in other words, the economy has moved forward three places. Whereas this may appear an improvement- albeit only little- eyeballing the GCI trend over time, one finds that the Ghanaian economy has still not been able to recover to the ranking of 103rd it held in the 2012 rankings. The basic requirements for competing globally saw Ghana ranked 123 out of the 144 countries, which is a progression of 5 places higher than last year’s ranking. The upward movement of Ghana’s competitiveness is nonetheless shaky, especially when looking at the sustainability of the modest gains in competitiveness. The late twentieth century saw a shift in focus from mere economic development to sustainable development- which was defined by 1987 publication of the ‘Our Common Future’ Report as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

In this sustainability milieu, Ghana’s performance is not the most promising. Social sustainability (which encompasses vulnerability to economic exclusion and the fulfilment of basic physical needs) reduced and environmental sustainability did not change in comparison to the 2013 rankings. Once the GCI has been adjusted to take into account sustainability, Ghana’s score of 3.71 reduces to a worrying 3.6. Figure 1 below provides a snapshot of the country’s score according to the index.

Figure 1: Ghana’s score for the individual pillars measured in the G.C.I. where 1= worst , 7=best

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions</td>
<td>3.9</td>
<td>3.9</td>
<td>?</td>
</tr>
</tbody>
</table>
What Ghana’s current ranking on the Global Competitiveness Index means for its development - 09-21-2014
by IMANI News Room - IMANI Center for Policy and Education - http://www.imanighana.com/imani

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>3.0</th>
<th>3.0</th>
<th>?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic environment</td>
<td>3.1</td>
<td>3.4</td>
<td>?</td>
</tr>
<tr>
<td>Health and primary education</td>
<td>4.5</td>
<td>4.5</td>
<td>?</td>
</tr>
<tr>
<td>Higher education and training</td>
<td>3.4</td>
<td>3.5</td>
<td>?</td>
</tr>
<tr>
<td>Goods market efficiency</td>
<td>4.3</td>
<td>4.3</td>
<td>?</td>
</tr>
<tr>
<td>Labour market efficiency</td>
<td>4.1</td>
<td>3.9</td>
<td>?</td>
</tr>
<tr>
<td>Financial market development</td>
<td>4.4</td>
<td>4.1</td>
<td>?</td>
</tr>
<tr>
<td>Technological readiness</td>
<td>3.2</td>
<td>3.1</td>
<td>?</td>
</tr>
<tr>
<td>Market size</td>
<td>3.7</td>
<td>3.7</td>
<td>?</td>
</tr>
<tr>
<td>Business sophistication</td>
<td>3.9</td>
<td>3.9</td>
<td>?</td>
</tr>
<tr>
<td>Innovation</td>
<td>3.3</td>
<td>3.3</td>
<td>?</td>
</tr>
</tbody>
</table>

Source: WEF, 2014-2015

Key:

? = improved score relative to the 2013 score

? = same score relative to the 2013 score

? = declined score relative to the 2013 score

What may come as a surprise to many is that, the Index reports that Ghana’s competitive advantage lies in its institutions—*with Ghana being ranked 50th or above under the sub categories of intellectual property protection, independence of the judiciary from government influences, efficiency of government spending of public revenue and strength of investor protection*. It is oft-cited in Ghana— and in other developing countries too— that the private sectors perform better than the public sector and this sentiment is largely reflected in the WEF report. Ghana is ranked 50th or above for the following private competitiveness indicators: *Spread of corporate activity amongst firms, Effect of taxation on incentives to invest, Taxing of profits, Business sophistication and Market size*. This positive performance in the microeconomic competitiveness is in stark contrast with the poor macroeconomic environment. On the measures of Government Budget Balance and Inflation, out of 144 economies, Ghana was ranked 141st and 140th respectively.

Admittedly, there has been a negligible improvement in the overall macroeconomic environment; however, there is no room for complacency here, especially with regards to the budget balance as it is an important indicator of how government activity impacts the rest of the economy financially in many ways.

The stability of a country’s macroeconomic environment and its institutions are inextricably linked and as such, the two pillars should ideally complement each other for long term development of the Ghanaian economy. Contentiously, the atrocious macroeconomic environment in Ghana could render the gains in institutional quality redundant and kick start a vicious cycle of poor institutions leading to worse macroeconomic environment and consequently vice versa.

The Cedi has been on a downward spiral notably since 2012, with a 14.6 percent annual depreciation
against the US Dollar in 2013 and 17 percent in 2014. At face value, the cedi depreciation may be blamed on current account imbalances but on closer inspection, there are more grave issues. Conventional economic wisdom will suggest that, some depreciation of a currency should rebalance the current account in the long term. However, this has not been the case for Ghana, the current account deficit increased to 13.7% of GDP in 2013, according to Fitch Ratings. There are several issues surrounding why the depreciation has not been positive for Ghana's current account. Foremost, the situation is characterised by the twin deficits hypothesis; which in non-economic language means that running a fiscal deficit is concomitant with a current account deficit. Also, Ghana relies on several primary commodities which are notoriously susceptible to volatilities, therefore the cedi’s depreciation does not necessarily allow for a correction of current account imbalance. Overreliance on overpriced imported goods is also another factor accelerating the depreciation of the cedi, increasing inflation and consequently the instability in the economy. Additionally, the short term attempts by the Bank of Ghana to slow down the deprecating cedi has been an ignominious mess, showcasing the dilemma between saving the cedi or forgoing foreign investment. Foreign exchange controls and directives banning the issue of cheques on foreign currency accounts have not been widely welcome by businesspeople and foreign investment, which late translated to the Bank loosening the initial controls announced in February 2014. The interplay of inflation and a weakening currency has become a chicken-and-egg problem. But regardless of which came first, the problem is certainly one that needs to be prioritised, in order to stabilise the macroeconomic environment in Ghana.

Moreover, as Ghana is sometimes seen as a model for the ‘Africa Rising’ picture, one would expect her macroeconomic performance to be at par with the Sub Saharan Africa region average; yet, this is worryingly not the case. It is observable from Figure 2 that the largest divergence between Ghana and her Sub Saharan African neighbours is in the macroeconomic environment, with Ghana being at a disadvantaged position.

We do not need to dig deep into economic history to identify the problems that fiscal deficits pose for economies. The US and European budget deficits in the aftermath of the financial crisis highlighted that fiscal deficits are detrimental to the private sector of an economy too. Inflation, when it soars as high as that of Ghana’s 15.3% (correct at the time of writing), also puts a downward pressure on businesses; put simply, firms are unable to operate efficiently when inflation rates are out of hand. In the case of Ghana, this could further escalate to a reversal of the positive investment patterns in early 2000s where local and international investor confidence was heightened owing to Ghana’s relative economic stability in the African region.

Ipso facto, our economy, despite moving three places up the GCI cannot be expected to grow in a sustainable manner unless the macro environment is stable. It is true that Ghana is one of the most advanced countries in the region, taking a look at social sustainability, there are gaps in indicators such as access to improved sanitation, social safety net protection and youth unemployment. It is rather unfortunate that the aforementioned sanitation -or lack thereof- has manifested itself mercilessly through the current Cholera outbreak, of which thousands have been affected and 300 had died in the Greater Accra region alone. In terms of environmental sustainability, deforestation is still a problem for the economy and on average, almost 5 percent of the forest cover is lost each year. Moreover, the increased attraction to independent small scale mining -or ‘Galamsey’ as it is known in Ghanaian diction- has had negative impacts on previously arable lands. In addition, environmental regulations are not very stringent and tend to be somewhat poorly enforced.
Figure 2: Individual pillar score comparison between Ghana and the Sub Saharan African average

Going forward, the main challenge will therefore be to turn the modest gains; trickling down to a larger proportion of the population. Much remains to be done to lay the foundations for sustainable long-term growth, requiring efforts across all areas—social and environmental alike. The foreword of the WEF Report urges government and business leaders to work together in order to balance out the struggling economies. Finally, development requires cohesive improvement in institutions, infrastructure, macroeconomic institutions and health & primary education.

Ms Janiece King is the primary contact for this article. Ms King an IMANI intern and student of the London School of Economics.