Lessons for Ghana in the Malaysian Economic Miracle

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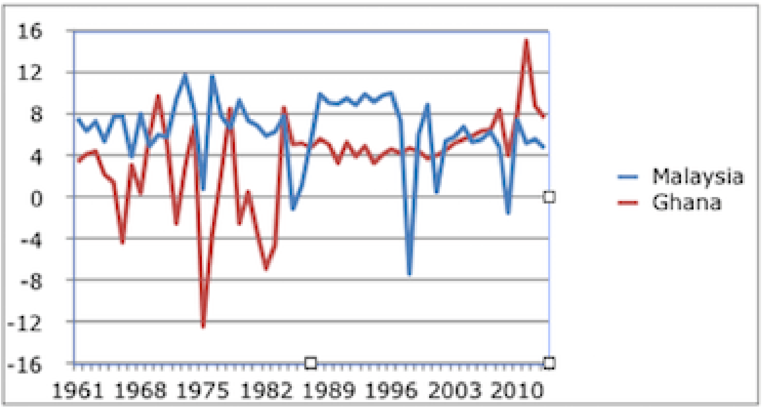
11.1.2017

Nikita Singla discusses the divergent paths of economic development taken by Ghana and Malaysia, two countries that used to share numerous structural similarities.

Malaysia and Ghana could have very well been referred to as identical twins just about five decades ago. Today however, even a call for comparison between the two raises eyebrows. Both Malaysia and Ghana gained independence from Britain in 1957 and stood shoulder to shoulder in terms of their economic state, human and natural resources. And today, though to be taken with a pinch of salt, sources say, if Malaysia was your home instead of Ghana, you would use 18 times more electricity, live nine years longer, make five times more money, be 72 per cent less likely to be unemployed, and consume 7.5 times more oil, among many other privileges. The big question is – why this divergence?

Being former British colonies, both Malaysia and Ghana had a British political set-up but soon after independence, the political and economic systems witnessed a considerable change. At the beginning, Ghana's GDP was slightly above that of Malaysia and Malaysia was marred by internal ethnic tensions. Ghana was expected to take-off better but something changed on the way.

The trends in GDP growth show the economic picture very clearly. Growth rates have been broadly positive for Malaysia except for some deviations like the Asian financial crisis of 1999, and global economic recession of 2001. On the other hand, growth rates in Ghana have been much more erratic: while Malaysia's per capita GDP was only 1.3 times that of Ghana in 1960, it was seven times more in 2015. Share of agriculture in GDP fell from 44 per cent in 1960 to eight per cent in 2015 for Malaysia but stood at 21 per cent in 2015 for Ghana. A part of diverging economic paths could be attributed to varying levels of industrialisation.



In addition to the present economic structure, Malaysian economist Zainal Yusof observes that exports of natural resource commodities continue to dominate Ghana's exports. Gold is one of the largest export earners, accounting for about 23 per cent of export share in 2014, followed by cocoa and timber. Ghana was the largest cocoa producer in 1960s, but production fell in the 1980s, recovered in the 1990s and fell again in mid 2000s. Therefore, any volatility in commodity exports is detrimental to the long-term economic growth prospects of Ghana.

Academics like Rabelani Dagada, Development Economist based in South Asia, draw attention towards Kuala Lumpur's fiscal and economic planning prudence while being critical of Accra's development policy paralysis.

Ghana and Malaysia not only shared structural similarities at the time of independence, but their respective leaders also shared almost identical visions. In the immediate postcolonial period, Ghana's Dr Kwame Nkrumah and Malaysia's Prime Minister Tunku Abdul Rahman developed their vision 2020, which aimed at building solid and world-class economies. But along the line, according to Malaysian economist Zainal Yusof, political instability became more pronounced in Ghana. Between 1957 and 1981, there were nine changes in government and four military coups. Malaysia was relatively politically stable and the present coalition government is still in power, after more than 50 years.

Journalist Maxwell Akalaare wrote in the Ghana Graphic newspaper: "In the coups that followed, various companies were confiscated and sold, entrepreneurs accused and locked up or killed and the economy battered…While that happened, Malaysians rallied behind one leader, albeit unwillingly, to prosecute their vision 2020." The current economic picture in Ghana stands testimony to that false political start.

While manufacturing share of GDP in Ghana's agricultural resource-led economy stood at a mere five per cent in 2014, Malaysia managed to diversify its economy – the manufacturing sector accounts for more than 82 per cent of total exports. Oil palm, which was alien to Malaysia's economy until it first imported the crop from Ghana, is now their cash-cow. The palm oil alone brought US$12.4 billion in foreign exchange in 2014 and Malaysia accounted for 35 per cent of total world exports of palm oil. Yet, in Ghana, the crop is neglected – most of the land on which the crop grew has been callously exploited by unemployed youth seeking gold to make a living.

While lack of skills remained a major challenge for Ghana, Malaysia promoted its knowledge economy focusing on infusion of technology in industrial policy and ICT in education. Additionally, the stable economic bloc of Association of Southeast Asian Nations (ASEAN) has given Malaysia a geographical advantage in terms of attracting FDI inflows to build up necessary capacities in agriculture and industry. But flows to Ghana have been limited for the political risk associated with the West African sub-region.

Today, as ironic as it seems, Malaysia's progress speaks for Ghana's present and past leaders. Journalist Maxwell Akalaare of the Graphic points out that as Ghana plays catch-up, perhaps with diversification of economy, export-led growth, investment in human resources and good governance, "let's be reminded that economic development requires that the ruling party thinks of the electorate and the economy, not the next elections, and the populace realizes that nation building is a shared responsibility, not the preserve of members of the governing party".

Though Ghana's dream of chasing Malaysian miracle could very well be a dream realised in the future, the only question is if that future is near or yet too far.

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The views expressed in this post are those of the authors and in no way reflect those of the Africa at LSE blog or the London School of Economics and Political Science.