Social and Political Stabilities: Recipes for Economic Growth in the Era of Ghana’s Oil Discovery

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Abstract: The discovery of crude oil in Ghana may be a great boom for economic growth for the nation. Notwithstanding the anticipated oil benefits, the country is likely to follow suite in the bitter experiences of some social and political instability similar to the forerunners in the oil-producing developing states in the world. Several overarching and interconnected problems contribute to these continued instabilities: Influx of political misfits, weak political system coupled with corruption, mismanagement of oil revenue, lack of sound regulatory framework, land disputes, the misuse of oil power and the inequitable allocation of oil revenues among others. Ahead of Ghana’s enlistment as an oil-producing country, this paper discusses some of the plausible social and political challenges burdening oil producing countries that may affect the stability enjoyed so far. From these experiences, Ghana can prepare to combat any conflict and adopt a good model of management of the oil-resource in a stable socio-political system, since oil remains the single most important economic commodity in the world; influencing all facet of the livelihood in our country.

Key words: Oil • Gas • Economic Stability • Political Impact

INTRODUCTION

Revenues from oil, gas and mining should spur economic growth and social development in countries producing them. However, when various forms of mismanagement on the part of the oil industry and the government come up, the dream of achieving economic growth is shattered. The main joy of a country producing oil is the peace it will have in economic, social, political and other facets of life. What happens in most oil producing countries is disheartening and instead of enjoying peace, conflicts and misunderstanding are heard. Heavy oil producing countries like Saudi Arabia, Arab League, Iran and Iraq not forgetting Ghana’s neighbour Nigeria, from records, face conflicts due to their oil find [1]. Many factors have contributed to such prevailing instabilities and declined power of almost all the oil exporting countries in the world. Profits from natural resources allow ruling elites to consolidate power through patronage systems, while revenue mismanagement may fuel devastating spirals of corruption, conflict and poverty. The government continues to face the daunting task of reforming a petroleum-based economy, whose revenues have been squandered through corruption and mismanagement and institutionalizing democracy. In addition, Nigeria continues to experience longstanding ethnic and religious tensions. [1]. In practice, economies that are overly dependent on oil and mineral wealth have often encouraged authoritarian rather than democratic forms of governance, particularly in countries where legal or regulatory frameworks are weak. Ghana may not be an exception in these situations when various problems especially socio-political ones come up. This paper considers some of these social and political mishaps which tend to weaken the economy of most all oil exploring countries especially those in Africa and could affect Ghana if care is not taken. It is so obvious in Ghana that communities in which minerals are mined are not
developed and the people live in poverty. If the government has considered and improved the social lives of the people in these communities, they could have been committed to the work and stopped illegal mining which serves as a leakage in government revenue and eventually a decline in the economic growth of the country. The fear is that the government of Ghana may overlook its social obligations to the communities living around the oil fields. In addition, there could be conflicts between the exploring companies or government and the communities because of land acquisition and use. So that land disputes, violence and forms of militarization as currently seen in the Niger Delta of Nigeria may develop in Ghana as well. Also, another hard experience of some oil exploring countries like Iraq, Angola, Sudan, shows that the rush for maximizing and excessively spending of oil revenues without guidance by sound legislative instruments, a well-defined economic strategy and the application of institutional policies has reduced the opportunities for progress. Specifically, the misuse of oil power and the misallocation of oil revenues have been the roots of political and social instability in most oil exploring countries and Ghana may not be an exception. Moreover, excessive government expenditure and the application of fixed foreign exchange regimes may strengthen the existing hidden structural economic crises, without easing the social and political discontent. The required strategy for stability and progress in any oil exploring country therefore, must consider oil power as the main strategic factor in balancing sustainable economic growth, political stability and social needs.

MATERIALS AND METHODS

Plausible Oil-influenced Political Instabilities: Sources

Inrush of political misfits, petro-violence and civil wars

For the first time in the history of Ghana, twelve political parties registered with the Electoral Commission and about eight of them contested in the December, 2008 general elections; a proof of an increasing thirst for political power due to the oil discovery. This implies that people are hungrier for power now than ever because they envisage a more prosperous Ghana for which they wish to be at the helm of affairs. Ghana may not be an exception to the current state of oil-influenced political instability in the sub region specifically, Nigeria. All around the world, natural resources, bad governance and war seem to be highly correlated, but oil plays a special role in this relationship. Economists have found that a high level of primary commodity export dependence is associated with civil war, but petroleum dependence is even more likely to be associated with conflict than any other commodity [1].

Ghana is one of West African countries rich in mineral resources; in addition, the exploration of oil would produce such high revenues which can be the impetus for going to war – either directly or indirectly thus oil revenues may be catalysts for a conflict that might not otherwise have happened. With the increasing cost of political campaigns, foreign oil companies sometimes take the advantage and link up with political parties and fund their campaigns to bring them to power so that the companies could have ‘good deals’. Frequently, the impact of oil on the outbreak of civil conflict is more indirect - the result of longstanding grievances over land expropriation, corruption, or the misdistribution of resources.

Inequitable Political Decisions: In Ghana, any breach of environmental laws could affect the inhabitants of Cape Three Point and secessionist wars may be likely. Examples abound in the Sudan war which was triggered by President Numeir’s decision to place newly discovered oil fields in the country’s Christian South under the control of the Muslim north. In Nigeria, Biafra’s move to secede only occurred after the government had made fiscal decisions treating oil as a centralized, rather than a regional asset. In this way, fights over oil revenues may become the reason for rekindling pre-existing conflicts in the society [2]. Ghana may not be an exception if care is not taken. As an example, Nigeria began experiencing economic hardships as a result of mismanagement of funds by their former leaders. After signing an International Monetary Fund (IMF) stand-by agreement in August 2000, Nigeria received a debt-restructuring deal from the Paris Club and a $1 billion credit from the IMF, both contingent on economic reforms. Nigeria pulled out of its IMF program in April 2002, after failing to meet spending and exchange rate targets, making it ineligible for additional debt forgiveness from the Paris Club [1].

Political Rebellion and Terrorism: Over dependence on oil is associated with intense conflict. Because petroleum extraction is so technologically sophisticated and requires much capital, it is difficult for rebels or generally unskilled groups to exploit it but governments can use the wealth from oil to attempt repression. This is the case in Sudan, for example, where the government tried to forcibly clear entire populations away from the oilfields and the pipelines. Oil’s non- lootability also means that separatist conflicts like that of the Sudan may be bloody and
intractable where petroleum deposits coincide with the presence of minority groups [3]. Oil dependence, like that of other mineral resources, is associated with civil wars of long duration. Wars are expensive to pursue and difficult to stop; both governments and rebels can use oil revenues to finance their armies. Because petroleum is transported generally through pipelines, it can be easily disrupted and pipelines are invitation for extortion. In Colombia, for example, oil revenues support the government’s battle against rebel movements, but because petroleum must be transported to the coast through long pipelines, there are almost unlimited opportunities for rebels to extract “protection rents” and other forms of resources from oil companies [4].

EMPIRICAL ASSESSMENT AND RESULTS

Effects of Politics and Conflicts on an Oil-Driven Economy: Ghana’s annual revenue from the existing extractive industries leaves much to be desired. For the emerging oil industry in Ghana, the country is likely to face some economic laxity that will worsen the already existing snail-pace industrial growth that the country has seen since the country’s independence if the country loses focus of the holistic industrial development and modernization that need to be pursued. Oil revenues in many ways seem to have led to a failed modernization of the leading oil-powered economies in the Middle East and some African societies such as Angola and Nigeria. Economic growth stalls, political reform stalls and the country gets more polarized. Ghana majors on cocoa and gold primarily for her foreign exchange earnings. Not many industries in Ghana produce for exports. But the craftiness of oil revenues has been that it easily becomes a substitute for industrial development and compromises income diversification and employment. In most developing oil-producing countries such as Iraq, Angola, Equatorial Guinea, oil revenues have also been a substitute for agricultural development, thus hampered self-sufficiency in food supply. Also, oil revenues have been a substitute for democracy and compromised representative government. With increasing volatility of oil prices and population growth rate in Ghana, these problems are likely to be intensified. The oil exporting countries usually, suddenly find themselves with low oil revenues and no or little industrial development. They find themselves with reduced foreign exchange earnings and a greater dependency upon food imports. The rulers and the ruled find themselves with little money and no representative institutions. The failed modernization due to oil production creates an ideological void.

Solutions to Possible Political Unrest in an Oil-Led System (Ghana): Developing Sound Legal and Regulatory framework In the late 1960s when oil fields were discovered in the North Sea off Norway, the country was already one of the world’s wealthiest and most open societies. The efficient civil service, societal norms and the threat of heavy criticism by the legislature and the media discouraged political leaders and other interest from groups trying to influence the work of national institutions put in charge to manage the resource. Ghana’s legislature can play an important role in overseeing management of the oil and gas industry. For instance, the legislature can create the framework for the oil and gas sector by passing legislation and other instruments, debating white papers outlining executive branch proposals, revising and approving major development projects. Ghana also needs a truly independent Auditor General’s Office that could report to the legislature and conduct regular financial and performance audits of all deals between government and the oil industry.

Public Accountability and Transparency: Oil and mineral wealth would be used for broad development purposes to improve the lives of citizens if governments respect democratic freedoms, uphold standards of transparency and accountability and demonstrate a commitment to building administrative capacity. In many of the countries surveyed, commitment to these standards is weak where it exists at all. In countries where government capacity is weak, a commitment to reform can be tracked through participation in initiatives such as the Extractive Industries Transparency Initiative (EITI). In some of the countries that have joined the EITI, such as Nigeria, efforts are underway to enshrine the program’s principles in law thus, making the disclosure of company payments and government receipts compulsory. On the other hand, in countries that have developed effective management and oversight systems over time, such as Botswana, a decision not to engage in such initiatives need not be interpreted as a lack of commitment to transparency and accountability [5]

Social Instabilities: Oil Industries and Immediate Communities: Thousands of Nzemas and Ahanas, who live around Cape Three Point and other villages in Half-Assini, in Ghana will bear the greatest brunt of the environmental impact of the oil exploration, production and pollution from the activities of the oil companies. Typical scenario is “On Monday 9 July 2001 in Ogbofoo in the Rivers State, contract workers employed by Shell
stated that they removed 70,000 barrels of spilled crude from waterways via truck” [6]. Such negative environmental impact is felt predominantly by the immediate community. If care is not taken, the people would be so much exploited by the Oil Companies without adequate (if any) compensation. This is exactly what is happening in almost all mineral mining towns in Ghana. There is a high probability of the communities around the oil fields in Ghana experiencing these same poor living conditions as a result of oil companies taking advantage of them and rendering their land useless. The companies should however implement mechanisms to protect the life and health of the regions inhabitants and its ecological systems from deterioration. They should comply and put into practice its agreement with the people of Nzema as specified in their publications including reducing waste streams including emissions to air, with the emphasis on gas flaring, discharges to water and solid waste; stopping oil spills caused by operational mishaps, corrosion or any reason; minimizing the use of land for facilities, pipelines; minimizing off-site impacts such as changes in hydrology and the condition of decommissioned sites. The oil companies should have and implement a policy on oil spill response in communities. The policy should provide among others things, that the response (in cases of oil spillage) would be directed to saving life, caring for the injured, protecting the general public and environment.

CONCLUSION AND RECOMMENDATIONS

It is very likely Ghana may experience what most oil exploring countries face concerning crisis and instabilities which may affect the economy. This paper has addressed a lot of social and political issues which must be considered especially, by the oil industry and the government as a whole. It is observed from this paper that if the economy of Ghana can grow and be stable, there should not be any form of social and political mishaps and peace among the three key players; the oil industry, the government and the communities around the oil field, must always prevail. There is a greater need for a collaborated effort among the three key players; the oil industry, the government and the communities around the oil fields to foster social, political and economic stability of Ghana.

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