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ONE DISTRICT ONE FACTORY: THE CASE FOR VALUE ADDITION

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The wave of industrialization that started in Britain and swept through the rest of Europe and Northern America in the eighteenth and nineteenth centuries yielded undisputable benefits to the participant countries, positioning them as dominant players in the world's economic system. The exclusive grouping of these industrialized countries boasts of the highest levels of employment, per capita income, health care access, food security among others. The G8 which comprises eight of the most industrialised countries in the world, has less than 13% of the world's population but accounts for over 50% of global wealth. While most countries might have missed out on the Industrial Revolution, it remains possible to make inroads to the exclusive club of industrialized countries through careful planning and growth policies. The G8 was expanded in 1961 to G20 with new entrants from previously unrepresented continents such as Brazil and Argentina from South America, China, Republic of Korea, India, Indonesia and Saudi Arabia from Asia and South Africa from Africa. These countries have also moved away from an agriculture-based economy into a more industralised one and are referred to as Newly Industralised Countries (NICs) as a result. In fact, countries such as Mexico, Philippines, Thailand and Malaysia became industrialised as recently as in the 2000's. Sadly, Africa continues to be woefully underrepresented in the league of industrialised countries, with South Africa being the only country on the continent that is considered somewhat industrialised.

The Nature of the Problem

Ironically, Africa's inability to industrialise has been due to over reliance on the export of raw materials, which drives industrialisation in other countries at its own expense. Africa holds over 60% of the world's uncultivated arable land, 99% of the world's chrome resources, 85% of its platinum, 70% of its tantalite, 68% of its cobalt, and more than half of its gold, among others. Ghana, Ivory Coast and Nigeria alone account for over 70% of global cocoa production but have remained price takers over several decades, thereby ensuring their relative insignificance players in the chocolate industry worth over US$100 billion. Shea trees are exclusive to West Africa and produce nuts from which shea butter is extracted; nonetheless, more than half of shea exports is in the form of raw nuts which have not even undergone basic processing to extract the butter, much less refining the butter even further.

Diversifying Ghana's economy away from primary commodity exports to that of value added products is key to promoting sustainable economic growth. Until 2011, Ghana's major export commodities comprised of cocoa and gold. Crude exports from the Jubilee oil fields introduced an additional revenue stream for government from 2011. This came at a time when crude prices were soaring on the world market, thus providing a significant fiscal cushion for government. At peak production levels and with the high prices in 2014, Ghana made as much as US$978.02 million from crude exports alone, accounting for close to 10% of total government revenue for the year. This represented an increase of 16 % on the previous year's petroleum earnings as production increased at those elevated oil prices. Within the short period between 2011 and 2014, government became heavily reliant on petroleum revenues to fund its fiscal program and overall development agenda.

Unfortunately, between 2014 and 2015 prices plummeted by over 35%, resulting in a 40% decline in petroleum revenue for 2015 in spite of an increase in production volume. Oil prices have since remained low, eroding a vital source of funding upon which government has become heavily dependent on. This clearly demonstrates the challenge posed by the heavy reliance on commodity exports and highlights the need for value addition.

With West Africa accounting for over 70% of the world's total cocoa output and Ghana contributing 25% of that, Ghana is positioned as the second largest exporter of Cocoa in the world after our western neighbor la Cote D'Ivoire. With such high stakes in world output, one would expect Ghana to be a partaker in a chunk of revenues realized in the industry. Contrary to this expectation, Ghana's earnings from the export of cocoa reached US$4.7 billion dollars in 2016, representing 0.95% of the chocolate industry's total earnings of US$100 billion. Ghana's meagre share in the total chocolate industry's earnings is attributable to the export of cocoa in its raw state. Chocolate processing countries on the other hand, are able to capture much higher earnings due to their reliance on finished products to generate revenues. As an example, chocolate sales in the USA amounted to US$21.1 billion in 2014. Cocoa prices have declined on the global market in recent times. Between the first quarter of 2016 and the same period of this year, cocoa prices have declined by over 30%. It is estimated that the sharp fall in prices in the last 4 months has resulted in a US$250 million loss of revenue to Ghana. This clearly demonstrates the huge revenue lost from over reliance on a primary commodity export and highlights the need for value addition.

Recommendations

The industrial sector saw a 1.2% decline in growth in 2016. In government's quest to boost industralisation, the *One District One Factory Initiative* was introduced. This initiative aims at ensuring equitable distribution of factories at the district levels as opposed to the current situation where production and manufacturing facilities are concentrated in the largest urban areas of Tema, Accra, Kumasi, Takoradi and Tamale. In the light of this, the current government has proposed the establishment of a factory in each of the nation's 216 districts. However, with 2016's fiscal deficit coming in at 8.7% of GDP (on cash basis), government does not intend to carry out this initiative single handedly. Government intends to drive the strategy through the private sector. With Ghana's rich endowment in primary commodities, factories to be built under the One District One Factory Initiative should be mainly focused on adding value to our export commodities. This will serve as a hedge against fluctuating global prices and allow us to partake in higher revenues through the export of value added products It is also worth noting that the process of transitioning from a commodity dependent country to an industrialized one is not attainable in the short-run. China's industrial revolution for example, which astonished the world, took about 35 years. Major reforms were undertaken to transition China from a vast impoverished agricultural economy to an industrial one. Today, China is the world's largest manufacturing powerhouse. Beyond the One District One factory Initiative, a long-term plan that outlives the tenure of office of a government must be put in place, monitored and followed through. The long term plan should be built with consensus between political parties so as to ensure its continuity.

Additionally, government should collaborate with other West African countries to form exclusive industrial zones. Countries that are richly endowed with a particular commodity should come together to set up exclusive industrial zones to jointly process commodities for export. The establishment of industrial zones will help West African countries develop processing capacity and benefit from economies of scale. For instance, Ghana can form alliances with the following countries for processing of commodities; Cote D'Ivoire and Nigeria to process cocoa, Burkina Faso, Togo and Cote D'Ivoire to process shea and Cote D'voire and Burkina Faso to process cotton. The formation of industrial alliances will facilitate West Africa's journey onto the path of industrialisation and will enable West Africa to command more supplier power on the global markets, thereby trapping more of the global revenues in each sector for itself. West African countries can go further, using the ties to unify policies and to secure fair prices for commodities. For instance, Ghana, Ivory Coast and Nigeria alone account for over 70% of global cocoa production and can use the strong ties formed to unify cocoa policies and secure stable prices. This strategy was adopted by the top oil producing countries who formed a cartel, OPEC, which proved remarkably successful in boosting their bargaining power on the global markets for oil. West African cocoa producing countries can therefore be OPEC's equivalent for Cocoa. Currently, Ghana and Cote D'Ivoire are in discussions in order to collaborate and coordinate their production strategies in order to tackle price volatility of cocoa.

Since extraction of crude in commercial quantities began in Ghana, the oil has been exported to refineries overseas that have the capacity to refine Ghana's high-grade crude. Ghana's only refinery, the Tema Oil Refinery (TOR) has a capacity to refine 45,000 barrels of crude per day but is operating below its capacity. Oil produced from the Jubilee and TEN averaged 88,487 barrels per day in 2016, exceeding TOR's actual capacity by almost 100%. With commercial production of oil from other fields set to begin, there is a need for TOR to be revamped to ensure full capacity utilisation. Additionally, a plan should be put in place for expansion of TOR to increase its total capacity.

In order to promote industrialisation in Ghana, government should set a minimum quantity of a commodity that must be retained for local processing. This strategy would be particularly appropriate for commodities which are unavailable for local processors due to competition from the international market. This strategy can be easily monitored for commodities that have an established institution as the sole exporter. COCOBOD for instance, as the sole exporter of cocoa, could be tasked by government to retain a minimum percentage of total cocoa output for local industries, provided the local cocoa processing industry is being deprived of cocoa. For commodities without a sole exporter, government should implement and enforce policies such as the imposition of high taxes so as to encourage the sale of commodities to local processors. On the other hand, export policies should be flexible so as to promote the export of finished and semi-finished products derived from the raw commodities. Currently, 90% of cashew produced in the country is exported, and in order to protect the local cashew processing industries, Ghana Export Promotion Authority is advocating the imposition of taxes on the export of raw cashew to encourage farmers to supply cashew to local industries for processing. By putting such policies in place when the need arises, our local industries will receive the protection they need to grow. Although this strategy may be flawed for some of our exports, it is also effective for others, especially those such as cocoa, shea and gold, where our output contributes significantly to global production levels.

Conclusion

The benefits to be harnessed by adding value to our export commodities cannot be over emphasized. The export of value added products serves as a hedge against fluctuating global prices of primary commodities. Additionally, finished products will attract higher revenues, meaning that we will enjoy higher export earnings from our finished and semi-finished products, instead of supporting industrialisation in other countries through the export of raw materials. In addition, we stand to benefit from a significant reduction of the trade deficit through the export and local consumption of value added products. Diversifying Ghana's economy away from primary commodity export to value added products is key to promoting sustainable economic growth.

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