Ghana's relations with China

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Ghana: History and economic development

Since gaining independence from Britain in 1957, Ghana has been very proactive in originating and implementing development programmes, for which it has received substantial donor support, especially since the 1980s. The country has also remained relatively stable in a West Africa subregion troubled by conflicts. Compared to neighbours like Nigeria, Ghana is not a resource-abundant country, but it is endowed with some natural resources like gold, timber and cocoa (which are its leading exports), and enjoys a favourable coastal position. Between 1960 and 1964, favourable export performance encouraged ambitious public investments in social and physical infrastructure and rapid state-led import-substitution industrialisation, which laid the foundation for an industrial sector, which, though promising, remains vulnerable in the face of foreign competition.

Between 1966 and 1981, however, volatile growth in exports and revenues, coupled with a series of military coups, chronic mismanagement and oil price shocks, brought the economy to near collapse. From 1983 Ghana embarked on pro-market economic recovery programmes. Democratic reforms followed structural adjustment in 1992, and since then Ghana has made significant gains in improving governance and advancing civil liberties. Improving growth rates averaging 4–5% in the 1990s and 6% since 2006 have had a downward effect on poverty. The rate of poverty fell from 51.7% in 1991 to 39.5% in 1999.[1] From 2002, debt cancellation, which improved Ghana's external debt position from 120.5% of GDP ($6.325 billion) in 2001 to 17.6% ($2.637 billion) in September 2007, combined with rising external inflows, enabled the government of Ghana to raise poverty-related expenditures from 21.67% (GH¢233.9 million) of total government expenditure in 2002 to 34.86% (GH¢1,237.4 million) in 2006.[2] As a result, the poverty rate fell further to 28.5% in 2006,

1 Ministry of Finance and Economic Planning (MOFEP), 'Economic indicators', 26 June 2007, http://www.mofep.gov.gh/documents/macro%20economic%20data.pdf (date accessed 2 August 2007).

2 MOFEP, 'A brighter future: 2008 budget statement', Accra, November 2007, http://www.mofep.gov.gh/budget2008.cfm.

putting the country within easy reach of its Millennium Development Goals (MDGs) poverty-reduction target of 25.8% by 2015.

Debt relief, a substantial oil discovery in 2007 at a time of escalating crude oil prices and prudent economic management have combined to improve Ghana's credit rating and made it one of the favoured destinations of investment funds targeting Africa. In 2007, Ghana leveraged its enhanced policy credibility to raise $750 million on the international bond market. However, significant development constraints such as inadequate infrastructure impose serious limitations on the country's ability to attract and absorb large investments for economic diversification and job expansion.

Chinese–Ghanaian political relations

Ghana and the People's Republic of China (PRC) established official diplomatic ties in 1960. Since then, relations between the two countries have been deepened by strong personal relationships between the political elites of the two countries, especially during the era of Nkrumah and Premier Zhou Enlai, and by high-level official visits, including visits by Ghana's President John Kufuor to China in 2002 and China's President Hu to Ghana in 2003. On the second leg of Premier Wen Jiabao's seven-nation tour of Africa in June 2007, China and Ghana issued a joint communiqué on strengthening cooperation in trade, infrastructure, telecommunications, education, health and culture. The Chinese premier's visit resulted in the signing of six agreements, including an agreement to build a malaria centre and a primary school in Ghana, and a $66 million loan agreement to expand and upgrade Ghana's telecommunications network.

Over the decades, Ghana has provided critical diplomatic support to China, while China has reciprocated with material support for development. In the 1960s, Nkrumah campaigned for the reinstatement of the PRC in the United Nations and supported China in the border conflict with India in 1962. China rewarded Ghana with grants and continuous technical assistance for Nkrumah's development projects. After Nkrumah's overthrow, Peking withdrew from Ghana an estimated 200 Chinese aid workers and embassy officials.[3] In spite of the frosty relations, Ghana joined other African states to cast the majority of votes to reinstate China in the UN in 1971. The man who cast Ghana's vote for China was John Kufuor, then Ghana's deputy minister for foreign affairs. Under President Kufuor, relations between China and Ghana have been given yet another personal touch, with China renewing its friendship with a grant of $2.4 million to renovate the National Theatre, which China built in the early 1990s to reward Ghana for the unflinching diplomatic support offered by the Rawlings-led government to Beijing during the controversial repression of the Tiananmen Square pro-democracy protestors in 1989.

Reflecting shifting focus from ideological considerations to all-round, but especially economic and cultural, cooperation, the last decade has seen rising bureaucratic, corporate and individual exchanges, including visits by high-profile economic bureaucrats such as Zhou Xiaochuan, governor of the People's Bank of China, who visited Ghana in 2005 accompanied by Chinese businessmen in search of new business opportunities. In the spirit of China's Africa policy, publicly launched in January 2006, there have also been political exchanges between members of Ghana's Parliament and officials of the Chinese People's Political Consultative Conference (CPPCC). In April 2007, Jia Qingling, the chairperson of the CPPCC, visited Ghana and signed agreements that included a $30 million concessional loan for the Dedicated Communications Project for the security agencies.[4] The latter reflects China's growing military and security cooperation with Ghana, which has included the construction of an office complex for the Ministry of Defence with a $7.5 million Chinese grant.

China's development assistance to Ghana

In addition to achieving the MDGs, Ghana has set a national target of reaching middle-income status with income per capita of

3 'Quarterly chronicle and documentation', *The China Quarterly*, 26, April 1966, p.222.
4 Interview with officials at Ghana's Ministry of Defence.

$1,000 by 2015 by stimulating productivity in agriculture, expanding the industrial base and non-traditional exports, and encouraging learning and innovation in information and communications technology (ICT) to place the country in good stead to benefit from the global information technology (IT) industry. To achieve these, infrastructure gaps in energy, roads and telecommunications, estimated at $350–430 million per annum, have to be closed.[5] Yet after writing down Ghana's debt, many donors are focusing aid on humanitarian relief and technical assistance to improve the policy environment, which, though very important, leaves unresolved many persistent development challenges. Although debt relief has helped Ghana to make savings on interest payments, the savings made are still small in relation to the enormous challenges facing the country. While debt relief itself does not bring in substantial new money for development, rich countries have also reneged on their pledge to increase their official development assistance (ODA) to 0.7% of their gross domestic products, although the UN set such a target some time ago in the 1970s.

Aside from writing down debt owed to it by Ghana since 1985 by $25 million, China has provided much-needed additional loans to assist Ghana to overcome its development challenges. Since the 1960s, China has assisted Ghana's development with technical support; grants; and interest-free, interest-subsidised and concessionary loans (buyers' and suppliers' credit). Until recently, however, China's ODA to Ghana was insignificant. Between 1964 and 1970, China extended a total of $43.5 million in assistance, and the largest single Chinese loan advanced to Ghana between the 1960s and the 1990s was a buyer's credit of $18 million. Since 2001, however, China has become a major development partner for Ghana, concentrating its assistance especially on the development of roads, energy and telecommunications infrastructure, and on technical cooperation (including raising agricultural productivity in

5 MOFEP, *Ghana CEM: Meeting the Challenge of Accelerated and Shared Growth, Results of Meeting of Consultative Group Meeting*. Accra: MOFEP, June 2007.

Ghana and supplying industrial equipment such as machinery for Ghana's ailing textile sector).

Addressing Ghana's persistent energy crisis

China's recent assistance to Ghana includes $562 million loan from the China Export and Import Bank (Exim Bank) for the construction of a $622 million dam at Bui, located strategically between the north and south of the country. The Ghanaian government is providing the counterpart funding of $60 million. The Chinese loan is a mixed credit financing arrangement, with 42% being a concessionary loan and the rest a supplier's credit. The concessionary component of the loan is payable over 20 years at 2% interest per annum. The commercial component of the loan will be paid within 17 years, with a five-year moratorium on payment from the year of the signing of the agreement.

The construction of the new dam, expected to be completed by 2012, is part of a long-term plan to increase the country's energy supply capacity from the current 2,000 MW to 6,000 MW by 2015 As in most other African countries, a persistent energy crisis that has slowed Ghana's growth potential by frequently causing businesses to scale back or shut down operations. The recent year-long energy crisis caused growth in the industrial sector to decline from 9.5% in 2006 to 7.4% in 2007.[6]

In March 2007 the Volta Aluminium Company (VALCO), which is a major foreign exchange earner for the country and a major source of raw materials for many of Ghana's flagship local companies such as Aluworks,[7] was compelled to shut down temporarily for the 11th time in its 40-year history due to chronic power and water shortages. Coca-Cola also lost $4,000 for every day without power.[8]

6 MOFEP, 'A brighter future', *op. cit*.

7 Aluworks Ltd, a leading supplier of cast coils, discs and circles, coiled strips, roofing sheets and other inputs for fabricating plants to satisfy the needs of building and construction, agriculture and packaging industries across West Africa, sources its ingots and molten metal from VALCO.

8 Bogetic Z, 'Ghana's growth and poverty reduction story: How to accelerate growth and achieve MDGs?' Presentation prepared for the Ghana Growth and Poverty Reduction Programme high-level CEM workshop in Accra, Resources and Results Consultative Group Meeting,

The company was also compelled to abandon plans to start a bottling operation in Tamale, the capital of the Northern Region of Ghana, depriving the poorer northern part of the country of a major economic activity. Had there been no energy crisis, the World Bank estimates that the country as whole could have grown by 7.5–8% over the period, the growth rate needed to achieve the 2015 targets.[9]

Located near northern Ghana, the Bui project, which is expected to employ 2,900 Ghanaians and 500 Chinese, also involves the establishment of a new industrial township, Bui City, to promote a wide range of socioeconomic activities, such as fisheries, irrigation farming and tourism, and a new university specialising in agriculture and engineering. It is hoped that when completed, the project will contribute to the Ghanaian government's pro-poor growth strategy for northern Ghana, which is aimed at bridging the gap between southern Ghana and the deprived north through income-generating activities, especially in the region's competitive advantages in food production and agro-processing.

China and Ghana's ICT for development policy

China is also helping Ghana meet its objective of improving telecommunication services and integrating ICT into its development. Beijing has provided a concessionary loan of $30 million to support the first phase of Ghana's National Communication Backbone and E-Government Project.[10] The project is expected to link all 10 regional capitals and about 36 towns on the fibre routes to assist the implementation of Ghana's ICT for development policy, which has three aspects. The first is to expand access to ICT facilities and training across the nation through the creation of community information centres, which are also expected to assist in the country's decentralisation programme by serving as hubs for government departments in the various districts. The second aspect of the policy

World Bank, 18–19 June 2007.

9 *Ibid.*

10 Interview with Issah Yahaya, director for policy planning, monitoring and evaluation, Ministry of Communications, Accra, Ghana, 10 September 2007.

is to develop systems to gather, manage and share information among government ministries, departments and agencies to make the public sector more efficient. The third focus is to leverage the spread of ICT skills to build a knowledge economy to diversify the economy and expand its employment-generating capacity.[11]

In support of these projects, the UN Develop Programme is helping to establish and run the Information Technology Business Incubator Centre in the capital, Accra to provide financial, advisory and entrepreneurial training and the necessary business infrastructure to young entrepreneurs to start IT-related businesses, while China is assisting with the construction of a fibre optic cable from Accra in the south to Tamale in the north of Ghana. In addition, China is helping to build the infrastructure necessary to facilitate the expansion of ICT to rural areas through its support for rural electrification to improve the transmission and distribution of electricity to rural Ghana. The government of Ghana has also signed a memorandum of understanding (MoU) with China to develop the Rural Technology Project, which includes the expansion of rural telephony.

Technical cooperation

China has also provided technical assistance to Ghana in a variety of sectors, including agriculture, fisheries and human resource development. Ghana's public sector reform initiative has been given a boost by China's support for capacity building in the country. Key public sector functionaries have been sponsored by the Chinese government to participate in training courses and seminars in China, including on economic policy management and agricultural extension services. More than 700 Ghanaian professionals and officials have gone on various Chinese-sponsored training courses in education, trading, communication, energy, auditing, agriculture and fisheries.[12]

11 *Ibid.*

12 Interview with Ren Qinwu, officer in charge of aid projects, Embassy of the PRC, Accra, Ghana, 3 October 2007.

With particular reference to fisheries, the Chinese government is helping to train Ghanaian fisheries officers and young graduates from universities and research institutions in fish farming (aquaculture) technology. The Ashaiman Aquaculture Demonstration Centre in Accra and the Kona Odumasi hatchery in the Ashanti region have been rehabilitated with Chinese support to diffuse expertise on fish farming and make fingerlings affordable to local fishing communities.[13] It is expected that Chinese assistance will eventually help to arrest the decline in the fishing subsector due to dwindling fisheries resources. This decline was partly responsible for the lower-than-expected growth of 4.3% in agriculture in 2007, instead of the projected target of 6.1%. [14] Table 1 lists some of China's major ODA to Ghana.

Table 1: Major Chinese aid projects in some key sectors

Sector	Projects	Assistance type (and how China benefits)	Status
Energy	Bui hydro-electric power dam project; continuous support for rural electrification	$562 million mixed credit financing from China Exim Bank; 42% concessionary from Exim, the rest supplier's credit; concessionary component repayable over 20 years at 2% interest rate per annum, while commercial component within 17 years with a five-year moratorium; Ghanaian Ministry of Finance to establish escrow account with China Exim Bank to avoid default; China's energy giant Sinohydro undertaking the project, plus jobs for about 500 Chinese workers	Bui project under way to be completed by 2021; rural electrification on-going

13 Interview with Charles Pierre Coussey, advisor to the minister, Ministry of Fisheries, Accra, Ghana, 13 September 2007.

14 MOFEP, 'A brighter future', *op. cit.*

Telecom	Implementation of the 1st phase of the National Communication Backbone and E-Government Project	$30 million interest-free loan approved in 2006; a big new turn-key business for Huawei	Ongoing
Transport	Reconstruction of the 17 km Ofankor–Nsawam road	$28 million interest-free loan; opens new business opportunities for Chinese construction firms	Completed and commissioned in 2006
Agriculture & fishing	(i) Support for irrigation farming, including for Afife rice project in the Volta region; (ii) construction of landing sites for fishing communities	(ii) $99 million interest-free loan for construction of landing sites; Chinese fishing companies gain improved access rights	(ii) Construction of landing sites ongoing; 12 started already
Mining	Supply of labour-saving small-scale mining equipment to Ghana	More business opportunities for Chinese operators in contract mining services provision	Ongoing
Technology transfer	Transfer of bamboo technologies through the development of the bamboo and rattan industry in Ghana; transfer of fish-farming technologies through the establishment of demonstration centres for training and distribution of fingerlings to out-growers; assisted Legon Fisheries to start processing of octopus; assisted Ghana National Fishing Corporation to establish factory with processing capacity of 20,000 metric tonnes of tilapia, 8,000 tonnes of shrimp	Technical assistance and various grants; improved access rights to Chinese fishing companies; China seeking off-shore processing opportunities in Ghana	Ongoing

Education & capacity building	Scholarships and training programmes for Ghanaian students and public officials, especially in public policy management and agricultural extension; the establishment of Chinese-language institutes in the country; construction of three basic-level schools in rural locations in Ghana	Grants; enhanced soft power through positive international image for sharing development experience; the opportunity to share Chinese culture through the establishment of a Centre for Chinese Studies at the University of Ghana in Accra, which opens in September 2008	Ongoing
Health, water & sanitation	(i) The construction of a 100-bed capacity general hospital for malaria treatment at Teshie, a suburb of Tema; supply of anti-malaria drugs to the government of Ghana (ii) Construction of the 60-bed Dangme East District Hospital located in Ada, some 100 km east of Accra (iii) Kpong water supply extension project	Grant	(i) MoU signed (ii) Completed (iii) MoU signed
Defence	Construction of an office complex for the Ministry of Defence	Estimated cost of $9 million with $7.5 million grant from the Chinese government; growing security cooperation with Ghana's security agencies; triangular aid peacekeeping in third-party countries and regional stability necessary for Chinese business	Commenced

Source: Ministry of Finance and Economic Planning, Accra, Ghana

China's trade with Ghana

As in other parts of Africa, Chinese–Ghanaian trade follows a classic North–South model, with Ghana exporting mainly primary commodities such as cocoa beans; manganese; sawn timber; natural rubber and vegetable products; and metal ores, concentrates and scrap, while importing from China a wide range of manufactured goods, including textiles and clothing, travelling bags, shoes, electronics, machinery and automobiles. China is currently the second largest exporter to Ghana behind Nigeria (which supplies Ghana mainly with crude oil), edging out the US, the UK and South Africa. With the recent discovery of light sweet crude oil in Ghana, China may eventually become Ghana's largest trading partner in terms of both the expected reduction in oil imports from Nigeria and increased exports to China.

Table 2: Ghana's trade with its top five trading partners: Exports and imports, 2000–05 ($ millions)

	2001		2002		2003		2004		2005	
Country	**Exports**	**Imports**	**Eports**	**Imports**	**Exports**	**Imports**	**Exports**	**Imports**	**Exports**	**Imports**
UK	318.59	300.84	237.44	252.04	464.74	219.04	232.32	233.99	229.58	233.64
US	113.52	249.62	415.92	256.21	67.69	225.88	66.69	362.75	85.42	420.25
Nigeria	23.43	140.72	32.64	134.57	24.4	599.77	11.69	35.19	47.43	865.51
S. Africa	58.92	94.08	175.63	99.46	87.79	145.92	10.07	224.12	754.33	226.03
China	22.69	122.2	13.14	119.67	32.28	179.63	18.34	364.81	31.26	433.74

Source: Ghanaian Ministry of Trade and Industry

As Table 2 shows, there have been exponential increases in the volume of Ghanaian trade since 2001, but this has increased even further after 2005, with China overtaking the US as Ghana's second largest trading partner after Nigeria. Ghana's stability relative to the conflict in Ivory Coast has contributed to this trade boom. The Ivory Coast, the largest French-speaking economy in West Africa and the one with the best-developed infrastructure, has been the hub of the world's trade with landlocked French-speaking West African countries like Mali, Niger and Burkina Faso. Since the Ivorian crisis broke in 2002, however, much of this regional trade has been diverted through ports in neighbouring Senegal, Togo and Ghana.

Tema harbour, one of Ghana's two main seaports, has seen an increasing number of ships calling to unload containers brimming with consumer goods and durables, most of them made in China.[15]

As is typical for nearly all non-oil exporting countries in Africa, Ghana's expanding trade with China is heavily weighted in China's favour, leaving Ghana with a soaring trade deficit. Between 2000 and 2005, Ghana's imports from China rose sharply from $93.13 million to $433.74 million, while its exports increased only marginally from $24.73 million to $31.26 million,[16] revealing persistent weaknesses in Ghana's trade capacity. China's cost competitiveness, blamed even in the US and Europe for the loss of thousands of factory jobs, and the ability of Chinese manufacturers to produce goods with low-income characteristics and adapt their technology to produce African designs presents poor Ghanaian consumers with a large basket of choices to enhance their welfare, but poses significant threats to vulnerable local producers in both the domestic and third-country markets. Juapong Textile Mills, which collapsed and resurfaced as Volta Star, still remains unviable, because its gray bafts, which it sells to local textile printers, cannot compete with imported gray bafts from China. Ironically, Juapong Textile Mills was rejuvenated as Volta Star with Chinese technical support. Other local manufacturers like Printex have been compelled to shut down their spinning departments and lay off workers.

In spite of benefitting from duty-free entry to the US market under the Africa Growth Opportunity Act (AGOA), Ghanaian textile and garment producers are still unable to compete in the US market. Under AGOA, African producers are often expected to meet human rights and international labour standards such as paying decent wages, which do not always apply to China, thereby further enhancing China's labour cost competitiveness. Even more worrying for Ghanaian textile and garment producers, Chinese companies have beaten local companies at their own game in niche markets

15 Interview with Seth Evans Addo, chief director, Ministry of Trade, Industry, Private Sector Development and Presidential Special Initiatives, Accra, Ghana, 14 September 2007.

16 Provisional statistics from the Ministry of Trade, Industry, Private Sector Development and Presidential Special Initiatives, Ghana.

by mass-producing local designs without permission and at prices below local costs of production. For example, the high-value hand-woven Kente cloth, a source of centuries' old indigenous enterprise, is today mass-produced in China and exported not only to West Africa, but also to the US, where the product commands high value among people of African descent. On the Ghanaian market, the typical African print produced in China sells three times cheaper than the one produced locally.

A few local companies have tried to stay above fierce competition from China by moving into other niche markets. For example, Global Garments and Textiles Ltd, which exports garments to the US market and employs 240 people, has stopped producing a wide range of clothing products and instead focuses narrowly on producing uniforms for the US Army and Navy. Other companies have tried to focus on quality, but this is hardly successful in staving off Chinese competition. Chinese manufacturers have perfected the art of producing goods of different quality for different types of consumers in different markets, depending on income levels.

Chinese investments in Ghana

As part of its economic recovery programme, Ghana embarked on a programme of divestiture and privatisation of state-owned enterprises (SOEs) to cut inefficiency in parastatals and increase productivity by encouraging inward foreign direct investment (FDI) and private sector participation in industry and services. Between 1988 and 1998 over 100 SOEs were privatised.[17] The initiative was also meant to diversify the country's sources of revenue and employment away from volatile primary commodity exports by expanding the industrial base and encouraging non-traditional exports. In 1994, the Ghana Investment Promotion Centre (GIPC) was established by an Act of Parliament (Act 478) to promote,

17 UN Conference on Trade and Development (UNCTAD), *World Investment Report 1998*. Geneva: UNCTAD.

encourage and coordinate all FDI and business partnerships in non-extractive sectors. While the largest chunk of inward FDI has gone to the extractive sector, there is growing investment in non-extractive sectors, especially in services, manufacturing and agro-processing. The US, Britain and Malaysia have traditionally been the main sources of much of the FDI that goes to Ghana, but in the last decade China has become a leading source of FDI to Ghana, as Chinese corporates and individuals hungry for new economic opportunities are increasingly attracted to Ghana's stable and business-friendly environment.

Chinese companies and FDI in Ghana's extractive industries

While China's upward commercial relations with Ghana reflect continent-wide patterns, they belie the often-exaggerated reports of China's hunger and scramble for African resources, especially oil. Ghana's commodity exports are still destined mainly for Europe, and its extractive sectors are dominated by Western multinationals like the US-based Kosmos Energy and UK-based Tullow Oil (which together recently made a big oil find off the Ghanaian coast), US mining giant Newmont and South Africa's Anglogold, which merged with Ashanti Goldfields, Ghana's flagship multinational, to form the world's second largest mining company. Contrary to expectations, China's oil multinationals have been very tardy in responding to the entreaties of the government of Ghana to invest in oil exploration in Ghana, as Ghanaians wait impatiently to put their first barrels of oil on the world market. Industry experts suggest this tardiness on the part of the Chinese may be due to Chinese companies' lack of the appropriate seismic technology required to bring Ghana's deep-water hydrocarbon resources on stream, and partly to uncertainty about the commercial viability of Ghana's oilfields, especially given the high cost of drilling in deep waters. Oil exploration in Ghana began in the late 20th century, but it was not until 2007 that crude oil was finally discovered in commercial quantities

The Chinese presence in Ghana's mining sector is also limited to an insignificant number of small-scale operators providing contract mining services such as equipment supply to local small-scale mining ('galamsey') operators. Ghanaian laws prohibit direct foreign participation in small-scale mining because of difficulties in controlling the negative environmental impacts of surface mining by small-scale operators and the livelihood implications for local communities that depend on 'galamsey'. Local operators are, however, not prohibited from seeking foreign partners, and they have often found willing partners in small-scale Chinese investors such as China Non-Ferrous Metals Ghana Ltd, Ying Max Ltd, Hua Xing Mining Company Ltd and Chinese Long Da Mining Company Ltd.[18]

Chinese companies and FDI in Ghana's non-extractive sectors

Most Chinese FDI in Ghana is concentrated in non-resource sectors such as manufacturing, general trading, telecommunications, power generation, building and construction, tourism and other services. Table 3 on the next page ranks the top 20 sources of FDI in Ghana's non-extractive sectors registered by the GIPC between September 1994 and June 2007 in terms of value and number of projects.

In terms of value, China ranks sixth with total investments of $75.8 million, behind the US, which tops the table with a little over $2.3 billion, and the UK in third place with $126.5 million. China, however, leads in the number of projects category, with 283 projects, nearly twice as high as the number of projects registered for the US. China is also the source of the most diversified FDI in Ghana, with projects spread across a wide range of sectors. Of the 283 projects, 97 are in manufacturing, 59 in general trading, 48 in tourism, 44 in services

18 Direct participation by Chinese firms has, however, attracted violent responses from local operators, who feel displaced by the more sophisticated mining and processing equipment brought in by the Chinese. China Non-Ferrous Metals Ghana Ltd, which started operations in 1999 to provide contract mining services and equipment to local 'galamsey' operators, was compelled to shut down after its equipment and offices were vandalised by 'galamsey' operators. The company, however, reopened in 2002 to take advantage of rising world market prices for gold and other minerals.

Table 3: Ghana's top 20 foreign investors, September 1994–June 2007 ($ '000)

Rank	Country	No.of projects	Total FDI	Agric.	Bld./Cons.	Export trade	Gen.trade	Liaison	MFG
1	USA	147	2,347,880	42,399	27,011	591	887	-	2,126,826
2	Malaysia	13	406,218	-	-	-	-	-	4,612
3	UK	225	126,501	2,811	32,406	2,476	7,615	-	27,043
4	Switz.	53	100,304	46,191	1,251	4,182	2,154	-	26,015
5	Italy	72	94,084	90	34,541	505	811	-	56,383
6	China	283	75,803	4,709	5,423	938	31,772	-	17,882
7	Lebanon	216	72,248	395	7,924	329	33,135	-	22,160
8	Ireland	5	70,355	-	-	-	-	-	-
9	France	55	65,801	50,416	905	586	600	-	6,006
10	Nether.	86	58,468	8,286	9,296	3,425	3,950	-	5,532
11	India	276	56,244	1,589	4,261	5,332	21,212	-	20,836
12	Korea	77	50,572	11,855	6,923	25	1,766	-	7,434
13	Nigeria	75	50,488	29	1,911	138	3,608	-	6,272
14	S. Africa	41	43,451	-	1,408	-	9,117	-	3,002
15	Mauritius	7	42,946	-	-	-	11,913	-	1,702
16	British Virgin Islands	20	32,763	1,703	550	-	329	-	5,700
17	Caymans	2	26,786	-	26,000	-	-		786
18	Bermuda	5	26,209	-	-	-	-	-	-
19	Canada	45	25,568	76	6,575	10	1,328		13,197
20	Germany	120	25,376	1,988	10,594	172	1,123	-	4,774
	Total	1,823	3,798,066	172,536	176,978	18,709	131,319	-	2,356,164

Source: GIPC

and 15 in construction.[19] According to the Ghana–China Chamber of Commerce in Accra, 250 Chinese companies had been registered in Ghana by the end of July 2007.

Chinese small and medium-sized enterprises in Ghana

Most Chinese firms operating in Ghana are small or medium-sized. The lower values of Chinese investments in Table 3 are a reflection of the small size of most Chinese companies doing business in Ghana.

The low levels of Chinese equity also reflects the fact that Chinese companies are only now beginning to invest in Ghana, and many of them tend to take a toe-in-the-water approach, initially investing small amounts in low-risk sectors like general trading. This allows them to study the new climate and then migrate up to high-risk but more profitable investments such as in manufacturing and food processing, as they gain increasing confidence in Ghana's strong economic growth and relative stability.

Many thriving Chinese companies in Ghana have followed this path. One such company is Big Catch, a joint venture with a Ghanaian partner, which exports mainly octopus to Europe. The largest shareholder, who speaks a couple of Ghana's local languages fluently, came to Ghana to start trading in general goods to raise the initial capital of $100,000 to start the fishing business in 2001 with two vessels. The company, which won Ghana Standards Board's best overall fishing company of the year award in 2006, now has six vessels employing 132 Ghanaians and 30 Chinese, and it is planning to add fish farming to its activities.

As in many other African countries, however, participation in general trading in Ghana by opportunity-hungry Chinese immigrants estimated at around 6,000 in 2004[20] has become the major source of friction in Ghanaian–Chinese relations, as incensed local traders accuse Chinese merchants of flooding the local market with cheap

19 Data compiled from quarterly publications of the GIPC and from various local newspapers.
20 Sautman B, 'Friends and Interests: China's Distinctive Links with Africa', Working Paper no. 12. Hong Kong: Center for China's Transnational Relations, Hong Kong University of Science and Technology, 2006, http://www.cctr.ust.hk/articles/pdf/WorkingPaper12.pdf.

products and participating in retail trading, which by Ghanaian law is prohibited to foreigners.

Other small- to medium-scale Chinese enterprises in Ghana include Sailo Foods and Drinks Company Ghana Ltd, an agro-processing firm, and Tema Textile, another joint venture between a Chinese investor and a local businessman. The growing collaboration between Chinese investors and local commercial interest groups is healthy for the economy. The small- and medium-sized Chinese enterprises springing up in the country can become a major source of dynamism for local entrepreneurship, especially as many such investors try to overcome their lack of knowledge of the local economy and laws by seeking partnerships with local businessmen. Such partnerships between Chinese small and medium-sized enterprises (SMEs) and local firms can generate substantial spillover effects in a number of ways.

Firstly, while African countries like Ghana have been left out in the large inflows of FDI to developing countries mainly through mergers and acquisitions by transnational companies (TNCs) because of their small market size and inadequate supply of infrastructure and skills, African countries, especially the most stable economies like Ghana, have become attractive destinations for Asian (increasingly predominantly Chinese) SMEs, which seek to expand abroad, but are unable to compete in more mature markets due to their low technological intensity. Such dynamic and internationally competitive SMEs can help integrate local African firms into global value chains through backward and forward linkages.

Secondly, collaborations between Chinese SMEs and local firms can facilitate technology transfer from Chinese to local companies. One such collaboration saw the creation of a major pharmaceutical firm, DanAdams, which produces anti-retroviral drugs and antibiotics to help combat AIDS and malaria. When Yaw Adu Gyamfi, the chief executive of the firm, conceived the idea of starting the company, he neither had the means nor the technology to achieve his dream, but he found Chinese investors who were interested in bankrolling and building the factory.[21] DanAdams is now fully Ghanaian-owned, though it continues to source inputs from China.

The participation of Chinese investors in the local economy is, however, hampered by communication and other barriers, such as inadequate access to credit from the local banking system. Although lending rates have come down in the last five years, they are still significantly high. Many Chinese companies wishing to expand their businesses are unable to access loans from local banks and have to rely on family and friends or banks in China.

Chinese TNCs in Ghana

There are also a handful of large Chinese state-owned and private firms operating in Ghana. Unlike the Chinese SMEs, these tend to be involved in turnkey projects in energy, building and construction, and engineering services usually funded by China's state-owned banks such as the Export and Import Bank, and usually bundled in arrangements that serve China's strategic interests, including securing contracts for Chinese companies or access to vital resources. For example, the construction of the Bui Dam and the National fibre optic network are respectively being undertaken by China's energy giant Sino Hydro and telecom giant Huawei. China State Hualong Construction Ltd also won the contract to build the Burma Hall Complex at Ghana's foremost military base, the Burma Camp, through a $1.2 million Chinese government grant, which was supplemented by resources from Ghana's peacekeeping account.

The tying of Chinese aid to business promotion often leads to circumvention of Ghana's National Procurement Act, which insists on the public tendering of projects. Lacking resources of its own, however, the Ghanaian government finds its hands tied, as it badly needs the cash to build the infrastructure to achieve its development targets and finds Beijing willing to provide such assistance through its companies.

21 Harris R, 'Global AIDS fund boosts health, economy in Ghana', National Public Radio, Boston, 31 October 2005, http://www.npr.org/templates/story/story.php?storyId=4983182 (date accessed 22 November 2007).

On their own, however, Chinese TNCs are still very cost competitive and can underbid local and other international firms by substantial margins, although the competitiveness of the Chinese may often derive from access to cheap credit from China's policy banks rather than from the internal operating efficiency of the firms. For example, after a seven-month-long tender process, the Local Organising Committee (LOC) of the Africa Cup of Nations soon to be held in Ghana in February 2008 decided in August 2007 to side-step the National Procurement Act to offer the construction of two new stadiums and the rehabilitation of three others to Shanghai Construction Group of China amid media controversy and rumours of $20 million changing hands to induce top officials to cancel the winning bids by two other companies, Epiferm Ghana Ltd working with EMSAS Construction, and Vamed Engineering. LOC officials, however, explained that the bids by the two companies were considered exorbitant by government and they had to look elsewhere, bringing in the Shanghai Construction Group, which underbid the previous companies by more than 50%. According to Ghana's Ministry of Finance and Economic Planning, a total of $157.2 million had been spent on the project by the end of the first week of January, compared to $444 million had the earlier bids been allowed to stay. This, however, does not address the issue of possible underhand dealings.

Some large Chinese TNCs are, however, beginning to make direct equity investments in Ghana or joining international consortiums to undertake large-scale infrastructure projects. For example, Alcatel Shanghai has invested $150 million in Ghana Telecom to help expand the latter's telecom infrastructure.[22] In September 2007, Shenzhen Energy Investment of China announced plans to source $137.2 million from the China Africa Development Fund to build a 200 MW gas-fired plant in Ghana.[23] Shenzhen

22 Interview with David Mettle, chief technical officer, Ghana Telecom, Accra, 24 September 2007.

23 Patton D, 'Africa: Projects in Ghana, Ethiopia benefit from China fund', *AllAfricacom,* 21 November 2007, http://allafrica.com/stories/200711210023.html (date accessed 15 December 2007).

Energy will own 60% of the venture, with the remaining 40% taken up by the China Africa Development Fund, which was established by the Chinese government at the 2006 Forum for China–Africa Cooperation in Beijing. Ghana is to become one of the first countries in Africa to benefit from the fund through Shenzhen's investments, which will itself be a major private sector contribution to energy production in Ghana.

Governance issues

Ghana's strong policy performance is not in doubt. It has scored high marks on all ranked indicators of governance and economic policy management, including performing better than Africa's middle-income countries like South Africa on issues like press freedom or 'voice and accountability', as measured by the World Bank governance indicators. Ghana also enjoys relative stability and, in spite of occasional skirmishes, especially in the northern part of the country, due largely to chieftaincy disputes, it has remained free from violent conflicts. The 2005 Country Policy Institutional Assessment Index, which measures policy performance in four main areas — macro management, structural policies, social inclusion and gender, and institutions — gave Ghana a score of 3.9, a few points behind middle-income South Africa and Botswana, which tied at 4.4.[24] This shows that the government of Ghana has been quite effective in tackling the problems that face Ghanaian society.

In spite of Ghana's impressive policy performance, however, there remain persistent challenges, especially in improving the regulatory environment and stamping out corruption in official circles. For example, it takes on average 11 procedures and 42 days to start a business in Ghana, in spite of the country being one of the top 10 best-reforming countries in 2007 and 2008.[25] Delays in the registration of businesses often due to different government agencies handling aspects of the process without coordination are

24 Bogetic Z, *op. cit.*
25 World Bank, *Doing Business Report, 2007; Doing Business Report, 2008.* Washington DC: World Bank.

some of the frustrations Chinese and other investors face when doing business in Ghana.

The situation is often made worse when officials in the public service deliberately delay the process to wear down the patience of an applicant in order to coerce the latter to pay a 'token' to expedite the process. In one case, prospective Chinese investors wishing to provide equipment and materials for the delivery of distance learning programmes, which the government of Ghana has identified as critical to expanding access to education, were compelled to abandon the project after refusing to make a deal with a senior official in one of the ministries.[26] These problems should be tackled to sustain high levels of investment.

Conclusion

China's footprint in Ghana shows that its interests in Africa go beyond the often-exaggerated reports of China's scramble for natural resources in Africa. Even resource-poor African countries are benefitting from China's economic cooperation with Africa. By helping to build productive infrastructure and expand access to new technologies, China is helping Ghana combat poverty in ways that humanitarian aid and the distribution-consumption-focused poverty alleviation strategies do not. A recent World Bank report notes that technology diffusion helps developing countries reduce poverty, but weak basic infrastructure systems impose a major limitation on the domestic dissemination of a range of technologies that can be employed in many developing countries.[27]

The World Bank report, only 8% of the population in rural Africa has access to electricity, and it calls for policies that ensure the expansion of critical services such as roads and electricity through public–private partnerships. In Ghana, as in many other African countries, generous Chinese aid is helping to close infrastructure

26 Interview with a local consultant to the Chinese investors in question, Accra, 27 September 2007.

27 World Bank, *Global Economic Prospects 2008: Trends in Technology Diffusion in the Developing World.* Washington DC: World Bank.

gaps in transport, telecommunications and energy. China, however, combines generosity with profit making and ties its assistance to the promotion of Chinese businesses.

Compared to investments from traditional sources like the US and UK, Chinese investments in Ghana are quite small in value and tend to concentrate in the non-extractive sectors. Spread across a wide variety of sectors, they are helping to inject noticeable dynamism into the local economy, including assisting in the diversification of the economy. In recent years, the services and industrial sectors in Ghana have seen strong growth in relation to agriculture, due in part to the high level of activity in these sectors by emerging investors, especially from China, India, South Africa and Nigeria. In 2006, for example, the two sectors grew by 6.5% and 7.3%, respectively.[28]

For such growth to continue, the government of Ghana has to take serious measures to remove bottlenecks to investments such as cutting red tape and combating bribe-taking and corruption in the civil service in order to remain attractive to foreign investments. The functions of regulatory agencies may need reviewing in order to remove overlaps that unduly delay business registration. In comparison to neighbours like Nigeria and Ivory Coast, Ghana's market is very small. Its competitiveness, including becoming the gateway for market-seeking FDI into West Africa, rests on high policy credibility, including a functioning regulatory environment.

Trade and industrial capacity issues also have to be addressed to sustain the viability of local productive sectors, including manufacturers, in spite of Chinese competition. This can be done by, for example, fostering stronger partnerships and subcontracting opportunities to promote and build the capacity of local businesses. As many Chinese entrepreneurs are increasingly seeking equity joint ventures with local entrepreneurs, the ability to attract more and more Chinese investments may itself depend on the availability of suitable local partners. Such collaborations will also encourage the diffusion of technologies and management practices from

28 MOFEP, *Budget 2007*. Accra: MOFEP.

more competitive Chinese companies to local firms. Such positive spillovers may, however, be limited by linguistic and cultural barriers. Ghanaians, as anybody anywhere interested in global business opportunities, would need to take Chinese language learning seriously, just as they have in learning the English language, in order to facilitate such technology and skills transfers. Similarly, Chinese entrepreneurs must make the effort to learn about local Ghanaian communities. This learning can be facilitated by proactively providing target information to Chinese entrepreneurs through the GIPC and the Ghanaian embassy in Beijing.