Journal of Economics and Sustainable Development www.iiste.org
ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online)
Vol.4, No.4, 2013

Research on the Chinese Investments in Ghana

Samuel Kwadwo Frimpong[1*] Saviour Ayertey Nubuor[2]

1. School of Economics, Wuhan University of Technology, Box 87#, #122 Luoshi Road, 430070 - Wuchang, Wuhan, China
2. School of Management, Wuhan University of Technology, Wuhan, P.R. China, 430070

* Email of the corresponding author: skfrimpong@gmail.com

Abstract

Unlike the Paris Club of donors and the international financial institutions, China exerts no political pressure on African governments for political and economic reforms, although such massive economic and financial assistance cannot avoid having political repercussions. China's only declared condition is the recognition of its "one-China" policy, by which African governments are expected to break off diplomatic relations with Taiwan. In contrast to other donors, China usually does not offer grants to African countries, but to increase its leverage on borrowing countries, China forgives the debts of borrowers that develop strong political and economic relations with it within an agreed timetable. Ghana is not an exemption and hence China continues to invest in Ghana and help in the country's economic development. According to the result of the research, 47 Chinese projects were registered in 2009, 72 in 2010 and 82 projects were registered in 2011. The data was mainly secondary from literature and Ghana Investment Promotion centre, the Government institution in charge of foreign investment in Ghana.

Key words: Investment, Manufacturing, Construction, growth and commercial

1.0 Introduction

Many African countries have already done much to create a more business-friendly environment and many have made impressive progress towards political and economic stability. In their efforts to revive economic activity they have scaled down bureaucratic obstacles band interventions in their economies, embarked on privatization programs and are putting in place pro-active investment measures. These efforts helped by other factors such as high commodity prices have borne fruit in recent years (Frimpong 2012).

In the 21st century, developments are important tool for the growth of a firm, organization, company and a country as a whole. To follow the trends of development the party involved needs to invest, put or allocate more resources in the area it deems fit and profitable. New opportunities are continuously emerging as a result of globalization in construction sector to have projects done internationally (Frimpong and Osei 2013).

1.1 The challenges posed with respect to China – Ghana trade relations

China-Africa cooperation has particularly been put in the spotlight. Some international observers accuse Chinese foreign policy towards African countries of undermining international efforts to increase transparency and good governance. Others describe a policy of 'an aid for oil strategy' or even a 'neo-colonial policy'. On the African side, some blame on Chinese enterprises of underbidding local firms, especially in the textile industry, or of failing to hire Africans. In Beijing, the Chinese government insists on its 'non-interference' policy and refuses to link business with the human rights issue. The Beijing Summit in 2006 accelerated the interaction between China and Africa even further, as the two sides decided to accelerate cooperation, especially in joint resources exploration and exploitation.

The study show that the export trade from Ghana to China is very low compared to imports. The composition of exports to China shows the absence of manufactured goods. It is quite obvious that the industrial sector in Ghana is being challenged with the increased imports of manufactured goods from China. These industries face competition both in the internal and external markets. Given that most of these industries are currently poorly developed, Ghana has to find policies that will deal with the deindustrialization that may occur if Chinese imports continue to grow coupled with job losses and the obstruction of economic diversification

On the other hand, there are some groups of people benefiting from the cheap imports from China, particularly the low-income consumers. In recent times, many wholesalers and retailers are sourcing their products from China, making the goods on the market cheaper than in previous years. It is however, difficult to show the overall significance to consumer welfare since there is not enough data to make such analysis. This is especially the case where there could be possible hazards of low quality imports from China.

1.2 Characterization of the Ghanaian Economy

In 2011, Ghana made progress in consolidating the gains made in the management of its macro-economy in 2010 as year on year inflation dropped to 8.7 % and the fiscal deficit fell to 4.3 % of gross domestic product (GDP). The GDP growth for 2011 is projected to increase sharply from 7.7 % in 2010 to 13.7 % (7.5 % non-oil) aided by oil revenues and strong export performance of cocoa and gold. Future growth prospects remain strongly positive with projections of 8.3 % and 7.7 % for 2012 and 2013 respectively. Oil production and mining activities led industrial sector growth at 36.2 %. This was followed by the services sector (5.8 %) and the agricultural sector (5.2 %).

Since the mid-1980s Ghana's economic performance has been characterized by steady and sustained growth. Between 1985 and 2010, the annual GDP per capita grew every single year. In only three of those years was the GDP per capita growth rate below 1 percent, and in most years per capita GDP grew at 2–3 percent and total GDP at 4–5 percent annually. Growth started to accelerate after 2004, and the annual GDP growth rate was greater than 6 percent between 2005 and 2010. The recent national account rebasing has adjusted Ghana's growth figures upward after 2006, with the growth rate in 2008 and 2009 more than 7 percent per year. The revised GDP in 2009 gives Ghanaians the highest per capita income in West Africa and makes Ghana a low-middle-income country with per capita GDP of more than US$1,000. Ghana's impressive growth performance not only contrasts with its experience before the mid-1980s but is also unusual globally (Breisinger and Diao 2008).

At the time of independence, Ghana was the leading cocoa exporter of the world. In the 1950s, Ghana exported an average of 370,000 tons annually, accounting for as much as 50% of the GDP. Since British economic policy set a high international price for cocoa, Ghana profited immensely in the early stages of development by capitalizing on the difference between domestic cocoa prices and international prices (Watkins). Through the cocoa economy, Ghanaian farmers were considered more financially secure than the majority of peasants in Southeast Europe. Although this policy later resulted in devastating consequences, initial revenues provided a strong financial resource for economic reform.

As the producer of yet another highly lucrative item, Ghana mined 1/10th of the world's gold at the time of independence. Since the ancient times, the gold trade has been a source of stable revenue due to continually high demand. Besides gold, Ghanaian lands contain rich deposits of aluminum, bauxite, diamonds, and manganese. Through these natural assets, Ghana was considered a middle-income country whose per capita income in the mid 1960s ($490) matched that of Mexico and South Korea, outperforming all the sub-Saharan countries by a significant amount. Thus, unlike many other developing countries, Ghana possessed a distinctive advantage in natural endowments that formed a strong financial base for economic reform.

Manufacturing in Ghana is dominated by agriculture-related activities, including food and wood processing and textiles, which accounted for more than 60 percent of manufacturing GDP in 2007 (Breisinger, Diao, Kolavalli et al. 2011). The average annual growth rate in manufacturing has been only 3.2 percent between 1994 and 2010, the lowest among Ghana's industry subsectors. Many factors have contributed to the poor performance of Ghana's manufacturing subsector, including high labor costs, high costs of electricity and raw materials, and both imported and domestically produced obsolete machinery (Yusof 2010).

During the 1960s manufacturing grew at relatively high rates, benefiting from a state-led development strategy that included import substitution. A number of large industrial enterprises, including Volta Aluminum Company (Valco) smelter, sawmills, and timber processing plants; cocoa processing plants; breweries; cement manufacturing; oil refining; textile manufacturing operations; and vehicle assembly plants were created in that period. This period of growth was followed by more than a decade of deindustrialization, and most of these enterprises did not survive in this era of restrictive trade regimes, which led to scarcity of the foreign exchange that was needed to import necessary intermediates and to poorly designed industrialization policies and high protection barriers. Ghana's efforts to develop its aluminum industry through the Volta Aluminium company (Valco), for example, failed due to a combination of factors, including the discovery of large bauxite reserves in Australia and Brazil that made it more economical to import semiprocessed alumina rather than to rely on local supplies (Encyclopedia of the Nations n.d.).

Ghana's labor policies appear to constrain the ability of small firms to expand. In particular, compared with other countries, Ghana is an outlier with regard to redundancy costs. Ghanaian firms pay an average of 178 weeks of salary when making a worker redundant.

Homegrown manufacturing has the potential to play an increasingly important role in Ghana's transformation (Agyeman-Duah 2008), yet Ghanaians have not taken advantage of a number of existing local opportunities and traditions. For example, entrepreneurs from Vietnam and China have used modern production methods to produce traditional Ghanaian handicrafts for exports. Vietnamese firms have successfully produced and marketed Bolga baskets, and Chinese firms have revolutionized the market for kente cloth by imprinting at costs lower than traditional weaving. The automobile parts sector in the Suame Magazine area of Ghana represents another example of homegrown manufacturing that has yet to play an important role in Ghana's transformation (Agyeman-Duah 2008).

While modern services such as information and communication technologies (ICT), finance, and other business-oriented services have become increasingly important in transformation, the role that services can potentially play in transformation is rarely discussed in the "older" development literature. However, perhaps due to India's experience in developing export-oriented services, modern services are increasingly seen as a sector that can grow rapidly and be a leading force in a country's transformation. Recent studies show that the mix of skilled and unskilled labor absorbed by modern services and manufacturing is more or less similar (Eichengreen and Gupta 2011).

2.0 Data and Research Methodology

Data has been collected through secondary sources for writing the paper. Most of the information has been collected from Ghana Investment Promotion Center (GNPC). This government institution is in charge of foreign investors in Ghana, while other published literature has also been taken into account.

3.0 Results and Discussion

3.1 What are the Issues?

Within the last decade, China has emerged the most ambitious development actor in Africa, its capital, trade, and the people reaching nearly every country in the region. Since2000, two-way trade between China and Africa has grown by nearly 40% on average per annum to reach $106.84 billion in 2008. According to the Chinese Ministry of Commerce, there were about 1600Chinese companies operating in Africa in 2008, with foreign direct investment (FDI) reaching more than $7.8billion.

But these figures reflect mainly the activities of large-scale state-owned enterprises(SOEs) and private flagship companies, including what are called backbone companies ,which serve state strategic interests in critical sectors like resource (including energy) development and large-scale construction works. They do not reflect the activities of the majority of the now over one million Chinese immigrants working and living in Africa. Many of these immigrate to African countries eager to break into local markets by setting up small and medium-sized enterprises to serve low-income markets. Not surprisingly, the recent explosion in Sino-African studies reflecting growing interest in the political and economic implications of China's expanding role in Africa, has turned to focus almost exclusively on state-backed large-scale projects. Far less attention has been paid the large number of Chinese SMEs, which operate in wide variety of sectors, from informal street trading and farming to manufacturing. Two reasons account for this neglect. One is that finding data on Chinese SMEs can be even harder than finding data on large Chinese SOEs. The other is that Chinese SMEs usually operate in sectors in which the government and agencies, usually in the West, which have the resource to fund research, have very little interest.

In the aid literature, tied aid has been viewed as producing sub-optimal outcomes by limiting the options of recipient governments to source goods or services from cheaper sources. Untying aid is therefore seen as an important means to sanitizing markets and governance. But criticism of China's tied aid system is often a fig leaf for other concerns, including fears of potential loss of strategic ground to China in critical sectors like energy. For example, Western countries like the U.S. that still use tied aid speak of China's assumed competitive threats directly. The Washington-based Council on Foreign Relations recently called on the U.S. government to adopt a pragmatic approach to respond to China's growing strategic influence on the continent.

But is China's aid strategy in Africa, including its resource-backed and tied lending, as bad as it is often made to seem? What are the implications of this strategy on the development options of recipient African countries? Do Chinese companies really threaten Western development initiatives in Africa?

While the activities of the small and nimble Chinese immigrant investors bear little direct significance for Western governments and agencies, they have significant micro-level implications for producers, workers, and consumers in Africa, as well as for the prospect of industrial transition there. By operating in informal and small-scale sectors, they affect livelihoods of millions in Africa much more directly. According to the African Development Bank, enterprises in the informal sector make up over 90 percent of private businesses in Africa and account for over half of employment and gross domestic product (GDP).

Secondly, Chinese immigrant entrepreneurs form an important chain in the growing commercial ties between China and the host African countries. Some of them scour for and export resources and other raw materials in great demand in China. While others import Chinese inputs and machinery to set up small manufacturing ventures or general consumer goods to sell in Africa, Some even become intermediaries linking African enterprisers with Chinese suppliers and potential business partners. And yet there is little analytical focus on the activities of Chinese immigrant entrepreneurs, save for anecdotal accounts in broadsheet newspapers, which often tend to focus on the dramatic and sensational stories, say, on the clash between Chinese immigrants and Africans. But what are the real effects of these Chinese immigrants on African economies? Addressing such a question requires a much more focused study than a broad sweep account.

The second part deals with the effects of the activities of Chinese immigrants on trade and investment ties between China and Ghana, and the implications for development in Ghana. Anecdotal accounts suggest there is a great "tsunami wave" of Chinese migrants in Africa hollowing out African industries and jobs by setting up enterprises that compete with local enterprises.

3.2 Chinese Investment in Ghana

China's increasing integration with the global economy has contributed to sustained growth in international trade. Its exports have become more diversified, and greater penetration of industrial country markets has been accompanied by a surge in China's imports from all regions. In 2006, China launched what is termed as the African Policy which focuses on the Chinese government's cooperation with Africa. This was at the celebration of 50 years of the China – Africa cooperation which dates back to the late 1950s and early 1960s when Egypt became the first African country to develop bilateral relations with China in 1956 (www.china.org.cn). Thereafter, more and more African countries developed ties with China (Wei and Frimpong 2011).

In 2006, China became Africa's third largest trading partner after the United States of America and France, making Africa one of China's major overseas origins for strategic resources, investment opportunities and a market for Chinese products. China's interventions in Africa have a substantial impact on the macro-economic situation of the continent and its countries, on its politics and policies, its business environment, its private sector, trade, environment, etc (Frimpong2011).

China and Ghana established official diplomatic relations on July 5, 1960, and although China's role in Ghana has become significant only recently the People's Republic has been in background in the geopolitics of Ghana's development and external relations. In 1966 the first post-colonial government in sub-Saharan Africa(SSA) was toppled in Ghana in a coup many believe was planned and approved from Washington, The head of toppled government, Kwame Nkrumah, heard news of his overthrow from Chinese officials in Peking shortly after his plane touched down there. After Nkrumah's overthrow, Peking withdrew from Ghana an estimated 200 Chinese aid workers, including military advisors and embassy officials (Quarterly Chronicle and Document, April 1966,p.222).

The Nkrumah government and the Communist Party were important allies in the struggle to decolonize Africa. Peking had built a training camp in Ghana to train and provision freedom fighters for independence struggles elsewhere in Africa, especially in Central and Southern Africa where American and Apartheid South African interests, including military supplies to the European colonial powers like Belgium and Portugal, complicated the independence struggle, while Nkrumah waged a campaign in the United Nations General Assembly both for decolonization of Africa and the re-instatement of the People's Republic(PRC) of China as the legitimate government and representative of China. It was in Ghana's capital in 1964 that the Communist Party's second in command, the adroit Zhou Enlai, declared that Africa was ripe for revolutionary insurgency, marking the beginning of a major Chinese push into Africa.

In 1989, shortly after the Tiananmen affair, Ghana under the military government of Jerry Rawlings became the first country to send a high-level official to China at a time when China was facing international criticism and isolation. Jerry Rawlings himself is said to have approached Deng Xiaoping for assistance and guidance in the early 1980s, as his socialist government tried to avoid dealing with the IMF and the World Bank. Deng's response was simple: only reforms would save Rawlings' country. Jerry Rawlings would return to implement what has been described as one of Africa's most far-reaching structural adjustment reforms, although the outcomes often belie the praise.

It has often been suggested that the PRC rewarded Jerry Rawlings for his diplomatic support in the Tiananmen by building Ghana's National Theatre. But there is little evidence that this is the case. Commercial motivations even since Mao have attended China's aid to Ghana. According statistics gathered from Ghana's Ministry of Finance the $7,114,897 interest free loan from the Bank of China was signed in 1985,four years before Tiananmen, although disbursement of the money was completed in 1990. What is rather obvious is that the project allowed Chinese construction companies to gain a footing in Ghana. Similarly, in 1972, when China was led by Chairman Mao and in the midst of the Cultural Revolution, an interest free loan of 102,814,004 Yuan to Ghana was tied to the purchase of goods from China. Quite naturally, China's assistance and commercial presence in Ghana has grown in the wake of its own economic ascendance and since China fully fleshed out a go out strategy, backed by project financing by Chinese state banks.

As for other African countries, China has provided three main types of assistance to Ghana. The first type is interest-free loans and grants, which are denominated in Yuan. These form a small proportion of China's aid to Africa generally, although they were the main form of Chinese assistance to Africa in the 1960s and 1970s. Perhaps, reflecting their role as political tools, interest-free loans and grants are controlled at the highest level by State Council through the Ministry of Foreign Affairs. The second type of Chinese assistance to Africa consists of concessional loans and subsidized (preferential) buyer's credits. These are also Yuan-denominated and controlled by the Chinese Ministry of Commerce (Mofcom), although disbursement passes through the China Exim Bank. The third type of assistance has evolved with changes in China's own development requirements and consequent changes in foreign policy to focus on commercial concerns.

In 1998, the China Exim Bank provided a concessional loan of $18 million for ventures production plants in cocoa processing, gold mining and fish nets and rope. Since then it has become the major provider of project financing in Ghana. By far the largest Exim Bank funding has been the $562 million for the construction of the Bui Dam. China Development Bank through the China Africa Development Found has also invested in power generation plant and a bauxite operation. 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 co-operation 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, including the construction of fiber optic networks. The newest areas of Chinese financing are emerging in the fledgling oil and gas sector, where the China National Offshore Oil Corporation and the China Development Bank have signed technical and financial agreements with the Ghana National Petroleum Corporation (GNPC) to support exploration and infrastructure.

3.3 Registered Chinese Projects in Ghana

According to the figure bellow, out of about 260 general registered projects in Ghana in 2009, 47 projects are from China. These 47 projects were for various sectors of the Ghanaian economy. These are made up 23 projects in the manufacturing sector, 9 projects within the general goods sector, 6 projects within services, 4 projects in the building/construction sector, 4 projects in the tourism sector and 1 project within the liaison sector.

In 2010, out of 391 general registered projects, 72 of them are Chinese projects. Out of these 72 projects, general trade received the highest projects with 23 projects; manufacturing sector received 21 projects, 13 projects within the services sector, 4 projects in the agric sector, 4 projects within tourism sector, 4 projects within the building and construction sector, 2 projects within the export and trade industry and 1 project within the liaison sector.

In 2011, out of 514 general projects, 82 of them are Chinese projects and out them general trade received the highest projects with 24 projects, manufacturing sector received 23 projects, 16 projects were registered within the service sector, 8 projects within the building and construction sector, 5 projects with tourism, 4 projects were registered with the export sector, 2 projects within the liaison sector and 1 project was registered within the agric sector.

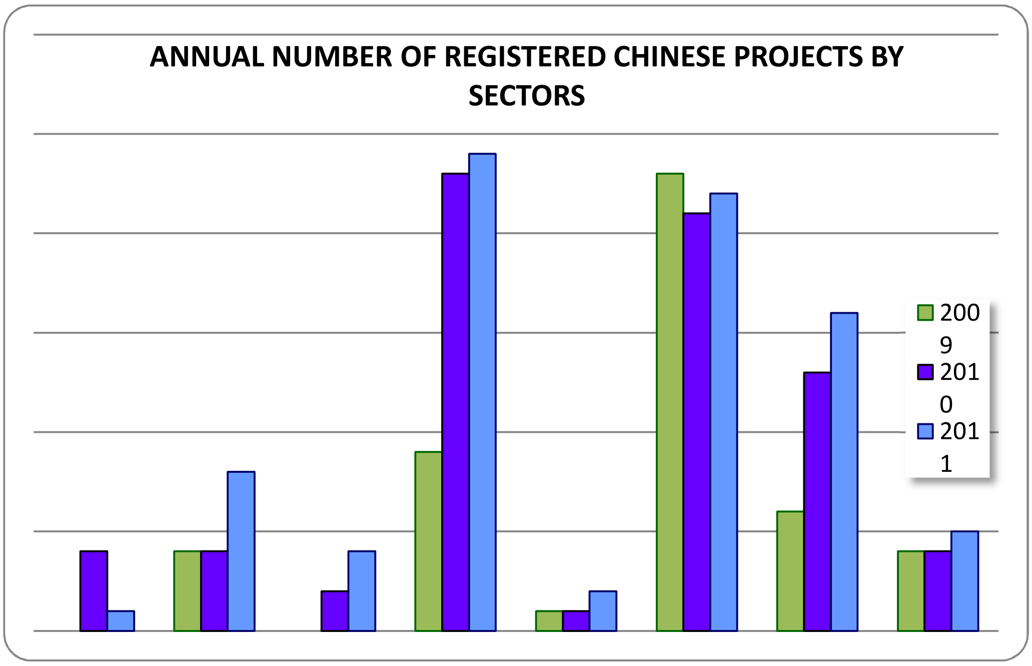

Figure 3.1: Annual Number of Registered Chinese Projects

The figure bellow shows the value of Chinese investments in Ghana in Ghana cedis (Ghanaian currency). It can be noticed that, in 2009, the manufacturing sector was the highest followed by general trade, then services, tourism, building and construction and finally liaison sector. However, in 2010, the building and construction received the highest project value followed by manufacturing sector, then general trade, followed by services, tourism sector was next, then export sector, followed by agric sector and liaison sector receiving the least. In 2011, the building and construction sector received the highest again, followed by manufacturing sector, then general trade, followed by service sector, liaison sector, then tourism, followed by export and trade then finally the agric sector.

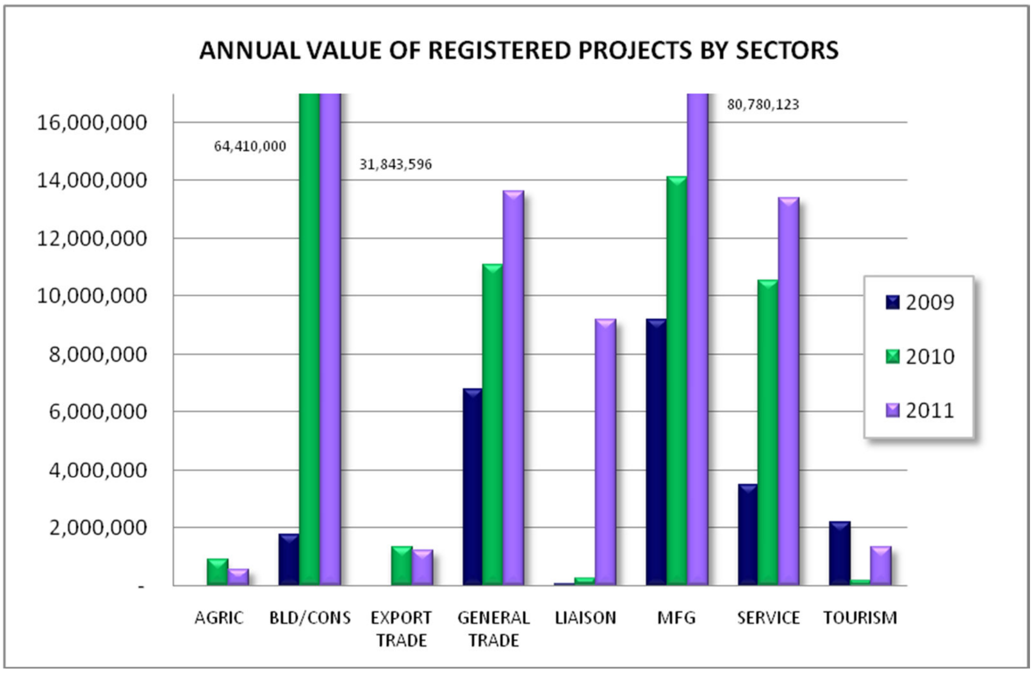

Figure 3.2: Annual r of Registered Chinese Projects

The Chinese investment is the highest intermesh of registered projects and sixth country in terms of value.

Conclusion

Western strategic and political concerns have focused on perceived threats posed by China's tendency to use cheap with credit to secure natural resources and promote Chinese companies, without also making demands for political and governance reforms. It is suggested that Chinese aid and investment strategies in Africa threaten Western cosmopolitan values, including recent governance initiatives aimed at excoriating Africa of monstrous colonial and Cold War legacies, such as propping up some of Africa's most dictatorial and corrupt regimes in return for continuing access to natural resources. One of the most recent initiatives by most Western donors, especially from Europe, has been to unbundle aid from direct commercial activities.

Over the years China has become an important source of Ghana's imports. The rising share of Ghana's imports from China and the more diversified imports relative to falling market share of other countries can be traced partly to the competitiveness of China's imports compared to other traditional sources of Ghana's imports. Part of the causes of Ghana's looking increasingly to China was the Structural Adjustment Program that not only encouraged increased liberalization of imports but created an austerity environment that made importers look towards cheaper sources.

References

Agyeman-Duah, I., ed. (2008). *An Economic History of Ghana: Reflections on a Half-Century of Challenges and Progress*. Oxfordshire, UK: Ayebia Clark.

Breisinger, C., and X. Diao. (2008). *Economic Transformation in Theory and Practice: What Are the Messages for Africa?* Working Paper 10. Washington, DC: Regional Strategic Analysis and Knowledge Support System.

Breisinger, C., X. Diao, S. Kolavalli, R. Al Hassan, and J. Thurlow. (2011). *A New Era of Transformation in Ghana, Lessons from the Past and Scenarios for the Future*. IFPRI Research Monograph. Washington, DC: International Food Policy Research Institute.

Eichengreen, B. and P. Gupta. (2011). *The Service Sector as India's Road to Economic Growth*. National Bureau of Economic Research Working Paper Series Vol. w16757. Cambridge, MA: NBER.

Frimpong, S.K. & Oheni O.K., (2013) *Analyzing the Risk of Investment in the Construction Industry of Ghana,* European Journal of Business and Management, ISSN 2222-1905 (Paper) ISSN 222-2839 (Online), Vol. 5 No. 2.

Frimpong, S.K., (2011) *Research on Consumer Perception on the Marketability of Chinese Electronic Products in Ghana.* Proceedings of 10th International Conference on E-Business, Wuhan, China, May 28 -29.

Frimpong, S.K., (2012) *Research on Relationship between China and Ghana: Trade and Foreign Direct Investment (FDI),* Journal of Economics and Sustainable Development, ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online), Vol. 3 No. 7

Wei J. & Frimpong, S.K., (2011) Research *on Job Dissatisfaction and Its Impact on Private Sector Investment in Ghana.* Proceedings of 8th International Conference on Innovation and Management, Kitakyushu, Japan, November 30 – December 2

Yusof, Z. A. (2010). *Economic Growth in Malaysia: Some Possible Lessons for Ghana*. Discussion Paper 10/0827. London: International Growth Centre. http://eprints.lse.ac.uk/36388/.