Ghana and China: Opportunities for Growth?

Position Paper
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China's Economic Growth

China has just emerged as the world's largest economy[1], finally overtaking the United States. China's economic growth over the last two decades has been nothing short of spectacular, and it now has the largest middle class population in the world, some 300 million Chinese. China is courted by the European Union and the United States, and Western businesses look to China with its 1.357 billion people as the market of choice, as China has gone from being the world's factory to becoming one of the largest consumer markets. Yet China's political economy is a paradox at three levels. First China is both a developed country and a developing country. Though it has emerged as the largest economy in the world, millions of China's people still live in poverty as the state struggles to raise their standard of living and to find resources to develop its backward provinces especially in the West. Second, China is a command economy (it remains a Communist state) with a significant market component.[2] This explains the peculiarities of its economic system, in which the largest multinational companies such as Sino Hydro, which are state-owned-enterprises, co-exist in the market with several privately owned businesses. Third, China is only now transitioning from being a factor-driven economy to being an efficiency-driven one, according to the World Competiveness Report of 2013-14. It is yet to graduate to the third and highest level and become an innovation-driven economy. Thus, China's fast rise as an economy has been resource-driven. China's developed/developing status explains what has been called the "three faces" of China in Africa: the presence of the Chinese state, private multinational companies, and individual adventurers in Africa looking for economic opportunities.[3]

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[1]On the basis of Purchasing Power Parity Measurements provided by the International Monetary Fund(IMF) China's GDP is estimated at 17.6 trillion while that of the US is put at 17.4 trillion. Keith Fray, " China's Leap Forward: Overtaking the US as the World's Biggest Economy". *Financial Times Online*. See also, *The Economist*, October 11th, 2014, p. 82.
[2] The Chinese describe their economy as a socialist market economy with Chinese characteristics. http://blogs.ft.com/ftdata/2014/10/08/chinas-leap-forward-overtaking-the-us-as-worlds-biggest-economy/?

Africa and China-Tale of Two Economies

China has become a phenomenal economic force in Africa since 2000. The value of China's trade with Africa has grown astronomically from US$1 billion in 2000 to $55 billion in 2007 to an estimated $198.4 billion in 2012, accounting for about 5.13% of the total value of China's foreign trade.[4] To facilitate its engagement with Africa, China has from 2000 organized the Forum on China-Africa Cooperation (FOCAC). Over this period, Africa's exports to China have also grown, increasing from 2.6% in 2000 to 9.3% in 2006. In 2009, China surpassed the World Bank as Africa's top lender and also became Africa's leading trading partner.[5] By the year 2011, according to UNCTAD, China has accumulated $16 billion of cumulative FDI stock in Africa, making it the 6th largest investor on the continent preceded by France, US, UK, Malaysia and South Africa, the latter being of course part of the continent itself.[6] However, FDI that passes through places like Hong Kong, the Cayman Islands and the British Virgin Islands, as well as investment in the financial sector are not included in the UNCTAD report. Therefore, as David Shinn argues, it might be correct to conclude that as of the end of 2011 China had more cumulative FDI in Africa than either South Africa or Malaysia but not more than the UK, US, or France.[7]

A particularly attractive feature of China's support for Africa has been its resource-backed infrastructure loans. Physical infrastructure that have seen no significant expansion since the end of colonial rule are now undergoing rehabilitation and expansion with Chinese capital and technology, and this is a dimension that other kinds of private foreign investment, often enclaved and closely focused on extraction, is not interested in. In the area of development support, a recent report suggests that between 2000 and 2011, China had funded 1,673 projects in 51 African countries with a total of $75 billion in

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[3]Emmanuel Akyeampong and Liang Xu, "The Three Phases/Faces of China in Independent Africa," in Celestin Monga and Justin Lin, ed., *Oxford Handbook on Africa and Economics* (forthcoming, 2015, Oxford University Press).

[4]Chris Alden, *China in Africa* (London: Zed Books, 2007); Report on Trends of Chinese Foreign Trade (Spring 2013), Chinese Ministry of Commerce; *Xinhua News*, March 25, 2013.

[5]Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2009).

[6] UNCTAD, "The Rise of BRICS FID and Africa," March 25th, 2013.

[7]For instance, China's $5.5 billion purchase of 20 percent of Standard Bank of South Africa is not reflected in the cumulative figures for FDI to Africa.http://davidshinn.blogspot.com/2013/03/foreign-direct-investment-in-africa.html.

commitments of official finance.[8] As a comparison, US had offered $90 billion offical finance during this time.

Indeed, it can be argued that the abundance of natural resources in Africa has led Beijing to seek long-term deals (so-called "resource-based foreign policy")[9] with African governments that ensure continued access to all its raw material needs and sources of energy.[10] Scholars have also argued that China's increasing economic presence in Africa must be understood within the context of the "Going Abroad" strategy which Beijing adopted in the mid 1990s to encourage and facilitate its state-owned enterprises to fully use what Beijing terms "two resources and two markets" approach (two being domestic and foreign).[11] Nevertheless, from an African perspective, economic cooperation with China, if managed properly, could produce very positive economic effects. For instance, in the case of Sudan, when it was under international sanctions (1996-2001), China responded to the 1995 Sudanese request for Chinese co-operation to develop its oil industry by authorizing China National Petroleum Corporation (CNPC) to conduct initial operations in Sudan. From 1997 when CNPC started its work there, it took only two years for Sudan an oil importer to become a net oil exporter country with good refineries and pipeline systems. Chinese technology and capital undoubtedly played a pivotal role in revolutionizing the Sudanese oil industry.[12]

Another compelling case is Zambia. When China supported Zambia in building the TAZARA Railway in the 1960s, apart from trying to establish herself as a regional player in competition with USSR, US and European interests, China had no intention to

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[8] Austin Strange, Bradley Parks, Michael J. Tierney, Andreas Fuchs, Axel Dreher, and Vijaya Ramachandran, "China's Development Finance to Africa: A Media-Based Approach to Data Collection," Working Paper 323, Center for Global Development (Washington D. C), April 2013.

[9] For a discussion on the evolving rationale for Africa-China relations see Lloyd Amoah, "China, Architecture and Accra's Spaces: Concrete Signs of a Soft Chinese Imperium," *Journal of Asian and African Affairs,* 2014,pp.1-18. http://jas.sagepub.com/content/early/2014/08/28/0021909614545854

[10] Ian Taylor, *China's New Role in Africa*, Boulder, CO: Lynne Rienner, 2009, pp. 18-19.

[11] Anshan Li, Haifang Liu, Huaqiong Pan, Aiping Zeng and Wenping He, "FOCAC Twelve Years Later: Achievements, Challenges and the Way Forward," Discussion Paper, No. 74, NordiskaAfrikainstitutet, 2012, pp. 13-15.

[12] Liang Xu, "A Historical Survey of Sudanese Studies in China 1949-2006," *XiyaFeizhou (West Asia and Africa)*, February 2007, pp. 69-70. For an excellent discussion on China-Sudan relations, see Daniel Large, "Old friend, New actor: Notes on the History of Sudan–China Relations," *Sudan Studies*, No. 37 (2008), pp. 39–52.

profit directly from the project in any significant economic terms.[13] However, since the 2000s, the commercial dimension of the China-Zambia relationship began to gain momentum, greatly boosted by the dramatic rise of China's copper imports from Zambia. Concurrently Lusaka also sought to develop a manufacturing base around its mining sector. In this context, the two sides in 2007 decided to establish in Chambishi/Lusaka the Zambia-China Cooperation Zone, China's first economic and trade cooperation zone in Africa. Infrastructure and preferential policies are provided to attract investment. A Chinese company, China Nonferrous Mining Group, has been designated as the main developer of infrastructure. Although scholars have identified serious political, economic and social challenges with the concept, economic cooperation zones, an idea China borrowed from other Asian countries such as Singapore and adapted to its unique development experience and conditions, does provide a possible, if not imminently promising, approach to sustainable industrialization. As a huge developing country, China realized that it could only develop its physical, intellectual, managerial, logistical and production infrastructure piecemeal. Economic cooperation zones enabled China to designate specific areas as production and export zones, which nurtured, facilitated and upgraded Chinese economic infrastructure there to first-world standards. The synergy between Chinese enterprises, the Chinese government and African governments can only evolve through practice.[14]

Ghana's Economic Trajectory and Opportunities for Growth

On the political and economic front Ghana has a lot to be proud of internationally. Its democratic credentials have been strengthened by successive peaceful changes in government through elections since 1992, and the politically mature manner with which it transitioned from the death of its first sitting president in 2012, Professor John E. Atta-Mills, earned it respect. Economically, Ghana became a lower middle-income country in 2010, a cumulative result of a solid average annual growth rate of

[13]Jamie Monson, *Africa's Freedom Railway: How a Chinese Development Project Changed Lives and Livelihoods in Tanzania*, Bloomington: Indiana University Press, 2009.

[14]For the specific challenges, see Ana Cristina Alves, "The Zambia-China Cooperation Zone at a Crossroads: What Now?," Policy Briefing, No. 41, China in Africa Project, South African Institute of International Affairs, Johannesburg, South Africa, December 2011, pp. 3-4. See also Deborah Brautigam and Xiaoyang Tang, "African Shenzhen: China's Special Economic Zones in Africa," *Journal of Modern African Studies*, Vol. 49, No. 1 (2011), pp. 27-54.

about 5.2% from the mid-1980s, when it first embarked on an economic recovery program under the auspices of the World Bank and the International Monetary Fund. Ghana discovered oil in commercial quantities in 2007 with exports commencing in 2011, a development which pushed Ghana's GDP to 15.0% in 2011. Exports from oil brought in about US$500 million through dividends, royalties and taxes in 2011 with a similar amount in the following year.

A long-standing Ghanaian objective has been to diversify its economy from an inordinate dependence on the export of primary materials such as gold, diamonds, manganese, cocoa, and now oil. Adding value through manufacturing, and then transitioning from there into the service industry has been the stylized pattern of development for the now developed countries which some hitherto developing countries have followed for their own transformation[15]. Globalization has opened up opportunities in the service industry, and many developing countries seem to have short-circuited manufacturing into service with negative implications for a solid, balanced economy. Ghana's trade with the West or China focuses on the export of raw materials. Instructively, Ghana's trade within West Africa or the Economic Community of West African States (ECOWAS) shows an important manufacturing component. There are promising indicators in regional trade in West Africa in its diversity compared to West Africa's trade outside the continent. This diversity reflects comparative advantage through factor endowments, underscoring a complementarity in regional economies compared to West Africa's economic relations to the West or Asia, which has emphasized the export of agricultural products and minerals. Thus, Ghana, Benin, Togo, and Senegal export more manufactured goods and machinery within West Africa than they do in their trading relations outside the region. In addition, ECOWAS trade seems to represent a significant proportion of the external trade of the less naturally endowed West African countries, underscoring its important role in wealth creation for these countries. Thus, ECOWAS trade represents 78 per cent of Burkina Faso's trade, 60 per cent of Togo's, 46 per cent for Senegal, and 35 per cent for Mali.[16] We have seen that Ghana exports more manufactured goods and machinery to its West African neighbors, yet

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[15] For an insightful account on this see Kaname Akamatsu, " A Historical Pattern of Economic Growth in Developing Countries," *Journal of Developing Countries,* 1(1)(1962): 3-25.
[16] Ibid.

ECOWAS trade represents only 18 percent of Ghana's trade.[17] Ghana stands to benefit more in terms of economic diversification and value added production through regional trade than through inter-continental trade. Regional trade contributes more to economic diversification, and this can reduce the vulnerability of West African countries to external shocks based on the price volatility of the primary products they export to the West and Asia. China presents an opportunity for Ghana to expand its manufacturing sector and grow its trade within West Africa, and to develop its infrastructure and lower costs of production that would make it attractive to external investors. Ghana needs to think strategically of its growth trajectory as well as its place within the larger West African regional market.

China's presence is evident in Ghana's economy in a variety of industries. Most prominently, China is co-operating with Ghana in the energy sector, rail and road networks, and other infrastructural projects. The Bui Hydro-electric Dam (located on the boundary between the Northern and Brong Ahafo Regions of Ghana), the largest Chinese infrastructural project in the country, was built by Sino-Hydro at an estimated cost of US$622 and financed by the Chinese Export-Import Bank (EXIM Bank). The Ghana government's financial contribution was $60 million, and the loan was collateralized using Ghana's export of cocoa to China, an example of a resource-backed infrastructure loan. President John Mahama commissioned the 400 megawatts power generation capacity dam in December 2013. China is currently supporting the Kpong Water Expansion Project (a new water purification plant which is under construction is expected to be completed in 2014), which is expected to increase water supply to the eastern parts of Accra by 40 million gallons a day. In 2009 the Chinese government provided the Electricity Corporation of Ghana with US$170 million in supplier's credit for the extension of electricity to 300,000 households. Ghana is now a commercial exporter of oil, and China is again supporting Ghana in the construction of a natural gas pipeline, which is being be funded through the $3 billion term loan facility agreement signed

[17] Von Uexkull, "Regional Trade and Employment in ECOWAS."

between China Development Bank and the Government of Ghana on December 16th in 2011.[18]

It is important to note that Chinese investment in Ghana is not limited to construction and resource-based sectors. The statistics from the Ghana Investment Promotion Center suggests that Chinese investment in Ghana stretches across a wide variety of sectors, including manufacturing, construction, tourism, service and agriculture. From September 1994 to June 2013, the Foreign Direct Investment (FDI) influx into Ghana from China reached $543.5 million, making it the tenth biggest FDI provider for Ghana, the top five being the UK, Korea, USA, UAE and Lebanon. Of the $543.5 million FDI from China, $254 million went into the manufacturing sector (covering a variety of industries such as iron and steel, food processing, textile, salt production and fishing); the trade, construction and service sectors attracted $120 million, $96 million $48 million respectively. A closer look reveals that in terms of the number of projects, China, with 645 registered projects, topped the list of investor countries.[19]

Ghana and China: Seizing the Opportunities for Growth

The problem Ghana had with illegal Chinese miners that climaxed in the setting up of government task force in 2013 and the deportation of several Chinese citizens and the vexing complications that have attended the repayment and disbursement terms of the $3.0 billion Chinese loan in the oil sector need not eclipse the big picture: that the majority of Chinese companies (both state and private) and entrepreneurs are investing legally across many sectors. China presents Ghana with a compelling alternative trade and developmental partnership, which, if properly managed, has the potential to quickly transform the living standards of Ghana' citizens. Just as Ghana has served as a market for Chinese goods and services, so too can the vast China market for Ghana's economic products. Ghana needs to empower local businesses to access this market.[20]

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[18] *US $ 3 Billion Term Loan Facility Agreement between China Development Bank and Government of Ghana*, Ghana Ministry of Finance and Economic Planning.
[19] Registered Country Investments Classified by Sectors: September 1994 to June 2013, Ghana Investment Promotion Center.
[20] Samuel Amanor, "Chinese Money for Ghana's Natural Resources: The Real Cost," Consultancy Africa Intelligence, August 12th, 2013.

We conclude this position paper with a set of recommendations that could help Ghanaian businesses and the Ghanaian economy grow through its relationship with China. First, Ghana should continue to use Chinese state-owned enterprises that focus on construction and the very established private companies such as Huawei Technologies to develop a nationally integrated infrastructure with a focus on roads, electricity, water, and ICT. The Ghanaian state should play the leading role in this regard, making use of China's resource-backed infrastructure loans. Second, Ghana should explore the model of Economic and Trade Cooperation Zones pioneered by China. These zones will run on a triple helix of Chinese and African governments, and established Chinese enterprises. A clear role needs to be found in this endeavor for Ghanaian capital and the Ghana government has to think strategically of which areas of the economy it wants to highlight as drivers for national economic development. Ghana's economic competiveness has to be directed at regional, intra-African, and South-South trade. The government has to choose strategic economic areas to develop anchored in Special Economic and Trade Cooperation Zones, and aggressively facilitate technology transfer in these areas. Third, Ghana's engagement with China should not be divorced from the larger ECOWAS agenda, as it is within this sub-region that Ghana can grow its manufacturing potential. The fourth recommendation is counter-intuitive. After the fiasco with the illegal Chinese miners, and the growing local resentment of Chinese intrusion into retail and wholesale trade in Ghana,[21] it is easy to dismiss the third face of China, the individual Chinese seeking economic opportunities in Africa, as parasitic. Many are interested in entering into manufacturing and the Chinese have set up business associations in Ghana. The Government of Ghana should work with the Government of China, their respective embassies, business promotion enterprises and chambers of commerce to put together relevant information on investing in Ghana for Chinese investors. Chinese investors should be directed into sectors and geographical areas earmarked for development by the Ghanaian government. Some may enter into joint ventures with Ghanaians; others may go it alone. The government of Ghana should ensure that world-class infrastructure

[21] Chinese traders have become important players in Ghana's key commercial centers in the last decade. See Lloyd Amoah, "Money Flows from the East," BBC Focus on Africa Magazine, 18 (1) Jan-March, 2007, pp.44-45; Lloyd Amoah, "Accra and Chinese traders: Transcontinental dreams, Spaces and Protests," 2013 Technical Research Report presented to the African Centre for Integration, Trade and Development, Dakar, Senegal.

supports these investors (referring back to the role of the first two faces of China in Africa), and that tax breaks serve as incentives to channel investment where needed. The size of China's middle class is almost as large as the total American population, and it is growing. As a market and potential investors, this middle class Chinese population can become an important driver of growth for Ghanaian businesses as their manufacturing models are more replicable for Ghanaian capital than that of multinational giants like Huawei Technologies. Ghana needs to continue to grow its agricultural sector as a base for manufacturing, and expand labor-intensive manufacturing with increasing technological content; Chinese technology, know-how and experience should play a vital role.

To operationalize these recommendations and provide the necessary form and direction Ghana needs as a matter of urgency a China Policy Document which spells out among other things the guiding geo-political framework, time frames, key sectors, central institutions, strategic deliverables, mechanics for constant engagement and dispute resolution in a clear and concise manner.[22] Without such a blueprint, Ghana's relations with China will essentially be akin to groping in pitch darkness. China will continue to grow at impressive rates for many years to come. It is up to Ghana to strategically leverage that growth to for her own benefit.

[22] No African country has yet to develop such a policy document though China released her China-Africa Policy Document in 2006. Ghana's relations with China have been at best marked by contingencies and ad hoc policies in the absence of a Ghana-China Policy Document. See Lloyd Amoah, "Ghana-China Relations: From Ambivalence and Fear to Vision and Action," Paper presented at a Roundtable organized by the Development Policy Institute, 2007.