Impact of China-Africa Investment Relations: An In-depth Analysis of the Case of Ghana

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Executive Summary

The study looks at the impact of Chinese FDI on the Ghanaian economy. Ghana has recently been receiving increasing amounts of FDI from several countries, including China and it is important to know how this is affecting the nation's economy. The study is arranged as follows: there is first an overview of the Ghanaian economy to provide the context for the study; then the work looks at the investment regime and climate as well as general trends in FDI; this is followed by a review of the relevant literature, first theoretical and then empirical; next the theoretical framework, methodology and data are discussed; following this is the analysis of the findings, which was done using a case-study approach and key informant interviews; finally the report concludes with conclusions and policy recommendations. This case study is part of a wider study by the AERC on impacts of Chinese investment, trade and investment on African economies.

Foreign direct investment has long been identified as integral to development. Unfortunately, FDI flows to Africa have been typically very low, especially as a percentage of flows to developing countries. Ghana, despite implementing numerous reforms, still does not receive as much FDI as one would expect. The FDI that comes to Ghana is largely concentrated in the mining sector. There has recently been a push to attract FDI to other sectors of the economy which could perhaps spearhead the structural change desired to develop the nation.

The report shows that, presently, Chinese FDI is concentrated in the general trade and manufacturing sectors. The case studies used were in these two sectors: one, a trading company in nets was small scale; the other, Asogli Power Ghana Limited, a huge manufacturing firm. A key conclusion that can be drawn from the study is that Chinese FDI in the manufacturing sector is definitely welcome but that involvement in general trade may be subject to debate. The Chinese and members of GIPC see involvement in trade as a good thing but workers in this sector fear the Chinese may be displacing local businessmen and – women. There is anecdotal evidence of the latter but further research is needed to arrive at a conclusion about this matter.

With regards to the impact of Chinese FDI, it was found that the associated firms provide a host of benefits in a number of respects. First they help reduce import dependency. Secondly, they contribute to export expansion. Thirdly, they make some amount of contribution in terms of value- addition. Fourthly, they help improve competitiveness of local industries. Lastly, they make contributions in terms of employment and government revenue, via taxation.

Key policy recommendations made by this study include the need for further in-depth research into and supervision of the activities of the Chinese, especially those in the trade sector. Steps must also be taken to ensure that Chinese manufacturing firms are actually manufacturing and not just surreptitiously trading. Joint meetings where the concerns of both Chinese and locals are addressed should be encouraged so as to increase cooperation between both sides.

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Introduction

It is starkly clear that China has become increasingly involved in Sub-Saharan Africa (SSA) over the past decade. This engagement has taken the form of increasing trade, investment and aid. Chinese investment (and aid) in Africa has been of particular interest because its lack of conditionalities have generated debate over whether it is good for Africa. China's policy of untied investment (and aid) seems to stymieing efforts by the West to push for improved governance on the continent. There are also issues over whether China is engaging in a form of neo-colonialism since most economic ties are based on exploiting African natural resources. When investment is considered, it is notable that the two countries in SSA that have received the largest amounts of Chinese FDI in recent times are the oil-producers Sudan and Nigeria. However, not all Chinese investment is being funnelled into natural resources. Broadman (2006) remarks that:

> *"To be sure, if you take a snapshot of today, the overwhelming bulk of Africa's exports to Asia is natural resources. But what's new is there is far more than oil that is being invested in—and this is an important opportunity for Africa's growth and reduction of poverty because Africa's trade for many years has been concentrated in primary commodities and natural resources."*

Thus, the nature of Chinese economic involvement is changing. Significant amounts of Chinese FDI are going to destinations like Ghana, Tanzania and Senegal into non-extractive sectors. Large investments are being made in infrastructure, especially in telecommunications and the construction of roads and railways as well as stadiums and government buildings. Recently, China has committed itself to large investments in industrial processing zones in a number of SSA economies. Furthermore, the African continent is being seen as a prime region for Chinese wholesale and retail traders, who are actively transacting business on both large and small scale.

But should Chinese FDI (or FDI from any other country, for that matter) be welcomed? The contribution of FDI to growth and development seems to have been widely accepted in the past as a stylized fact. However, some studies which seemingly established this fact have been found wanting when the evidence was more critically examined[1]. It is now not altogether clear if FDI is a boon or bane to a host country; it depends on a complex set of circumstances. In spite of this, most countries make attracting foreign investors a key priority area, sometimes to the detriment of local business. It is imperative to more critically examine the true nature and impact of FDI, especially on a country to country basis, to help foster good policymaking.

Chinese investment in Ghana is not a recent phenomenon. However, its nature and focus has changed over the years and is an interesting study. Atypically of the SSA experience, Chinese FDI inflow to Ghana is not targeted at the extractive sector; rather, it goes into a range of concerns including, among others, manufacturing, general trade, services and tourism. This paper aims to undertake a comprehensive analysis of the key features and patterns of the past, current and future evolution of the investment relations between China and Ghana. This should then serve as a basis for achieving a fuller understanding of the impacts of Chinese investment on Ghana's economy.

[1] Contessi and Weinberger (2009) recently reaffirmed Rodrik's (1999) finding that the evidence on FDI impact is mixed.

The rest of the paper is organized as follows: section two provides a background of the Ghanaian economy, describes Ghana's investment regime and climate and describes trends in Chinese investment inflow. Section three reviews related literature on FDI. Section four describes the theoretical framework, methodology employed in analysis and data sources. Section five provides an empirical analysis of the data. Section six comprises the conclusion and policy recommendations.

1. Ghanaian Economy

Table 1: Key Facts on Ghana

Area	238,537 km^2
Population (2007)	22.9 mn
Population growth* (2008)	2.1%
GNI per capita** (PPP, US$,)(2007)	1,430
GDP Growth (2008)	7.30%
Poverty Incidence rate*** (2006)	28%
Life expectancy at birth (2007)	56.5 years
HDI rank (2006)	154 (out of 182)

Sources: UNDP Human Development Report 2009; *World Bank Stats 2008; **World Development Indicators 2008; ***Ghana Living Standards Survey 2005/6

The economy of Ghana has witnessed significant improvements over the last decade but still faces serious. **Error! Reference source not found.** shows the trends in several key macroeconomic variables over the last 8 years.

Table 2: Selected Macroeconomic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Real GDP Growth	3.7	4.2	4.5	5.2	5.8	5.9	6.2	6.3	7.3
Inflation (end-period)	40.5	21.3	15.2	23.6	11.8	14.8	10.5	12.8	18.1
Government Revenue (% GDP)	17.7	18.2	18.4	20.1	23.8	23.9	22.3	26.1	27.9
Government Expenditure (% GDP)	24.5	23.8	26.8	28.1	32.6	30.3	33.7	40.0	38.2
Overall Fiscal Balance (% GDP)	-8.5	-4.4	-5.3	-3.4	-3.2	-2.0	-7.8	-8.1	-11.5
Merchandise Exports (f.o.b., US$ million)	1936.00	1867.00	2015.00	2562.00	2704.00	2737.00	3726.70	4194.70	5275.30
Merchandise Imports (f.o.b., US$ million)	-2767.00	-2969.00	-2707.00	-3233.00	-4297.00	-5248.00	-6753.60	-8073.60	-10261.00
Trade Balance (f.o.b., US$ million)	-830.00	-1101.00	-692.00	-670.00	-1593.00	-2512.00	-3027.00	-3878.90	-4985.60

Source: World Development Indicators (2007) & Various State of the Ghanaian Economy Reports

On a positive note, GDP growth has quickened, especially in the last 5 years, increasing steadily from 3.7% in 2000 to 6.3% in 2007, and then jumping to 7.3% in 2008, probably attributable to the massive government expenditures made in an election year. However, in the face of deteriorating fiscal and external balances precipitated and worsened by the global economic crisis, growth is expected to fall sharply in 2009. Also encouraging has been the general decline in inflation. Between 2000 and 2006, inflation fell from 40.5% to 10.5%. In the last two years, however, inflation has significantly worsened, increasing to 12.8% in 2007 and then to 18.1% in 2008, the highest value in the last five years.

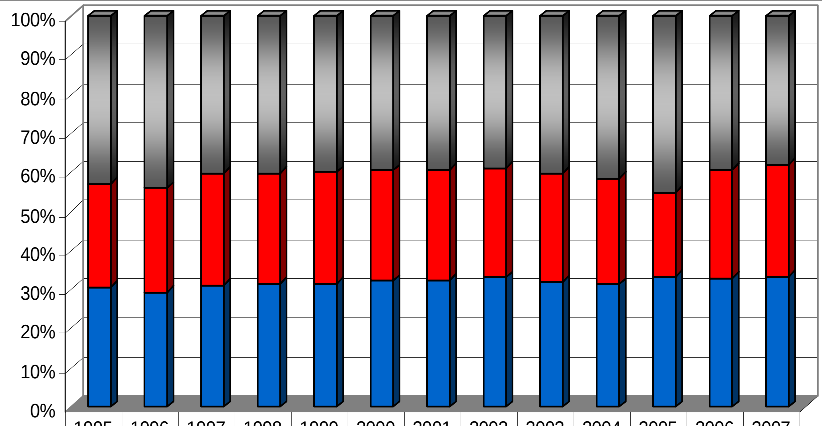
On the worrying side, the trade balance has consistently been in deficit over the period and these deficits have been increasing – from about US$830 million in 2000 to a little over US$3.0 billion in 2006 and then to over US$4.9 billion in 2008. This has been against the backdrop of increasing exports, which have risen from about US$1.9 billion in 2000 to about US$4.2 billion in 2007 – an increase of about 121%. The obvious problem is that over the same period imports have increased at a faster rate, from a level of about US$2.8 billion in 2000 to about US$8.1 billion in 2007 – an increase of about 189%.

Furthermore, the overall fiscal balance, after improving fairly steadily from 2000 to 2005, has worsened dramatically since then and 2008 represents the largest fiscal deficit recorded over the period (11.5% of GDP). This points to a problem of fiscal imbalance: although government revenue has been steadily increasing, government expenditures have been rising faster. The recent worsening of the balance can partly be blamed on government efforts to mitigate rising prices for oil and food. However, the fact that these deficits exceeded target levels year after year gives some evidence of lack of fiscal discipline.

Structural Change

Figure 1igure 1shows that he structure of Ghana's economy has remained largely unchanged for past several decades. Agriculture remains the dominant sector and in 2007 contributed about 38% to GDP, with services contributing about 33% and industry contributing 29%. Between 1995 and 2007, the contribution of agriculture to GDP declined from about 42.7% to about 38%. In that period, the share of GDP from the services sector increased by about 2.8 percentage points and that from the industrial sector by about 1.9 percentage points. This hints that some transformation is taking place but at a very slow pace.

Figure 1: Sectoral Contributions to GDP



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture	42.7	43.9	40.1	40.2	39.9	39.4	39.3	38.8	40.2	41.5	45.1	39.3	38.00
Industry	26.7	26.6	28.7	28.2	28.4	28.4	28.1	27.9	27.8	27.1	21.4	27.8	28.60
Services	30.6	29.5	31.2	31.5	31.7	32.2	32.5	33.2	32	31.4	33.5	32.9	33.40

Source: Various State of the Ghanaian Economy Reports

Poverty Reduction

Encouraging progress is being made with regards to poverty reduction. The poverty rate has fallen from 52% in 1991/92 to 28.5% in 2005/6 (Ghana Living Standards Survey 2005/6). Thus, now less than a third of Ghanaians live below the national poverty line. There is a sharp disparity in poverty incidence across the different regions of the country. The three northern regions registered the highest poverty incidence figures (with the Upper West region having the highest poverty incidence of 88%) whilst the Greater Accra region, by far the most urbanised region, recorded the lowest poverty incidence (of about 12%). Furthermore, the two northernmost regions (the Upper West and Upper East regions) were the only two that showed no decline in poverty incidence between 1991/1992 and 2005/2006. These trends illustrate the increasing spatial inequality that exists in the country and which must be addressed to engender more equitable development**.**

1.1 Ghana's Investment Regime and Climate

1.1.1 Investment Regulatory Regime

Provisions regulating foreign investment are spelt out in the Ghana Investment Promotion Centre (GIPC) Act of 1994 (Act 478) and in various sector-specific laws and regulations. All firms with foreign participation are required to register with the GIPC, indicating their activity and the amount of foreign capital to be invested. Registration usually takes five working days and the fees are zero for wholly Ghanaian owned companies, US$1,000 for joint-ventures, and US$2,500 for foreign-owned companies. Renewal of registration must be done every two years at a fee of US$1,500. There are additional fees to get work permits for foreigners. Furthermore, foreign investors must provide evidence of the transfer of the required capital and submit information on the proposed investment project, including intended major activities, employment, equity structure and environmental impact. Foreign investors are prohibited from participating in four main sectors: retail trade; lotteries; operation of taxi and car rental services with fleets of less than ten vehicles; and the operation of beauty and barber salons.

FDI is subject to a legal minimum equity contribution that depends on the type of ownership. The amounts involved for a joint venture with a local partner, a 100% foreign-owned business and a trading enterprise are, respectively, $10,000, $50,000, and $300,000. There are also immigrant quotas which depend on the amount of paid up capital. Enterprises with a paid-up capital of between $10,000 and $100,000 are entitled to an initial automatic maximum immigrant quota of one person; those with a paid-up capital of $100,000 to $500,000 have a quota of two persons; and those with a paid-up capital of more than $500,000 have a quota of four persons. Trading enterprises also have the additional requirement of having to provide employment for at least ten Ghanaians.

Act 478 guarantees foreign investors "unconditional transferability" of dividends or net profits, as well as remittance of proceeds on sale or liquidation of their businesses. Indications are that a revision of the GIPC Act is being planned to update minimum capital requirements and specify exemptions and incentives that apply to particular sectors.

There are a set of specific rules that apply to the minerals, fishing, maritime transport, and postal services subsectors, as well as to companies listed on the Ghana Stock Exchange. For mineral and oil projects local participation is compulsory and the government receives a 10% equity in ventures, at no cost. Non-Ghanaians are also prohibited from engaging in small-scale mining. With regards to fishing, the Fisheries Act (2002) restricts ownership of fishing operations to Ghanaian citizens, however foreigners may own up to 50% of vessels engaged in tuna fishing. Only Ghanaian companies are permitted to engage in domestic maritime cabotage. With regards to postal services, government-owned Ghana Post Company has the exclusive right to transport letters, postcards, printed matters, and small parcels up to 100 g. Finally, with regards to the Ghana Stock Exchange, total foreign ownership in any firm listed on the Ghana Stock Exchange is limited to 75%, while a single foreigner can own a maximum of 10% stock.

A slew of investment incentives are available to both foreigners and Ghanaians. Certain machinery and equipment imported for investment activities are eligible for reduced import tariffs and VAT rates. Tax rebates are also available for investments in specific regions of the country. Aside from these, there are other special investment incentives available to enterprises located in free zones.

Ghana has been able to ratify investment promotion and protection agreements with a number of countries, including China. These agreements are meant to complement the investment legislation to attract FDI. To further bolster investor confidence, the Ghana Arbitration Centre, a private initiative established in 1996, serves as a forum for the resolution of disputes. Furthermore, Ghana is a member of the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID).

1.1.2 Investment Climate[2]

Attracting increasing amounts of FD is a major priority area of the economic policy of Ghana government. The Ghana Investment Advisory Council (GIAC), a body established with assistance from the World Bank, helps guide government efforts in this direction.

[2] Information for this section was largely taken from the 2009 Investment Climate Statement – Ghana.

The GIAC comprises local and multinational companies and institutional observers from bodies like the World Bank, the International Monetary Fund, and the United Nations Development Program.

Privatization efforts are still continuing and 300 state-owned enterprises (out of 350) were privatised by the end of 2000. This process is still ongoing and now only a smattering of state-owned enterprises remain.. The government has also pushed for partial privatization through the selling of equity stakes in state-owned enterprises on the Ghana Stock Exchange (GSE). The Divestiture Implementation Committee (DIC) oversees most privatization efforts.

The Government aims at providing an enabling legal environment for investors and removing regulations that might seem unfriendly. The GIPC oversees investment in all sectors of the economy except minerals and mining, oil and gas, and the free zones. There are other sector-specific laws which further regulate banking, non-banking financial institutions, insurance, fishing, securities, telecommunications, energy, and real estate. The GIPC has continued efforts at streamlining procedures and reducing delays in establishing new ventures. The Centre also aids investors in get established and taking advantage of the relevant incentives.

There is no overall economic or industrial strategy aimed at discriminating against foreign-owned businesses. In fact, in some cases a foreign investor can benefit from additional incentives if the project is deemed critical to the Ghana's development.

When all necessary documentation has are submitted, new investments are supposed to be registered with GIPC within five working days. However, the actual time required may be significantly longer (sometimes up to one month). Even though registration is relatively simple, the entire process of establishing a business in Ghana is convoluted and requires compliance with regulations and procedures of at least five government agencies including the GIPC, Registrar General Department, Internal Revenue Service (IRS), Ghana Immigration Service, and Social Security and National Insurance Trust (SSNIT).

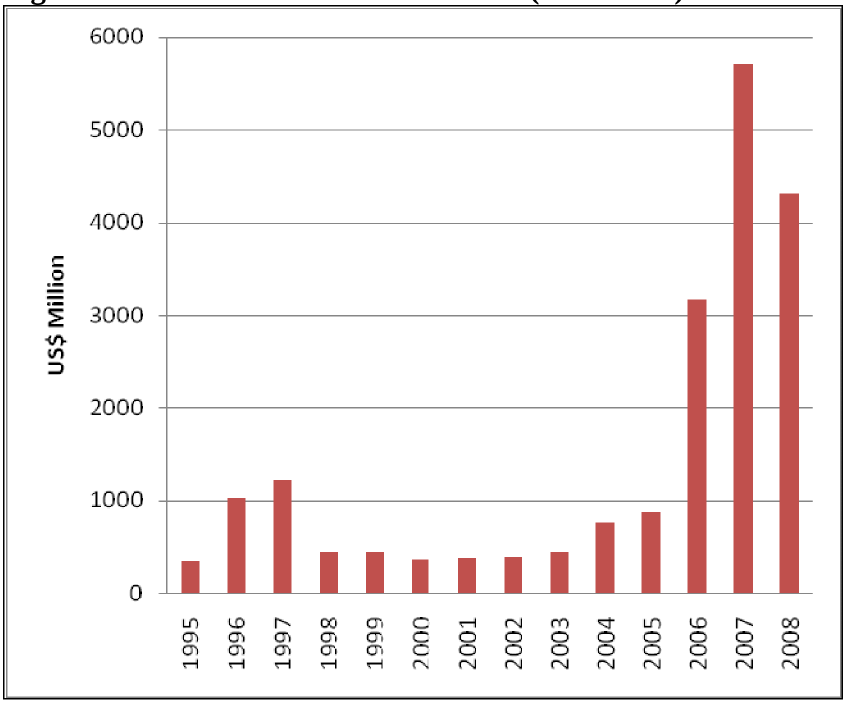
Encouragingly, however, Government reforms have yielded some results. According to The World Bank's Doing Business 2009, the average time to set up a venture in Ghana is 34 days, a significant improvement from the 129 days it took in 2003. Unfortunately, the World Bank still ranks Ghana 137th out of 181 countries in this regard and in terms of overall ease of doing business, Ghana ranks 87th, down from 82nd in the previous report.

1.2 Trends in Overall FDI and Chinese FDI

Figure 2 shows the trend in total FDI to Ghana from 1995 to 2008. From 2002, FDI inflows rose steadily, with particularly sharp jumps experienced in 2006 and 2007. However, 2008 witnessed a large drop-off in inflows, likely prompted by the global financial crisis.

The unusually large chunks of FDI in the last three years were a result of single massive projects. In 2006, ALCOA-Ghana Bauxite and Alumina Company, a US firm, invested US$ 1.355 billion to set up an alumina refinery. In the same year, an associated US company, ALCOA-Ghana Aluminium Company Ltd., invested US$750 million to establish an aluminium factory. These two investments made up about two-thirds of the total FDI received by Ghana in that year. In 2007, Balkan Energy, a UK company invested US$4.67 billion in a power barge project. This accounted for 82% of the total year's FDI inflow. In 2008, the massive investment came from a company from UAE which invested US$2.077 billion in the rehabilitation and modernisation of the Central and Western railway line. Thus, we see that the majority of these bulk investments are being made into the manufacturing sector, an encouraging sign for Ghana's development.

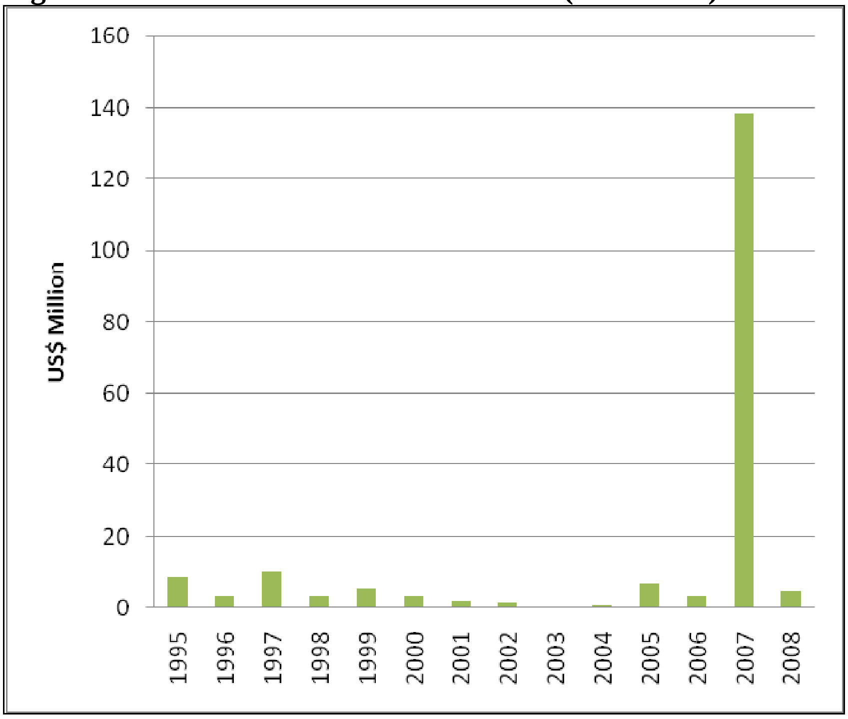
Figure 2: Trend in Total FDI to Ghana (1995-2008)



Source: Author's calculations from data obtained from GIPC and Minerals Commission.

Figure 3 below shows an irregular pattern of FDI flow from China, with FDI decreasing steadily from 1999 to 2003 and then rising and experiencing alternate rises and falls. The most notable feature of this trend is the massive amount of FDI that China made in 2007, an amount that is almost double the sum of all FDI received from China between 1995 and 2006. This relatively large investment came from Sunon Asogli Power (Ghana) Ltd. which invested US$134.4 million in a power barge project [See case study].sssss

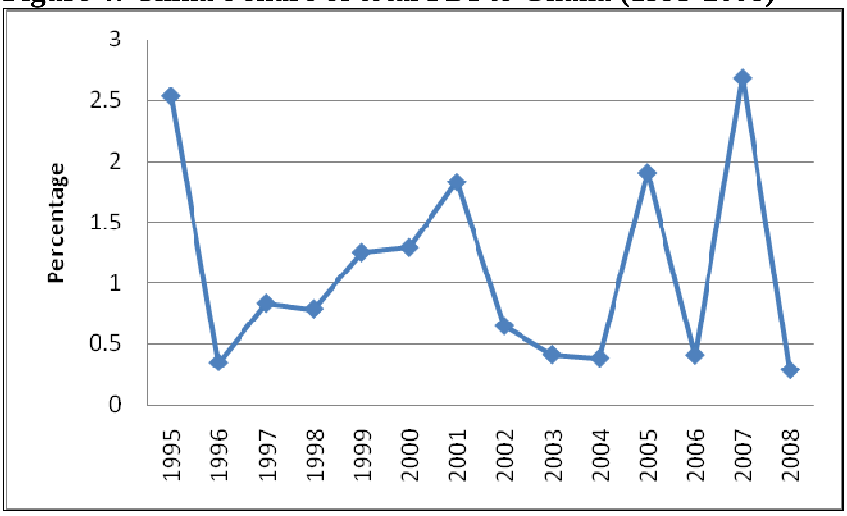
Figure 3: Trend in Chinese FDI to Ghana (1995-2008)



Source: Author's calculations from data obtained from GIPC.

As a percentage of total FDI inflow into Ghana, Chinese FDI has typically been below 2.5% of total FDI inflows, except for 1995 and 2007 where it attained values of 2.5% and 2.7%, respectively (Figure 4). Since 1995, the Chinese share of total FDI to Ghana has traced a cycle of rises and falls, with the sharpest being from 2004 to 2008, when the rises and falls occurred in subsequent years.

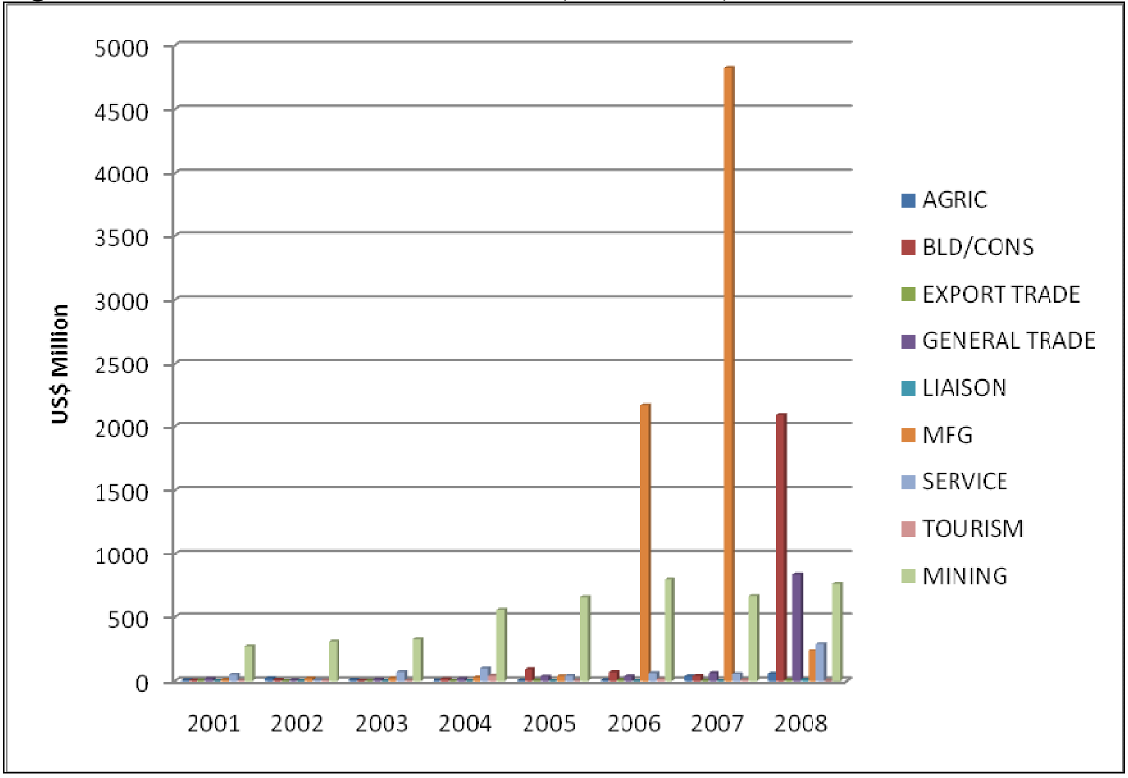
Figure 4: China's share of total FDI to Ghana (1995-2008)



Source: Author's calculations.

Sectoral Distribution of FDI

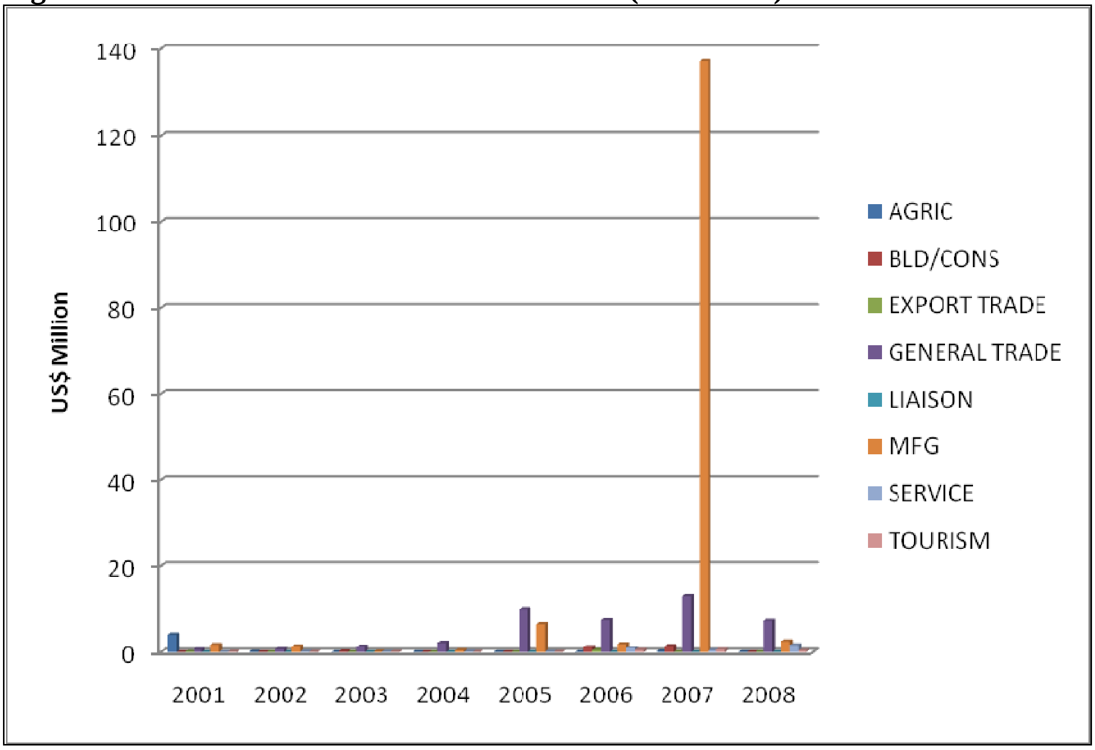
Fig. 5: Sectoral Distribution of Total FDI (2001 – 2008)



Source: Author's calculations from data obtained from GIPC and Minerals Commission.

Figure 5 above shows the total FDI to the various sectors of the Ghanaian economy. (The actual data can be seen in Appendix 1, Table 4). It is quite clear that, until just recently,the mining sector attracted the overwhelming chunk of Ghana's FDI. This is not too surprising as Ghana, a developing country, is still dependent on primary exports for most of its revenue. However, since 2006, there have been large infusions of FDI into the manufacturing, building and construction, and general trade.

Figure 5: Sectoral Distribution of Chinese FDI (2001-2008)



Source: Author's calculations from data obtained from GIPC.

Chinese FDI has evolved drastically over the years (Figure 5). (The actual data can be seen in Appendix 1, Table 5). It is also notable that in 2006, for the first time ever, there was quite a significant amount of investment in a broad range of sectors – general trade, manufacturing, service and building & construction – with all four sectors receiving over US$1 million. This was an encouraging development in that the Chinese seemed to be diversifying and deepening their investment into sectors in which they have not shown much prior interest. In 2007, investment by the Chinese in manufacturing totally overshadowed investment in other areas like general trade and construction. This investment was an amount of US$ 134.4 million made into the Sunon Asogli Power (Ghana) Ltd. Project. This project will serve as a case study.

It is also notable that, in each year from 2002 to 2008, manufacturing and general trade received the largest fractions of Chinese FDI. This fact points to these two sectors being of special interest in recent years and hence meriting increased assessment. The importance of Chinese FDI to the manufacturing and general trade sectors in Ghana is well illustrated in Table 3 below:

Table 3: Sectors (2001-2008) (FDI amounts are in US$ millions)

	Manufacturing			**Gen Trade**		
	Chinese FDI	Total FDI	%	Chinese FDI	Total FDI	%
2001	1.83	9.70	18.9	0.63	17.29	3.6
2002	1.43	20.19	7.1	0.75	7.36	10.2
2003	0.13	21.91	0.6	1.35	12.02	11.3
2004	0.42	28.25	1.5	2.29	17.55	13.0
2005	6.56	37.41	17.5	9.93	34.56	28.7
2006	1.99	2172.78	0.1	7.48	35.94	20.8
2007	137.25	4826.92	2.8	13.21	61.04	21.6
2008	2.62	236.41	1.1	7.30	836.20	0.9

From Table 3, we see that while Chinese FDI has been a significant part of the total investment into the general trade sector, Chinese FDI into manufacturing has varied widely. Thus, it seems that Chinese FDI into the manufacturing sector is getting a foothold while that in the general trade sector is already well established.

As the Chinese increase their investment in Ghana, especially in the manufacturing sector, there may be a number of developments such as the creation of jobs for the unemployed, technology transfer and the adoption of low-cost infrastructure which could have many economic benefits. On the flip side, there is the probability that some of these foreign companies may displace existing and potential local producers. Indirectly, there could also be disinvestment and relocation by other foreign investors who are unable to compete with these companies. Increasingly, we see investment by Chinese companies in the general trade sector. This has implications for local traders and the local economy in which they operate. Are there any displacements of local traders? Are they able to compete with their Chinese counterparts? What policies are in place to ensure that the nation benefits from Chinese trading activities? How does Ghana shift the structure of FDI away from trading towards manufacturing and other local value adding activities?

Two other issues of interest which need to be considered at length with regard to their impacts on the overall scenario are the recent oil discovery in Ghana and the global financial crisis. Both issues will definitely bring in other dimensions with regard to Chinese FDI inflow that need to be carefully looked at. Particular, with the discovery of oil in Ghana, it is possible that the Chinese may make inroads into the mining sector, where they currently have no presence at all because of their search for oil to power their high growth rate. The global financial crisis has restricted access to credit but this may not interfere too much with FDI from China since the government, through the Ex-Im Bank, tends to loan many Chinese companies money for overseas investment.

The trends outline here have a number of implications to economic growth and people’s livelihoods in general. Who are the losers and beneficiaries? To what extent have these inflows influenced productive capacities of industries in Ghana? What are the economic benefits arising from Chinese FDI? What policies are in place to ensure a level playing ground for all stakeholders?

2. Theoretical Literature Review

Theoretical framework

The literature on FDI began with Dunning in the 1970s when he introduced the "OLI" paradigm (Dunning 1981, 1988). He proposed that for a firm to be considered a multinational enterprise, it must fulfil the following conditions: firstly, it must have an ownership (O) advantage which will make it profitable for it to relocate its production abroad; secondly, there must be a location (L) advantage associated with such a relocation; thirdly, it must be able to conveniently manage its advantages internally. The "OLI paradigm" provided a very convenient and practical way for economists to analyse the phenomenon of FDI.

Dunning went on to develop the investment development path (IDP) which looked at a country's path towards economic development in terms of its net outward investment as a sequence of five stages. Whether a country became an inward or outward investor depended, in turn, on the relative competitive strengths of domestic firms compared to MNEs in ownership- and location-specific advantages and their abilities to internalize cross-border market transactions [Dunning (1992), p. 240].

However, several other development economists, most notably Graham, criticized the "OLI paradigm" as being consistent with more than one behavioural model. They felt that a solid theoretical foundation was lacking.

This particular study focuses on the impacts of FDI in the host economy. Dunning (2001) distinguishes FDI by its motivations, i.e., whether it is resource-, market- or efficiency-seeking. This classification is useful for this particular study because it answers the question of why China is investing in Ghana at all, and whether these reasons lead to any benefits to Ghana. Kaplinsky et al (2006) gives us the framework to analyse the impacts of such investment, whether direct or indirect, and whether complementary or competitive. Goldstein et al (2006) emphasize that since much Chinese FDI to SSA is resource- and market-seeking, it is not particularly a direct threat to the local economies. Indirectly, however, the authors affirm that the increased competition for resources spurs commodity booms which make SSA even more attractive to foreign investors and give the locals some leeway in bargaining for beneficial contracts.

Moran (2007) gives a succinct look at the different ways to investigate impacts of FDI in host economies. He focuses on manufacturing enterprises and looks at the different methods used in the past including cost-benefit analysis of individual FDI projects, industry studies, multinational business cases, management interviews, and firm surveys. He noted that while the results of econometric analysis from the 1980s and 1990s failed to note any externalities from FDI, industry studies, management interviews and firm surveys analysing data from the same period pointed to several externalities. The question was: which approach reflected reality? The general conclusion seems to be that survey data is more comprehensive and captures externalities that econometric studies tend to miss, including both those of vertical and horizontal nature. Our study aimed at using survey data but on finding how reluctant the Chinese investors were to divulge information, we fixed on adopting the case-study approach and chose one firm in the general trade sector and another in the manufacturing sector

3. Empirical Literature Review

Empirical studies have produced rather inconclusive results with regards to spillovers from FDI. Rodrik is often quoted on this issue:

> "Today's policy literature is filled with extravagant claims about positive spillovers from FDI, but the hard evidence is sobering."
>
> - (Rodrik 1999, p. 37)

The main reasons for this are data limitations and difficulties in disentangling the different mechanisms at play. Thus, researchers are unable to provide conclusive evidence of positive externalities resulting from FDI. Moran (2007) has gone some way to explain this discrepancy.

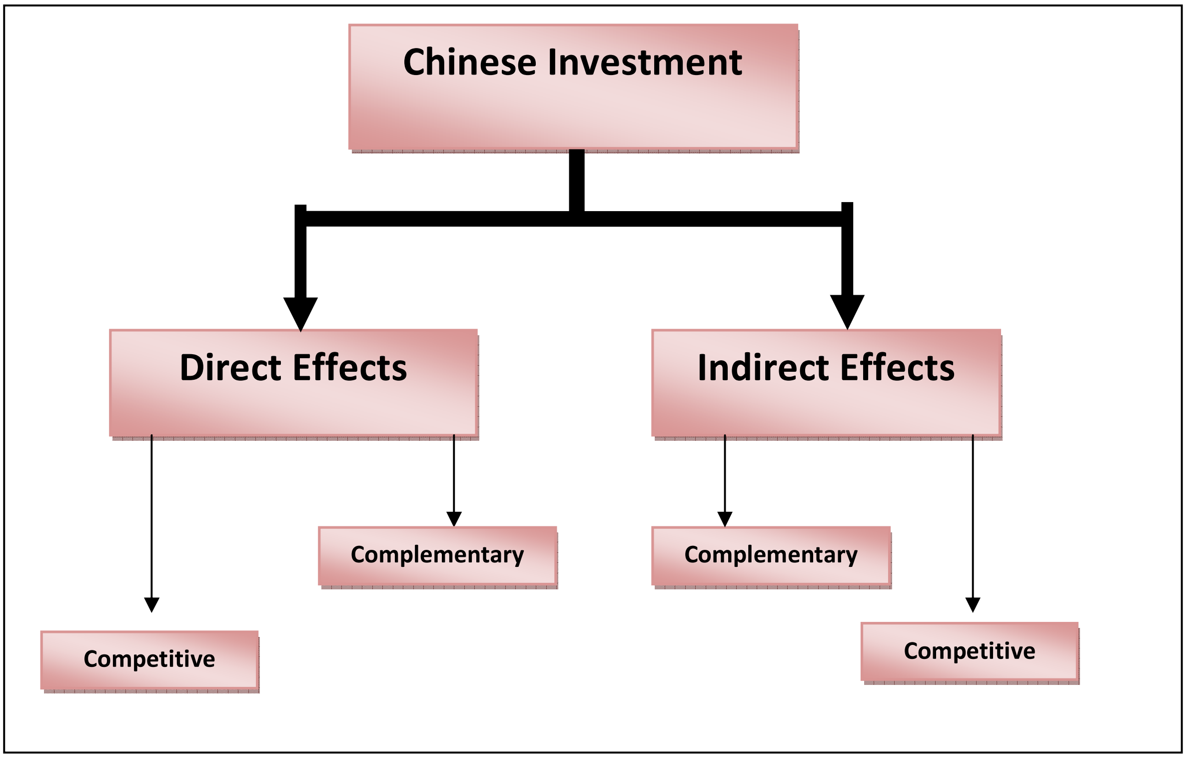
With regard to Chinese FDI impact on Ghana, gaining access to such work proved exceedingly difficult. A study was recently done by the African Centre for Economic Transformation (ACET) but is not currently ready for release. This study aimed to build on the Scoping Study we had previously done for AERC.

Another study we came across was done by the Labour Research and Policy Institute of the Ghana Trade Union Congress. This study – Baah, et al (2008) – looked at political, economic and migration issues tied Chinese investments in Ghana. The researchers collected primary data through structured interviews with key informants, focus group discussions and observations during a five-day field study in July 2008. Among those interviewed were representatives of the Ghana Investment Promotion Centre (GIPC), Ministries of Finance and Trade and Industry, officials of the Chinese Embassy, and others The team also conducted telephone interviews with some Chinese entrepreneurs. Secondary data was also collected from officials of the Customs Exercise and Preventive Service (CEPS), GIPC, Ministry of Trade and Industry (MOTI), and the Ministry of Foreign Affairs (MOFA). The key conclusions from the study mirror the findings of our Scoping Study: the Chinese are predominantly in manufacturing and general trade and but the total value of their investments is relatively small when compared to the total amount of FDI received by Ghana.

4. Theoretical Framework and Methodology (& Data)

The framework that was employed was that adapted from Kaplinsky et al (2006) which examined impacts in terms of complementarity and competitiveness, looking at both direct and indirect effects of Chinese FDI. This is depicted below:

Figure 6: Kaplinsky-Morris framework for analyzing Chinese FDI impact



Methods

Attempts to survey Chinese investors have proven not to be successful in Ghana. The investors are exceedingly reluctant to answer questions, even after assurances that the information gleaned would be used to increase benefits to both the investors and the local economy. The Secretary General of the Ghana Central China Chamber of Commerce (GCCCC), an association for Chinese investors, explained this reluctance by making a number of observations. Firstly, the change in government in January has created unease about the pro-business credentials of the new administration, especially since the new government had criticised the previous administration for allowing foreigners to take advantage of Ghanaians. Secondly, the recent news reports about some Chinese nationals using a restaurant as a front for operating a brothel has contributed to a negative image of the Chinese community and suspicions about their motives. Suspicions have been further deepened by revelations of unsafe counterfeit Chinese goods on the local market. Finally, and perhaps most importantly, the recent world financial crisis has reduced the profit margins of most SMEs (both local and Chinese-owned), making the operations precarious. This has led to numerous calls to protect locally-owned enterprises from foreign competition and the Chinese investors seem to be prime targets of this campaign. All these factors have combined to make the Chinese investors exceedingly reluctant to release any information about their operations for fear that it might ultimately be used to regulate their operations and negatively impact their functioning.

As a consequence, this study followed an in-depth interview framework. In-depth interviews served as the primary research instruments since most of the objectives required detailed insights which could only be gained by consulting selected operators and key informants within a case-study framework. It was decided to adopt a case-study approach in which two distinct blocks of investment were analysed, one a huge chunk of investment in manufacturing (Sunon Asogli Power) and the other (name withheld), a more modest inflow into the in general trade category.

The key informant interviews were intended to help us to, *inter alia*: describe the regulatory regime governing FDI; analyse the extent to which investment is bundled with aid; and articulate policy responses to maximize gains and minimize losses resulting from Chinese FDI inflow. Interviews were conducted with informants in various public and private organisations including, *inter alia*, the Ghana Investment Promotion Centre (GIPC), the Association of Ghana Industries (AGI), the Ministry of Trade and Industry and the Ghana Central China Chamber of Commerce (GCCCC).

In addition the interviews were designed to enable us to, *inter alia*: assess the benefits of Chinese FDI; estimate the extent to which Chinese FDI represents the creation of new or augmented production capacities or a change in ownership of existing production units; analyse the extent to which Chinese FDI is bundled with aid; and analyse the characteristics of major Chinese FDI and identify the associated benefits.

5. Analysis of Findings

The analyses were done on a case-study basis for the reasons explained earlier in the study. Two companies were chosen and key informant interviews were used to elicit details of their operations and possible impacts.

Netting Company
An in-depth interview was conducted with the owner of a company that sells fishing nets. The company started operation in 1998 with an initial start-up capital of US$300,000. This money was primarily used to rent warehouse space and buy vehicles needed to facilitate transport of the goods. The working capital needed amounted to US$1 million because orders had to be placed months in advance of the actual delivery of the goods. In terms of the workforce, the company employed 3 Chinese nationals and 22 Ghanaians. The Chinese hold the senior management positions of COO, CEO and Director, The Ghanaians were senior sales manager, stock-keeper, messenger, and carrier boys. As is quite typical, the company was wholly Chinese-owned.

The company received its supply from China, Thailand, Malaysia, Indonesia and Singapore; it exported its product to Morocco, Chad, Cameroon, and essentially most of West Africa. Thus, the company is using Ghana as a hub to export to countries in the sub-region.

The owner was encouraged to set up his business in Ghana after GIPC went on a promotional trip to China in 1995. The main selling point, according to the owner, was Ghana's relative stability, both economically and politically. The company has remained in Ghana, in spite of the fact that its profit margin is shrinking due to competition from other netting companies. Altogether, the owner invested US$300,000 – US$500,000 in 2009.

According to the owner of the company, some of the positive effects of the investment in Ghana have been reasonable levels of profit and a reasonable standard of life. Job opportunities have also been created for the locals employed and also some level of training. The company also contributes to Government through revenue collected by PAYE, VAT, AMA dues and corporate tax. The majority of local workers are also breadwinners so their money earned has significant spread effects at the family level.

The major negative aspect of the investment has been having to pay an unofficial 5% of the investment amount on top of the 8% withholding tax on property. The owner also acknowledges that there is little transfer of technology or management skill as there is little room for promotion seeing how the company is set-up.

The major constraints to additional investment faced by the company largely stem for lack of transparency with regards to labour, tax and VAT policies. To be blunt, corruption rears its ugly head quite often. There are also problems with regard to foreign exchange because in recent times, the exchange rate has been unstable For instance, if the company wants to import nets worth GHC 7,000, by the time the shipment arrives, it might be worth GHC 15,000, meaning that the company has to pay 25% tax on the GHC 8,000 difference. The financial statements are expressed in terms of Ghana Cedis but it would be better if it was in term of dollars.

The enterprise is a private one and receives no support from the Chinese government. The main suppliers of the fishing nets are Chinese and the retailers in Ghana are locals. There is also no issue of quality or price differences between the nets the company provides and those made by locals because there are no local producers of fishing nets. In fact, it is highly likely that local production will be costlier than the goods the Chinese firm provides. In fact, the enterprise's main competitors are actually Ghanaian firms which import fishing nets to sell locally.

Sunon Asogli Power (Ghana) Ltd[3].
Sunon Asogli Power (Ghana) Ltd. is a joint power plant project between Shezen Energy Investment Company Limited and the China Africa Development Fund (CADF), the Strategic African Securities of Ghana in co-operation with Togbe Afede XIV, Agbogbomefia of Ho Asogli State, a Ghanaian business entrepreneur.

The venture is an independent power plant (IPP) – actually a gas-stream combined cycle power plant – with a total investment by the Chinese of US$ 134.4 million. The project is

[3] Most of the information in this section was taken from online articles including the following websites: http://allafrica.com/stories/200807141549.html and http://www.ghanaweb.com/GhanaHomePage/features/artikel.php?ID=142666 and http://rosedarko.blogspot.com/2009/08/togolese-president-tours-sunon-asogli.html.

to utilize natural gas from the West African Gas Pipe Line from Nigeria and has been designed to produce an initial capacity of 200 megawatts by the end of 2008, and 560 megawatts in total in the future. So far production has yet to commence because of the lack of gas supply. This project is of particular importance because Ghana has had a history of periodic and prolonged power outages and demand for electricity is expected to grow by 6% annually in the next ten years. In the medium term, Ghana needs approximately 5,000 megawatts. The project is meant to be one of the first of a batch of projects financed by the CADF under a special fund set up in June 2007 by the Chinese government to encourage Chinese enterprises to expand investment in Africa and aid in promoting the continent's economic growth and expansion.

In terms of how far the operation has progressed, Togbe Afede affirmed in 2009 that 50 percent of the first phase of the project that cost 160 million dollars had been completed. Importantly, about 80 percent of the workforce is local people who receive training from the Chinese experts working on the project so there is some level of skill transfer. The project in the long run is supposed to create 1,000 jobs. If all goes according to plan, which has not been the case, the plant would have been generating 560 megawatts of power by October 2008. The absence of gas has been the major drawback and Ghanaian President John Evans Atta Mills met with Nigerian President Umar Yar' Adua on several issues, including the availability of gas from Nigeria to Ghana to enable the functioning of the power plant.

Results of Key Informant Interviews[4]

Characteristics of Chinese FDI

Chinese investment in Ghana is primarily market-seeking. The target market is the domestic market and the West African sub-region. Chinese investors view Ghana as a good hub to export to neighbouring West African countries. Ghana’s attractiveness stems from her record of political stability, relatively high level of development and lower customs duties and clearing taxes. Chinese consumer goods are targeted at all sectors of the Ghanaian economy but their typically low-prices particularly appeal to the working classes, with their low incomes. However, a significant portion of the Chinese goods are high-end consumer goods like computers, compact discs and DVDs.

A small fraction of Chinese FDI is resource-seeking. These investments tend to be in the agriculture and manufacturing sectors. In the agriculture sector, between 1994 and 2007, eight Chinese companies were established: three in poultry production, two in fishing and fish-farming and the final two in vegetable farming. The total investment in these ventures was slightly less than $5 million. In the manufacturing sector, the main resource-seeking Chinese ventures established between 1994 and 2007 were involved in food processing, wood processing, cement manufacturing, salt production and the production of calcium carbonate and kaolin. The total investment in these ventures was slightly more than $7 million. A significant number of Chinese manufacturing companies import their raw materials from outside Ghana. These include firms that produce products like leather goods, fishing nets, plastic products and iron rods. The main reason these firms do not

[4] These were mainly conducted with officials from the GIPC.

utilize local raw materials is that they are unavailable in the right quantities and at the adequate level of quality.

The recent discovery of oil in Ghana might possibly lead to increased resource-seeking FDI from China. Officials at the GIPC have already fielded interest from Chinese hoping to invest in the extraction and processing sectors and also in provision of support services and equipment. The level of eventual involvement of the Chinese in the oil sector will depend on geopolitical considerations and the competitiveness or their firms in comparison to those from the West.

Chinese FDI in Ghana is almost entirely Greenfield investment and leads to the creation of new of augmented production capacity. Chinese investors are typically not involved in mergers and acquisitions. This may partly be because the bulk of Chinese investment is made through small and medium-sized enterprises which depend on internally-generated growth and are content to remain of similar size throughout their lifespan. Another feature of Chinese firms is that the overwhelming majority are private enterprises. However, it must be noted that a large proportion of these private firms may have gotten their initial capital for investment from the Chinese government as part of its "Go global" strategy. Chinese FDI inflows are not typically bundled with aid since aid is normally tied to the operations of Chinese state-owned enterprises with access to financing from the China Ex-Im Bank.

In terms of ownership structure, most "Chinese" firms in Ghana are wholly-owned by Chinese; however, this tendency varies dramatically from sector to sector. For instance, out of 63 general trade businesses established between 1994 and 2007 with some level of Chinese investment, 57 (90%) were wholly-owned by Chinese. On the other hand, out of the 105 manufacturing businesses established in the same time period, 48 (46%) were wholly-owned by Chinese. Looking more closely at the ownership structure, it is notable that among the general trade businesses, of the total of $35.9 million initially invested between 1994 and 2007, $25.8 million was in the form of foreign equity and $7.3 million was in the form of foreign loan, with only $2.6 million being local loan and $200,000 being local equity. Among the manufacturing firms, of the total of $28.1 million initially invested in the same period, $13.5 million was in the form of foreign equity and $13.7 million was in the form of foreign loan, with only $200,000 being local loan and $700,000 being local equity. This shows that Chinese firms, particularly those in the general trade sector, depend overwhelmingly on Chinese capital for start-up.

The tendency towards whole-ownership primarily stems from cultural differences. In general, Chinese have difficulties working with Ghanaians because of communication difficulties stemming from different languages and also different attitudes towards business. The Secretary General of the Ghana Central China Chamber of Commerce recounted the following instance:

Anecdote of differences in business attitude among Chinese and Ghanaians

Mr. Yi Wong wanted to establish an industrial machine renting business in Ghana and decided to get a local partner, who we will refer to as Mr. G. The business commenced and was initially successful. Mr. Wong felt that all initial income would be best put to use re-investing in the business and decided to forestall sharing of profits amongst him and the directors for three months. Mr. G., however, was in strong disagreement and wanted to share out the profits immediately. There were also problems with regards to division of profits as Mr. G. felt that doing the majority of the work entitled him to a larger share of the profits, while Mr. Wong felt that taking on all the risk as the owner meant that he deserved a larger share. These problems, and others, went unresolved and, within a few months, the company collapsed. Mr. Wong returned to China, disillusioned.

Impacts of Chinese FDI

Chinese FDI has provided Ghana with a number of economic benefits. Firstly, Chinese investment has helped reduce import dependence as several Chinese-owned businesses fill critical gaps in the domestic economy. For instance, there are firms like Sen Da (Gh) Company Ltd. (which assembles electrical and electronic equipment/appliances) and Condor Industries Ghana (whichs assembles machinery and equipment) which produce capital goods which would otherwise have to be imported. These companies are able to fulfil this role because Chinese investors come into the country equipped with the capital and know-how that is lacking in local enterprises. The benefits are especially significant since a large percentage of these companies operate with domestic partners and employ a significant number of locals so there is likely to be a transfer of skills, both managerial and technical.

Secondly, since the capital goods produced by these Chinese businesses are often exported to neighbouring countries, Chinese FDI does lead to some degree of export expansion. Export expansion is an area in which Chinese FDI brings significant benefit to the Ghanaian economy. Several Chinese enterprises come into the country to produce goods for export that local businesses do not produce or are incapable of producing. This includes companies like the Shun Bao Company Ltd. which manufactures leather footwear for export. Other products produced by Chinese companies for export include fishing nets and plastics.

Thirdly, Chinese businesses make some amount of contribution in terms of value- addition. Probably, the most evident examples of value addition are in food processing industry, where Chinese companies use local produce to manufacture drinks and other food products, and in the wood processing industry, where Chinese companies use local lumber to produce furniture and other wood products into Ghana, manufacture, and then sell on the local market and/or export.

Fourthly, Chinese firms provide stiff competition which could help make domestic firms more efficient. If local firms hope to compete internationally, which is becoming unavoidable in the globalised world we live in, they must refine their business operations and processes to make production leaner and more efficient; the presence of Chinese firms in Ghana forces them to make these changes. They key question, however, is whether the competition provided by these Chinese firms is fair. As stated earlier, it is likely that a significant number of Chinese investors come into Ghana with capital provided by the Chinese government and this would definitely give them an advantage. Whether this advantage is fair or not, though is subject to debate.

Lastly, Chinese businesses contribute in terms of employment and government revenue via taxes. However, the level of their contribution is not clear. However, it is notable that a significant number of Chinese firms site themselves in rural areas and parts of the country that locals seem reluctant to site their operations. Thus, they are able to provide much-needed jobs to rural residents, and this goes some way to reducing poverty in areas usually racked by astronomical poverty levels.

6. Conclusions and Policy Recommendations

One of the key results of the study is that it identified the characteristics of Chinese firms in Ghana. It was found that these firms tend to be wholly-owned by Chinese private companies that tend to be started from Greenfield investment, not mergers. The actual amounts of foreign capital in these firms tend to vary from sector to sector but in all cases comprise an overwhelming fraction of the total capital cost. The investments are primarily market-driven though resource-driven FDI is becoming significant, especially in light of the recent discovery of oil in Ghana.

With regards to the impact of Chinese FDI, it was found that the associated firms provide a host of benefits in a number of respects. First they help reduce import dependency. Secondly, they contribute to export expansion. Thirdly, they make some amount of contribution in terms of value- addition. Fourthly, they help improve competitiveness of local industries. Lastly, they make contributions in terms of employment and government revenue, via taxation.

Policy driven initiatives should focus on increasing cooperation between the Chinese and locals. This can be done by holding joint meetings where the concerns of both sides are addressed. There also should be increased supervision of Chinese enterprises to ensure that they stick to the terms of their licenses and do not just sneak their way into setting up trading firms. Chinese investments into manufacturing should also be encouraged as the benefits of these enterprises are fairly clear. Investments in trade are not as clearly a benefit so further research outside of this study is needed to arrive at a conclusion in this regard.

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8. Appendix 1

Table 4: Sectoral Distribution of Total FDI (1995 – 2008) (US$ Million)

	AGRIC	BLD/ CONS	EXPORT TRADE	GENERAL TRADE	LIAISON	MFG	SERVICE	TOURISM	MINING	TOTAL
1995	19.86	14.08	2.34	2.27	0.00	76.14	65.17	2.47	164.96	347.29
1996	5.48	38.71	1.23	5.96	0.00	54.81	146.53	1.45	774.76	1028.92
1997	59.99	9.21	1.28	21.22	0.00	100.50	435.39	4.03	593.02	1224.63
1998	40.34	16.64	1.99	32.88	0.00	29.12	44.45	7.40	267.54	440.37
1999	41.56	24.44	0.67	10.77	0.00	19.51	130.50	6.66	214.77	448.87
2000	8.61	7.60	3.02	7.59	0.00	38.88	63.23	3.14	231.77	363.83
2001	6.03	5.16	4.67	17.29	0.00	9.70	49.68	5.41	275.53	373.47
2002	20.79	9.06	0.06	7.36	0.00	20.19	6.71	4.98	313.72	382.87
2003	8.40	2.27	1.22	12.02	0.00	21.91	69.23	4.01	330.43	449.50
2004	5.76	15.29	0.38	17.55	0.00	28.25	97.85	40.81	556.44	762.33
2005	4.28	90.23	3.53	34.56	0.00	37.41	39.72	4.02	661.98	875.72
2006	6.45	67.31	9.30	35.94	0.00	2172.78	61.07	15.01	799.50	3167.37
2007	36.39	38.30	2.05	61.04	0.36	4826.92	54.76	9.18	670.22	5699.23
2008	57.45	2097.34	6.17	836.20	9.52	236.41	292.96	4.08	765.30	4305.43
1995 - 2008	321.39	2435.64	37.89	1102.63	9.89	7672.53	1557.25	112.65	6619.94	19869.82

Table 5: Sectoral Distribution of Chinese FDI (1995 – 2008) (US$ Million)

	AGRIC	BLD/ CONS	EXPORT TRADE	GENERAL TRADE	LIAISON	MFG	SERVICE	TOURISM	TOTAL
1995	0.00	0.00	0.00	1.17	0.00	0.26	7.29	0.09	8.81
1996	0.00	0.65	0.00	1.01	0.00	0.98	0.63	0.28	3.55
1997	0.41	0.50	0.28	0.30	0.00	8.02	0.13	0.54	10.18
1998	0.00	0.66	0.00	0.80	0.00	1.10	0.26	0.64	3.46
1999	0.06	2.03	0.03	1.17	0.00	0.79	0.80	0.72	5.61
2000	0.00	0.00	0.00	1.12	0.00	2.87	0.57	0.14	4.69
2001	4.15	0.00	0.09	0.63	0.00	1.83	0.00	0.13	6.83
2002	0.05	0.00	0.00	0.75	0.00	1.43	0.18	0.05	2.46
2003	0.00	0.20	0.00	1.35	0.00	0.13	0.07	0.08	1.84
2004	0.00	0.00	0.02	2.29	0.00	0.42	0.13	0.05	2.91
2005	0.00	0.00	0.02	9.93	0.00	6.56	0.10	0.10	16.70
2006	0.00	1.27	0.50	7.48	0.00	1.99	1.05	0.56	12.86
2007	0.24	1.50	0.00	13.21	0.00	137.25	0.43	0.64	153.26
2008	0.00	0.04	0.00	7.30	0.00	2.62	1.75	0.39	12.10
1995 - 2008	4.91	6.87	0.94	48.51	0.00	166.24	13.38	4.41	245.26