Chinese money for Ghana's natural resources: The real cost

By Samuel Teye-Larbi Amanor 6 Sep 2013

China's growing interest in Africa has resulted in huge capital flows into the continent. From multi-billion dollar investments in oil and minerals, to the influx of thousands of merchants, labourers and cheap consumer goods, China's economic and political reach is redefining Africa's traditional ties with the international community.

China's trade with Ghana has now eclipsed that of the US, one of Ghana's principal trading partners. However, widesprea illegal gold mining activities by Chinese merchants and businessmen in Ghana have drawn media attention and ignited debate about China's heavy investments and growing interest in Ghana.(2) The nature of Chinese investments with Ghana does not favour Ghana's industrialisation in terms of both capacity and jobs.

This CAI paper investigates the emerging economic relationship between China and Ghana to determine if this engageme is creating a shared prosperity for both countries.

The genesis of Sino-Ghanaian relations

Relations between Ghana and China date back to 1960 when the two countries first established diplomatic contact. Since then Ghana has provided substantial diplomatic support to China, which China reciprocated with material financial suppor for Ghana's development. For instance, Ghana's first president, Kwame Nkrumah, lobbied for the People's Republic of China's reinstatement in the United Nations (UN) and also supported China during the China-India war in 1962.(3) The countries have had growing diplomatic and economic relations ever since. For much of the last century, Ghana relied hea on commodities for foreign exchange, but it was from 2000 that China's interest in Ghana in terms of investments and trad grew strongly, alongside China's quest for natural resources to feed economic growth.

Chinese loans and grants

According to Fitch Ratings, China's Export-Import (ExIm) Bank lent US$ 67.2 billion to Sub-Saharan Africa (SSA) betwee 2001 and 2010, overtaking the World Bank's lending of US$ 54.7 billion.(4) China handed out US$ 7 billion in grants to mo than 30 countries in Africa as its quest for natural resources has come in exchange for building roads and railways, and nurturing a market for Chinese products.

Ghana's discovery of oil in commercial quantities in June 2007 has further rekindled investor enthusiasm in the country. I 2010, Ghana signed a series of multi-billion dollar deals with China to finance infrastructure projects and transform its economy through gas and proposed oil-driven industrialisation. The Ghanaian Government signed a total of US$ 13 billion agreements with the China Development Bank and the China ExIm Bank, representing 33% of Ghana's gross domestic product (GDP) in 2012. The deals included a US$ 3 billion China Development Bank facility for the Western Corridor gas commercialisation project, a US$ 9 billion deal with the China ExIm Bank for road, railway and dam projects, and a US$ 2 million deal for the rehabilitation of the Kpong water works.(5)

But are the terms and conditions of these Chinese loans good for Ghana's industrialisation? According to a report release by the United States (US) Government Accountability Office, Chinese firms and materials are to make up about 60% of th content used under these agreements, which will be bid for competitively among Chinese firms.(6) Even though the report further indicated that Ghanaian workers constitute the majority of labour hired by Chinese contractors under these project local contractors and manufacturers are hugely sidelined, a condition which cripples their global competitiveness and also undermines the purpose for contracting these loans. Chinese companies are involved in sectors such as agriculture, construction, energy, fishing, manufacturing, and telecommunications.

There are questions about whether Ghana can afford to service so much Chinese lending. Ghana recently benefited from debt relief programme under the Highly Indebted Poor Countries (HIPC) initiative of the International Monetary Fund (IMF and the World Bank. According to the IMF, huge soft loans from China deepen worries that progress made under the HIP initiative may be eroded, and increase corruption among public officials.[7] Ghana's total public debt at the end of Decemb 2012, stood at US$ 18.8 billion, equivalent to 49.4% of GDP, and up from US$ 15.4 billion at the end of 2011.[8] The IMF and the United Kingdom (UK) have rightly warned that cheap Chinese loans to African governments may undermine effort towards democratic and accountable administrations, and risk driving countries that have only recently benefited from deb relief back into debt.[9] Ghana has not been able to stay out of debt, despite HIPC interventions and heavy US investments the country.

Has US investment served Ghana's economy?

Just as commentators are examining China's role in Africa, the question must be asked: has US investment in Ghana resulted in Ghana's industrialisation? Unlike the modus operandi of many of their Chinese counterparts in Ghana, US companies are playing a key role in Ghana's industrialisation and job creation efforts. US companies operating in Ghana include Coca Cola, SC Johnson, Star-kist, IBM, Motorola, PriceWaterhouseCoopers, Newmont, and Kosmos Energy. In June 2007, a US company, Kosmos Energy struck oil in commercial quantities and exploration began in 2010, laying the groundwork for Ghana to join the league of oil producing nations. The establishment of manufacturing and production bas in Ghana has brought immense benefits to Ghanaians in the form of decent jobs and compliance with local regulations alongside due regard for labour and employment laws. Ghana has never had issues of law enforcement with the US community and businesses in Ghana.

The West Africa trade hub, established by the US and located in Ghana's capital Accra, provides technical assistance to help small business persons to grow their businesses and access new customers in the US and the West Africa region. T gave a face-lift to Ghana's textile and garment industry until cheap Chinese imports and smuggled goods collapsed the industry.

With assistance from the US, the World Bank and the United Kingdom, construction of the Akosombo dam was complete on the Volta river in 1966. Two US companies built the Volta Aluminium Company (VALCO), Africa's largest aluminium smelter, to use power generated from the Akosombo dam. Aluminium exports from VALCO used to be the main source of foreign exchange for Ghana until it was closed down in March 2007 due to the country's energy crises.[10]

The US and Ghana have worked to promote democracy, human rights and the rule of law since 1957 when Ghana first gained independence from the United Kingdom, laying the groundwork for Ghana's current stable democracy in West Africa.[11] US developmental assistance to Ghana is mainly implemented by the US Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC). Through USAID, the US has supported Ghana in increasing f security, improving basic health care, enhancing access to quality basic education and strengthening local governance. Through the US International Visitor Program, Ghanaian parliamentarians and government officials have become acquain with US congressional and state legislative practices.[12] Youth exchanges are robust and growing between US and Ghanaian universities and non-governmental agencies. Close relations are maintained between educational and scientific institutions and cultural links are strong, particularly between Ghanaians and African-Americans. This initiative by the US government has laid the foundation for Ghana's peaceful political setting, respect for the rule of law, and tolerance for diverging opinions in public discourse - conditions which form the basis for Ghana's democracy.

China has not been able to imitate the US's established developmental approach and partnership with Ghana. This has sparked criticism that China's interest in Ghana is skewed towards nurturing a market for Chinese products and obtaining natural resources.

Chinese consumer goods

The terms of trade between Ghana and China beg the question: have trade relations between the two countries created a shared prosperity? Since the start of Sino-Ghana relations in 1960, China's economy has metamorphosed into a global manufacturing powerhouse, making it the second largest economy in the world with a GDP of US$ 7.3 trillion and a population of 1.3 billion people.[13] China has earned a reputation for its vibrant manufacturing sector, and cemented its dominant position within the BRICS (Brazil, Russia, India, China and South Africa) economic bloc. Ghana has also witnessed some economic gains in terms of infrastructural developments like the construction of Ghana's National Theatre and the Bui Hydro-power project, but the pace of infrastructure spending has been very slow as a result of a lack of a clea economic vision, skewed trade liberalisation policies, and scarcity of leadership.

In 2001, the US and China's exports to Ghana were similar in value - approximately US$ 179 million and nearly US$ 146 million respectively - but by 2011, Chinese exports had grown more than 20-fold, to US$ 3.1 billion, whilst US exports to Ghana increased to US$ 1.3 billion.(14) Chinese exports to Ghana during this period were largely consumer goods; electronics; textiles and garments; and industrial equipment - goods that are preferred by Ghanaians because they are cheaper compared with Ghanaian manufactured goods, thus accounting for the huge volume of Chinese exports to Ghana Figure 1 shows Ghana's trade relations with China and the US between 2001 and 2011.

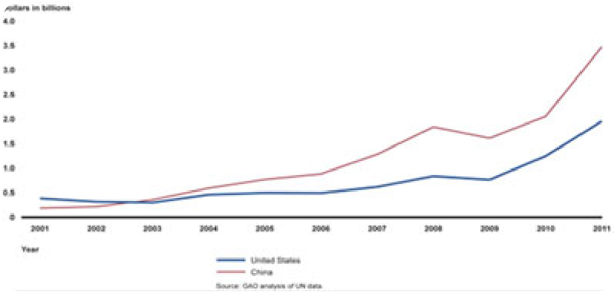

Figure 1. Trade between Ghana, China and the US.(15)

click to enlarge

US imports increased nearly fourfold from 2001 to 2011, growing from approximately US$ 200 million in 2001 to US$ 800 million in 2011. However, Chinese imports from Ghana grew more rapidly than US imports in the same period, rising 10-fo from almost US$ 37 million in 2001 to more than US$ 360 million in 2011.(16) With offshore oil having been discovered, crude oil became the top US import from Ghana in 2011. The rapid growth in Chinese imports of raw materials from Ghan specifically ore and crude oil, and exports to Ghana, in the form of cheap consumer goods of often dubious quality, has strengthened allegations that China's interest in Ghana is largely to seek natural resources to feed its economic growth an also nurture a market for its consumer goods in low income, frontier markets like Ghana.

A key concern is whether Ghana has been able to grow its manufacturing sector to create jobs. Ghana has over the years exported raw materials in the form of gold and crude oil to power China's industrialisation, and also served as a market for Chinese consumer goods. For instance China provides 24% of Ghana's imports, but Ghana provides only 2.7% of China's imports, mainly crude oil and ore.(17) This has been a major setback in Ghana's quest to transform its economy through increased manufacturing.(18) Ghana's textile, garment, leather and shoe industries are on the brink of collapse, as 25,000 jobs have been cut due to cheap and inferior Chinese imports with pirated designs of local Ghanaian manufacturers and their logos.(19) This has created a huge market for Chinese products at the peril of Ghana's manufacturing sector and job creation efforts.

Widespread illegal gold mining by Chinese nationals

Illegal gold mining by Chinese nationals and merchants is a major setback to building a strong economic partnership between these two countries. Rags-to-riches stories of Chinese miners motivate more young Chinese men to travel to Ghana. Hence, the Chinese community in Ghana has been lured to Ghanaian gold mines but has soiled the reputation Ch has built with Ghana over the years.(20)

Earlier in 2013, the London-based Guardian newspaper exposed the scale of illegal Chinese gold mining in Ghana, unearthing the proliferation of small arms, widespread excavation and use of toxic chemicals, alongside allegations of hum rights abuses. Ghana's president, John Dramani Mahama, subsequently established a high-level taskforce and said it was necessary to bring sanity to the mining sector. The Ghanaian Government has since launched a series of raids through a combined military, immigration and police taskforce.(21) Many Chinese businessmen in Ghana believe there are approximately 20,000 illegal Chinese gold miners in Ghana.(22) Since the start of 2013, 1,577 illegal Chinese miners have been arrested by the Ghanaian authorities, and more than 3,800 have submitted to deportation on a voluntary basis, according to the Ministry for Lands and Mines. Immigration authorities said that in June and July 2013 alone, 4,592 illegal Chinese immigrants were deported.(23)

This is not the first time illegal Chinese miners have been detained in Ghana, but it is certainly the most intense deportatio campaign, and comes on the back of Ghana's last elections in December 2012. Such a large influx of Chinese miners in mineral-rich African countries is rare, and this incident in Ghana points to vulnerabilities in the governance of resources a state control of transnational capital and migration, as China and many African countries embrace neoliberal economic policies.

China's engagement elsewhere in Africa

Ghana is only one chink in the chain of interest between China and African resources. Angola's vast oil and diamond deposits have drawn Chinese attention and Angola is now China's largest African trading partner, with bilateral trade exceeding US$ 120 billion in 2011 - eclipsing China's trade with even South Africa at US$ 45 billion.(24) Unlike Ghana, wh the vast majority of Chinese nationals are engaged in illegal gold mining activities and smuggling of textiles, an estimated 259,000 Chinese nationals in Angola are mainly construction workers helping to rebuild the country after a devastating 27- year civil war that ruined much of its infrastructure. In August 2008, the China International Trust and Investment Corporat (CITIC) and the Angolan Government launched a US$ 3.5 billion housing project to accommodate 200,000 Angolans.(25) project is being carried out with Chinese migrant workers as labourers, curbing jobs and skill development opportunities fo Angolans.(26)

In North Africa, the China National Petroleum Company (CNPC) plays a dominant role in Sudan's oil and gas projects, wit 60% of Sudanese oil exports going to China.(27) A US$ 1.8 billion dam on the Nile River in Khartoum was constructed with Chinese money and expertise in exchange for oil resources.

Nigeria holds the largest oil reserves in Africa accounting for over 90% of its exports. In 2006, China and Nigeria signed a US$ 4 billion agreement in oil and infrastructure projects, an agreement that includes four drilling licences for China. Separately, the China National Offshore Oil Corporation (CNOOC) purchased 45% of an oil exploration block off the coas Nigeria for US$ 2.3 billion. In 2010, China signed a US$ 23 billion agreement with Nigeria for China to build three oil refineries and fuel complex with Chinese labour, equipment and expertise. Throughout the continent, China has made hea investments in resource rich African countries, with less emphasis on local job creation and skills sharing, clearly underlin the Asian giant's continuing quest for natural resources to feed economic growth.

Valuable lessons learnt

China's metamorphosis into an emerging global economic force over the past few decades presents Ghana with a model worth emulating. The Chinese started out by imitation and innovation of consumer goods and exporting to frontier markets that are resource rich, but lack the technical expertise and technology to manufacture. Knowledge and skills sharing shou be of the utmost priority to Ghana. There is some evidence of knowledge-sharing programmes between the two countries, under which Ghanaian students are trained at various Chinese universities. This, however, has not shifted the balance fro China's focus on raw materials extraction and using Ghana as a market for its consumer goods, as evidenced by China's terms of trade and lending to Ghana.

Because Chinese loans and grants for projects are tied to the hire of Chinese companies, the relationship is not mutually beneficial in the long run as Ghanaian companies are unable to benefit. Ghana must learn to negotiate enhanced benefits itself when accepting Chinese money, in particular the boosting of local manufacturing capacity. This is critical if Ghana seeks to diversify and place emphasis on manufacturing. Ghana may not be as strong an economic force as China, but it position as a key sovereign state in West Africa can be strong leverage to determine which loans are suitable for its economic development and which undermine its economy. However, this will be very difficult for Ghana due to the leaders crisis facing the country since the overthrow and death of Nkrumah.

The influx of Chinese and other foreign nationals has exposed the weaknesses in Ghana's immigration policies and regulatory environment. Widespread public sector corruption and poor leadership are gradually crippling state institutions. Ghana was ranked as the world's 64th least corrupt country, out of 177 countries, and the 5th least corrupt of Africa's 53 countries in the 2012 Transparency International Corruption Perception Index.(28) Widespread corruption has made it ver easy for foreign nationals to bribe their way through corrupt public officials who place personal interest over national interests to perpetrate illegal business activities.

Ghana must learn to empower and protect its citizens from foreign exploitation of natural resources, for the overall benefit the nation. Ghana should not let trade and financial engagement with the Chinese undermine its state institutions and sovereignty as a nation. Good governance is therefore critical.

Concluding remarks

Africa is arguably the most resource-rich continent in the world and China's huge investments in the continent illustrate its quest to extract natural resources to feed industrialisation and simultaneously create a market for its consumer goods.

Traditionally, the World Bank and the IMF have been Ghana's source of financing. China, however, serves as an alternati developmental model and source of finance to Ghana, but the true cost of this engagement over the years has been the collapse of Ghana's manufacturing sector; proliferation of small arms in gold mining cities as a result of illegal mining activities; and increased unemployment due to the export of Ghanaian jobs to China through over-reliance on Chinese goo and services.

The large number of illegal Chinese miners in Ghana should, however, not eclipse the big picture: that the majority of Chinese companies and entrepreneurs are investing legally across many sectors. China presents Ghana with an alternati trade and developmental partnership which, if properly managed, has the potential to transform Ghana's citizenry to middle income status. Just as Ghana has served as a market for Chinese goods, so too do the Chinese represent a huge market Ghanaian consumer goods. Ghana needs to empower local businesses to access this market.

Edited by Nicky Berg

Notes:
(2) Levin, D., 'Ghana's crackdown on Chinese gold miners hits one rural area hard', The New York Times, 29 June 2013, http://www.nytimes.com.
(3) Idun-Arkhurst, I., 'Ghana's relations with China', South African Institute of International Affairs, January 2008, http://dspace.cigilibrary.org.
(4) Sanderson, H., 'Ghana signs $1 billion loan with China for natural gas project', Bloomberg, 16 April 2012, http://www.bloomberg.com.
(5) Kwasi, K., 'Factbox - Chinese money to fund Ghana's energy, infrastructure', Reuters, 26 October 2013, http://www.reuters.com.
(6) 'Sub-Saharan Africa: Trends in US and Chinese economic engagement', United States Government Accountability Office Report no GAO-13-280SP, 7 February 2013, www.gao.gov.
(7) 'Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative', International Monetary Fund, 2 April 2013, http://www.imf.org.
(8) Nana, B., 'IMF cautions Ghana over rising public debt', Ventures Africa, 15 April 2013, www.ventures-africa.com.
(9) Chris, M., 'Chinese aid to Africa may do more harm than good, warns Benn', The Guardian, 8 February 2007, http://www.guardian.co.uk.
(10) 'Ghana: Economy', Global Edge, 29 July 2013, Burke, L. and Kokutse, F., 'Ghana's president wins re-election', Associated Press, 9 December 2012, [[http://usatoday.com.
(12) 'US relations with Ghana', Bureau of African affairs, 11 February 2013, www.state.gov
(13) 'China', World Bank, July 2013, http://search.worldbank.org.
(14) 'Sub-Saharan Africa: Trends in US and Chinese economic engagement', United States Government Accountability Office Report no GAO-13-280SP, 7 February 2013, www.gao.gov.
(15) Ibid.
(16) Ibid.
(17) The observatory of economic complexity website, http://atlas.media.mit.edu.
(18) Benzoni, S., 'Chinese merchants in Accra find an eager customer base, and suspicion,' Next City, 21 June 2013, http://nextcity.org.

(19) Abbey, E., 'Saving Ghana's textile industry', Business Guide Ghana, 11 October 2010, http://www.businessguideghana.com.
(20) Myxter, E., 'Shanglin county clique's African gold rush: Get rich or die trying', China Africa Project, 2 June 2013, http://www.chinaafricaproject.com.
(21) Hirsch, A., 'The price of gold: Chinese mining in Ghana', The Guardian, 23 April 2013, http://www.theguardian.com.
(22) Jiao, Y., 'China in Africa: The real story,' China in Africa, 21 June 2013, http://www.chinaafricarealstory.com.
(23) Hirsch, A., 'The price of gold: Chinese mining in Ghana', The Guardian, 23 April 2013, http://www.theguardian.com.
(24) Zhao, S., 'The China-Angola partnership: A case study of China's oil relations in Africa', China Briefing, 25 May 201
http://www.china-briefing.com.
(25) Davies, M., 'China's involvement in Angola: Mutually beneficial commercial pragmatism?', Center for Chinese Studie
March 2009, http://www.ccs.org.za.
(26) Ibid.
(27) Zhao, S., 'The China-Angola partnership: A case study of China's oil relations in Africa', China Briefing, 25 May 201
http://www.china-briefing.com.

(28) 'Corruption perception index 2012', Transparency International, July 2013, www.transparency.org.

ABOUT THE AUTHOR

Samuel Teye-Larbi Amanor is an Africa-focussed financial and economic analyst. Contact Samuel through Consultancy Africa Intelligence's Finance & Economy unit at [[finance.economy@consultancyafrica.com]].