

## Research on Relationship between China and Ghana: Trade and Foreign Direct Investment (FDI)

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### Abstract

Foreign direct investment (FDI) refers to long term participation by country A into country B. There are two types of FDI: inward FDI and outward FDI. Many African countries have already done much to create a more business-friendly environment and many have made impressive progress towards political and economic stability. In their efforts to revive economic activity they have scaled down bureaucratic obstacles and interventions in their economies, embarked on privatization programs and are putting in place pro-active investment measures. These efforts helped by other factors such as high commodity prices have borne fruit in recent years. Research on the impact of China on other developing countries is still at an early stage and there are still a number of key areas where current knowledge is limited. The result indicated that, China is the second highest country in terms of trade and FDI in Ghana.

**Keywords:** Foreign Direct Investment, Development, trade, industries and Economic

### 1.0 Introduction

Three events – the 9/11 attack on the US, the Credit crunch that started in the US in 2007, and the Icelandic Volcanic Ash in April, 2010 – show how interlinked the world economy has become and how local events can become global very quickly. This phenomenon of globalization has opened a window of opportunity for firms to exploit markets and other opportunities in distant countries. In seeking to take advantage of globalization, firms' operations in other countries through Foreign Direct Investment (FDI) are at the same time considered to be a crucial element driving globalization.

Foreign direct investment (FDI) is welcomed and indeed, actively sought by virtually all African countries. The contribution that FDI can make to their economic development and integration into the world economy is widely recognized. For this reason, African countries have made considerable efforts over the past decade to improve their investment climate. They have liberalized their investment regulations and have offered incentives to foreign investors. More importantly, the economic performance of the region had substantially improved from the mid-1990s.

However, the expected surge of FDI into Africa as a whole has not occurred. Too often, potential investors discount the African continent as a location for investment because a negative image of the region as a whole conceals the complex diversity of economic performance and the existence of investment opportunities in individual countries.

While the problems many African countries face are widely known and dominate the perceptions of the continent as a whole, there are a number of positive aspects that, although highly relevant for foreign investors, are little known. Most African countries have substantially improved their FDI framework, and a number of them have already attracted significant amounts of FDI, in absolute or relative terms, or both, from an increasing number of home countries, including developing countries. In addition, FDI in Africa is no longer concentrated in the traditional natural resources sector, but also manufacturing and services industries have received considerable amounts of FDI in recent years. It has proven to be highly profitable and fairly consistently so over time. Direct investors need therefore to differentiate. They need to look at Africa country by country, sector by sector, and opportunity by opportunity. As in other continents, there are profitable investment opportunities to be found.

Chinese investment is growing steadily in Ghana over the past decade. Although there was a slight dip between 2002 and 2004, there has been a marked increase from 2004 to 2005. The total investment from China increased from \$3.09 million to \$17.87 million in 2005. However, looking at China's share as a percentage of total investment in Ghana shows that FDI from China to Ghana is increasing and the gap seems to be widening as the years go by, hence the need to study the Economic Relationship between China and Ghana.

### 1.1 Determinants of FDI in Africa

Literature focusing on the determinants of FDI in Africa has been on the increase. Recent and notable studies include [Chaudhuri and Srivastava 1999; Collier and Patillo 2000; Morisset 2000; Cotton and Ramachandran 2001; Asiedu 2002, 2003, 2006; Jenkins and Thomas 2002, as well as Naudé and Krugell 2007]. These studies identified the most popular specific determinants of FDI in the region to include natural resources, market size, low labor cost, openness to trade, low taxes, incentives, political stability, favorable policies, and in some cases, good infrastructure. Natural resources consistently stand out as the most dominant determinant of FDI into the region. In the same way, the United Nations Conference on Trade and Development (UNCTAD) consistently find that FDI in the region is mainly for natural resources and that countries such as Nigeria, Egypt, Angola and South Africa (that have huge natural resources) usually attract most of the FDI flowing into the region every year. Asiedu [2006] therefore observed that in addition to the natural resource endowment, large markets, and good infrastructure and an efficient legal framework should be used by African countries to promote FDI inflow. Morisset also advocated aggressive liberalization, modern investment codes and strong economic growth by African countries as being vital to increasing FDI into Africa. Additionally, Naudé and Krugell [2007] noted that political stability, accountability, regulatory burden, investment incentives and rule of law are the most important determinants of FDI inflow into the continent. They stressed the crucial importance of policies made by good institutions to ensure stability and good governance. Policies to improve economic and political stability by implication will improve FDI flow into Africa. It can also be observed that these factors fall within the categories of economic factors, government policy factors, and business facilitation factors.

However, other studies have disagreed with the potency of some of the above factors, apart from natural resources, as determinants of FDI in the region. For instance, the conventional wisdom in the case of market size is that a large market will attract more FDI into an African country. While Asiedu [2003] empirically found market size to be a key determinant of FDI in Africa, Elbadawi and Mwegu [1997] suggested that market size is relatively unimportant in explaining FDI flows to Africa, but emphasized the importance of economic growth in attracting FDI in Africa.

On the factors that inhibit the flow of FDI into Africa, Asiedu [2003] suggested that macroeconomic instability, corruption, political instability, poor infrastructure, inflation and investment restrictions will deter investment inflows. Jenkins and Thomas [2002] also observed that Africa has a perception problem of being viewed as endemic with instability across the continent, and this perception is negatively influencing as a determinant of FDI into the region. Rogoff and Reinhart [2003] showed that during the 1960-2001 periods, 40% of the countries in Africa have had at least one war, and 28% had two or more wars. Musila and Sigwe [2006] noted that this rate is three times more than that in the Western Hemisphere (excluding Canada and US), and twice that of Asia; thus serving as a powerful deterrent to FDI flow to Africa. Cleve [2009] also observed that spillover effects from neighboring countries. Instability often affects those countries that experience internal stability. Asiedu [2002] therefore concluded that, all things being equal, Africa (by virtue of its geographical location) will always receive less FDI than other regions. Naude and Krugell [2007] however disagreed with the assertion of Asiedu [2002], by suggesting that geography does not have a direct influence on FDI flows to Africa. He further opined that Africa is different, and that the factors attracting FDI into other regions may not be equally applicable in Africa. She observed that some regions successfully used certain policies to attract FDI, but these may not be equally successful in Africa, since the policies may have different impacts on the region.

Empirical literature on the determinants of FDI in individual African countries shows that factors such as natural resources, political stability and favourable FDI policies are important in all of them [Siphambe, 2006; Khan and Bamou, 2006; Akinboade et al., 2006; Obwona and Egesa, 2006; Asante, 2006]. Other factors found to be important in many individual country studies include large market size, access of country's products to neighbouring markets, generous incentives, infrastructure, openness to trade, human capital development and the rate of economic growth. However, findings regarding market size are contradictory. Investment promotion activities, international agreements, human capital development and labour relations have rarely been investigated; yet the few studies on them did find them to be relevant in a number of individual African countries, and similar to the results found on studies focused across the whole region.

Many of these individual African country studies also found that the factors that constrain the inflow of FDI into the countries are political instability, insecurity and uncertainty, corruption, hostile policies, poor infrastructure, weak rule of law and inconsistent regulations, high utility cost, high cost of borrowing, red tape bureaucracy, low labor productivity, shortage of skilled labor, and the enhancement of FDI policies in neighboring countries [

Olawale and Afeikhenana2006, and Mwege and Ngugi 2006]. These findings mirror the outcome of studies focused on the factors inhibiting the flow of FDI into the whole region. The literature so far, however, fails to explain whether the absence of the negative determinants of FDI will automatically increase the inflow of FDI into African countries. In the same way, it has not yet been established whether the prevalence of both positive and negative determinants in an African country will attract or still restrict FDI inflow to the country. It has been established however that countries which promote the positive determinants, and at the same time eliminate the negative determinants, will receive more FDI inflow.

### **1.2 New Trade Theory**

The new trade theory put forward by Krugman [1987] embodied imperfect competition and increasing returns to scale, suggesting that an active role of governments in trade through policy interventions is beneficial to countries. The theory opened up the possibility that government interventions in trade may under some circumstances be in the national interest after all. This is a reversal of the ideology under the old trade theories. The insight in Krugman's new trade theory is that even in the absence of such trade distortions as those discussed under the Old Trade Theories; trade intervention is beneficial to countries and should be pursued. Two arguments have been put forward for trade intervention under this theory – the profit-shifting argument and the externalities argument.

The profit-shifting argument holds that international competition in many markets is oligopolistic in nature. That is, a market where the price charged for goods exceeds the marginal cost of production. Examples of such markets cited in the literature usually include the markets for high technology goods such as aircrafts, semiconductors and biotechnology products [Alam 1995]. The argument goes further by stating that countries importing such goods pay rents to the exporting firms. This provides a necessity for the role of government policy intervention, to alter the firms' strategic decision-making so that production and the associated rents can be shifted to domestic firms, in which case national welfare will be increased.

The externalities argument holds that certain industries or firms which are of importance to a country, because they generate positive externalities, need government policy intervention and promotion in order to grow and operate fully. Krugman [1987] argued that unlike the traditional old international trade theories which relied on perfect competition, the new trade theory has given a concrete argument in favor of government policy intervention to promote external benefits.

Markusen and Venables [1998] observed that the new trade theory adds elements of increasing returns to scale, imperfect competition and product differentiation to the more traditional comparative-advantage old models of international trade. They applauded Krugman for using the theory to explain in more details the causes and consequences of trade than the old trade theories. The new trade theory also shifts attention from countries exporting or importing to the firms that actually react to government policies and drive trade flows [Bernard et al. 2007]. This strand of theory also assumes firms as being a single plant, national firms producing in one location and any profits earned by these firms entering into the income stream of the country in which they are located. Thus, the policy intervention will involve governments acting as agents in support of national champions who are competing with the champions of foreign countries in the international market place [Markusen and Venables 1998]. However, other phenomenal developments and facts in the international business environment call into question this assumption of national champions or enterprises.

Many firms that drive international trade are multinational firms and these firms also dominate the industries that form the empirical basis of the new trade theory. These groups of firms in general make both horizontal and vertical investment decisions in foreign markets, choosing the number and location of production facilities. In line with this argument is Porter's theory of competitive advantage, which seeks to explain how national environments influence the decision-making of these multinational enterprises that drive international trade to attain competitive advantage [Porter 1990].

### **1.3 The Theory of Competitive Advantage of Nations**

The model developed by Porter [1990] purports to explain the importance of national environments in firms' attainment of competitive advantage. In advancing the theory, Porter argued that the competitive advantage of a firm emanates from the national environment, in that conditions within a nation may create an environment in which firms can attain international competitive advantage. He identified four features or determinants which can enable a firm to develop a sustainable competitive advantage. These determinants include factor conditions,

demand conditions, related and supporting industries, and the firm's strategy. In addition, he indicated that chance and governments are external factors that also affect the competitiveness of a country. Chance events occur outside the firm's control and can result in changing competitive advantages in many industries; while governments, through policies, can influence the development of national competitive advantage. The inference made in this theory is that just like firms, countries compete with each other to attain competitive advantage and that the agents of such competitions are the governments. Krugman [1994], however, argued that countries do not compete with each other the way firms do, and that scholars' obsession with competitiveness of countries is not only wrong, but dangerous. Siebert [2006] on the other hand supported Porter's view with the argument that the paradigm of competition between countries for the internationally-mobile factors of production is a powerful one. He observed that the locational competition is about explicitly competing for internationally mobile factors such as capital, technology and highly skilled labour. The argument goes further; countries compete for these mobile factors to breathe life into the immobile domestic factors of production, such as land, natural resources and traditional labour. If they succeed in attracting them, they increase their factor endowment and raise the productivity of their immobile factors. However, if they lose them, the productivity of their immobile factors is reduced. This paradigm, according to Siebert [2006], contrasts the traditional trade theory approach of competitive advantage, where the exchange of goods and services is at the centre stage of countries' interaction and where exploiting international differences in given factor endowments, technology and preferences remains the main theme.

In line with this, it is arguable to suggest that governments can influence the attractiveness of their countries and attract the mobile factors (usually associated with FDI), or induce them to leave through the use of a set of policy instruments such as tax rates, institutional arrangements, and the improvement of public goods such as infrastructure and education. Siebert noted that large parts of the competition between countries takes place in the form of institutional competition in the regulatory framework, which determines the way things are done in a country. The increasing trends of foreign capital floating over the past few decades has witnessed the tremendous efforts of governments, through policy developments, to establish attractive investment environments (and for that matter competitive advantages) in order to attract this foreign capital. All countries have, to a significant degree, participated in this phenomenon. Porter's [1990] diamond model, therefore, explains how nations develop competitive advantages and how firms can use these national features, through their corporate strategy, to also develop a competitive advantage in their industry.

## **2.0 Data and Methodology**

### **2.1 Data Collection**

Data was collected through secondary sources for writing the paper. Most of the information has been collected from the official website of Ghana Investment Promotion Council and the Ministry of Trade and Industry of the Republic of Ghana, as well as informal interaction with some of the workers and management of these departments while other published literatures were also taken into account.

## **3.0 Results and Discussion**

### **3.1 African Development Partners in Promoting Trade and FDI**

African countries' ability to attract and benefit from FDI has become an important issue within a broader policy context of how they can enhance their economic growth, as well as improve and expand their capital infrastructure. Various countries and international regional organizations have launched a number of initiatives to promote investment in Africa, and thus attain the above objective. The US in 2000 passed the African Growth and Opportunity Act (AGOA), which allows duty free and quota free access of products from SSA into the US market. The US has also signed trade and investment framework agreements with three African countries (Mauritius, Rwanda and Liberia), and also negotiated a Trade Investment and Development Cooperative Agreement (TIDCA) with the Southern African Custom Union (SACU) to provide a framework for trade and investment promotional activities in these countries.

Developed African countries duty-free and quota-free access to the EU for all products except arms. The aim is to help African countries attract FDI into the manufacturing sector. Japan, in May 2008, also announced its decision to create a facility within the Japan Bank for International Cooperation (JBIC) for investment in Africa of \$2.5 billion over the next five years, which is twice the amount of Japanese FDI stock in Africa as at 2007 [UNCTAD, 2008].

The Commonwealth Secretariat also launched a program of assistance to African countries that includes the review and modernization of national trade-related investment legislation, to ensure that it is consistent with international trade commitments and conducive to harnessing foreign investment to economic growth and development. The Secretariat is also involved in promoting the development of professional services in African countries by encouraging investment in those services [UNCTAD, 2008]. In 2007, the European Free Trade Area (EFTA) also stated that it was implementing a free trade agreement with Egypt, which involved the provision of investment, services, state monopolies and subsidies, protection of intellectual property, capital movements, government procurement, and institutional and procedural matters. The European Free Trade Area (EFTA) and the Southern African Customs Union (SACU) also entered into a free trade agreement in May 2008.

The Organization for Economic Cooperation and Development (OECD) has also taken various initiatives involving the promotion of private and international investment in Africa. For example, a round table was organized to discuss the application of the OECD Principles for Private Sector Participation in infrastructure to the water and sanitation industries in Africa, following the launch of the principles [UNCTAD, 2008]. All these initiatives are aimed at transforming the investment climate in the region, and promoting the inflow of FDI to Africa.

Despite all these unilateral and multilateral policy developments being witnessed across all African countries, FDI inflow into the region is still below the potential of many countries in it.

### **3.2 Chinese presence in Africa**

China has pledged continuing development assistance and government-backed FDI to African countries. By December 2006, China had given over US\$5.5bn in aid to African countries. At the 2006 Summit of the Forum on China-Africa Co-operation (FOCAC) in Beijing, China pledged to double aid to Africa by 2009 and to give Africa US\$2 billion in preferential buyers' credits over the next three years.<sup>3</sup> China's Export and Import Bank (Eximbank), established in 1994, extended its export buyers credit market to Africa in 2005 and by the end of that year had committed US\$800m concessional loans to cover 55 projects in 22 African countries, according to a recent World Bank study.<sup>4</sup> Chinese aid to Africa has focused on two main areas: infrastructure and human development. Chinese aid provides funding for highly visible and, to many minds, important infrastructure projects, which Western donors have long since stopped financing.

Chinese human development assistance has focused on training and the provision of health personnel. Through the African Human Resources Development Fund, China awards scholarships to over 4000 students from 51 African countries to study in China every year. The recently launched China-Africa Inter-Governmental Human Resources Development Plan is part of China's strategy to cultivate African elites through training courses and seminars for middle and high ranking African diplomats and economic and management officials. In the next three years, 15000 African professionals will be trained up while 10 special agricultural technology centers will be created. China also sends Chinese trainers to Africa to give short-term courses, including on malaria prevention and treatment, applied solar energy technology and maize farming. Over the decades, China has sent nearly 15,000 medical workers to Africa and treated 170 million patients on the continent, the Chinese state-run Xinhua News Agency has said. At FOCAC 2006, President Hu also pledged to build 30 hospitals in Africa and provide a 300 million yuan grant to fight malaria.<sup>5</sup> In recent times, China has added sports development to its assistance to Africa and has sent about 38 coaches to 12 countries, including for the development of table tennis, and provided assistance for the construction of sports facilities, including the building of stadiums in Ghana, which will host the Confederation of African Football Cup of Nations competition in 2008. African footballers have begun making appearances in the Chinese league.

Unlike the Paris Club of donors and the international financial institutions, China exerts no political pressure on African governments for political and economic reforms, although such massive economic and financial assistance cannot avoid having political repercussions. China's only declared condition is the recognition of its "one-China" policy, by which African governments are expected to break off diplomatic relations with Taiwan. One-third of the countries that recognized Taiwan were African, including the regional power South Africa. But in return for development assistance from Beijing, many African countries have severed diplomatic links with Taipei. In spite of Taiwan's reported campaign donations to Mandela's

African National Congress in 1994, South Africa was compelled to break ties with Taipei in 1998 after Mandela failed to convince Beijing to agree to a dual recognition policy. Other countries including Senegal and Chad have

followed South Africa in repudiating Taiwan. 47 of Africa's 53 nations have established diplomatic relations with Beijing, according to the Embassy of the People's Republic of China in the United States. There now remain only a handful of African countries like Sao Tome and Principe that recognize Taiwan, but these are economically and politically insignificant. Even so, China is extending its largesse to these countries to win them over from Taiwan. "China stands ready to establish and develop state-to state relations with countries that have not yet established diplomatic ties with China on the basis of the one China principle," according to China's Africa Policy paper.

In contrast to other donors, China usually does not offer grants to African countries, but to increase its leverage on borrowing countries, China forgives the debts of borrowers that develop strong political and economic relations with it within an agreed timetable. This is probably what Chinese officials mean in their Africa Policy as being "ready to continue friendly consultation to seek solution to, or reduction of, the debts they [African countries] owe to China." By December 2006, 10.9 billion yuan (US\$1.4 billion) of debt owed by 31 heavily indebted and least developed African countries had been forgiven, the state-run Xinhua News Agency has reported. It has also been observed that Chinese aid coincides with the award of contracts so that African

Governments are likely to do fealty when Chinese companies bid for Chinese government funded contracts. About 70 per cent of contracts in a US\$2bn Chinese-funded project in Angola in 2004 were reserved for Chinese companies, according to Lucy Corkin, who has completed a substantial study on the Chinese presence in Africa and is Projects Director at the Centre for Chinese Studies (CCS) of the University of Stellenbosch in South Africa. Following a loan of \$2.5bn from the Chinese government to the Nigerian government primarily for the purposes of railway construction, the China Civil Engineering Construction Corporation (CCECC) was awarded an \$8bn contract for the construction of the Nigerian railway.

### 3.4 Composition of Trade

Chinese exports to Africa are composed mainly of machinery, transport equipment, textiles, apparel, footwear, and other manufactured materials while crude oil and raw materials dominate Africa's exports to China. Figure 5 shows the composition of Africa's exports to China in 2005, while figure 6 indicates the share of major African exports in Chinese global imports. Nearly 70 per cent of total African imports were oil (US\$14.6bn), with iron ore (US\$741m), cotton (US\$677m), diamonds (US\$502m) and logs (US\$495m) together making up 11.4 per cent. Angola (US\$6.6bn) was the largest supplier of crude oil. By February 2006, Angola had surpassed Saudi Arabia as China's largest source of crude oil supplies. Other major crude oil exporters to China were Sudan (US\$2.6bn), Congo (US\$2.1bn), Equatorial Guinea (US\$1.4bn) and Libya (US\$0.96).

### 3.5 The Ranking of Ghana on International Competitive Indices

As countries compete for FDI the attractiveness of their economies are compared using reputable international country-level competitiveness indices such as the Global Competitiveness Index and Heritage Index of Economic Freedoms. These indices assess national competitiveness by considering the national business environment within which firms operate. Key criteria used in the assessment are economic policies, government efficiency and infrastructure development. According to these indices, for example, Ghana's ranking on the Heritage Index of Economic Freedom 2008 is 94<sup>th</sup> behind Mauritius (18th), Botswana (36th), Uganda (52nd) and seven other Sub-Saharan countries. Economic Freedom according to Beach and Kane (2008) refers to the individual's freedom to work, produce, consume, and invest in any way they please and be protected, and at the same time be unconstrained by the state. The index is, however, an average score of ten individual freedoms, each vital to the development of personal and national prosperity of a country. The average scores of 162 countries are compared and ranked. The higher a country's average score of the ten bench marks the better its ranking (Figure 1). A score of 100% signifies an economic environment or set of policies that is most conducive to economic freedom. The average scores of the countries' economies are also interpreted in terms of the level of economic freedom for doing business as: free (80%-100%); mostly free (70%-79.9%); moderately unfree (60%-69.9%); mostly unfree (50%-59.9%); and repressed economy (0%-49.9%). Figure 1 below therefore suggests that only Mauritius has an economy considered to be mostly free for doing business.

□□□ **Figure 1 here** □□□

According to the Index scores Botswana, Uganda, South Africa, Madagascar and Namibia are the only SSA countries assessed to have moderately free economies. Kenya, Swaziland, Cape Verde, Senegal, Ghana, Gambia and a couple of other SSA countries are assessed to have mostly unfree economies while the majority of SSA

countries such as Zimbabwe (29.8%), Republic of Congo (45.2%), Togo (48.8%) and Sierra Leone (48.9%) are considered to have repressive economies. Since the inception of the Index in 1995 no Sub-Saharan African country has been ranked among the top ten countries with a free economy for doing business.

Other developing countries, especially in Asia, Hong Kong and Singapore for example have constantly been ranked among the top ten countries with free economies for business. Coincidentally these countries constantly attract larger portions of the FDI inflow to developing countries. The 2008 countries ranking suggests that not a single country in Africa had an economy considered to be entirely free for business transactions.

□□□ **Figure 2 here** □□□

Among SSA countries Ghana ranks 11th out of the 40 countries in the SSA region. Interestingly, though some benchmarks score high marks, the average scores for the country over a decade have never fallen below 50% or risen up to 60% as shown in Figure 2.

### 3.6 Advantage of locating in Ghana

Reputable surveys rate Ghana as one of the most attractive locations for doing business in Africa. However, in view of the Government's policy to make Ghana the Gateway to West Africa, serious efforts are still being made to make the business environment more friendly thereby reducing occupancy costs for commercial and industrial properties and the general cost of doing business in Ghana. Ghana shares many similarities with other regional countries, and the only way it could differentiate itself in attracting and retaining more FDI than other regional countries would be based on the strength and quality of its policies in favor of FDI. The country has a sustained and stable political environment that fosters the development and implementation of policies to create an attractive investment environment. The long sustained periods of policy development in the country in favor of FDI earned it the reputation of being a "frontrunner", or a "star pupil", in attracting FDI among African countries [UNCTAD, 1998].

The country has also, since 1998, been assessed as being one of the seven African countries that attract FDI over and above the average for both African developing countries and all developing countries. It has a more diversified economy that receives significant FDI into non-primary sectors. This demonstrates that, even when reports of political strife and economic instability discourage many investors from exploring the opportunities that the continent has to offer, African countries can become attractive locations for foreign investors; not only in the natural resource sectors but other sectors as well.

### 3.7 Review of cooperation arrangements between China and Ghana

The Beijing Summit and the Third Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) held from November 3 to 5, 2006 served to broadly outline the cooperation agreements that China has or aims to have with African countries, including Ghana.

China has also increased its involvement in Africa, offering more aid without preconditions, debt cancellation and the establishment of Chinese-African trade agreements, which are all proving to be mutually advantageous for China and Africa. In 2007, China also expanded its support to Chinese investments in Africa, building on its general investment policy in Africa that was adopted in 2006. In this regard, the Export Bank of China financed over 300 projects in the region, constituting almost 40% of the Bank's loan book.

Cooperation agreements between China and Ghana cover a wide range of areas. Firstly, in the area of diplomatic cooperation, the two countries have agreed to support each other in issues concerning sovereignty and territorial integrity. The most important facet of this agreement is Ghana's continued adherence to the One China Policy which sees Taiwan as an inalienable part of People's Republic of China. This agreement forms the basis of all bilateral cooperation since China refuses to maintain diplomatic (as well as economic) ties with any country that recognizes Taiwan as an independent nation. China and Ghana have also agreed to explore means of greater cooperation in the United Nations, World Trade Organization and other international and regional organizations. In addition China has lent support to the African Union (AU) and the New Partnership for Africa's Development (NEPAD) as initiatives to foster African advancement.

In the area of economic cooperation, China has agreed to cooperate with Ghana in the areas of agriculture, investment, trade and infrastructure. In the area of agriculture, exchanges have been facilitated in irrigation, agro-processing, agricultural technology and agricultural infrastructure development. With regards to investment, the two countries have made resolutions to foster mutual investment and to explore new areas for investment. In

addition, the Chinese government has decided to encourage a number of Chinese banks in the setting up of the China-Africa Development Fund (expected to reach an amount of \$5 billion) to support reputable Chinese companies to invest in projects in Africa that will create employment, foster technological progress and promote development. In the area of trade, agreements have been made to boost trade between China and Ghana and also to make it more balanced. China has also agreed to open up its markets further to goods from Africa; for instance, the number of export items to China eligible for zero tariffs will expand from 190 to over 440. Infrastructure is arguably the area of greatest cooperation between China and Ghana and several agreements have been drawn up over the years for Chinese firms to undertake construction projects. These have included the construction of roads, buildings and most recently, a hydroelectric dam.

One other important area of cooperation is that of aid and debt relief. China has in recent years become a significant development partner to Ghana, providing increasing amounts of aid comprising loans, grants and technical assistance. Ghana benefited from the Chinese government's resolution to, by 2009, double the amount of its development assistance to African countries in 2006. A large proportion of the aid Ghana receives goes to fund infrastructure development. Concerning debt relief, in 2007, China agreed to write off \$25 million of Ghana's debt, accumulated since 1985.

### **3.8 Trade Relationship between China and Ghana**

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

In the context of explaining China-Ghana trade, the commodity composition of trade clearly suggests that resource endowment explain much of the trade in primary commodities while competitive advantage explain most of the manufactured goods. In other words, because China has productivity advantage in manufactured goods it exports more of these goods to Ghana, whereas Ghana is endowed with huge primary resources and thus exports more primary goods to China.

Apart from this, it was reported that Ghana's businessmen import sub-standard products from China by ordering lower quality product specifications. This was confirmed by firms in China which said Chinese firms do not produce sub-standard goods generally but produce to Ghana importers' specifications. Chinese products are of different grades of quality and are targeted at different types of consumers. Most of the Chinese products in the Ghanaian markets are of low quality and the prices are relatively low. Thus they basically meet the demand of low income groups. To a reasonable extent these groups of consumers benefit from inflow of Chinese products. Although Chinese producers have access to cheap labor and excellent infrastructure, access to large market such as provided by Ghana promoted economies of scale and has salutary effects on the prices on Chinese manufactured goods.

### **3.9 Foreign Direct Investment (FDI) in China**

No one disputes the fact that FDI in China has been one of the major successes of the past 3 decades. Starting from a [baseline](#) of less than \$19 billion just 20 years ago, FDI in China has grown to over \$300 billion in the first 10 years. China has continued its massive growth and is the leader among all developing nations in terms of FDI. Today, FDI in China continues to increase as the country rapidly attains its pre-recession status as the dominant [economic power](#). Even though there was a slight dip in FDI in 2009 as a result of the global slowdown, 2010 has again seen investments increase. The Chinese continue to steam roll with expectations of an economic growth of a 10% this year.

### **3.10 Investment in Ghana**

Over the past decade, Ghana has benefited significantly from investment inflows from China and India. In 2004, India became the main source of foreign investment, followed by China. Between 1994 and 2006, India registered a total of 256 projects with 37 percent of them being in the manufacturing sector and 16 percent in general trade. China followed with a total of 249 projects registered, 34 percent of these in the manufacturing sector and 19 percent in general trade [GIPC, 2006]. The table below shows the total value of Chinese FDI in



Ghana over the period 1994 to 2009. Manufacturing is the most significant activity for Chinese immigrants in Ghana.

#### 4.0 Conclusion

For any research it is important to determine the value and significance of the research. The aim justifies the validity of the research. With reference to the topic, the Relationship between China and Ghana: Trade, Foreign Direct Investment (FDI) the significance is that, the study contributes to the theoretical development of the study area. China and Ghana have been taking steps towards trade and investment relationship over the years.

Foreign Direct Investment (FDI) and Trade are an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. The challenges primarily address host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them.

This study purports to present a point of view that, in any business organization whether it is a profit or a nonprofit, Foreign Direct Investment and Trade is very vital. Research on the impact of China on other developing countries is still at an early stage and there are still a number of key areas where current knowledge is limited. Furthermore, academic interest in studying the impact of China on African economics is just beginning to flicker. Hence, the study is to look at the issue of the Economic Relationship between China and Ghana: Trade and Foreign Direct Investment (FDI). The methodology used is mainly secondary with information gathered from governmental agencies and some of the officials. The result indicated that, China is the second highest country in terms of trade and FDI in Ghana and it is about overtaking India which is the first.

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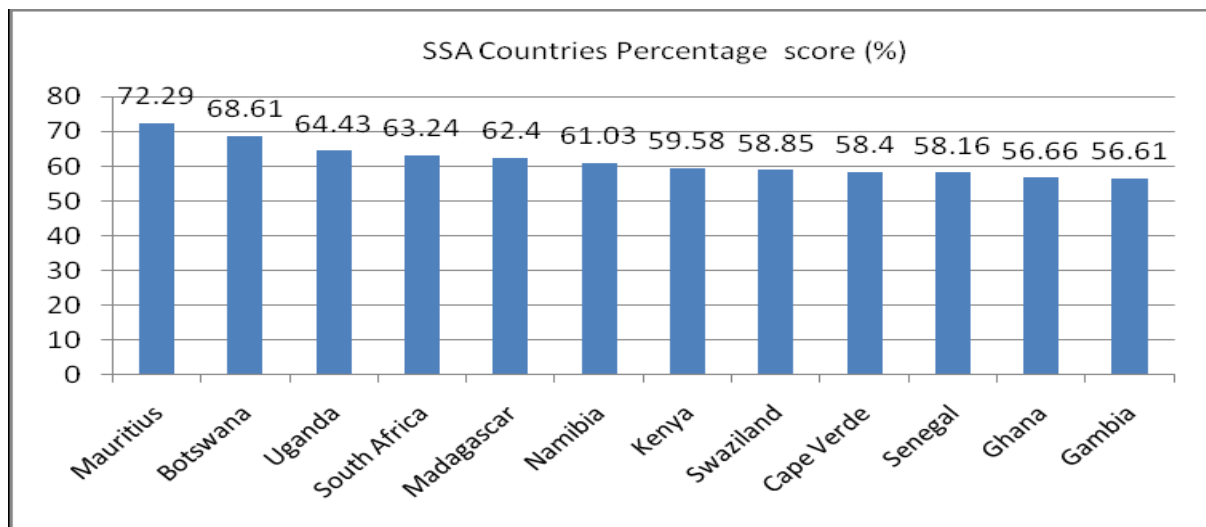
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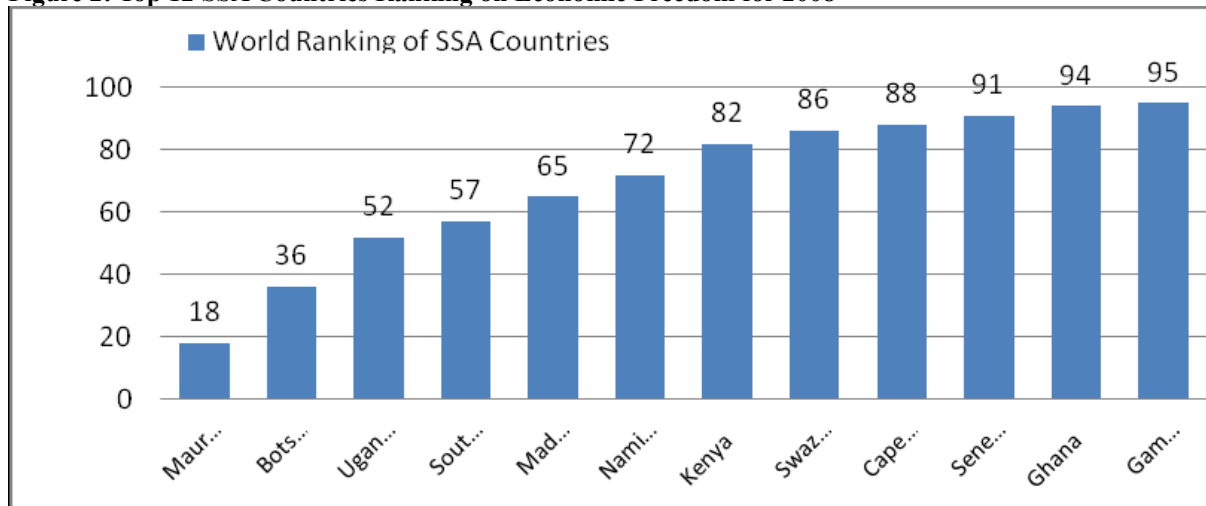
## FIGURES

Figure 1: Top 12 SSA Countries Ranking Scores on Economic Freedom for 2008



Source of data: The Heritage Foundation, 2008

**Figure 2: Top 12 SSA Countries Ranking on Economic Freedom for 2008**



Source of data: The Heritage Foundation, 2008

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