

## China in Ghana: Easing the Shift from Aid Dependency to Oil Economy? (ARI)

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**Theme:** The author examines recent changes in the Ghanaian aid and investment landscape as China has stepped up its relations with this donor 'darling'. Recent oil discoveries further transform the financing scenarios and more established donors are concerned about the riskiness of this. These tensions reveal wider differences in approaches to development and the desires of many African governments which could herald big changes in the ethos and practice of development.

**Summary:** These are interesting times for Ghana. The country is a long-standing donor 'success', transitioned smoothly to democracy, and the economy has been performing reasonably well. Recently the Chinese have stepped up diplomatic relations, largely through aid, as they have with many African countries that serve their geopolitical and economic ends. But with the discovery of oil things have changed quickly. The Chinese and other Asian investors are seeking deals backed by oil revenues which could see Ghana moving away from being aid dependent. Moreover the 'established' donors of the OECD are worried about Ghana's turn to these seemingly riskier and un-transparent forms of finance which they see as destabilising hard won efforts at donor harmonisation. Yet the Ghana story suggest deeper tensions between approaches to development –one centred on 'softer' institutional agendas and the other on 'harder' economic ones of infrastructure and growth–. The Chinese approach favours the latter, which is also something African governments are keen to pursue, so the changing aid and investment landscape may presage major changes in the ethos and direction of African development.

### Analysis:

#### *China in Africa: Beyond Crude Geopolitics*

China's increased engagement with African states has excited much concern, mainly from those powers that have held long-standing positions of authority over Africa. These commentaries tend to posit crude geopolitical standpoints that impede critical analysis. Here I review these positions as a way of setting up the key themes for this ARI, which builds on the very useful analyses of Alden, Large & Soares de Oliveira and González Richardson.<sup>1</sup>

First, there is the tendency to focus on the exceptional cases of 'bad' engagement, largely as a way of portraying China in a poor light, and extrapolating to the entire continent. This is not to say that China's relations with African states are only positive, but rather that the

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<sup>1</sup> Chris Alden, Dan Large & Ricardo Soares de Oliveira (2008), 'China Returns to Africa: Anatomy of an Expansive Engagement', Elcano Royal Institute, WP nr 51/2008, 11/XII/2008; Patricio González Richardson (2010), 'China and Africa: A Mutually Opportunistic Partnership?', Elcano Royal Institute, ARI nr 99/2010, 17/VI/2010.

situation is complex and requires fine-grained analysis. For one thing 'Africa' is not a singular entity, and an outcome of these homogenising approaches is that African voices are muted, which repeats the age-old assumption that Africans lack meaningful agency and so have to be spoken for. In reality, as the Ghana case shows, African political leaders have lots of agency in dealing with the Chinese. The real issue is that this expression of agency goes against what established powers deem 'appropriate' for Africa and reveals major rifts in approaches to development. Ghana is interesting as it stands at a transition point where the power of established donors is weakening in the face of alternative sources of finance from the Chinese (and other rising powers) and recent oil discoveries add new revenue streams.

Secondly, despite people talking of 'China Inc.', China too is not homogenous and so we need to avoid reading everything as some singular strategy by the Chinese. We have to disaggregate China in terms of its motives, interests and actors. Analysts fixate on the resource issue and oil security in particular. Again, this is not entirely wrong, but rather China's motives are multiple, changing and at times contradictory. Economically, market access is also important and much of the engagement by 'China' with 'Africa' is through many small private enterprises which are independent of any central state agenda. Politically, China is aware of its growing importance internationally and plays a leadership role for other developing countries in international forums which is part of a discourse from both within China and beyond of China as a 'responsible' international player. Yet China is uncomfortable with the mantle of 'Rising Power'. Rather than practise bullish conditionality in its dealings with other developing countries China prefers notions of a 'peaceful rise' based rhetorically, at least, on the idea of cooperation and mutual benefit. However, in many cases relationships between developing countries and China are unbalanced, so it is important to look beyond the rhetoric and get a clearer picture of where the relative gains and losses of engagement with China lie.

Third, the outcomes of China's involvement in Africa will primarily be shaped by how Chinese capital and parts of the Chinese state intertwine with fractions of capital and political blocs within Africa. The outcomes of Chinese involvement are also conditioned by the histories, structures and capacities of African states. Having said this, we need to situate China-Africa relations in terms of the global economy and thereby not overplay China's role. China's interests in Africa are not new and its current focus on resources is not dissimilar from other industrializing countries down the years. The tendency to overdetermine China's role by western critics reflects their worries about competition rather than realities on the ground. And we need to remember that China is not the only country making in-roads into Africa in order to secure resources.

#### *Ghana's Post-independence Development and China's Role in it*

Ghana is a small economy that has traditionally relied on a narrow export base – cocoa and gold – and now remittances also bolster GNP. The country has shifted rapidly recently and so reveals, almost on a daily basis, the changing dynamics of 'China' and 'Africa' relations. In essence Ghana has been aid dependent but a democratic 'success'. Its lack of strategic resources up until 2008 meant that it runs a trade deficit with China and Chinese aid levels are quite low. But with discovery of oil there has been a frenzy of activity and we may be watching an oil state emerge, facilitated to a great degree by China. In this section we review briefly the history of China-Ghana relations, give a snapshot of Ghana's development priorities, examine in more detail China's recent aid and investments in Ghana, look at the changes that have occurred with the discovery of

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oil, and then look at the responses of established donors. We conclude with policy implications.

Ghana exited colonial rule with a relatively buoyant economy based on cocoa, gold and aluminium. It was assumed that independence would not alter this and the UK in particular would *de facto* maintain a directional role in Ghana. But the 1970s saw terms of trade decline, political authority fracture, and a crisis of the state. Out migration increased and productive capacity dwindled as infrastructures crumbled. It was against these crises that Jerry Rawlings was, despite a polemic of anti-imperialism, forced to turn to the Bretton Woods Institutions as a source of finance, which ushered in two decades of debt encumbrance and donor-driven policy-making. Since 1992 Ghana has been a multiparty democracy, but remains heavily aid dependent, though this situation is changing. Developmentally Ghana's infrastructure is poor and it was estimated that a perpetual power crisis in the industrial sector caused growth to decline in the mid-2000s.

Ghana was a mainstay of China's African engagements during the cold war. At a banquet in 1964, Premier Zhou Enlai confirmed Beijing's support for African struggles against imperialism (which he called 'the poor helping the poor') setting the stage for Africa as an ideological battleground with both Washington and Moscow. A key driver for China's engagements with Africa through the past 50 years is a desire to contain the influence of hegemonic powers and also to carve out a rightful place for China in the world, born from a sense that China has been 'muscled out' of international relations.

Since 1960 China has provided development assistance under bilateral diplomatic relations mainly in the form of grants, loans and technical assistance. However, the amount was relatively small. For example, between 1960 and 1970 total Chinese aid to Ghana amounted to US\$43 million. By the early 1980s China's direct influence had waned due to its inability to compete with Western aid programmes and the fact that China was no longer as fearful of Taiwan's presence. Things began to pick up in the mid-1980s and the first major co-operation agreement with Ghana was signed in 1983. Under this, Chinese companies signed contracts valued at US\$390 million which included the construction of bank buildings, a woollen-sweater mill, school buildings, and water supply projects. In general the period of 1960 to the late-1990s was supportive, but quite low key.

#### *Recent Chinese Engagement: From Aid to Investment*

Although China has had a long-standing relationship with Ghana, it is only in recent years that the relationship was taken to a higher level. In 2004 Ghana began to receive grants and interest free loans directly from China such as a US\$24 million debt relief on interest free loans. In 2007, Ghana received a total of US\$1.15 billion from all donors (not including China) but Chinese aid is still only a small percentage of the total development assistance received by Ghana.

The aid disbursed by the Chinese is generally delivered through grant aid, interest-free loans, and concessional loans. Aid is also project-oriented rather than sectoral or programme-based as encouraged by the Paris Declaration on Aid Effectiveness. In concrete terms, however, there is a blurring of aid and investment. The Chinese usually part pay for their resources in infrastructure and the routes for aid and investment are the Chinese corporations selected as part of the 'Go Out' Policy of 2002. However, as China's overseas engagements deepen the number of actors has increased making any semblance of central coordination untenable.

China's aid to Ghana has financed the roads, buildings and most recently, a hydroelectric dam (see Figure 1). Other sectors that have benefited from China's technical support include education and military cooperation. There is a perception amongst Ministers and think-tanks in Ghana that the Chinese are serving genuine infrastructure needs, which they set up in opposition to the liberal governance agendas of DAC donors. This tension has been played out in negotiations where the Government of Ghana have generally conceded to the donors' requirements in return for finance, but then foot drag and renege on agreements. One area of contention, associated with the market-friendly New Patriotic Party that governed for most of the 2000s, was around wealth creation as a development goal which required infrastructure and productive investment. The DAC donors of the multi-donor initiatives were more interested in social protection, but the NPP used the Millennium Challenge Account to pursue those areas of the budget *it* deemed important. And the Chinese are another source of funding which supports these agendas and comes without the restrictive conditions and bureaucracy of the DAC donors.

**Figure 1. Summary of Chinese aid in Ghana**

Project	Date	Modality	Amount
Ofankor-Nsawam stretch of Accra-Kumasi Road	2002	Interest free loan	US\$30 million
The National Theatre	2003	Grant	US\$2 million
Afeji Irrigation Project			US\$3 million
Police and Military Barracks	2003	Grant	US\$3.9 million
Expansion and upgrading telecommunication network, building of a school and malaria centre	2006		US\$66 million
Security communication between agencies	2006	Concessional loan	US\$30 million
The Bui Dam Project	2007	Concessional loan and buyers' credit	US\$622 million
Various developmental projects	2007	US\$4 million interest free loan and US\$1.33 million grant	US\$5.33 million
Landing sites for fishing communities	2008	Interest free loan	US\$99 million
Office Complex for the Ministry of Defence	2008		US\$7.5 million
Pedause Presidents Lodge	2008		US\$1.34 million

Undoubtedly the most significant Chinese engagement with Ghana has been the Bui hydroelectric dam. Like many Chinese-funded infrastructure projects the majority of the money comes from ExIm Bank. The dam will cost US\$622 million; US\$288 million from buyer credits and US\$298 million as a commercial loan, whose interest will kick in after September 2012 when the electricity is delivered. The remaining US\$40million will come from Ghanaian sources, part backed by cocoa exports. It should bring 400 MW of much needed electricity to Ghana's struggling grid and even allow for export to neighbouring countries. Like Chinese projects elsewhere much of the capital equipment is Chinese. The Chinese workers eat imported food but for more perishable vegetables they have started their own farm. Chinese corporations in general do not encourage trade unions, and originally did not allow for it at Bui. But a deputation from the Ghana TUC argued that it was enshrined both in Ghanaian law and the contract. More broadly this highlights an important issue for the developmental impacts of China in Africa. Where local laws are well elaborated and, more importantly, enforced then expropriation is more difficult although the trade off may be lower levels of absolute investment.

Sinohydro and other Chinese firms are looking to deepen their footprint in Ghana and Africa more broadly. The Chinese seemed to have got a foothold in Africa through these Chinese government-supported projects and are now competing more openly for tenders and as one European aid official told us 'winning in straight fights'. After the Bui Dam the planners are working on Bui City, which one Ghanaian official noted optimistically would be 'like Dubai'. But these are essentially turnkey projects and so have limited multipliers locally, which is why it is imperative that African governments ensure that local content agreements are written into contracts.

#### *Oil and New Infrastructure Projects*

Since the turn of the millennium China's engagement was through these focused projects, but in 2008 off shore oil was discovered. For a country dependent on oil imports and a massively over-stretched energy infrastructure this was great news. Production is estimated at 490 million barrels placing it in a similar league to Chad and Equatorial Guinea but well below Angola and Nigeria. New Gulf of Guinea reserves tend to deplete quickly with an estimated lifespan of around 25 years so it is a small window of opportunity for Ghana.

The oil producers soon began arriving. Initially the discovery was through a UK-US consortium –Tullow and Kosmos– but before long a range of applicants was seeking drilling blocks. Importantly the Chinese state-owned enterprise China National Offshore Oil Corporation has sought to purchase Kosmos for a reported US\$3 billion on the basis of its Ghanaian and Ugandan oil discoveries. Chinese oil firms are hampered in most oil fields by the established multinationals having sewn up production so they are keen to enter new fields or those –such as Sudan– that are the subject of boycotts and therefore effectively monopolies for countries prepared to overlook authoritarianism.

Estimates of revenue are difficult to determine due to un-transparent contracts and uncertainties over the price of oil but the World Bank calculates around US\$20 billion over 20 years, peaking between 2011 and 2016.<sup>2</sup> The danger is that with a high budget deficit the government will be tempted to emulate what has been dubbed the 'Angola model' where the state collateralises the oil in return for credit. Major multilaterals are urging the Government of Ghana to sort its underlying structural problems first rather than simply use the windfall rents to shore up budget deficits which will simply re-emerge once the boom ends. Additionally there are worries about a 'Dutch Disease' scenario where this resource exportation discourages investment and taxation in non-oil sectors through an appreciation of the exchange rate.<sup>3</sup> Agriculture is one of the key sectors likely to suffer under this scenario.

Importantly, with the discovery of oil Asian deals have stepped up in scale with a potential US\$10 billion housing deal with Korea's STX Group being paid for with future oil revenues. The negotiations for this were un-transparent and accusations have been circulating regarding corruption. Moreover, local realtors and building contractors have opposed the deal for the damage it will do to domestic firms since the Koreans would tie the finance to extensive use of Korean contractors. As yet the final signing of the contract has been postponed for 'technical reasons'. Even more recently, in mid-September 2010, the Chinese have announced a US\$15 billion fund for oil-related infrastructure development which was negotiated at the highest levels, with Ghana's President Atta-

<sup>2</sup> See [http://siteresources.worldbank.org/INTGHANA/Resources/Economy-Wide\\_Impact\\_of\\_Oil\\_Discovery\\_in\\_Ghana.pdf](http://siteresources.worldbank.org/INTGHANA/Resources/Economy-Wide_Impact_of_Oil_Discovery_in_Ghana.pdf).

<sup>3</sup> See <http://www.oxfamamerica.org/files/ghanas-big-test.pdf>



Mills eschewing a high level meeting in New York about the future of aid to stay on in Beijing for the signing ceremony.<sup>4</sup> This signals the changing power balance in African development relations and the established donors in Ghana are already expressing concern about the transparency of these deals.<sup>5</sup>

### *Donor Worries*

So China's entry in Ghana and the new oil revenues raise real worries for the established donors. A leading aid official in Ghana noted<sup>6</sup> of Chinese finance packages:

"... a package of tied lending is only interesting when there is more limited access to the international market and I think that is why many African countries find this package interesting, because they don't have access to the markets".

The comments reveals the tacit concerns of many donors insofar as the Chinese are winning the 'straight fights' for contracts so it is more about the competitiveness of the Chinese than the access to capital *per se*. Indeed a bilateral donor<sup>7</sup> claimed that ExIm Bank backed projects were capable of 'putting the World Bank out of business in Ghana'. The coming years are likely to see market access to finance more limited and so China may well be even more appealing. In terms of donor harmonisation Ghana has been a leading light, but has played a shrewd game of agreeing to donors demands while also backsliding to fit in with domestic concerns.<sup>8</sup> China has been invited to become more involved in the Ghana Joint Assistance Strategy, but the Chinese are wary of joining, although they often attend meetings as observers. One interpretation is that in line with their experience of imperialism and realist interests in Africa the Chinese do not see themselves as donors. Moreover, the Chinese seem content with their independence and bilateralism, something that has been a feature of their development cooperation for over 50 years, which purposefully distances them from the interests and practices of other powers. At the same time, the Chinese officials we were told were often frustrated during meetings with DAC officials who they argued usually start the conversation with 'Let us set up some standards first and how much money could you contribute?'. For the Chinese there is much apprehension about these 'standards' and reaching them, and they are more concerned with the concrete outcome of aid projects.

## **Conclusions**

### *Managing China and Riding the Oil Wave*

The increased Chinese engagement with Africa presents African states with an 'alternative' to the DAC and Washington, with the Ghana case showing how leaders can 'triangulate' between donors. This 'triangulation', which is not simply a rejection of western donors and their conditions, gives African states options for the first time since the end of the cold war. It is this leverage that the Chinese offer and the potential that resources could flow elsewhere that are really exercising western critics. Yet in doing so they gain no friends in Africa by repeating the patronising message that Africans need saving from some venal power, when Africans are sorely aware of what venal powers have done, and continue to do, across the continent. Moreover, in welcoming the non-interference policy, African leaders are more willing to look to the Chinese model of economic development

<sup>4</sup> See <http://www.independent.co.uk/news/world/africa/annexed-by-china-ndash-for-good-or-ill-2095450.html>.

<sup>5</sup> See <http://www.ghanaweb.com/GhanaHomePage/business/artikel.php?ID=194112>.

<sup>6</sup> Interview, 13/1/2009.

<sup>7</sup> Interview, 2/XII/2008.

<sup>8</sup> See <http://www.globaleconomicgovernance.org/wp-content/uploads/Whitfield%20Jones%20Final.pdf>.

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for guidance given that it is clearly successful and is not being forced upon African countries as a condition of aid.

For African states like Ghana the key is how to manage Asian engagement strategically and sustainably. The Bui Dam and potential deals like the STX project have limited local multipliers and could actively undermine local firms. And if these are bridgeheads into the local economy then longer term deindustrialisation could occur. However, the enforcement of labour and union laws in the Bui Dam project suggests that gains can be leveraged where a relatively strong institutional environment exists. Yet oil revenues could, if managed improperly and for party political gain, undermine the progress that Ghana has made.

OECD donors need to recognise China as a serious contender when engaging with developing countries. They should increase the efficiency of their development processes going beyond only aid, increasing the cooperation between different donors and delivering on their commitments. China may also need to increase its cooperation with other donors and its emphasis on growth and infrastructure seems to have cajoled other donors back into these sectors making for the possibility of collaboration. China will also need to learn that aid can increase unsustainable debt and allow the postponement of necessary reforms. But whatever the outcomes in Ghana and the rest of Africa China's entry signals a major shift in the political economy of aid and with it the theoretical assumptions about what ultimately drives development.

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