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### **FDI TRENDS IN GHANA: THE ROLE OF CHINA, US, INDIA AND SOUTH AFRICA<sup>†</sup>**

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#### **Abstract**

Researchers over the years have shown that the FDI has had a positive influence on national economic growth and development. This research examines the FDI Inflow in Ghana and the contribution of the Selected Countries observed FDI inflows between 2000 and 2014. While comparing the quantitative data, the study showed that the selected countries contributed more to the Agriculture, Manufacturing, Building/Construction, and Service sectors of Ghana in terms of volumes of investments and projects as compared to other sectors of the economy due to incentives attached to prioritized economic sectors. On employment generation, the selected countries percentage share of domestic employment was higher than that of expatriate employment due to Ghana investment laws that allows investor with a specific minimum capital of three hundred thousand dollars to employ minimum of ten Ghanaians for every foreign employee hired.

**Keywords:** FDI, Development Cooperation, Trade Investments, Investing Countries, Economic Sectors

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#### **1. Introduction**

Foreign Direct Investment (FDI) plays an influential role in the world and helps move the global economy towards an integrated one with series of interdependent parties. As such, the role of FDI in the development of any particular economy cannot be underestimated, and notwithstanding this fact, there happens to be various dimensions in relation to defining FDI. The Organization for Economic Co-operation and Development (OECD) in its Third Edition Benchmark Definition of FDI (BD3) stated that, "FDI reflects the objective of obtaining a lasting interest by a resident entity in one economy in an entity resident in an economy other than that of the investor" (OECD, 1996, p. 7). It is necessary to note that the importance of FDI has been outlined in many literatures and most studies had a positive consensus on the contributions of FDI. Kumar and Karthika (2010) stated that FDI has a major role to play in the economic development of the host country as many countries have been using foreign investment and technology to speed up their country's economic development. In lieu of this, the participation of foreign firms in the infrastructural developmental progress of Ghana has promoted abundant mutual benefits and opportunities. In addition, Ghana has seen growth in its economy with

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investments funding from many countries over the years as many foreign firms' are expanding their operations to Ghana due to the stable political environment which Ghana has achieved through improvement in its institutions and policy environment (Asiedu, 2006). Furthermore, Ghana is one of many African countries that have recorded very significant investments and the increases in these investments have contributed to Ghana's economic growth, increasing incomes and poverty alleviation (Dollar and Kraay, 2002).

What is more, Ghana needs development partners for capacity building and expertise sharing and as such, this study will look at some selected countries and their FDI contribution in Ghana's economic development. We will also discuss the impact of the selected countries FDI inflow on employment generation and observe how it helps shape the economy of Ghana. For the sake of this study, China, India, USA, and South Africa are selected as countries with major investment contributions and dominating space in Ghana's economy, and also colligating a more proactive role in Ghana's development by forging stronger ties based on trade, investment, development assistance and loans etc (Chakrabarti and Ghosh, 2014). It is imperative to pay a closer look at investment activities by these countries as they have been strong strategic development partners of Ghana for decades.

China's investment in Ghana is increasing with trade volumes between China and Ghana reaching US\$ 2.1 billion in 2010 and increasing to US\$ 5.4 billion in 2012, a 163% increase since 2010. What is more, the value of newly signed contracts soared up to about US\$ 1.5 billion while the non-financial FDI reached US\$ 112 million (Gong, 2014). This explains the huge investments in vital infrastructure and support services that play a decisive role in enhancing productivity and reducing poverty. In addition, the China-Africa Development Fund (CAD Fund) has facilitated projects in Africa as a whole and Ghana in particular by building a US\$ 600 million Sunon Asogli Thermal Power Plant jointly invested by CAD Fund and Shenzhen Energy Group (Sackitey, 2012) to help with the erratic power crisis that has hit Ghana over the years.

On the part of India, its investments in Ghana between 1994 and 2013 were 602 projects with total investment of US\$ 637.34 million. India contributed to the upliftment of human capital in Ghana with a US\$ 125 million Pan-African E-Network Project (PAENP) to extend essential ICT infrastructure to certain rural communities and under-served areas and bring excellent applications in health and education to their doorstep. This has improved the level of high quality human capital resource skills base in Ghana. In addition, India's Lines of Credit (LoC) financed Ghana's Presidential Office Complex at a cost of US\$ 60 million, a US\$ 21 million Fish Processing Plant, a US\$ 35 million Komenda Sugar Factory, and a US\$ 25 million Irrigation Project and Rural Electrification (High Commission of India-Accra, 2014).

Furthermore, USA and Ghana's bilateral development trades are a two-way trade rapidly increasing and reaching US\$1.6 billion in 2012. Ghana signed a five-year Millennium Challenge Corporation (MCC) Compact in 2006 worth about US\$ 547 million to enhance agricultural profitability for small-scale commercial farmers, upgrading roads, and strengthening rural infrastructure and financial services (Hanson, 2008).

Impressively, South Africa's exports into Ghana have grown from about US\$ 138 million in 2010 to US\$ 516 million in 2012 (Graphic Business, 2013) and between 2011 and 2013, total trade between Ghana and South Africa grew by 56%. Although this was remarkable, it is essential for the two countries to explore other business opportunities. According to the South African Institute of International Affairs (SAIIA), there are about twenty-six (26) South African companies operating in a wide range of Ghana's economic sectors (Besada, 2005).

The focus of this study is to analyze the FDI Inflow in Ghana and the contribution of the Selected Countries observed FDI inflows between 2000 and 2014. The study is categorized into various sections and section 1 will present the introduction followed by literature review. Section 2 will focus on the research methods and data sources while section 3 will focus on the trends of FDI in Ghana and the contribution of the Selected Countries. Section 4 will look at the trends of FDI and its influence on employment generation in Ghana and the contribution of the Selected Countries. Section 5 ends with concluding remarks and policy implications.

## 2. Literature Review

Over the years, various studies have revealed that FDI is of greater importance in the global economic development and it has helped many countries to make further improvements to their economies. All these studies focused on FDI and economic growth, employment and among others. A brief overview of some of the patterns of literature is presented below.

Dar *et al.* (2004) studied the causality and long-term relationship between FDI, economic growth and political stability in Pakistan over the period 1970-2002. They argued that theoretically, all the variables used in their study were found to have expected signs with two-way causality relationship and shown evidence of relationship between FDI and economic growth. Li and Liu (2005) stated in their research that there was a strong complementary connection between FDI and economic growth in both developed and developing countries as FDI directly boosted economic growth and through human capital, it indirectly encouraged growth. Adeniyi *et al.* (2012) examined the causal linkage between foreign direct investment (FDI) and economic growth in selected West African countries with financial development over the period 1970-2005. They found that the extent of financial sophistication matters for the benefits of foreign direct investment to register on economic growth in Ghana, Gambia and Sierra Leone depending on the financial indicator used. Chakraborty and Nunnenkamp (2006) in their study on FDI and its economic effects in India found that the growth effects of FDI vary widely across sectors and FDI stocks and output are mutually reinforcing in the manufacturing sector.

In the case of Ghana, Asafu-Adjaye (2005) stated that FDI has a significant positive impact on Ghana's economic growth. However, he further indicated that the contribution of FDI in the development of the economy of Ghana can be expanded if some economic sectors are developed. Sackey *et al.* (2012) studied the effects of FDI on economic growth in Ghana. Using a Vector Auto Regression (VAR) and Johansen Co-integration test, they tested for the presence of the long-run linear relationship between inflows of FDI and Ghana's economic growth. Their results showed that there existed a long-run relationship between the variables and as such, there is a positive relationship between FDI and economic growth. Turkson *et al.* (2015) examined how foreign direct investment (FDI) influences Ghana's growth through the financial environment using the bound cointegration test covering the period 1977-2010. Their results show that both in the short run and in the long run, FDI will have a better influence on growth in a sound financial environment. Antwi *et al.* (2013) stated that foreign direct investment has continued to play a significant role in the Ghanaian economy and examined the relationship between FDI and economic growth in Ghana for the period 1980-2010 using time series data. Using the simple ordinary least square (OLS) regressions, the analysis shows that there is a positive relationship between the FDI and economic growth, which the relationship is found to be significant. Abor and Havey (2008) looked at FDI and its contribution to employment to ascertain host country experience. The findings from the study concluded that increased FDI flow would lead to high levels of employment. The study explained this by stating that FDI brought in large-scale production and therefore the need to increase the labor force to maintain the high production. The gap in these literatures is that it fails to address the development cooperation role of investing countries and how host countries benefit from FDI in their various economic sectors which can be reflective in the employment generation and economic growth.

## 3. Research Method and Data Sources

The focus of this study is to analyze the FDI Inflow in Ghana and the contribution of the Selected Countries observed FDI trends inflows. Over time, FDI trends become extremely difficult to monitor due to variation in the data of various countries from year to year (Liu, 2014) but there is comparable data available for the selected countries concerning their FDI in Ghana. As such, to achieve the objective outlined for this study, a qualitative method is adopted and the rationale for selecting this approach is due to its robustness in identifying patterns and trends among the data acquired for the purpose of this study. An exploratory study makes it prudent to examine the trends in FDI research and it enables the researcher to obtain critical findings from

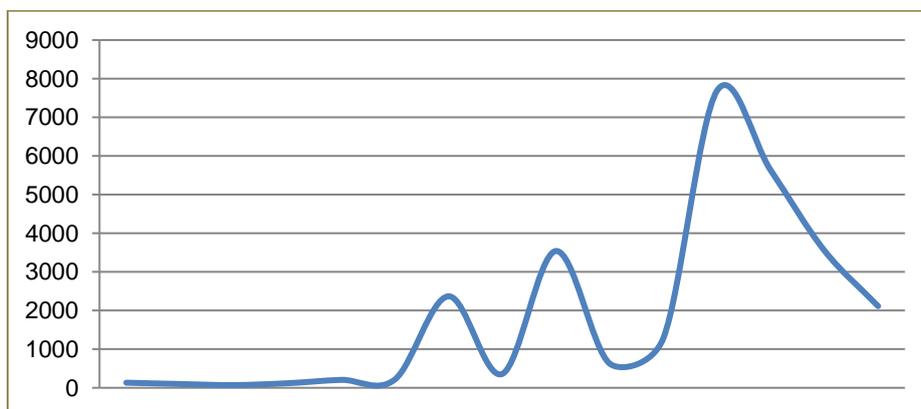
the data at hand in a more proactive manner as compared to using proposed hypothesis. Furthermore, the reason for employing this method is due to “the novelty of this study on which little or no previous research has been done” (Brown, 2006, p. 43).

According to the literature review of this study, it can be seen that most studies have not been conducted in this domain therefore limiting the amount of conceptual framework for hypothesis testing. Also, the cumbersome nature of collecting data for such a study makes the usage of exploratory methods a suitable one (Babbie, 2007; Shields and Rangarajan, 2013). The findings of this study are critical for further research in this domain, therefore it is critical to select and use the most appropriate data available.

The study relied primarily on secondary data and reviewed data on total FDI from the other selected countries in Ghana between 2000 and 2014 from the Ghana Investment Promotion Centre (GIPC) reports of 2001 to 2015. Other sources of data are from various published reports and working papers. The paper further looks at the investments by the selected countries as a percentage share of total investment in Ghana for the period under-review. Based on the data compiled from the specified documents and databases, the paper analyzed the material and arrives at a more comprehensive understanding of the selected countries investments contribution in Ghana.

#### 4. FDI Trends in Ghana

Ghana's aim at acquiring FDI has been to create an enabling competitive business environment for domestic and foreign investors to operate in order to fuel Ghana's growth. Between 2000 and 2014, the total inward FDI flow to Ghana amounted to more than US\$ 27 billion (see Figure 1).



**Figure 1. Total Inward FDI in Ghana, 2000-2014**

**Source:** Authors calculation based on data from GIPC (2015)

Figure 1 shows that there was a stable inflow of FDI from 2000 to 2005 with the lowest value of investments in 2002 at US\$ 70 million. Numerous reasons led to the low inflow of FDI to Ghana throughout this time period. For instance, in 2001, the Government of Ghana opted for the Highly Indebted Poor Countries (HIPC) Initiative to persuade its development partners to cancel Ghana's debt in return for solutions to the country's socio-economic problems that has lazed all aspects of Ghana's development. During this period, Ghana's development partners suspended their assistance in order to allow the country to properly reorganize their affairs. This situation contributed to the discouragement of investments by foreign businesses as a country in the HIPC initiative will have its image marred and will deter both private and public investments. The flows FDI then fluctuated between 2006 and 2010 but increased rapidly by more than fivefold at a high of US\$ 7.7 billion in 2011 and after that, flows declined. The decline in growth in FDI flows after 2011 to 2014 was partly caused by the political uncertainty beleaguering every election year in Ghana as it was in the past election years (i.e. election years 2000, 2004 and 2008).

During every election year, foreign investment always shows a downward trend due to foreign investors' diffidence in African politics as a whole and its numerous uncertainties of the outcome. This usually happens months leading up to elections and six months after that as was experienced during the 2012 general elections in Ghana which resulted in a lengthy court dispute over the result which led to an eight-month court case copulated with the energy crisis resulting to most potential and existing investors' lukewarm investment flow. Another factor that contributed to the slow progress in attracting FDI during this period was the devaluation of the Cedi resulting from ongoing trade and current account imbalances. In 2013, the Ghanaian Cedi dropped 15% against the Dollar and although the Central Bank of Ghana in 2014 implemented a string of foreign exchange controls, it had little effect to stop the slide which increased inflation and leading the International Monetary Fund (IMF) to project a current account deficit of 9.1% in the same year (Oxford Business Group, 2014).

An important component of inward FDI flow in Ghana is its distribution in the economic sectors of the country (see Table 1). Table 1 shows that between 2000 and 2014, the economic sectors of Ghana received an average of about US\$ 3.6 billion of investments and the Building and Construction sector received the highest with an estimated value of about US\$ 12.9 billion over the period under review. The main reason why the Building and Construction sector received more FDI is that Ghana's infrastructure delivery deficit is seen as a major challenge to economic growth in the country and this tends to impose avoidable cost on society. The infrastructure gap of the country cannot be dealt with by the public sector of Ghana alone and so, in order for the government of Ghana to close the infrastructure gap with its limited budget resources, the country turns to foreign countries to deliver infrastructures through financing and construction of projects.

**Table 1. Total Inward FDI in Ghana by Economic Sectors, 2000-2014 (US\$ Millions)**

Economic Sectors	2000 - 2004	2005 - 2009	2010 - 2014	Total
Agriculture	50	205	1,049	1,304
Building-Construction	39	2,411	10,409	12,859
Export Trading	9	22	64	95
General Trading	61	1,003	693	1,757
Liaison	0	11	1,140	1,151
Manufacturing	119	2,701	3,155	5,975
Service	287	660	4,100	5,047
Tourism	58	93	145	296
Average	78	888	2,594	3,561

Source: Authors calculation based on data from GIPC (2015)

## 5. Selected Countries FDI Trends in Ghana

The Selected Countries (China, India, USA and South Africa) are an important source of foreign investments for the Ghanaian economy as their investments have contributed to the shift in Ghana's economy. The Selected Countries total FDI flow to Ghana amounted to about US\$ 7.9 billion and their share of total FDI in Ghana was more than a quarter of total FDI value at 27% and 36% of total registered projects over the years under review (see Table 2). Table 2 shows the selected countries total inward FDI flow, the number of projects registered, their investment pattern and their percentage share in Ghana from 2000 to 2014. On the value of investments, the USA had the highest investments of about US\$ 4.4 billion making up 15% share of the total investments in Ghana. China followed with about US\$ 2.3 billion investments (8% share) and India and South Africa had combined investments of about US\$ 1.2 billion with 4% share value. With number of projects, China topped the highest number of registered projects with 610, representing 15% share of the total number of registered projects. India recorded the second highest number of projects with 560 (14% share) whilst the US and South Africa had combined 276 registered projects with 7% share.

**Table 2. Total Inward FDI Flow to Ghana by Selected Countries, 2000 – 2014 (US\$ Millions)**

FDI	Value	% Share	Projects	% Share	Investment Pattern
Total FDI in Ghana	28,484	100	4,090	100	–
China FDI	2,340	8	610	15	SOEs (Grants, Zero-Interest Loans Concessional Loans)
India FDI	704	2	560	14	SOEs (Line Of Credit)
USA FDI	4,402	15	185	5	NGOs, Occasional SOEs
South Africa FDI	448	2	91	2	Private Sector, Occasional SOEs

**Source:** Authors calculation based on data from GIPC (2015)

The table 2 further shows the summary of investment pattern of the Selected Countries in Ghana and how their adopted development cooperation strategies strengthen their economic interest. As the world economic crises in recent times have caused a reduction in developmental assistance from developed countries to developing countries, emerging economies tend to lend a hand by partnering with developing countries to build their economies. The table indicates that China's trade and investments is mostly public sector driven and their development assistance to Ghana is through grants, zero-interest loans, concessional loans, and other assistance. These (as part of China's aid packages) are in the forms of contracting projects, human resources training, and technical cooperation (Bräutigam, 2010). The investment pattern of China makes it stand out as a preferred development partner as compared to other western donors because; China's delivery of aid and implementation of projects is not tied to high benchmarks of governance and without any political strings attached (Embassy of the People's Republic of China – Jamaica, 2006). However, the collective launch of the Forum on China-Africa Cooperation (FOCAC) in 2000 which Ghana is part of is to strengthen the economic relations between the African continent as a whole and Ghana in particular. This then enables China to garner support for the One-China policy where there is but one sovereign state that includes mainland China, Hong Kong, Macau and Taiwan.

In addition, Table 2 further looks at the investment pattern of India and it reveals that India's trade and investments is mostly market and private sector driven as part of their foreign policy agenda and rely on the public sector as a subsidiary. Also, India's tool for development cooperation is largely based on Line Of Credit (LoC) and their LoC strategy is to advance exports from India to trade partners' countries and exploit the economic opportunities in their trading partners' growing market and rate of private consumption increment. This pattern has led to Lines of Credit (LoC) and grants amounting to about US\$ 230 million to Ghana through the Indian Exim Bank (High Commission of India-Accra, 2014). This as part of India's aid packages are in the forms of low-cost high quality training and technical assistance, and support for small-scale projects that are usually ignored by traditional donors. India's engagement in Ghana is based on economic and development cooperation and this enables India to garner support for its bid to ascend onto the permanent membership of the UN Security Council, multilateral negotiations on climate change and agricultural trade that makes up the core tools of India's economic diplomacy.

The table further depicts the investment pattern of U.S.A and establishes that U.S.A's trade and investments is mostly provided through American government agencies such as the U.S. Agency for International Development (USAID), churches and occasional government-to-government level to assist with development by supporting Ghana increase its food security, improve basic health care, and enhance access to quality basic education. This pattern led to the US\$ 55.1 million development assistance to Ghana with implementation by USAID, African Development Foundation, and the Millennium Challenge Corporation (MCC) in 2007. Part of U.S.A's aid packages are in the form of health programs (HIV/AIDS and maternal child health), education programs, and small farmer competitiveness (Embassy of the United States of America-Accra, 2008). U.S.A's engagement in Ghana is based on economic and development cooperation and this enables USA to seek strategic alliances to foster support for economic assistance supporting U.S. political and security goals.

Finally, table 2 elaborates on the investment pattern of South Africa and points out that South Africa's trade and investments are mostly provided through the private sector to support South Africa's commercial interests. This pattern of investments is evident in the merger deal between Anglo-Gold South Africa and Ashanti Goldfields Ghana valued at US\$ 1.4 billion representing a 60% of the total FDI into Ghana's mining sector in 2004 (Department of Foreign Affairs, 2007). Another investment was the US\$ 5.53 billion acquisitions made in the Telecommunication sector of Ghana by the Telecommunication giants MTN South Africa and an exciting US\$ 40 million investment by Scaw Metals Group of South Africa in the steel beneficiation industry of Ghana (Baloyi, 2013). South Africa's participation in Ghana is based on economic and development cooperation and this enables South Africa to promote its judicious multilateral diplomacy to enhance South Africa's international standing.

On the contribution of the Selected Countries stock of FDI flow to Ghana's economic sectors, and Ghana's pursuit of continuous improvement in its economic environment, the government of Ghana has selected some economic sectors that it wants to attract foreign investments in order to promote an accelerated and sustainable industrial development within a liberalized and global economic environment. As such, the government of Ghana launched the New Industrial Sector Policies in June 2011 to promote increased competitiveness, enhanced industrial production, coupled with increased employment and prosperity for its citizens. Due to this, Ghana has urged investors to establish new industrial capacities and environmentally sound industrial operations, including increased investment, development and acquisition of appropriate technologies in the following sectors: Agriculture–Food and Agro-Based Industries; Building and Construction Industries; Manufacturing–Textiles/Garments and Leather Industries; and Services–Tourism and Financial Industries. The notion of securing foreign investments in these selected economic sectors is to enable the progression of these sectors and their industries from a relatively inefficient small-scale level to a large-scale level in order to compete in the domestic and international markets.

Table 3 shows the percentage share of Selected Countries FDI in the selected economic sectors that Ghana wants to attract foreign investments. The table indicates how these investments will benefit Ghana and it also revealed some variations among the selected investing countries. In the first 5 years (2000 to 2004 period), USA's investments share in the selected economic sectors was 64% followed by a 15% investments share by China, a 13% share by India and South Africa contributed 8% share of investments. During the period of 2005 and 2009, USA, South Africa and India increased their investments share to 89%, 52%, and 25% respectively whereas China decreased their share to 7%. Between 2010 and 2014, China and India increased their investments share to 44% and 32% respectively while on the contrary, USA and South Africa decreased theirs to 33% and 3% respectively. Clearly the selected countries do invest in the selected economic sectors of Ghana and in order for Ghana's New Industrial Sector Policies which looks at promoting increased competitiveness and enhanced industrial production to work, Ghana has to progress from an agricultural-based economy to a more industry-based economy such as manufacturing and construction. This will help central planning under the circumstances where current infrastructure is poor or non-existent to increase the rate of return of investment in Ghana and an increase in the satisfaction for investors.

While the government of Ghana has selected some economic sectors where it wants to attract foreign investments, investing countries also choose their own economic sectors of the country that they want to invest in. Investing countries need raw materials in order to increase its manufacturing and industrial growth and this is realized by opposing some challenges that are inimical to its progress. However, choosing sectors to invest in is challenging as sectors growth fluctuates based upon the strength and the demand for the products and services investing countries are willing and able to provide as it can make the sector to experience a robust growth. Table 4 shows the percentage share of FDI in economic sectors of Ghana chosen by Selected Countries and how these investments will benefit the selected countries. In the period of 2000-2014, the selected countries total average of investments share were 56% in the Agricultural sector, 27% in the Building and Construction, 89% in the Manufacturing sector, 74% and 55% in the Service and Other Sectors respectively. It can be noticed that rather than

maintaining a broad based investing approach, investing countries typically invest in their chosen sectors because they consider these sectors as having more growth prospects which will help them reach their national goals and outperform their investing competition.

**Table 3. % Share of Selected Countries FDI in Economic Sectors Selected by Ghana, 2000-2014**

Selected Countries	2000-2004			
	Agric	Building/Construction	Manufacturing	Service
China	9	1	5	0
India	1	4	8	0
USA	34	12	6	12
South Africa	0	1	0	7
Total	100	100	100	100
2005-2009				
	Agric	Building/Construction	Manufacturing	Service
China	0	0	6	1
India	22	0	1	2
USA	4	1	82	2
South Africa	48	0	0	4
Total	100	100	100	100
2010-2014				
	Agric	Building/Construction	Manufacturing	Service
China	0	2	28	14
India	29	0	2	1
USA	1	10	3	19
South Africa	0	0	0	3
Total	100	100	100	100

Source: Authors calculation based on data from GIPC (2015)

**Table 4. % Share of FDI in Ghana's Economic Sectors Selected by Investing Countries, 2000-2014**

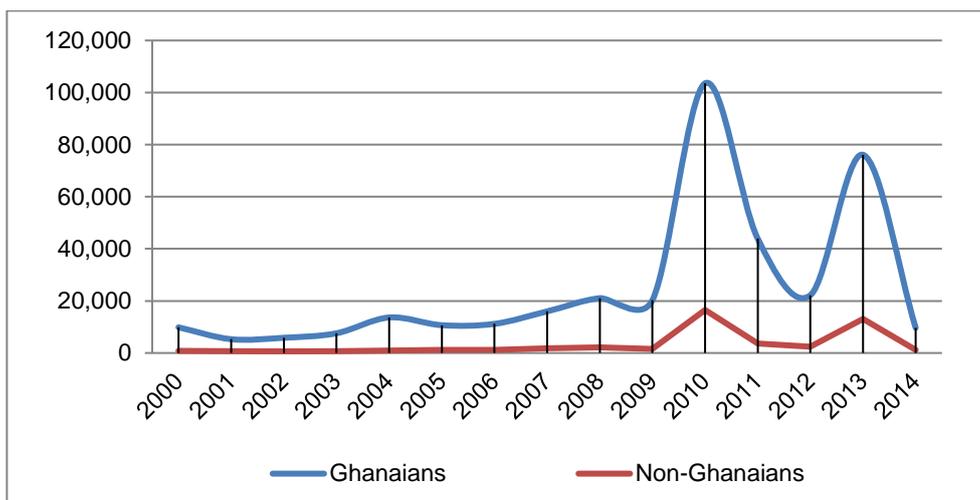
Selected Sectors	2000-2004				
	China	India	USA	South Africa	Average
Agriculture	24	2	24	0	13
Building/Construction	1	8	7	2	5
Manufacturing	33	44	11	0	22
Service	5	5	50	91	38
Other Sectors	37	41	8	7	23
Total	100	100	100	100	100
2005-2009					
	China	India	USA	South Africa	Average
Agriculture	0	37	0	78	29
Building/Construction	2	5	1	1	2
Manufacturing	72	11	97	1	45
Service	3	12	1	20	9
Other Sectors	23	34	1	0	15
Total	100	100	100	100	100
2010-2014					
	China	India	USA	South Africa	Average
Agriculture	0	56	0	0	14
Building/Construction	10	7	51	13	20
Manufacturing	58	15	7	7	22
Service	28	6	39	36	27
Other Sectors	4	16	3	43	17
Total	100	100	100	100	100

Source: Authors calculation based on data from GIPC (2015)

In summary of this section, the selected countries' are an important source of foreign investments for the Ghanaian economy as their FDI contribution is vast and they contributed more to the Agriculture, Manufacturing, Building/Construction, and Service sectors of Ghana in terms of volumes of investments, and projects as compared to other sectors (such as General trading, tourism, export trading, and Liaison sectors) of the economy. The reason for this is that firstly, Ghana has identified Agriculture, Manufacturing, Building/Construction, and Service sectors as priority areas to attract investment into the country due to its comparative advantage in these sectors. Investors (such as the selected countries) invested more in these sectors compared to other sectors because of the incentives they gain. Some incentives that are enjoyed by these investing countries due to their investments are relief from double taxation for foreign investors and employees, no import licensing requirements, minimal customs formalities, etc. Secondly, the less FDI in the other sectors of Ghana by the selected countries is due to the revised investment laws of Ghana that is correcting the abusive activities of foreign investors in sectors such as the retail and trading sectors reserved for Ghanaians. The revised law requires foreign investors to put up a minimum capital of US\$ 1 million in cash or goods (as opposed to the previous US\$ 300,000) in order to engage in business activities in these reserved sectors for Ghanaians. This is seen as a way of protecting the Ghanaian entrepreneur from unfair competition by dishonorable foreign businesses. In the next section, we will discuss the FDI trends on employment generation in Ghana and the role of the selected countries in job creation.

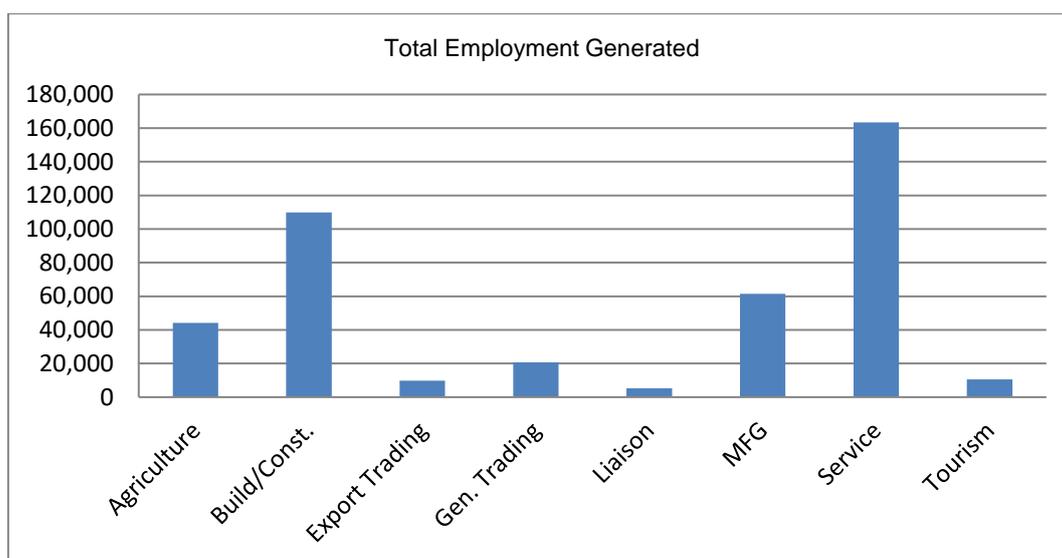
### 6. FDI Trends on Employment Generation in Ghana

Ghana's improving business environment has conveyed a sense of confidence for foreign countries to invest in the country. The employment expected to be generated from foreign investments in Ghana will allow the country to experience economic growth and reduce poverty. Figure 2 shows the total projected employment generation in Ghana from year 2000 to 2014. The total employment generations were 424,965 with projected employment generation of Ghanaians at 376,774 (89%) while expatriates made up 48,191 (11%). There was a stable employment of both Ghanaians and expatriates from 2000 to 2009 with the lowest employment generations of 5,294 Ghanaians in 2001 and 629 expatriates in 2002. The reason is attributed to Ghana's HIPC initiative period cum election year's low records of inward FDI as explained in the previous section. However, in the following five years, employment generations fluctuated but a quintuple increase in 2010 saw the highest employment generations with 103,546 Ghanaians and 16,513 expatriates.



**Figure 2. Total Projected Employment Generations in Ghana, 2000 – 2014**  
 Source: Authors calculation based on data from GIPC (2015)

On the employment expected to be generated from foreign investments in Ghana's economic sectors, Figure 3 shows that the Service sector received the highest employment with 163,379 while the Liaison sector recorded the lowest employment with 5,314. Currently, the largest sector of the Ghanaian economy is the Service sector which evidently from the Figure 2 received the highest employment and although more jobs were created by the foreign investments in Ghana, The Minister for Employment and Labor Relations of Ghana (MELR, 2014, p. 2) revealed that, "the employment situation has not improved much despite better economic growth performance, macro-economic stability and improved infrastructure in the last two decades." As such, conscious efforts have to be made to address the continuous employment challenges in Ghana under the guidance of the National Employment Policy (NEP).



**Figure 3. Total Employment Generated in Ghana by Economic Sectors, 2000-2014**  
 Source: Authors calculation based on data from GIPC (2015)

### 7. Selected Countries FDI Trends on Employment Generation in Ghana

Some countries have been very successful at creating jobs while others have fallen behind and this can be partially attributed to the countries' relative performance in net employment growth. The Selected Countries total employment generated was 299,310 and their share of employment generated from their investments is 73% over the years under review (see Table 5).

**Table 5. Total Employment Generation in Ghana, 2000 – 2014**

FDI	Ghanaians	% Share	Non – Ghanaians	% Share
Total Jobs Created from FDI in Ghana	376,774	100	48,191	100
China	21,166	6	3,984	8
India	196,109	52	2,368	5
USA	65,155	17	11,007	23
South Africa	16,880	4	358	1

Source: Authors calculation based on data from GIPC (2015)

Table 5 shows that India recorded the highest projected employment generation of Ghanaians with 52% share and the USA came in second with 17% share. China and South Africa had a combined share of 10% Ghanaians projected employment. In addition, the USA was the highest projected employer of expatriate in Ghana with a 23% share of total projected employment generation and China was the second highest with 8% share. India and South Africa had a combined share of 6% of expatriate expected employment. Overall, comparing the contribution

of the four countries investing in Ghana towards employment generation, these figures indicate that India employs more labor that is domestic whereas USA employs more expatriates.

On the contribution of the Selected Countries stock of FDI flow on employment generation in Ghana's economic sectors, China employed majority of labor in the Manufacturing sector at 11,699 while India employed more in the Agricultural sector at 182,062. The USA and South Africa employed more labor in the Service and Agricultural Sectors at 64,922 and 8,410 respectively (see Table 6).

**Table 6. Total Employment Generations in Ghana, By Economic Sectors, 2000 – 2014**

Sectors	Total Employment	China	India	USA	South Africa
Agriculture	44,220	427	182,062	3,988	8,410
Building/Construction	109,766	3,796	1,757	1,231	728
Export Trading	9,819	316	1,492	50	0
Gen. Trading	20,524	4,404	3,010	296	87
Liaison	5,314	288	552	197	331
Manufacturing	61,399	11,699	6,757	4,243	239
Service	163,379	2,624	2,274	64,922	7,349
Tourism	10,544	1,596	573	1,235	94
Total	424,965	25,150	198,477	76,162	17,238
% Share	100	6	47	18	4

**Source:** Authors calculation based on data from GIPC (2015)

It is worthy to note that Ghana pays closer attention to FDI inflow into its economic sectors and how it impacts on employment generation since job creation is a vital target area in the national development agenda in recent years. In line with the policy direction of the NEP, the productive sectors and infrastructure development that Ghana hopes to make as the leading source of growth in employment and therefore urges investments into these sectors are: Agriculture Sector - Non-Farm Activities and Rural Sector Employment; Industry - Manufacturing, Building and Construction, and the Services Sector. These sectors are significant recipients of many FDI and as such "it will help to provide decent job creation through sustainable growth in all sectors of the economy and provide strategic direction to reduce unemployment among the youth, graduates, women and persons with disability" (Melr, 2014, p. 30).

Table 7 shows the percentage share of employment generated by Selected Countries FDI in the selected economic sectors of Ghana and the table further reveals how these employments generated will benefit Ghana. In the first 5 years (2000 to 2004 period), USA's employment share in the selected economic sectors was 73% followed by a 65% employment share by India, a 50% share by China and South Africa contributed 35% share of employment generation. During the period of 2005 and 2009, China, India, and South Africa increased their employment share to 75%, 1,102%, and 67% respectively whereas USA decreased their share to 55%. Between 2010 and 2014, China and USA increased their employment share to 81% and 127% respectively while on the contrary, India and South Africa decreased theirs to 57% and 4% respectively. Evidently, the selected sectors enjoy huge employments from the selected countries and "if the country has to make any significant progress in the structural transformation of its economy, the implementation of macroeconomic policies must be reoriented to facilitate employment-generating growth. The expectation is that Ghana shall position itself strategically to take advantage by continuing to make the right investment choices in creating new businesses, expanding existing businesses, and generating significant productive employment opportunities" (Melr, 2014, p. 16).

**Table 7. % Share of Selected Countries Employment Contribution in Economic Sectors Selected by Ghana, 2000-2014**

Selected Countries		2000-2004			
		Agric	Building/ Construction	Manufacturing	Service
China	Ghanaians	3	0	8	1
	Expat	14	6	15	3
India	Ghanaians	7	7	14	2
	Expat	8	4	15	8
USA	Ghanaians	28	2	11	5
	Expat	10	2	4	11
South Africa	Ghanaians	0	1	0	26
	Expat	0	0	0	8
Total	Ghanaians	100	100	100	100
	Expat	100	100	100	100
		2005-2009			
		Agric	Building/ Construction	Manufacturing	Service
China	Ghanaians	0	8	14	7
	Expat	2	6	27	11
India	Ghanaians	10	2	9	5
	Expat	30	2	14	6
USA	Ghanaians	13	3	8	8
	Expat	5	2	10	6
South Africa	Ghanaians	49	3	0	7
	Expat	3	1	1	3
Total	Ghanaians	100	100	100	100
	Expat	100	100	100	100
		2010-2014			
		Agric	Building/ Construction	Manufacturing	Service
China	Ghanaians	1	3	27	1
	Expat	1	4	42	2
India	Ghanaians	18	1	12	1
	Expat	8	2	13	2
USA	Ghanaians	2	1	5	44
	Expat	3	0	2	70
South Africa	Ghanaians	0	0	0	2
	Expat	0	0	1	1
Total	Ghanaians	100	100	100	100
	Expat	100	100	100	100

**Source:** Authors calculation based on data from GIPC (2015)

In this modern era, countries investing in other countries are finding new ways of implementing cost cutting strategies by questioning whether to employ costly expatriate or take advantage of domestic labor force to secure a success of their global expansions. The government of Ghana, just like any other government in the world, prefers employment of its citizens due to the growing labor issues and its continuous challenges of creating jobs. Although the government of Ghana has selected some economic sectors that it wants to see massive employment, investing countries also choose their own economic sectors of a country that they prefer to hire more people. In line with this, investing countries have adopted the Ethnocentric and Polycentric Approaches to staffing. The Ethnocentric Approach is the situation where a Parent Country Nationals occupy all key positions in the foreign operation. This helps the investments of foreign countries to be highly dependent on the business culture of investing countries while it stays away from domestic issues such as politics and culture. On the other hand, Polycentric Approach is the situation where Host Country Nationals occupy positions in the foreign operation. This enables a cut in cost and elimination of language barriers and so, Table 8 will show us how investing countries in Ghana have spread their job creation capabilities to all sectors of the Ghanaian economy and in particular the Agriculture, Building and Construction, Manufacturing and Services industries. Table 8 further indicates the

percentage share of employment generated in economic sectors of Ghana chosen by Selected Countries and how these jobs created will benefit the selected countries.

**Table 8. % Share of Employment Generated in Economic Sectors of Ghana Selected by Investing Countries, 2000-2014**

Selected Economic Sectors		2000-2004			
		China	India	USA	South Africa
Agriculture	GH	9	10	33	0
	Expat	11	6	16	0
Building/Construction	GH	1	10	3	1
	Expat	6	4	4	2
Manufacturing	GH	48	48	29	0
	Expat	41	42	21	0
Service	GH	9	10	18	94
	Expat	6	18	59	98
Other Sectors	GH	33	23	16	5
	Expat	35	31	15	41
Total	GH	100	100	100	100
	Expat	100	100	100	100
		2005-2009			
		China	India	USA	South Africa
Agriculture	GH	1	97	38	86
	Expat	1	13	4	13
Building/Construction	GH	16	0	8	5
	Expat	8	4	7	15
Manufacturing	GH	41	1	29	1
	Expat	40	32	48	13
Service	GH	11	0	15	8
	Expat	15	14	29	59
Other Sectors	GH	30	1	10	0
	Expat	36	38	12	7
Total	GH	100	100	100	100
	Expat	100	100	100	100
		2010-2014			
		China	India	USA	South Africa
Agriculture	GH	1	36	1	0
	Expat	1	9	0	0
Building/Construction	GH	15	8	1	6
	Expat	24	21	0	8
Manufacturing	GH	53	26	2	4
	Expat	35	21	0	10
Service	GH	9	10	95	83
	Expat	12	18	98	82
Other Sectors	GH	21	19	1	7
	Expat	29	31	1	20
Total	GH	100	100	100	100
	Expat	100	100	100	100

**Source:** Authors calculation based on data from GIPC (2015)

Between the years of 2000 to 2014, China, India and USA employed mostly in the Manufacturing, Service and Other Sectors. In the period of 2000 to 2004, China employed heavily in the Manufacturing, Other Sectors and the Agriculture sectors. India focused more on the Manufacturing and Other Sectors employment whereas USA spread their employment interest in the Agriculture, Manufacturing, Service and Other Sectors. South Africa is the only country that employed heavily in the Service sector with 94% Ghanaians and 98% Non –

Ghanaians. However, in the period of 2005 to 2009, China reduced its employment in the Manufacturing and Other Sectors but hugely increased the employment in the Building and Construction sector from a 7% share to a 24% share. The USA followed the employment reduction pattern in some sector as China by increasing its employment in the Manufacturing sector to a 77% share. Notwithstanding, India spread its employment interest among all the economic sectors with Agriculture being the highest with a 110% share and South Africa reducing its employment in the Service sector to 67% from the previous period of 192% and diverting its attention to the Agriculture sector with a 99% share. What is more, the third 5 year period (2010-2014) saw the Agriculture sector receiving a combined employment of 3% from China, USA and South Africa and only India investing 45% employment generation. Interestingly, almost all the economic sectors received a fair amount of employment generated from China, India, USA and South Africa and the Service sector received the chunk of these jobs created.

In summary of this section, it can be revealed that the selected countries percentage share of domestic employment was higher than that of expatriate employment. This is because, there is a requirement in the Ghana Investment Promotion Centre Act, 1994 (Act 478), section 18 which stipulates that an investor with a minimum capital of \$300,000 must employ minimum of 10 Ghanaians for every foreign employee hired. However, investing countries are allowed to bring some skilled labors into the country to provide skills that are proven not to be readily available in the local marketplace. This enables the skill gap to be filled and develop the domestic labor for future assignments which has long-term implications for an investment and a continued understanding of the global market (Boyacigiller, 1990). In addition, investing entities having a strong global market means recruiting talent anywhere and as such, the employment of local workforce is ideal. Local labor force tends to comprehend the local business culture, investment environment, have a keen intellect of the marketplace from an insider's perspective, transact business most effectively and know the nuances that are important in that country.

## **8. Conclusion and Policy Implications**

This study analyzed the FDI Inflow in Ghana and the contribution of some selected countries observed FDI trends inflows between 2000 and 2014. The study showed that the selected countries are an important source of foreign investments for the Ghanaian economy as their FDI contribution is vast. The selected countries contributed more to the Agriculture, Manufacturing, Building/Construction, and Service sectors of Ghana in terms of volumes of investments, and projects as compared to other sectors (such as General trading, tourism, export trading, and Liaison sectors) of the economy due to incentives attached to the prioritized economic sectors and a revised investment laws of Ghana that is correcting the abusive activities of foreign investors in sectors reserved for Ghanaians. On employment generation, the selected countries percentage share of domestic employment was higher than that of expatriate employment due to Ghana investment laws that allows an investor with a minimum capital of \$300,000 to employ minimum of 10 Ghanaians for every foreign employee hired.

From the study, we can draw two policy implications and the first is based on the findings of selected countries FDI flow to Ghana. The selected countries FDI is still concentrated in the prioritized sectors (Agriculture, Manufacturing, Building/Construction, and Service sectors) of Ghana and even though there is less FDI in the other sectors, the government of Ghana has to encourage foreign entities to engage in large scale value added activities by providing them with incentives (such as total exemption from payment of withholding taxes from dividends arising out of investments) in the other sectors that are typically reserved for Ghanaians. This would enable foreign entities to play an important role in these sectors and would not interfere with the activities of Ghanaian petty traders that will achieve success of a sustainable investment development model.

The second policy implication is based on the findings of selected countries FDI flow on employment generation in Ghana. The selected countries employ more locals as compared to foreign employees and this can be attributed to a better business environment. However, there can be a continuous rise in domestic employment if the government is able to offer investing

entities 100% exemption from payment of duties (direct and indirect) and levies on all imports for production and exports for a period of time (e.g. 5 years). This approach will tend to accelerate investments in the economy and by so doing, increase the demand for workers.

In addition, given the unique relationship between Ghana and the selected countries, it is prudent that these countries employ a more inclusive, transparent and development cooperation mentality desired to enhance human capital and improving its technological expertise that makes it an attractive partner for development. Therefore, the government must institute an enabling business environment coupled with legal protection and transparency resulting in an improved process of dealing with paying taxes, and protecting investors as this will encourage existing and potential investors to invest more in Ghana's economy. Regardless of the findings, further research to be conducted should examine the determinants of inward FDI in Ghana's individual economic sectors in order to design policies geared towards promoting specific sectors that contribute immensely to Ghana's economic growth.

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