

MEMORANDUM

TO: President Nana Akufo-Addo
FROM: Rahila Sule; Heinz College, Carnegie Mellon University
SUBJECT: Recommendations for Growing Ghana's Relations with China and the U.S.
DATE: April 20, 2022

Abstract

Ghana's growing economy makes it an attractive trade and investment destination within Africa. Its formal relations with the United States and China have been successful and growing over time. Ghana-U.S. relations have proved to be strategic with notable investments by the U.S. to Ghana's growing economy and an increasing traction in U.S. tourists in Ghana. Ghana's relationship with China over the past 60 years has shown that even resource-poor African countries are benefitting from China's economic partnership with Africa. Ghana has reaped several advantages from its relations with the world's largest economies in the form of grants, loans, critical infrastructure, personnel training. To grow its relations with the U.S. and China, Ghana should use tourism as a tool to attract U.S. investments and should make its resource-financed-infrastructure deals environmentally and socially compliant.

Analysis

Ghana: A small but relatively mighty economy

Since the 1990s, the governance reforms in Ghana governance reforms to transform. In the past three decades, Ghana's economic growth has been commendable. For example, in the three years prior to the COVID-19 pandemic, Ghana's economic growth averaged at about 7%, making it one of the fastest growing economies in the world.¹ As the fastest growing economy in West Africa, Ghana maintains good relations with the world's largest economies: the United States and China.

Ghana and U.S. relations

Ghana and the United States have a close relationship that dates to before Ghana's independence. However, the two countries established a formal bilateral relationship in 1957 following Ghana's independence from the British. As Ghana has set a good example in Africa in promoting

governance and regional stability, highlighted by President Obama in 2009, it maintains a strong diplomatic relationship with the U.S.²

Ghana and the U.S. signed a Trade & Investment Framework Agreement in 1999 that has boosted bilateral trade for the past few decades.³ Ghana has enjoyed duty-free access to the U.S. market under the Africa Growth and Opportunity Act (AGOA) agreement since 2000. By 2008, the U.S. and Ghana commenced exploratory discussion on a possible Bilateral Investment Treaty.⁴ Currently, the U.S. is Ghana's second largest trading partner.⁵

Ghana designated 2019 as the "Year of Return" to commemorate 400 years since the first enslaved Africans arrived in the United States. The Ghanaian government's massive marketing campaigns that targeted African Americans and the diaspora were highly successful as travel and tourism contributed about \$3.7 billion to Ghana's Gross Domestic Product in 2019.⁶ "Beyond the Return", the second installment of the Year of the Return campaign, was postponed due to COVID-19.

Also, the U.S. has been notably involved in the human development of Ghanaians. In March 2022, the U.S. Ambassador to Ghana unveiled a \$4.2 million investment by the U.S. Agency for International Development (USAID) aimed at helping small Ghanaian businesses scale up operations, create jobs and advance export opportunities.⁷ The relations between Ghana and the U.S. remain strong and future progress seems highly probable.

Resource-financed-infrastructure deals: The tale of Ghana and China

Ghana was one of the first sub-Saharan African countries to establish formal diplomatic relations with China. Since 1960, relations between Ghana and China have been extended by strong bilateral trade between the two countries. Currently, China is Ghana's biggest trading partner with a total of \$7 billion in trade value by the end of 2019.⁸ China's presence in Ghana is evident in a variety of its industries with prominent energy sector, transportation networks and infrastructural projects. China has also provided financing for telecommunication networks, water supply expansions and highways within Ghana over the past two decades. Specifically, several resource-financed-infrastructure (RFI) agreements have been implemented with Chinese entities to meet Ghana's infrastructure needs. In 2013, a \$662 million loan from the China Ex-Im Bank financed the construction of Ghana's Bui-Dam, which was essential in meeting Ghana's growing energy demand.⁹ The deal was structured through a barter loan on cocoa and was constructed by

Sinohydro Corp. Limited (a Chinese state-owned firm). The Bui Dam is currently Ghana's second-largest hydroelectric plants.

Similarly, in 2018 Ghana signed a \$2 billion bauxite-for-infrastructure deal with Sinohydro.¹⁰ The RFI agreement stipulated that \$2 billion worth of infrastructure would be built in Ghana by Sinohydro in exchange for proceeds from mining and selling refined bauxite. The Ghanaian government connected the infrastructure agreement to its pre-existing plans to develop an integrated aluminum industry. President Akufo-Addo stated that both parties would gain from the Sinohydro deal as the aluminum industry projects would create job opportunities and fuel economic growth for Ghana.¹¹ Consequently, the Ghanaian government targeted Atewa forest for mining bauxite as it is estimated to house 165 million tons of bauxite, which is used to create aluminum products. However, Atewa forest, within the Upper Guinean Forest eco-region, is a delicate tropical forest region in West Africa that is a biodiversity hotspot. It is the source of three major rivers providing water to about 5 million for domestic, agricultural, and industrial uses. Clearly, the government's mining plans will have long-term adverse impacts on the natural environment as well as pose danger to human well-being.¹² For China, being the top global consumer of bauxite, the natural resource exploitative RFI agreement would provide access to and diversify its supply of strategic commodities; leading to sustained economic growth. For the Ghanaian government, as well as other African governments, Chinese RFI agreements are attractive because the infrastructure projects are usually completed faster than projects financed by international financial institutions such as the World Bank, and the Chinese supposedly impose less stringent conditionalities. However, as deduced from the Sinohydro deal, RFI deals have the potential to lead to the exploitation of natural resources together with environmental and social risks.

Recommendations

Considering Ghana's growing economy and its strategic relations with the U.S. and China, it is imperative that the Ghanaian government undertake several reforms to ensure sustainable growth of the Ghanaian economy. The following two economic policy changes will advance Ghana's economic and development growth while maintaining a beneficial relationship with the U.S. and China, in correspondence with a realist perspective on foreign policy.

Use tourism as a tool for increasing U.S. investments

Due to the positive relations with the U.S., the Ghanaian government should enrich and promote Ghana's tourism to Americans as a tool for attracting investments towards the positive transformation of the Ghanaian economy. An example is Dubai's successful utilization of tourism for economic growth over the past few decades.¹³ Boosted tourist visits by Americans seeking to reconnect with their African heritage or seeking relaxation will provide opportunities for investments such as:

- Refurbishment of key historical sites
- Development of tourist services and accommodation close to prominent tourist attractions such as Ghana's national parks, wildlife reserves, resorts along Ghana's coastline
- Development of tourist facilities along Ghana's Volta Lake and Volta Delta
- Development of new social amenities

The investment possibilities are vast and the strong relationship with the U.S. as well as Ghana's peaceful environs and hospital population investing attractive to American tourists. To boost tourism, Ghana should start by undertaking the following:

- Appropriate legislations be passed to strengthen civil rights and liberties and promote the government's transparency¹⁴
- Implement and review appropriate policy measures to ensure macroeconomic stability¹⁵
- Policy objectives should aim at increasing the tourism sector's link to other sectors such as: facilitating the development of roads and transportation networks through the existing Year of the Road, high maintenance of Ghana's international airports and organizing of festivals and campaigns like the "Year of the Return"

Make resource-financed-infrastructure agreements environmentally and socially compliant

According to a case study conducted by Terrence Neal at Duke's Nicholas Institute for Environmental Policy Solutions, resource-financed-infrastructure agreements should be reformed to ensure environmental and social compliance.¹⁶ To ensure the sustainability of RFI deals, the Government of Ghana should undertake the following:

- Update Ghana's environmental assessment laws to explicitly require strategic environmental impact assessment for government sectoral plans
- Perform strategic environmental assessments at the conceptual stages of RFI deals

Conclusion

Although Ghana is a relatively small country in Africa, its growth and development make it an attract trade and investment partner. Evidently, China and the U.S. have been important partners in Ghana's development efforts. Harnessing its growing tourism and hospitality industry will attract more investments from the U.S. Revamping its resource-financed-infrastructure agreements to be environmentally sustainable will strengthen its credibility in the global economy.

¹ "Overview," World Bank, accessed April 20, <https://www.worldbank.org/en/country/ghana/overview>.

² "Bilateral Economic Relations," accessed April 20, U.S. Embassy in Ghana, <https://gh.usembassy.gov/our-relationship/policy-history/bilateral-economic-relations/>.

³ "Ghana," United States Trade Representative, accessed April 20, <http://ustr.gov/countries-regions/africa/west-africa/ghana>.

⁴ Ibid

⁵ "Ghana Trade | WITS Data," accessed April 20, <https://wits.worldbank.org/CountrySnapshot/en/GHA>.

⁶ "Ghana: Contribution of Tourism to GDP 2019-2020," Statista, accessed April 20, 2022, <https://www.statista.com/statistics/1278510/contribution-of-tourism-to-gdp-in-ghana/>.

⁷ "New U.S. Investments Unlock Trade Potential for Businesses in Ghana," U.S. Embassy in Ghana, March 15, 2022, <https://gh.usembassy.gov/new-u-s-investments-unlock-trade-potential-for-businesses-in-ghana/>.

⁸ "Ghana (GHA) Exports, Imports, and Trade Partners | OEC," OEC - The Observatory of Economic Complexity, accessed April 20, 2022, <https://oec.world/en/profile/country/gha>.

⁹ Oliver Hensengerth, "Interaction of Chinese Institutions with Host Governments in Dam Construction - The Building Dam in Ghana" (German Development Institute, 2011), http://www.die-gdi.de/uploads/media/DP_3.2001.pdf.

¹⁰ International Monetary Fund. African Dept., "Ghana: Seventh and Eighth Reviews Under the Extended Credit Facility Arrangement and Request for Waivers of Nonobservance of Performance Criteria-Press Release; Staff Report; and Statement by the Executive Director for Ghana" (Washington D.C., April 5, 2019), <https://www.imf.org/en/Publications/CR/Issues/2019/04/05/Ghana-Seventh-and-Eighth-Reviews-Under-the-Extended-Credit-Facility-Arrangement-and-Request-46737>.

¹¹ "Resources Accruing from Bauxite Will Benefit All - President," BusinessGhana, accessed April 20, 2022, <https://www.businessghana.com/>.

¹² Kwasi Gyamfi Asiedu Commentary, "A \$10 Billion China Deal to Mine Bauxite in Ghana Is Facing Fierce Environmental Pushback," Quartz, accessed April 20, 2022, <https://qz.com/africa/1296808/a-10-billion-china-deal-to-mine-bauxite-in-ghana-is-facing-fierce-environmental-push-back/>.

¹³ Sadun Alheety and Tariq Ayoub, "Tourism Contribution to Dubai Economic Growth," World Journal of Research and Review (WJRR) 7, no. 5 (November 2018): 06–09, https://www.wjrr.org/download_data/WJRR0705008.pdf.

¹⁴ Isaac Bentum-Ennin, "Determinants and Economic Impact of International Tourist Arrivals in Ghana" (Nairobi, Kenya: African Economic Research Consortium, August 2019), <https://media.africportal.org/documents/Policy-brief-Isaac-580-r.pdf>.

¹⁵ Ibid

¹⁶ Terrence Neal and Elizabeth Losos, "The Environmental Implications of China-Africa Resource-Financed Infrastructure Agreements: Lessons Learned from Ghana's Sinohydro Agreement." (Durham, NC: Nicholas Institute for Environmental Policy Solutions, Duke University, March 2021), <https://nicholasinstitute.duke.edu/sites/default/files/publications/The-Environmental-Implications-of-China-Africa-Resource-Financed-Infrastructure-Agreements-Lessons-Learned-from-Ghana's-Sinohydro-Agreement.pdf>.

MEMORANDUM

TO: Foreign Minister Wang Yi
FROM: Rahila Sule; Heinz College, Carnegie Mellon University
SUBJECT: Recommendations for China's Ongoing Relations with Russia
DATE: April 20, 2022

Abstract

U.S. and Russia's relationship has been deteriorating over the past few decades and with Russia's 2022 invasion of Ukraine, it appears the relationship will remain strained for the foreseeable future. Possibly, a more restrained U.S. approach to dealing with Russia and the former Soviet Union states could have resulted in a more productive U.S.-Russian relationship prior to the Ukraine invasion. However, as of April 2022, it will be difficult to change the trajectory of U.S.-Russian relations, at least until both countries make changes to their policies towards each other. On the other hand, over the past two decades, China and Russia's relationship has evolved from a marriage of convenience into a strategic partnership of coordination as demonstrated by stronger economic, diplomatic and security links between the countries. With overlapping interests, the rising opportunities for cooperation between China and Russia will strengthen the ties between both nations while contributing to bolster China's position as a leading global economy. China should de-dollarize its trade and financial relationship with Russia and expand access to Russia's energy supplies through increased energy deals.

Analysis

A deteriorating relationship between the United States and Russia

Russia's relations with the United States remains at post-Cold War lows over issues ranging from Russia's annexation of Crimea to allegations of Russian meddling in U.S. elections. Since Putin's election as president of Russia in 2000, the U.S.-Russian relationship has experienced boom-bust cycles with both countries contributing to the deteriorating relationship. Russia's disruptive actions greatly attribute to its toxic image in the U.S. political climate. On the side of the U.S., it has refused to accept Russia as it is, ignoring the country's history, geography, security requirements and culture. Rather, the U.S.'s policies towards Russia have majorly included initiatives to reform its political system and claims of NATO as the only legitimate security organization for Europe

and Eurasia. The U.S.'s insistence of such policies despite Russia's rejection of democracy represents a threat to Russian domestic stability and security.

After the annexation of Crimea and a sponsored separatist insurgency in eastern Ukraine in 2014, the U.S. government expanded sanctions on Russia, targeting large Russian banks, energy companies, defense corporations and elite Russian supporters of Putin. Disclosure of Russian interference in the 2016 U.S. presidential election deepened the U.S.'s animosity towards Russia in the wake of Russia's aggression against Ukraine.¹

In the beginning of President Putin's fourth presidential term in 2018, he pledged to defend Russia's economy against U.S. sanctions and began prioritizing policies that steer the country's economy away from the U.S. dollar. Subsequently, Russia has steadily attempted to reduce its dollar share of its reserves by switching more to gold, yuan, and euro. However, with Russia's invasion of Ukraine in 2022, Russia failed to fully protect itself against its economic ties to the U.S. dollar. Russia was unable to access \$300 billion worth of financial reserves due to heavily imposed financial sanctions barring the country from accessing its U.S. dollar and euro currency reserves.² Also, President Biden imposed a ban on Russian oil and energy imports to the U.S.³ These numerous economic sanctions on Russia pose a risk of increased prices of key commodities and have led to disruptions in global supply chains and the trading of key commodities. The magnitude of the impact will depend on the duration and progression of the war in Ukraine.

These recent events present a huge opportunity for Russia to exponentially increase ties with China by actively strategizing to channel its reserves to yuan and gold to protect itself from future financial sanctions. In the short term, Russia's partnership with China can magnify Moscow's challenge to global influence by the U.S. From a long-term lens, China will pose a greater global challenge to U.S. interests.

A growing strategic partnership between China and Russia

The Sino-Russian relationship since 2000 has been a rather calculative relationship with both countries' interests converging mainly on the desire to serve as an. In 2001, Chinese President Jiang Zemin and Russian President Vladimir Putin signed the Treaty of Good-Neighborliness and Friendly Cooperation between China and Russia.⁴ At the time, the treaty embodied China and Russia's support for protecting territorial integrity and national unity. Since 2014, the relationship between China and Russia has been strengthened by increased military, political and economic

cooperation between Beijing and Moscow.⁵ China and Russia are perceived as the United States' major and long-term competitors. Thus, an aligning interest in the declining relative power of the United States is one of the main motivations for a closer cooperation with Russia. However, the two countries have differing views on national security. While China places equal emphasis on security and development and strives to balance both, Russia's actions tend to uphold security over development.

China has remained Russia's top trading partner for twelve consecutive years. With Russia as China's major source of crude oil, coal and natural gas, China was the leading export destination for Russian commodities in 2020 as well as Russia's major import partner. Trade between the two countries has generally been growing since 2015.⁶ Evidently, bilateral trade between China and Russia hit a record high of \$146 billion in 2021.⁷

In June 2021, Chinese President Xi Jinping and Russian President Vladimir Putin announced the extension of the 20-year-old cooperation treaty between China and Russia and by February 2022, the two presidents released a joint statement detailing a new era of international relations between the two countries. The long-term agreement, which is essentially a pact against the U.S. and the West, states that "Friendship between the two States has no limits".⁸ Thus, this broader strategic partnership with Russia could have extensive influence on China, Russia, and the world.

The War on Ukraine

In March 2014, Russian forces seized control of Ukraine's Crimea region. President Putin cited his actions being necessitated by the need to protect the rights of Russian speakers and citizens and Crimea. Then, Russia formally annexed the region after Crimeans voted to join the Russian Federation. This led to ethnic divisions and armed conflict in southeast Ukraine between the Ukrainian military and Russian-backed forces. The conflict transitioned to an active impasse with attempted negotiations in early 2015. However, all efforts to reach a satisfactory resolution, cease-fire and diplomatic settlement were chiefly futile. Over the next two years, the United States and NATO deployed troops in a bid to deter potential future Russian violence in Europe.⁹ In 2021, President Putin demanded security guarantees assuring that Ukraine would not join NATO.¹⁰ By October 2021, President Putin began moving military equipment and troops near its border with Ukraine. In February 2022, President Putin invaded Ukraine based on "special military operations" but launched a full-fledged war on Ukraine.

The conflict in Ukraine has severely strained the relationship between the U.S. and Russia that was already unstable. The conflict has led to the most aggressive financial sanctions on a country by Western countries in modern history. As of April 2022, the war in Ukraine is still ongoing.

Recommendations

Considering the complicated economic and political climate due to Russia's ongoing Ukraine invasion and China's strategic partnership with Russia, it is imperative that China's Russian policy reflects actions that promote China's growth while maintaining amiable relations with Russia. The following two economic policy changes will advance China's economic and development growth while maintaining a beneficial relationship with Russia, in correspondence with a realist perspective on foreign policy.

De-dollarize financial and trade relationship with Russia

By utilizing China's Cross-Border Interbank Payment System (CIPS) for clearing and settlement services that facilitate trade settlement in yuan, China upends the reliance on the U.S. dollar by serving as an alternative to U.S.-controlled global economic, trade, financial and technology networks.¹¹ For China, this could protect China from the impacts of potential future sanctions by the U.S. or other Western countries that could exclude China from the current global financial system (i.e. Belgium-based SWIFT). Additionally, this would serve as progress in reducing the hegemony of the U.S. dollar as the global dominant currency.¹² For Russia, bilateral trade settlements in yuan could help cushion against financial sanctions confronting Russia by eliminating sole reliance on the U.S. dollar. Overall, this will boost trade and investment links between the two countries. Moreover, joining with Moscow to build a credible financial system that excludes the United States will attract other countries that are currently under U.S. sanctions and could also appeal to U.S. allies hoping to promote their own currencies to the detriment of the U.S. dollar. To aid the rate of de-dollarization through its relationship with Russia, China should:

- Reduce the proportion of its trade deals with Russia invoiced in dollars and utilize settlement in yuan through CIPS
- Improve transparency in monetary policies and the regulation of financial markets within China

- Increase adoption of CIPS through sole use in settlement of Belt and Road Initiative loan and financing transactions¹³
- Quicken onboarding of Chinese banks on CIPS

Expand access to Russia's energy supplies through increased energy trade deals

With overall banned or reduced imports from Russia by the U.S. and several Western countries, China should increase the volume of its crude oil, natural gas, and coal imports from Russia. Due to the reduced trade volumes between Russia and other countries, China can negotiate below-market prices for the increased import volumes.¹⁴ Specifically, China should negotiate for the diversion of Russia's liquified natural gas (that was previously exported to Europe) to China. For China, this could foster its efforts to strengthen the yuan by facilitating onshore settlement of the trade deals through its CIPS. For Russia increased trade volumes with China could dampen the impacts of reduced energy imports due to its invasion of Ukraine. Thus, to increase energy supplies from Russia, China should:

- Renegotiate energy supply prices with Russia and command discounted prices
- Request energy trade deals be conducted in yuan via China's CIPS

Conclusion

As the second largest economy in the world and a strategic partner to Russia, China's actions during the ongoing war in Ukraine must be tactical and beneficial to China's plans to achieve its goals of being the world's largest economy. Concerning its Russian policy, China should expand its access to Russia's energy supplies through increased energy trade and should de-dollarize its financial and trade relationship with Russia.

¹ Eugene Rumer Sokolsky Richard, "Thirty Years of U.S. Policy Toward Russia: Can the Vicious Circle Be Broken?" Carnegie Endowment for International Peace, accessed April 20, 2022, <https://carnegieendowment.org/2019/06/20/thirty-years-of-u.s.-policy-toward-russia-can-vicious-circle-be-broken-pub-79323>.

² "Bloomberg - Are You a Robot?" accessed April 20, 2022, <https://www.bloomberg.com/tosv2.html?vid=&uuid=d4d9e560-c11a-11ec-bcd3-67454c616e7a&url=L25ld3MvYXJ0aWNsZXMTMvMjAyMi0wMy0xMy9ydXNzaWEtbG9zdC1hY2Nlc3MtdG8taGFsZi1pdHMtcmVzZXJ2ZXMTZmluYW5jZS1taW5pc3Rlci1zYXlz>.

³ "Remarks by President Biden Announcing U.S. Ban on Imports of Russian Oil, Liquefied Natural Gas, and Coal," The White House, March 8, 2022, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/03/08/remarks-by-president-biden-announcing-u-s-ban-on-imports-of-russian-oil-liquefied-natural-gas-and-coal/>.

⁴ “Treaty of Good-Neighborliness and Friendly Cooperation Between the People’s Republic of China and the Russian Federation,” accessed April 20, 2022,

https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/200107/t20010724_679026.html.

⁵ Andrew Radin et al., “China-Russia Cooperation: Determining Factors, Future Trajectories, Implications for the United States.” (Santa Monica, CA: RAND Corporation, 2021),

https://www.rand.org/content/dam/rand/pubs/research_reports/RR3000/RR3067/RAND_RR3067.pdf.

⁶ “China Exports to Russia - 2022 Data 2023 Forecast 1992-2020 Historical,” accessed April 20, 2022,

<https://tradingeconomics.com/china/exports/russia>.

⁷ Milton Ezrati, “Trade Is Surging Between China and Russia,” *Forbes*, accessed April 20, 2022,

<https://www.forbes.com/sites/miltonezrati/2022/04/18/trade-is-surging-between-china-and-russia/>.

⁸ “Joint Statement of the Russian Federation and the People’s Republic of China on the International Relations Entering a New Era and the Global Sustainable Development,” President of Russia, accessed April 20, 2022,

<http://en.kremlin.ru/supplement/5770>.

⁹ “Conflict in Ukraine,” Global Conflict Tracker, accessed April 20, 2022, <https://cfr.org/global-conflict-tracker/conflict/conflict-ukraine>.

¹⁰ Matthew Mpoke Bigg, “A Timeline of the Tensions between Russia and Ukraine,” *The New York Times*, February 18, 2022, sec. World, <https://www.nytimes.com/2022/02/18/world/europe/russia-ukraine-timeline.html>.

¹¹ “What Is China’s Swift Equivalent and What Are Its Origins?” *South China Morning Post*, February 28, 2022, <https://www.scmp.com/economy/china-economy/article/3168684/what-chinas-swift-equivalent-and-could-it-help-beijing-reduce>.

¹² *Ibid*

¹³ Rebecca Nelson and Karen Sutter, “De-Dollarization Efforts in China and Russia” (Congressional Research Service, July 23, 2021), <https://crsreports.congress.gov/product/pdf/IF/IF11885>.

¹⁴ “Putin’s Gamble Shakes Up Energy Trade – And China May Gain,” *WITA* (blog), accessed April 20, 2022, <https://www.wita.org/blogs/energy-trade-china-gain/>.