

CHINA IN AFRICA PROJECT REPORT

合作

China's  
Development  
Policy in Africa

Gernot Pennelt and Martin Abel

The South African Institute of International Affairs



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# China's Development Policy in Africa

Gernot Pehnelt and Martin Abel<sup>1</sup>

## Introduction

China's emergence as a significant stakeholder in Sub-Saharan Africa (SSA), both economically and politically, has been the source of much contention among not only the powers that have had a long historical association with the continent but among academics and commentators. According to one point of view, China is guilty of backing corrupt political elites in 'rogue states' in exchange for exploitation rights or other forms of access to raw materials. This undermines the initiatives Western countries have undertaken to use conditional aid as a means to fight corruption and improve standards of governance in such states. The contrary argument holds that by boosting trade and investment relations and providing foreign aid and project finance, China offers some of the poorest countries in the world new opportunities to improve their lot. What is not open to debate is that Chinese–African relations have changed

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the conditions for Africa's development within an impressively short period.<sup>2</sup>

In this paper we analyse China's engagement in Africa from the perspective of political economy. We demonstrate China's actions in Africa are the consequence of the former's economic needs, its political goals and, not least, its specific comparative advantages on the African continent. Since China has already become a significant investor in Africa and is expected to become even more so in the future, we argue that Western donors would do well to take the findings in this paper into account, and reconsider their development strategies for Africa accordingly.

## The quality and size of China's aid programme

Analysing the extent and the nature of China's foreign aid is made difficult by a number of factors. One is that there is a fundamental lack of transparency concerning the programme. Another is that China has no single institutional body that governs the country's development aid. The main authority is the Ministry of Commerce,<sup>3</sup> but various other governmental bodies (such as the ministries of Finance, Foreign Affairs, National Defence, Science and Technology), the Chinese embassies and the State Council are involved in the decision-making process.<sup>4</sup> Some of these institutions

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<sup>2</sup> Hofman K, Kretz J, Roll M & S Sperling, 'Contrasting perceptions: Chinese, African and European perspectives on the China-Africa Summit', *Internationale Politik und Gesellschaft*, Bonn, Dietz, 2007, pp.75-90.

<sup>3</sup> The Department of Foreign Aid and the Tendering Board of Foreign Assistance projects are the main administrative bodies within the Ministry of Commerce.

<sup>4</sup> Since many province-level state owned enterprises are investing abroad, some provincial governments are believed to be heavily engaged in China's investment strategy in Africa (see Broadman 2007).

run their own aid-related budgets.<sup>5</sup> Furthermore, the embassies play a key role in China's foreign aid policy, since they are the main channel through which aid is provided. Staff members attached to the relevant embassy negotiate with members of the recipient government, define the specific aid requirements, and frequently implement the projects that are launched in response. Chinese aid is almost exclusively disbursed bilaterally and directly to recipient governments. However, these individual aid flows are not reported

China's official statistics on aid, unlike those of other countries, are thought to underestimate the total amount of aid actually supplied. One reason could be that the Chinese government really does not know the exact size of the aid budgets controlled by the different bodies involved, owing to the fragmented institutional setting and complex apparatus for delivering aid. Another might be the fact that despite the impressive reduction of poverty in China over the last few decades, there are still about 100 million Chinese living on less than \$1 per day,<sup>6</sup> and chronic poverty is still widespread among the rural population. Therefore it is difficult for the government to persuade its (poor) citizens to accept a more generous external aid policy. It follows that Beijing might be deliberately undervaluing the size of its aid programme in the statistics it publishes, in order to prevent a political backlash in the rural areas.

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<sup>5</sup> For a detailed description of the structure and process of Chinese aid programmes, read Glosny M.: 'China's Foreign Aid Policy: Lifting States out of Poverty or Leaving them to the Dictators?' 2006. Freeman Report, Centre for Strategic and International Studies.

<sup>6</sup> According to China's government statistics, approximately 20 million people live below the national poverty line, which is far below the internationally-accepted \$1 per day level. See Asian Development Bank, *Poverty Profile of the People's Republic of China*, 2004, for an accurate report on China's poverty profile.

China does not contribute to the information collected by the Development Assistance Committee (DAC);<sup>7</sup> nor does it provide an official definition of what it designates as aid, which also explains why the exact value of China's foreign aid programme is unknown, perhaps even to the Chinese government. A further factor is that aid payments in the narrower sense can hardly be separated from other dimensions of China's foreign policy (such as direct investments, trade-related credits, project finance, and other resource transfers). According to the statistics published by the government, expenditure on external assistance accounted for \$731.2 million in 2004. The accuracy of this figure is highly questionable, given the explanations above. Alternative estimates based on press reports (among others, Reuters, the BBC, Associated Press and Xinhua News Agency) and official announcements suggest that the annual volume of Chinese aid payments (excluding subsidised loans) was at least \$1.2 billion in 2004. Even this figure might not reflect the total value of China's aid programme, since China's Export-Import Bank (Eximbank) provides billions of dollars in preferential loans and export buyers' credits.<sup>8</sup>

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<sup>7</sup> The Development Assistance Committee (DAC) provides statistics and reports on aid and other resource flows, which are based on information supplied by its members. The DAC has already integrated China into its discussions as an official observer. However, it remains unclear what proportion of Chinese aid increases would qualify as concessional under DAC definitions. See Manning R, 'Will "Emerging Donors" Change the Face of International Co-operation?' *Development Policy Review*, 24(4), 2006, pp.371-385.

<sup>8</sup> In 2006, lending by China's Exim Bank reached \$12.5 billion – and is set to rise by more than \$5 billion in 2007, according to EIU estimates. See Harman D 'China takes up Civic Work in Africa'. *The Christian Science Monitor*, 27 June 2007.

China gives emphasis to loans rather than grants,<sup>9</sup> and usually provides support for projects with a strong focus on tied assistance as far as commodities and technical advice are concerned. Much of this funding is for building physical infrastructure and carrying out high-prestige projects. Most of China's aid to African governments takes the form of concessional loans for infrastructure projects, which are implemented primarily by Chinese corporations. The Department of Aid has to approve all businesses permitted to tender bids on aid projects, manages the bidding process, and oversees each project itself.<sup>10</sup>

Traditionally, the largest proportion of China's development aid has been provided to Asian countries, in order to create a stable economic environment and support growth in the region. Almost 50% of China's assistance budget still goes to Asia. However, Africa has gained importance in China's foreign aid policy, and, according to open source estimates, China has given \$5.5 billion in development aid to the African continent between 2000–2007, and cancelled more than \$10 billion in debt owed by African countries,<sup>11</sup> which now account for more than a third of Chinese development assistance. According to recent announcements, this trend is set to continue.

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<sup>9</sup> According to some analysts, China's preference is to provide loans, possibly in order to use them as leverage over recipient nations. Loans generate positive perceptions in two ways: first by providing the loan, and then again by forgiving the debt (if required). Evidence suggests that Beijing is using debt relief as a reward for close political and economic relationships. See Kurlantzick, 2006. China in Africa, "The Strategy" American Foreign Policy Council.

<sup>10</sup> Gill B & Reilly j, 'The Tenuous Hold of China Inc. in Africa', *The Washington Quarterly*, 30 (3), 2007, pp.37–52.

<sup>11</sup> Harman, *op. cit.*



## Establishing a new strategic partnership

President Hu's announcement at the Beijing Summit of the FOCAC:<sup>12</sup>

- double the level in 2006 of annual assistance to Africa by 2009
- provide \$3 billion of preferential loans and \$2 billion of export buyers' credits
- establish a China–Africa development fund to encourage and support Chinese investment in Africa with \$5 billion as starting finance
- cancel all interest-free government loans that matured at the end of 2005 and are owed by nations that have diplomatic ties with China
- extend the zero-tariff treatment from the current 190–440 exports from African LDCs and establish three to five trade and economic co-operation zones in Africa over the next three years
- train 15,000 African professionals and increase the number of Chinese government scholarships to African students from 2,000 to 4,000 per year
- set up 10 special agricultural technology demonstration centres and build 30 hospitals and 100 rural schools

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<sup>12</sup> Declaration made at the Beijing Summit, November, 2007 at the Forum on China–Africa Co-operation (FOCAC). Established in 2000, FOCAC provides the institutional basis and main mechanism for the relationship between China and Africa.

## *China's grand strategy*

Like other donors, China's aid programme was not the product of purely altruistic and humanitarian motives. Its foreign assistance policy has always been part of a broader strategy, often referred to as its 'grand strategy'.<sup>13</sup> Although we are adopting this term, it is somewhat misleading, since China's modernisation process since the late 1970s has not been holistic and well-structured; neither has it been straightforward. Although the main goals and some underlying principles, such as the One-China and the non-interference precepts, have not changed over the decades, the specific tactics and instruments used in various fields surely have. In recent years the world has witnessed a shift to a much more differentiated Chinese foreign policy that is very flexible and pragmatic, and applies to its development assistance as well as to other policy fields.

### *Political goals*

One of China's main political goals is to gain political influence on both the bilateral and multilateral levels, in order to reinforce China's claims to political and economic power. During the last decade Chinese officials have consistently promoted the idea of a multipolar world that limits the hegemony of the US. In pursuance of this goal, China seeks alliances with other developing countries, South-South partnerships, and looks for support in international organisations such as the UN Commission on Human Rights and the WTO. China's efforts to find allies across Africa are directed

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<sup>13</sup> Goldstein A, *Rising to the Challenge. China's Grand Strategy and International Security*. Stanford: Stanford University Press, 2005.

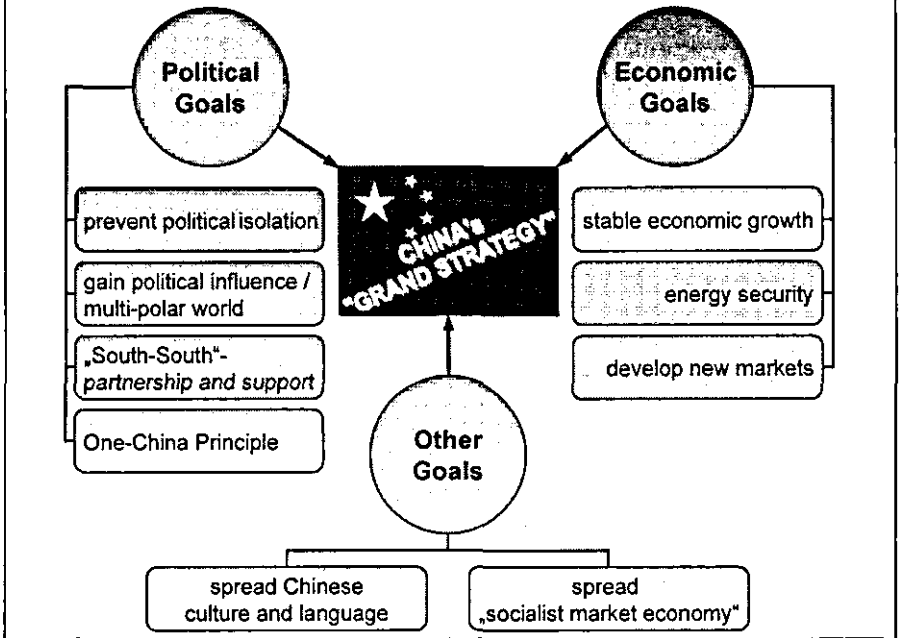
towards safeguarding the former's interests in these international fora.

However, one decisive stipulation in Chinese international relations is the one-China principle, which insists that Taiwan is an inalienable part of the People's Republic of China (PRC). Rejection of Taiwan's status as a separate and sovereign country is essentially the only political condition imposed on Chinese diplomatic relations with most African countries. The evidence indicates that this strategy has been successful, since most African countries have switched their diplomatic allegiance from Taiwan to China.<sup>14</sup>

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<sup>14</sup> Only five African countries (Burkina Faso, the Gambia, Malawi, Sao Tome and Principe, and Swaziland) continue to maintain diplomatic ties with Taiwan.

Figure 1: China's Grand Strategy



Another political goal that became most apparent after the Tiananmen incident in 1989 is to prevent political isolation. After the Tiananmen Square massacre, some Western countries suspended their diplomatic relations with the PRC. The Chinese government has countered the move to ostracise it by improving its bilateral relations with other developing countries. Development aid and strategic investments have played an important role in China's political strategy. But while it is fair to say that in the early 1990s political goals dominated China's grand strategy, the focus has now changed. The shift in approach has been brought about by China's tremendous economic growth in the 1990s. Economic objectives now take precedence over political considerations.<sup>15</sup>

### *Economic goals*

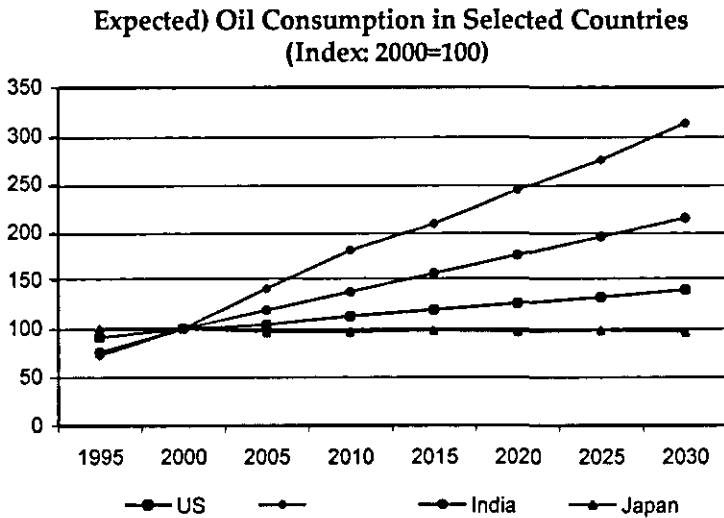
China's economic presence in Africa has risen dramatically over the last 10 years. Its trade with the continent has grown from \$4 billion in 1995 to more than \$55 billion in 2006. It is expected to increase to \$100 billion dollars by 2010,<sup>16</sup> because the tremendous surge in China's economy has created an escalating demand for energy and raw materials. China is already the largest global consumer of some raw materials such as copper, iron ore and wood, and forecasts predict it will surpass the US as the world's largest consumer of oil within the next 10 years.

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<sup>15</sup> Meidan M, 'China's Africa Policy: Business now, politics later, *Asian Perspective*, 30 (4), 2006, pp.69-93.

<sup>16</sup> 'Beijing Summit adopts declaration, highlighting China-Africa strategic partnership', Forum on China-Africa Co-operation (FOCAC), Xingua News Agency, 5 November 2006.b

Figure 2: Oil consumption in selected countries about here



Source: Own calculations on the basis of data provided by International Energy Annual (EIA) and the CIA World Factbook.

Accordingly, China has intensified its efforts to establish stable bilateral relations with oil-producing, ore-extracting and timber-exporting countries,<sup>17</sup> using development aid as a major bargaining

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<sup>17</sup> In Angola, which currently exports 25% of its oil production to China, Beijing has secured a major stake in future oil production in exchange for a \$2 billion package of loans and aid. These provide funds for Chinese companies to build railroads, schools, roads, hospitals, bridges and offices; to lay a fibre-optic network; and to train Angolan telecommunications workers.

counter.<sup>18</sup> However, at present China imports only a limited number of products – mainly commodities – from a small number of Sub-Saharan countries.<sup>19</sup>

Another economic goal of the development aid policy is to develop business opportunities for Chinese companies, and to open new export markets for Chinese manufactures and services.<sup>20</sup> It is hardly surprising, in view of these strategic aims, that the Ministry of Commerce is the dominating authority in China's foreign aid programme.

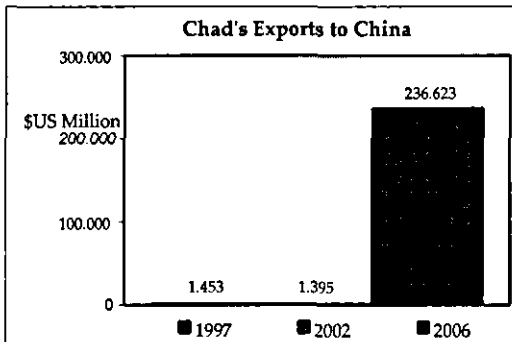
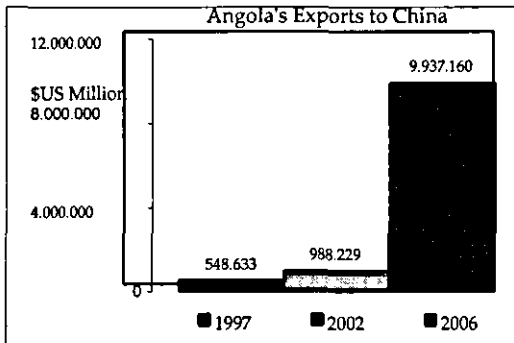
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<sup>18</sup> Latin America has also gained importance in China's foreign policy. The share of Latin American countries in Chinese imports has doubled during the last decade. In order to satisfy its increasing demand for oil (Ecuador and Venezuela), iron ore (Brazil), copper (Chile and Brazil) and especially soy (Argentina and Brazil), China is intending to invest up to \$100 billion in these countries in the next couple of years. See Funakushi & C Loser, 'China's Rising Economic Presence in Latin America', *Inter-American Dialogue* Op-Ed, July 2005; and Logan S & B Bain, 'China's Courtship of Brazil and LatAm Makes Washington See Red', *Brazil Magazine*, 2 September 2005. 2005).

<sup>19</sup> For a detailed analysis of Chinese-African trade flows and FDI, and their impact on employment and growth in African economies, read Kamplinsky R, McCormick D & M Morris, 'The Impact of China on Sub Saharan Africa. Mimeo, DFID China Office, Beijing, 2006.

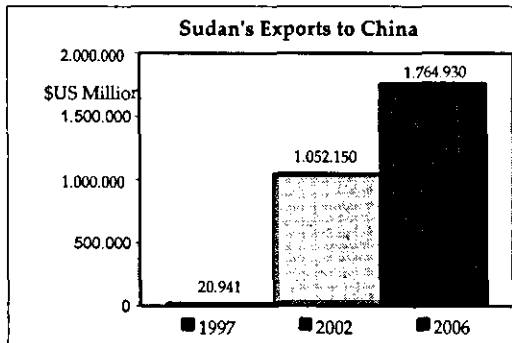
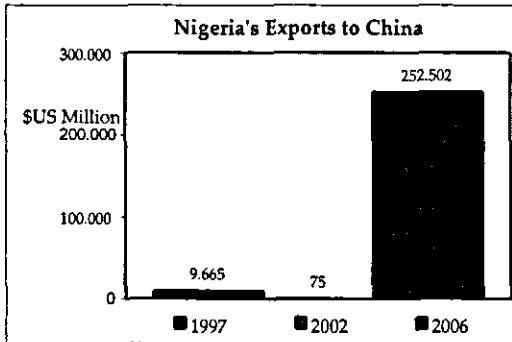
<sup>20</sup> In November 2004, China established the China-Africa Business Council (CABC) in partnership with the UN Development Program in order to support China's private-sector investment in Sub-Saharan Africa. See Gill & Reilly, *op. cit.*

**Figure 3: Exports from selected SSA countries to China  
(4 charts) about here**





**Figure 3: Exports from selected SSA countries to China  
(4 charts) about here (continued)**



### *Other goals*

Beyond its political and economic purposes, the Chinese government is aiming at several other targets that it believes will strengthen its role in international affairs. China has increased its efforts to disseminate Chinese culture and philosophy by promoting

the Chinese language, sponsoring cultural studies, establishing schools modelled on the teachings of Confucius, and providing scholarships to study in China for foreign students. Since these are of peripheral significance to the matters addressed in this paper, we do not discuss them further.

## **China's African safari: From the perspective of political economy**

### *The opportunity costs of taking a moral stand*

China is a relatively new force in international commodity markets. The central challenge created by its late entry is that these markets are characterised by relatively stable relations and long-standing contracts between major exporting countries (in Africa and elsewhere) and the traditional powers (particularly the US, EU, and Japan). Furthermore, huge Western multinational corporations (MNCs) are engaged in almost every resource-rich region of the world, and exercise great power, both economic and political. Since there are not many 'unoccupied' oilfields left in the world, energy security has become a crucial issue in China's foreign policy. That country's officials and businessmen are desperately looking for new partners who can supply the commodities and investments they need. Therefore, they simply cannot afford to reject potential suppliers, even if these states are considered 'rogue' by the West. The Chinese have to go to countries that are shunned by other international markets, despite the moral considerations that deter the latter.<sup>21</sup>

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<sup>21</sup> Zweig D & J Bi, 'China's Global Hunt for Energy', *Foreign Affairs*, September/October 2005, point out that '...the West must recognize that it would be irresponsible for China's leaders not to increase the country's energy supply'.

The African continent provides attractive opportunities for China because it possesses undeveloped resources (and possibly many more that have not yet been discovered) in regions where Western countries and MNCs hesitate to engage or invest. Put differently, China's economic needs outweigh the opportunity costs of morality. This is one explanation of China's approaches towards unstable African states that possess oil or other desirable resources, using tied aid as a means of securing energy supplies.

### *No strings attached*

Another major pillar of China's foreign policy is the principle of non-interference (called the 'sovereignty doctrine' by some analysts). In effect it means that China does not exert any pressure on the governments it assists to conform to any economic or political agenda. This contrasts strongly with the West's 'conditionality approach'. Beijing has consistently argued that non-interference is a necessary condition for building a harmonious world,<sup>22</sup> and this standpoint has provided the basis of Chinese foreign policy since the Five Principles of Peaceful Coexistence were formulated in the 1950s.

Consequently, China maintains diplomatic relations with, and encourages state-owned companies to invest in, resource-rich regions. It provides aid and military equipment to countries regardless of their style or quality of governance and of their human rights records. In contrast, these are the two key considerations that

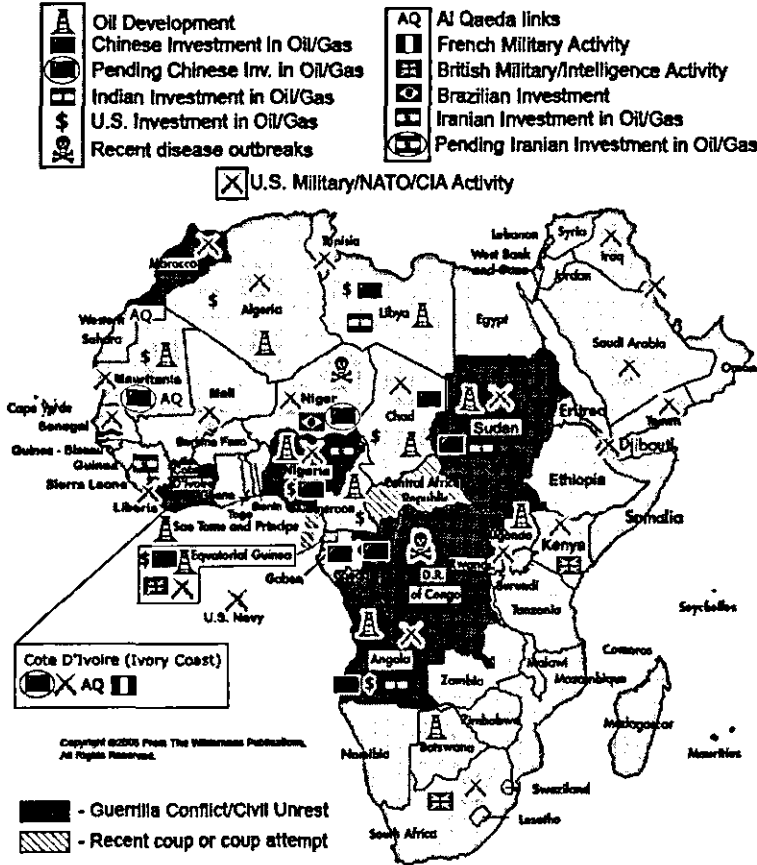
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For a detailed analysis of China's engagement in Sudan and Angola, read Taylor I, 'China's oil diplomacy in Africa', *The Globalist*, 13 February 2007.

<sup>22</sup> Glosny M, 'Meeting the Development Challenge in the 21<sup>st</sup> Century: American and Chinese Perspectives on Foreign Aid'. China Policy Series, Policy Brief 21, National Committee on United States–China Relations, 2006.

the G8 countries and the International Financial Institutions (IFIs) incorporate into their decision-making over which countries should be the recipients of foreign assistance.

## Africa at the Boiling Point



-Trade between China and Africa up 50% in 2004 (IAGS - Energy Security Nov. 15, 2004)

-Sir Mark Thatcher pled guilty to involvement in coup attempt in Equatorial Guinea on Jan 11th

-"OIL IS THE ONLY U.S. INTEREST IN AFRICA" - The Economist

Source: IMF Directions of Trade

### China's Five Principles of Peaceful Coexistence:

1. Mutual respect for each other's territorial integrity and sovereignty
2. Mutual non-aggression
3. Mutual non-interference in each other's internal affairs
4. Equality and mutual benefit
5. Peaceful co-existence

The engagement of the Chinese enables certain African governments to reject demands made by the IMF, the World Bank and donors that they should qualify for aid by improving transparency, implementing anti-corruption strategies and making progress towards democratisation. Angola,<sup>23</sup> Chad, Sudan and Zimbabwe are examples.

China is even trying to enforce the non-interference principle at the international level. Because of their relatively large representation in international organisations where the one-country-one-vote formula is followed, African countries are of special interest to China in international politics. That country advertises itself in such fora as a representative of African interests and as aiming to build South-South bridges.<sup>24</sup> In return China expects the

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<sup>23</sup> In 2005, Angola cancelled talks about a financing agreement with the IMF and announced that it would take unconditional loans worth about \$5 billion from China instead. This figure is estimated at \$9 billion by some analysts.

<sup>24</sup> Improving their terms of trade politically has been a mutual interest. See Clapham, C, "Fitting China In", Brenthurst Discussion Paper 8/2006, 2006. Clapham points out: 'One very important reason why China's involvement in Africa has been so widely welcomed and readily accommodated has been that it fits so neatly into the familiar patterns of rentier statehood and politics with which Africa's rulers have been accustomed to maintain themselves. After a brief period following the end of the Cold War, when the political terms of trade

use of African votes to support some of its own projects. This strategy has been quite successful if one looks at the voting behaviour of both African countries and China in the UN. The latter's role, as a permanent member of the Security Council, in voting on some resolutions concerning African countries such as Sudan, Zimbabwe and the Democratic Republic of Congo (DRC), has had a marked effect on the outcome. China has also supported proposals favoured by African countries on UN Security Council reform, debt relief and other issues.<sup>25</sup>

Its no-strings-attached policy gives China a comparative advantage in Africa, especially in rogue states, where it has been quick to fill the gap created by the withdrawal of aid by Western countries and international donors. The partial isolation of these 'pariah' states has been used as a business and political opportunity.

### *The state-led business model*

It seems that state-owned Chinese companies have a lower risk aversion than Western companies because they are heavily backed, both financially and politically, by the government and state-controlled banks. The close co-ordination between government officials and Chinese businessmen makes it easier for China to stimulate investment in politically precarious but strategically

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between Africa and the newly hegemonic states of the West turned so sharply to the latter's advantage that African bargaining power was drastically reduced, China has provided a counterweight to the governance agendas promoted by the "Washington consensus".'

<sup>25</sup> According to the Democratic Coalition Project (DCP), China and many SSA countries vote similarly in the UN General Assembly, especially on resolutions concerning the violation of human rights. For a detailed analysis on the voting pattern on human rights resolutions, read the annual DCR report: <http://www.democracycaucus.net/html/unvot.html>.

important countries. Chinese companies have a longer time horizon than ordinary Western firms, and are under much less pressure to show short-term profits to satisfy private shareholders. Chinese corporations have an advantage over their competitors because they can rely on financial support that is not dependent on interim economic performance.<sup>26</sup> Furthermore, Chinese businessmen seem to recognise difficult circumstances (such as endemic corruption, political instability and absence of the rule of law) as opening economic opportunities rather than posing any threat. This singular approach gives Chinese state-owned enterprises almost monopolistic power in some sectors of certain African economies.<sup>27</sup>

As already noted, Beijing is using tied aid both to improve the business opportunities for Chinese companies in Africa and to pave the way for huge investment projects. It is no wonder that China is concentrating its investment and aid strategies on countries such as Sudan, in which MNCs are barely present, either because they have not yet ventured into these markets or because they have withdrawn owing to the international sanctions regime. All in all, Chinese companies are better prepared to deal with the specific political risks encountered in many unstable African states than many Western firms, which gives them a comparative advantage.

### *Niche strategy*

China tends to favour high-profile infrastructure projects, such as the construction of stadiums, dams, railroads, state houses, ministry buildings, hospitals and industrial plants when it comes to funding. Few other donors have continued to finance most of these kinds of

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<sup>26</sup> Gill & Reilly, *op. cit.*

<sup>27</sup> Tull DM, 'Die Afrikapolitik der Volksrepublik China'. SVP-Studie 2005/S 20. Berlin, August 2005.

undertaking, which, because prestige projects still seem to be quite popular among African leaders, gives China a competitive edge politically. In a way China is following a niche strategy, filling a gap other donors have left. This is yet another example of the way in which Beijing uses aid as a vehicle to gain influence on the African continent.

Another means by which China makes itself acceptable to African leaders is that it projects itself as a developing country that understands the situation and special needs of other developing countries better than the G8 countries and the IFIs can. It offers 'total package' solutions to infrastructure needs, including financing via its Eximbank, planning, construction, and training of staff, for each project. Chinese construction firms charge much lower rates than Western companies,<sup>28</sup> partly because Chinese labourers and engineers are willing to work and live abroad without high compensation, in contrast to citizens of Western countries. This results in significant cost advantages in construction-related fields to the client governments.

China's niche strategy, and the all-inclusive supply concept, in combination with the significantly lower cost of using Chinese construction firms, makes that country attractive to African leaders who wish to undertake any kind of infrastructure project. This pragmatic strategy seems to be very successful when one considers that these Chinese companies are seldom able to compete with Western firms on a technological basis.

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<sup>28</sup> The construction costs of Chinese firms are often 20–50% lower than those of Western companies. For a comprehensive analysis, read 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors', published by the Centre for Chinese Studies, Stellenbosch University: <http://www.dfid.gov.uk/pubs/files/chinese-investment-africa-full.pdf>.



## **Interim conclusion**

China's increasing engagement on the African continent is easily explained in the context of its political and economic goals. In order to gain support in international organisations, establish itself as a new superpower, and secure access to energy resources and other commodities, China has entered the African markets, using tied aid as a major inducement. In pursuit of these aims, China is not prepared to take humanitarian considerations into account when seeking potential partners in unstable and problematic regions and rogue states. This gives China significant comparative advantages.

All of these factors should be taken into account by policy-makers and analysts dealing with conflicts in Africa, and trying to formulate guidelines towards a more realistic co-ordination of aid policies.

## **Fields of conflict and critical assessment**

### *Fields of conflict between China and other donor countries*

China's engagement on the African continent has caused it to come into conflict with traditional donor countries. One reason is simply that Western countries and the IFIs are losing some of their influence in those African countries in which China has become a significant player. Officials of the G8 and IFIs have criticised China for its strategy in Africa, on the grounds that China undermines the G8's efforts to increase the effectiveness of foreign aid. Its backing of corrupt elites, so the argument goes, also subverts Western attempts to improve transparency and standards of governance, fight corruption and promote greater democracy on the continent. They also claim that China's approach has detrimental effects on the development prospects of Africa, since sound institutions and good governance are crucial to sustainable economic development.

Furthermore, by providing loans to countries that have benefited from the HIPC, HIPC II and Gleneagles debt relief initiatives, China is acting as a free-rider in that it is taking advantage of the situation to offer new loans (defeating the object of the debt relief initiatives, which is to release funds that would ordinarily be allocated to debt servicing on the understanding that the countries concerned will direct them towards domestic development). This could bring about a new debt crisis, and possibly jeopardise the fulfilment of some of the MDGs, because the recipient governments would not necessarily devote the additional funds to domestic development. They also express worries about China's delivery of military equipment to rogue regimes and to both parties in a single war.<sup>29</sup>

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<sup>29</sup> During the military conflict between Ethiopia and Eritrea from 1998-2000, China provided weapons to both parties. China has also become the largest supplier of arms to Sudan (See Reisen, H, 'Wer hat Angst vor China in Afrika?' Berlin: *Internationale Politik*, 2007). According to Amnesty International, a substantial share of the small arms collected by peacekeepers in the DRC was of Chinese design. However, according to a study by ControlArms, the volume of Russian exports to SSA is still more than twice as high as China's ([http://www.controlarms.org/documents/chapter4\\_colour.pdf](http://www.controlarms.org/documents/chapter4_colour.pdf)).

**Table 1: Main Trading Partners & Governance Quality<sup>30</sup>**

China's Main African Trading Partners	% of Chinese Imports from Africa	Share of Chinese Oil Imports from Africa in 2005	Freedom House Index*			Failed States Index** Rank 2006 out of 146
			Civil Liberties Score 2006	Political Freedom Score 2006	Status	
Angola	27,4%	50%	5	6	Non Free	37
South Africa	20,6%	<1%	2	1	Free	110
Sudan	13,4%	19%	7	7	Non Free	1
Republic of Congo	9,8%	16%	6	6	Non Free	2
Equatorial Guinea	6,3%	10%	6	7	Non Free	52
<b>Total</b>	<b>77,5%</b>	<b>95%</b>				

Sources: IMF Direction of Trade Statistics; UN Comtrade; Freedom House; Fund for Peace

\* See footnote 28 for further details.

\*\* The Failed States Index published by the magazine *Foreign Policy* is compiled using the internationally-recognised methodology of Fund for Peace, the Conflict Assessment System Tool (CAST). It assesses violent internal conflicts and measures the impact of mitigating strategies. In addition to rating indicators of state failure as the cause of drive conflict,

<sup>30</sup> The scores of the Freedom House Index are determined by several questions concerning political rights and civil liberties. The political rights questions cover the three sub-categories (1) electoral process, (2) political pluralism and participation, and (3) functioning of government. Civil liberties refer to (1) freedom of expression and belief, (2) associational and organisational rights, (3) rule of law, and (4) personal autonomy and individual rights. The sum of each country and territory's sub-category scores for political rights translates to a rating on a one to seven scale. The same process is used to determine the civil liberties rating, with higher number values indicating a lower degree of freedom. For further information see <http://www.freedomhouse.org>.

### **Table 1: Main Trading Partners & Governance Quality (continued)**

CAST offers techniques for assessing the capacities of core state institutions and analyses trends in state instability. See <http://www.foreignpolicy.com>

Oil and other resources in SSA are also likely to cause conflicts of interest. Since Beijing is using tactics that Western companies and countries cannot or will not emulate, the latter are falling behind, especially in the most problematic African states (like Sudan, Chad and Zimbabwe). Critics claim that China is ignoring corruption and failing to support improved social and environmental standards in Africa. Since these have not been major concerns in China for many years, this type of criticism is unsurprising, even to China. However, environmental issues have attracted much more attention from Chinese officials recently, at least inside the PRC.<sup>31</sup>

#### ***Critical assessment of China's engagement with Africa***

Although part of the criticism given above is justified, a close and objective assessment yields a more nuanced interpretation of China's role in Africa.

First of all, one has to recognise that despite its increasing engagement with Africa, China is not yet an overwhelmingly powerful player on the continent. China is still spending less money on aid to Africa than the traditional powers, and, with their repeated promises to increase their assistance<sup>32</sup> over the next couple of years,

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<sup>31</sup> Efforts to control the dramatic pollution problems in the major Chinese cities have been put at the top of the agenda. In 2006 the Chinese government announced additional allocation of funds for environmental protection. It has also promulgated new environmental legislation.

<sup>32</sup> At the recent G8 Summit in Heiligendamm, Germany, the leaders of the world's richest nations pledged to give \$60 billion "over the coming years" to fight the

the G8 and the IFIs are likely to remain the predominant suppliers of assistance to SSA countries.<sup>33</sup>

Next, if one is inclined to criticise China for using aid as an instrument to gain access to resources or to achieve political goals, one has to acknowledge, equally, that the G8's involvement with the continent has never been purely altruistic. The traditional donors have used aid for strategic purposes in the past, and continue to do so. Apart from that, empirical evidence suggests that the vast majority of aid programmes in SSA have had very little effect on either poverty reduction or development. Certain scholars even argue that foreign assistance harms rather than improves development prospects in some African countries.<sup>34</sup> relief as part of a social contract to highly indebted poor countries.

Given the poor record of traditional donors' aid programmes, China's different forms of engagement might prove a stroke of good fortune for recipients in SSA. China is breaking the 'aid cartel' of traditional donors by offering an alternative approach that may be more productive. China claims that many of its aid projects (especially those concerned with providing infrastructure) are highly effective. The onus is therefore on the G8 and the IFIs to prove that their assistance to Africa succeeds in fostering economic growth and development in SSA. Increased competition between donors

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spread of disease - such as HIV, Malaria and Tuberculosis - and poverty in Africa.

<sup>33</sup> This is true for development aid in the narrower sense. However, regarding loans and foreign direct investments in Africa China most definitely ranks among the major powers on the African continent. China has already overtaken the World Bank in lending to Africa. In 2006, lending by China's Exim Bank was \$12.5 billion. The loans China offered Africa in 2006 were three times the total development aid given by OECD countries (Harman 2007).

<sup>34</sup> We recommend the extensive work of Peter Bauer and William Easterly for further reading.

could create space for different strategies that might make all aid programmes more efficient. Already the traditional donors seem to have learned from the disappointing results of their earlier attempts, and have made some adjustments to their aid and debt relief programmes.<sup>35</sup> But now, because of China's emergence as a provider of development assistance, they feel a more urgent need need to improve the effectiveness of their initiatives.<sup>36</sup>

When assessing China's foreign aid to Africa, one should remember that China is not completely isolated from the international donor community. It is a supporter of the MDGs and a signatory to the Paris Declaration on Aid Effectiveness, though it has hardly harmonised its aid programmes with those of other donors so far.<sup>37</sup> China has increased its participation in the multilateral development framework and donor co-ordination groups, and is becoming a more active member of international organisations such as the World Bank. Since it became a member of

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<sup>35</sup> See Freytag A & G Pehnelt, 'Debt Relief and Changing Governance Structures in Developing Countries', ECIPE Working Papers 2, 2006.

<sup>36</sup> In Rieffel L, 'Why Bad Loans are Good for Africa', *The Globalist*, 13 February 2007, even raises the following questions: 'Who will blink first? Will the Paris Club start doing unconditional debt relief deals for the next wave of low-income country cases in order to draw China into the Club? Or will China discover the virtues of conditional relief as a step that low-income countries will have to take on the road to becoming responsible middle-income debtors?'

<sup>37</sup> Although donors (such as OECD) are treated differently, they are jointly committed to "work together to establish mutually agreed frameworks that provide reliable assessments of performance, transparency and accountability of country systems", to "integrate diagnostic reviews and performance assessment frameworks within country-led strategies for capacity development", and to "develop the specialised technical and policy capacity necessary for environmental analysis and for enforcement of legislation", among other things (see Paris Declaration on Aid Effectiveness: [<http://www.oecd.org/dataoecd/11/41/34428351.pdf>]).

the African Development Bank (AfDB) in 1985, China has also made various constructive contributions to the bank. Perhaps most important to the topic under discussion, China is currently establishing mechanisms to review the impact of its aid programmes.<sup>38</sup>

The G8 and China have some shared interests in Africa. Both parties are major oil consumers and (with the exception of Russia) net oil importers. Although the quest for resources has a competitive dimension, China and the G8 have a common aim in seeking reliable suppliers of oil and raw materials. Since Western and Chinese companies have made significant investments in African countries and many citizens of China and the G8 countries live and work in Africa, the G8 and China have another reason for wanting to promote a politically and economically stable environment on the continent.

On the other hand, China cannot escape the issue of governance in the longer term, because this is the essential precondition for maintaining stable economic relationships.<sup>39</sup> For instance, China might find it increasingly difficult to follow its policy of non-

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<sup>38</sup> Tjonneland E, Bandtzaeg B, Kolas A & G le Perle, 'China in Africa — Implications for Norwegian foreign and development policies'. Chr. Michelsen Institute, R2006:15, 2006.

<sup>39</sup> The recent international criticism of China's support of the Sudanese government, and the campaigns to discredit and even boycott the 2008 Olympic Games, which are due to be held in China, have aroused deep concern in Chinese officials. Some Hollywood stars have said that because China is refusing to censure the bloodbath in Darfur, the 2008 games could become known as the 'Genocide Olympics'. Hollywood's celebrated director, Steven Spielberg, has warned that he is considering resigning from his position as artistic adviser to the 2008 Olympic Games unless China does more to stop the bloodshed in Darfur. (See Bezlova A, 'Sudan: Close Links cast Shadow on Olympics', Inter Press service, 30 July 2007.) As a response to the increasing international criticism, China sent a special envoy to Sudan in May 2007.

interference in Sudan while also ensuring the stability of its investments in that country's oil industry. China will most probably go through the same learning processes that other outside powers have had to resort to in the past. Again, it is likely to come up with similar responses to predicaments. In particular, its private companies and state agencies will need to grapple with the problems of protecting their political and economic investments within the uncertain and rapidly-changing environment that Africa provides.<sup>40</sup>

Essentially, the G8 and China share a common interest in alleviating poverty, improving governance and institutional quality, eliminating terrorist 'hotbeds', and cultivating export markets on the African continent.

Obviously, there is a need not only for co-ordination of aid programmes but also for the creation of enough room for co-operation on aid to Africa between traditional donors and China. Beijing not only acknowledges some shared interests but is most probably willing to co-operate with the G8, the IFIs and other international donors because of the way Beijing interprets its future role in international relations. China's performance on the African continent, as guided by its Africa policy, reflects that country's intention to become a major economic and political power.

### *Recommendations for the donor community*

Firstly, further investigation and monitoring of China's Africa policy is necessary. Donor countries should enter into much more extensive dialogue with China and with recipient African countries. They should also strengthen their ties, both diplomatic and

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<sup>40</sup> Clapham, *op. cit.*



informal, with Chinese embassies in Africa. It is crucial that the donor community obtains a deeper understanding of China's engagement in Africa as a preliminary to collaboration. When it comes to dialogue with African states, donors should avoid consulting governments exclusively, and also include African interest groups and NGOs operating in SSA in their discussions.

The establishment of a permanent (or at least a regular) G8–China Development Forum could provide a reliable conduit for the exchange of information and active conflict management. The *Heiligendamm* (follow-up) process, which could bring about closer communication between the G8 and the five Outreach (05) countries – Brazil, India, Mexico, China and South Africa – could serve as a promising starting-point.

Further, the G8 could help China to develop a permanent and specialised aid bureaucracy domestically. This could reduce the influence of the Ministry of Commerce and make the reasoning behind (and the value of) China's aid programme more transparent. Traditional donor countries should also find ways to integrate China's policies (along with those of other new players in the field of foreign assistance) into a more collaborative and comprehensive development strategy for the African continent by emphasising shared interests and hence possible areas of co-operation. Since not all countries share the same interests, collaboration on aid would not necessarily be solely the subject of multilateral negotiations, but in some cases could be done on a bilateral basis as well. If the G8 wants China to become a responsible stakeholder in a universal development policy, it must offer China a stake by integrating it into the framework of international development assistance.<sup>41</sup> This could include offering China a greater voice in the IFIs, and encouraging it

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<sup>41</sup> China is already involved (as a recipient and donor) in multilateral regional development programmes in Asia.

to become a larger shareholder in the World Bank and the IMF.<sup>42</sup> The World Bank and China are already planning to work together on African aid projects as Beijing expands its relations with the continent. This development is a good sign that China's reluctance in the past to co-ordinate its efforts with those of international donors will decline in the near future.

The key to a collaborative, effective and efficient development strategy is for Western countries and institutions to accept China as a significant power within the group of industrialised nations. This will involve their acknowledging that country's thrust towards global economic expansion, instead of demonising it for the nature of its engagement in Africa. This appears to be the only way to remedy the shortcomings of China's current development policy and to bring about long-term benefits for the African continent.

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<sup>42</sup> Some aspects of a new architecture for aid are already on the agenda. For example, the process of reforming the governance of the IMF has begun following the ad hoc increases in the quotas for China, Turkey, South Korea and Mexico in 2006. (See Burall S, Maxwell S & A Rocha Menocal, 'Reforming the international aid architecture: Options and ways forward'. Overseas Development Institute: Working Paper 278, 2006.e al. 2006.)



The China in Africa Policy Reports series identifies key areas governing Sino-African relations, provides an understanding of the issues, and analysis the various angles. Through policy – orientated research this series aims to assist governments, civil society, trade unions, and others to effectively deal with China's presence on the continent.

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