

Penny Davies

互利

CHINA

AND THE END OF POVERTY IN AFRICA
– towards mutual benefit?



This report was produced by
the Swedish development aid organisation Diakonia in collaboration with
European Network on Debt and Development (Eurodad)

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AND THE END OF POVERTY IN AFRICA
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The Chinese character means “mutual benefit”,
one of the core principles of China’s African Policy adopted in January 2006.

Diakonia is a Swedish non-governmental development aid organisation. Diakonia gives support to and works together with 400 partner organisations in 30 countries around the world. Diakonia is primarily engaged in long term development work on social and economic structures that affect the life of poor people. Diakonia is a member of Eurodad. www.diakonia.se

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Acronyms and abbreviations

| | |
|-----------------|---|
| AfDB | African Development Bank |
| AU | African Union |
| CDB | China Development Bank |
| China Exim Bank | The Export-Import Bank of China |
| CPC | Communist Party of China |
| CSOs | Civil Society Organisations |
| DAC | Development Assistance Committee/OECD |
| DFID | Department for International Development/UK |
| EADB | East African Development Bank |
| EIB | European Investment Bank |
| EITI | Extractive Industries Transparency Initiative |
| FDI | Foreign Direct Investment |
| FOCAC | Forum on China-Africa Cooperation |
| GDP | Gross Domestic Product |
| HIPC | Heavily Indebted Poor Country |
| IDA | International Development Agency/World Bank |
| IMF | International Monetary Fund |
| LDC | Least Developed Country |
| LGOP | The State Council Leading Group Office of Poverty Alleviation and Development |
| MDGs | Millennium Development Goals |
| MDRI | Multilateral Debt Relief Initiative |
| MFA | Ministry of Foreign Affairs |
| MOFCOM | Ministry of Commerce |
| MOU | memorandum of understanding |
| NEPAD | New Partnership for Africa's Development |
| ODA | Overseas Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PRC | People's Republic of China |
| PRS | Poverty Reduction Strategy |
| SADC | Southern African Development Community |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |

Executive summary¹

1. Introduction

In November 2006 China hosted the Third Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) attended by 48 African countries. This unprecedented high level meeting manifested the increased cooperation between China and Africa in recent years.

Undisputedly, Chinese policies, including trade and investments and its role as a donor and creditor, will have an important impact on the future of developing countries in Africa and the joint global challenge to combat poverty.

The purpose of this report is to contribute to an increased knowledge and understanding of China's role in Africa. The target group is foremost Civil Society Organisations (CSOs) across the world engaged in various types of development work.

The focus of the report is Chinese development assistance policies, i.e. China's role as a donor to Africa, an area not so much written on in comparison with trade and investments. The report explores Chinese views on China's role as an important player in development policies and what responses China has to concerns expressed by external stakeholders about the increased Chinese cooperation with Africa.

The report builds on desk studies between March and July 2007, as well as 27 interviews with foremost Chinese decision makers, institutions, organisations

1. References are not included in the Summary, but can be found in each corresponding chapter in the report.

and researchers but also donors to both China and Africa, carried out in Beijing March – April 2007.

2. China goes into Africa – an overview of China’s increased engagement

2006 marked a historic year in China-Africa relations. The FOCAC Summit witnessed the birth of “the establishment of a new type of strategic partnership between China and Africa featuring political equality and mutual trust, economic win-win cooperation and cultural exchanges.” In the Action Plan for 2007–2009 adopted at the meeting, China has made a number of concrete pledges. The same year China adopted a specific African Policy drawing up the principles and areas for future cooperation.

China is moving rapidly ahead forging ties with African countries manifested in increasing trade and investment figures. In 2006 trade surged to US\$55 billion and is set to reach US\$100 billion by 2010. China has become Africa’s third largest trade partner. The share of Africa in total Chinese outward FDI has been marginal up till now, but is increasing rapidly. In May 2007 China announced that it will provide about US\$20 billion in infrastructure and trade financing to Africa over the next three years.

China’s so called “march into Africa” is to a large extent linked to its growing economy. Access to raw materials and oil in particular is a key motive for China’s engagement in Africa. There are also more politically motivated drivers stressed by Chinese scholars. Africa is important for China’s foreign policy agenda and the building of alliances.

In much of the debate in a western context on China’s role in Africa, China is often viewed as a threat and competitor to industrialised countries for access to Africa’s natural resources. This disregards the fact that much of the resources imported into China are re-exported in the form of value added inputs or products to uphold consumption in industrialised countries. China also has a legitimate claim to develop and lift its population out of poverty for which it will need resources. While China is responsible for its actions in Africa, these two aspects pose challenges not only for China and Africa relations, but for rich countries whose consumption and production patterns are unsustainable.

There is an evolving international debate about the benefits and drawbacks for Africa of this new strategic partnership. Most analyses point to the fact that the picture is not black and white.

A key question is how African countries are to make the most of the possibilities and address the challenges which China brings for poverty reduction and development at large. This has implications for domestic policies in Africa, for negotiations

between Africa and China, and for traditional donors who need to attune their policies towards Africa and China and find a new role as the Sino-African cooperation grows stronger.

3. China – a developing country and an emerging donor

China has an interesting dual role as both donor and recipient country. China has achieved remarkable success in lifting hundreds of millions of people out of poverty. Nevertheless, China is facing a number of challenges, many of them similar to those facing African countries.

China has been the largest aid recipient for much of the past 20 years but has recently slipped behind. ODA to China reached US\$1.757 billion in 2005 according to OECD. Given China's successful economic performance, donors have had discussions whether to phase out aid or not. Most donors will probably stay engaged, but from 2008 China's net ODA will fall sharply.

The aid levels are small in comparison with the size of the population and there is no significant direct impact on poverty through the provision of funding. However, according to both donors to China and Chinese scholars, aid is very important in terms of the exchange of ideas. This is also stressed by the State Council Leading Group Office of Poverty Alleviation and Development (LGOP) suggesting a triangular exchange of ideas where China could learn from developed countries and at the same time share experiences with developing countries on China's success in lifting large parts of its population out of poverty.

Chinese scholars stress that China and African countries share similar challenges and experiences as developing countries. On another level, it has been said that China's development model offers an alternative to African countries to the structural adjustment policies prescribed by the World Bank and the IMF. Initiatives are underway for experience sharing.

4. The evolution of China's assistance to and cooperation with Africa

2006 marked the 50th anniversary of diplomatic ties between China and African countries. China's African policy has in modern history gone through roughly three phases:

- A first phase, during which China's policy was primarily politically and ideologically driven in supporting African people in their struggle for national independence.

- A second phase with a move away from ideology to a focus on economic cooperation. This meant a decrease in Chinese aid to and trade with African countries.
- A third phase, when China again intensified its cooperation with African countries.

Since the 90s China's African policy has had both a political and economic focus, and other forms of cooperation, including cultural, have been added to this. The present strategy is thus described as more inclusive and holistic in its approach, which is manifested in the FOCAC.

Chinese scholars put emphasis on the continuity of relations with African countries. The eight principles for providing aid to foreign countries, first laid out by Premier Zhou Enlai in the 60s, are still relevant principles that continue to guide policies. There has however been a move towards more specific commitments and pledges.

A fundamental principle, enshrined in China's 2006 African Policy, is to provide assistance with "no political strings attached" (see further below). Another of the eight principles dating from the 60s, is the principle of "equality and mutual benefit". Aid is carried out within the framework of South-South cooperation as one of several forms of cooperation. China does not use the language of donor and recipients when giving aid, but mutual benefit.

5. Chinese development assistance to Africa

The following are the main institutions involved in assistance to African countries:

- *The State Council* is the highest executive organ as well as the highest organ of State administration, above the government ministries.
- *The Ministry of Commerce (MOFCOM)* is the main government body in charge of Chinese aid and coordinates aid policies with foremost the Ministry of Foreign Affairs, but also with other government ministries and bodies involved.
- *The Ministry of Foreign Affairs* has an advisory role on aid and economic cooperation and is in charge of diplomatic contacts and of coordinating concrete policies in the bilateral undertakings.
- *The Finance Ministry* is in charge of the budget as well as multi-lateral aid.

- *The Chinese Embassies* monitor the implementation of projects and report on their progress to the Chinese government.
- *The Export-Import Bank of China (China Exim Bank)* is in charge of Chinese government concessional loans.

There are also other government ministries involved in channelling aid and banks which play a role in the Chinese government's "going out strategy".

Chinese development assistance processes are complicated with many actors involved. China has no development cooperation agency to coordinate the policies, but there have been talks of setting one up. *The FOCAC process* has however resulted in an institutionalised coordination process of cooperation with African countries in general.

China has made a commitment to double its 2006 assistance to Africa by 2009. However, China does not disclose how much aid it gives to foreign countries and it is unknown what the doubling will mean in actual figures. In 2006, Premier Wen Jiabao, for the first time according to Chinese scholars, gave a figure when in a statement he said that China from 1949 to date has spent 44.4 billion yuan (approximately US\$5.6 billion) assisting African countries. This figure is however thought to be too low according to Chinese scholars. The China Exim Bank stated in February 2007 that it has extended concessional loans to Africa with a total outstanding balance of approximately US\$8–9 billion.

In the absence of officially reported annual aid flows, various estimates have been made based on press reports and pieces of information from official government speeches. Regardless of the exact figure it is clear that China will continue to substantially increase its aid to African countries.

One set of reasons given why China does not disclose its aid figures relate to cautiousness or lack of will on the part of the government to report the volume. A second set of reasons relate to government constraints and that the government itself might not know the exact figure. China has no clear criteria for how aid is calculated. The government is according to MOFCOM currently looking into what could be defined as aid. There is a strong case for developing and disclosing both criteria for and volume of Chinese aid.

There are three forms of assistance:

- *Grants* – in kind not in cash, provided by MOFCOM;
- *Interest free loans* – often converted into debt cancellations, provided by MOFCOM;

- *Concessional loans* – introduced in 1995 and provided by the China Exim Bank.

Debt relief: The Chinese government has announced three packages of debt relief; in 2000, 2005 and 2006. As of April 17 2007, the first package had been delivered to a value of 10.9 billion RMB (approximately US\$1.38 billion) to 31 African countries.

China's assistance is exclusively project based. Projects are mostly part of bigger package deals which include other types of cooperation with the recipient countries. Over the past 50 years China has, according to MOFCOM, assisted African countries with 133 infrastructure projects, 38 hospitals and has dispatched 16 000 medical personnel to Africa.

China does not concentrate on specific countries; the recipients include all 53 African countries. Top recipients, according to Chinese scholars, are Angola, Sudan, Tanzania, Zambia and Ethiopia. It is difficult to get aggregated information of the compilation of loans and grants, to which countries and what projects China directs its assistance.

China's development assistance is mostly bilateral. China channels some aid via multilateral institutions including UN agencies, the ADB and the AfDB, and will do so increasingly.

China adheres to the principle of multilateralism in its general political priorities. In particular China stresses the need to promote the interest of developing countries in the international arena.

6. Aid effectiveness

Aid effectiveness has become a key word in discussions around development finance. CSOs have long highlighted the need for not just more but better aid. External analyses state that little is known about the quality and impact of Chinese assistance to Africa and of how Chinese authorities assess such issues.

A common answer to the question what aid effectiveness means for China, was that Chinese aid is effective as it is concrete; it is providing Africa with concrete things they can use, like buildings and roads.

According to MOFCOM an evaluation is done for each project and there is an institutionalised process for this. A Chinese scholar however stated that there are only rough evaluations of the social benefits of aid. On the issue of the risk of corruption, scholars and MOFCOM said that the fact that China does not give aid in cash but in kind (material, roads, hospitals etc.) means there is less risk of corruption.

Officials and scholars stated that China in general is interested in learning from

other donors with a longer experience of providing aid; at the same time there is strong confidence in the Chinese model.

China has signed up to the Paris Declaration on Aid Effectiveness thereby committing to its five principles including ownership, alignment and harmonisation. According to donors to China, China probably signed up in its capacity as a recipient rather than as a donor country.

China is said to put a lot of emphasis on ownership of recipients and aligns its aid to national priorities, but through other mechanisms than that of traditional donors. The Chinese way of aligning aid and its concept of ownership are however focused on governments as opposed to a model of broad based participation when setting national priorities.

Concerns raised by external actors are China's use of tied aid and that Chinese projects are carried out with Chinese labour, inhibiting local employment, capacity building etc. The Chinese government has said it has no preference per se for Chinese labour. Pledges have been made to prioritise local capacity building and technical support is given to prepare local people to take over and run projects. Whether these measures are sufficient or not, needs to be studied in the respective African countries.

Donors to China and Africa try to engage China in joint discussions on Africa and development. The UN was stated to be China's first choice if engaging in joint donor initiatives. China participates in donor meetings in African countries if the recipient country governments invite them, but they do not want to be associated with donor driven initiatives.

A key challenge ahead in terms of aid effectiveness is the fact that annual aid figures are not disclosed. There is a need for independent and transparent audit and reporting processes, involving the African countries at the receiving end. In terms of donor cooperation, a main challenge will be to overcome the barriers of suspicion which seem to exist. African countries and their citizens are key in this, as they in the first place are the ones to define what aid effectiveness means in their respective contexts and what kind of assistance donors could provide.

7. No political strings attached

According to China's African Policy, China will provide assistance "with no political strings attached". The one political condition China does have for the establishment of its relations with African countries is the one China principle, i.e. not to give formal recognition to Taiwan. However, China does give assistance to all 53 African countries, not just the 48 it has formal diplomatic ties with. Albeit China does not push for reforms in recipient countries, tied aid is a type of condition China has, as stated above.

The no political strings attached policy has raised much debate and reactions from external actors. According to CSOs there is a risk that the Chinese policy will: 1) strengthen repressive regimes/elites that are not working in the interest of poor people or development at large 2) weaken social and environmental standards and not benefit poor people and the environment 3) weaken efforts to combat corruption and promote good governance. Other donors to Africa have expressed concern and lashed out with fierce criticism.

There is clear evidence that there are grounds for the concerns expressed by CSOs and donors to Africa, although more impact analyses are needed.

Three general motivations for the principle were given by Chinese stakeholders: First, the non-interference policy is deeply rooted in China's historical experience of western interference and China is therefore careful not to interfere in African countries. Second, the Chinese government is careful not to interfere as it sees its political problems in Taiwan and Tibet as internal affairs. Third, the principle is based on China's own experience of being able to develop according to its national context without facing conditionalities.

A general view among Chinese scholars is that China is willing to learn from both positive and negative experiences, and find a middle way if dilemmas arise. If African countries raise issues of environmental and social concerns China will listen, more so than if western countries raise them.

Regarding the concern that China supports regimes like those in Zimbabwe and Sudan, which western donors have shunned due to their human rights violations, China's way is said to be to conduct quiet diplomacy in support of African regional organisations for them to solve their own problems. Several scholars stated that China's attitude in Sudan has changed, illustrating that China is not immune to critique raised by the international community. This is not to say that the initiatives are sufficient.

According to Chinese scholars the government is very aware of environmental and social concerns in relation to Chinese companies' activities abroad and is making efforts to address these. This is said to be a priority issue as China realises the risks of negative images of its companies.

The Chinese view is that Chinese aid is less afflicted by corruption as the aid is given in kind not in cash. However, the problem of corruption as such has been acknowledged by the Chinese government and initiatives have been taken to address this. The view is that solving the problem of corruption by using aid money to pressure for change, will not work.

Looking ahead, although some measures have been taken to deal with the issue of social and environmental standards it is clear that this remains a huge challenge for the successful implementation of China's African Policy. On the one hand it

reflects the complexity of several different driving forces and conflicting interests involved. On the other hand, it reflects some of the challenges China is facing and grappling with on a domestic level.

The key question is whether China's no political strings attached policy will benefit African people and the environment. It is clear that the notion of sovereignty of the nation state is valued very highly by China. Therefore, whether the no political strings attached policy will be beneficial or not is left in the hands of the governments in place. The question is what happens in cases where governments either lack the will or capacity to protect and work for the benefit of people and the environment. This is where the non interference policy will leave poor people and the environment short.

Some analyses suggest that as China's presence in Africa expands it will be more difficult to stay out of domestic policies. The non interference is more and more difficult to reconcile with China's other objective of being a responsible international stakeholder.

There is a need for a global agreement between new and old donor countries and recipients on responsible financing standards.

8. Debt sustainability

The substantial increase of loans from China has generated a concern among development institutions that new non-concessional or low concessionality loans will threaten the debt sustainability of poor borrowing countries and thereby trigger a new debt crisis. This would undermine the debt cancellations granted so far.

A common response from Chinese scholars to the question of the risk of a debt build up is that China does not expect African countries to pay back if it is a government to government loan and the recipient is facing pay back difficulties. China has provided debt relief to 31 African countries to the amount of 10.9 billion RMB (approximately US\$1.38 billion) and has made further pledges.

Another common answer to the concern raised is that Chinese lending is still small. Chinese stakeholders also point out that Western countries are responsible for the debt crisis.

As China steps up its lending to African countries, the question of how the potential debt distress is assessed by China is still very relevant. New lending pledges indicate that China in the near future will no longer be "a small provider of loans".

According to the Exim Bank, China deals with debt sustainability in the lending agreements in three ways: They ensure project returns will be robust; they will consult with the local IMF office to discuss the loan in the context of the

debt sustainability framework; they ensure that the project is part of the country's development plans.

According to the President of the AfDB, China's view of debt sustainability differs from that of traditional donors. The Chinese, he has said, look at the potential of African countries in the long term, rather than assessing their immediate ability to repay loans.

As there is little transparency on the exact terms of Chinese loans and to which countries what loans are given, it is difficult to know if Chinese lending is a threat to the debt sustainability of poor countries, and if so how big a problem it is. The concern is however not difficult to motivate. Failed export credit lending was behind much of the previous debts of African countries and China is rapidly moving ahead in providing such loans.

The reactions of traditional lenders have been criticized by CSOs and others, who at the same time share the concern for the debt sustainability of African countries. In particular the IDA/World Bank so called "free rider policy", which punishes poor borrowing countries who take on new more expensive loans, is seen as counter-productive.

It is clear that China as a new lender has accelerated the debate on responsible lending practices among traditional donors. In the best case scenario, this could result in traditional donors stepping up their commitments and reforming some of the existing mechanisms which fall short of providing a long term solution to the debt crisis, as well as result in an agreement with China on debt sustainability and other aspects of responsible lending.

Mutual understanding and dialogue are needed between new and old lenders and borrowing countries.

9. Conclusions and possible ways forward

The last chapter identifies a number of conclusions and possible ways forward that might be of relevance for different stakeholders: CSOs in western countries, in Africa and China, and governments: the Chinese, African and western. The headings are listed below:

1. China's assistance to and cooperation with Africa are changing the rules of the game and threaten to leave governments, institutions and organisations that do not act strategically by the way-side;
2. Triangular dialogue approaches are needed;

3. Western governments should practise what they preach;
4. The Chinese government should convert words into action – from a narrow non-interference to a broad based “non-indifference”;
5. China’s growing role as a lender and donor to Africa challenges current development paradigms – towards joint standards for responsible lending and effective aid;
6. China’s economic rise and so called “march into Africa” challenges unsustainable consumption and production patterns – towards global cooperation for sustainability.

1. Introduction

Dubbed as China's "Year of Africa", 2006 marked a historic year in China-Africa relations. In November China hosted the Third Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) attended by 48 African heads of state and high level representatives. This unprecedented high level meeting witnessed the birth of "a new type of strategic partnership" between China and Africa. This was also the year when China adopted a specific African Policy.

China and Africa have a long history of cooperation. This cooperation, covering economic, political, social and cultural fields, has in recent years increased in intensity. The Chinese government is rapidly moving forward to transform words into action. As part of the joint declaration adopted by China and African countries at the 2006 FOCAC Summit, China has announced that by 2009 it will double the size of its assistance to African countries, and that it will provide preferential loans and export buyer's credits to the total value of US\$5 billion to African countries in the next three years. At the Summit the Chinese Premier unveiled the target of raising Sino-African trade to US\$100 billion by 2010. In May 2007, in connection with the annual meeting of the African Development Bank (AfDB) hosted by China, China announced that it will provide about US\$20 billion in infrastructure and trade financing to Africa over the next three years. These are just examples of China's intention of increasing its ties with Africa.

Undisputedly, Chinese policies including trade and investments and its role as a donor and creditor will have an important impact on the future of developing countries in Africa and the joint global challenge to combat poverty.

There is an evolving debate on what this new partnership means for Africa. Questions are being raised by a range of different stakeholders on what opportunities and challenges China's increased engagement brings for a number of issues including poverty reduction, democracy, good governance, the management of natural resources and human rights in Africa.

Reactions range from being naïvely positive to fierce criticism. It is at times difficult to separate what is based on facts, driven by a genuine concern for development, from what seems to be part of a general tendency to see China as a threat, for example to traditional interests in Africa. In the same way, those who focus on short term economic gains tend to seem over-optimistic, playing down challenges relating to transparency, democracy, human rights and environmental sustainability.

Against this backdrop, it has become clear to Civil Society Organisations (CSOs) engaged in various types of development work around the world, that there is a need to acquire better knowledge and understanding of China's role in Africa. China's role in Africa is already affecting and will increasingly affect the work and objectives of CSOs in a range of different development issues such as how to ensure responsible financing standards for the benefit of poor people and the environment.

There are several dimensions to this need for knowledge. On the one hand, there is a need to learn more about the concrete impacts of China's engagement in African countries: how China's presence affects different sectors and different parts of the population and what the impact is on poor and vulnerable people and the environment. On the other hand there is also a genuine interest in understanding better how China sees its role in the increased cooperation with Africa – which is not so often heard in western media and debates – in order to be able to engage constructively in development policy processes involving African, Chinese and western governments. This report tries to explore the latter question.

1.1 Purpose

The purpose of this report is of a process kind: to contribute to an increased knowledge and understanding of China's role in Africa. The target group is foremost CSOs across the world engaged in various types of development work. However, it is a hope that it will be of interest to other stakeholders including African and Chinese scholars, officials etc. and traditional donors both to Africa and China who are thinking about and/or are actively involved in China's role in Africa.



This [China's] 'grand re-entrance' is stirring mixed reactions, covering the whole range from excitement to panic, disappointment and uncertainty; and not just from Africans but from the whole international community."

Moreblessings Chidaushe, African Forum on Debt and Development (AFRODAD) "China's grand re-entrance into Africa – mirage or oasis?"; African perspectives on China in Africa, 2007.

Increasing knowledge and understanding will in turn serve the purpose to initiate debate on what the Sino-African cooperation entails and on how CSOs could act to support the opportunities and address the challenges so as to engage effectively in development policy processes and concrete poverty eradication work. The underlying idea is that there is a need for CSOs to engage and that there is a need for multi stakeholder initiatives in which civil society can play an important role.

The focus of the report is Chinese development assistance policies i.e. China's role as a donor to Africa, an area not so much written on in comparison with trade and investments. The report explores views among Chinese stakeholders on China's role as an important player in development policies and what responses China has to concerns expressed by external stakeholders about the increased Chinese cooperation with Africa. Although the focus is on development assistance, the policies guiding China's overall engagement in Africa are also covered. In reality, development assistance is difficult to separate from other forms of cooperation as it often is part of package deals which China signs with African countries.

The report should be seen as one contribution among others to spur further initiatives in various forms: more research not least in Africa on the impacts of the Sino-African cooperation, dialogues among different stakeholders, policy formulation and advocacy, in which CSOs could play an active role in contributing to effective development policies for the benefit of people and the environment. Some suggestions are given in the final chapter.

One challenge is that the target groups of this report include people with different backgrounds. This might mean that some aspects which are just touched upon are new to some readers and core work areas of others.

1.2 Methodology

The report builds on desk studies between March and July 2007, as well as discussions and interviews with foremost Chinese stakeholders carried out in Beijing March – April 2007. The rationale behind the visit was, as far as possible, to get first hand information from relevant Chinese stakeholders as well as collect relevant policy documents on how China sees its role, as opposed to how China is perceived by others.

Interviews were carried out with Chinese scholars from policy research institutes and think tanks operating for the government, for example providing internal reports with policy suggestions. The scholars are experts on Africa and/or foreign policies and development issues. The selection was made based on recommendations from Chinese scholars themselves, international organisations and donors operating in Beijing.

Interviews were also sought with government officials. The impression was that it is not so common for foreign CSOs to either approach or get access to government officials. From the outside, it is difficult to know how to go about this, who to contact etc. Recommendations to get access to senior officials are in most cases needed from a third party. For this research a meeting was held with representatives from the Ministry of Commerce (MOFCOM), both the Department of Aid to Foreign Countries and the Department of West Asian and African Affairs. Interviews were also held with the Ministry of Foreign Affairs (MFA) and The State Council Leading Group Office of Poverty Alleviation and Development (LGOP).

Interviews were also carried out with representatives of traditional donors, bilateral and multilateral, to Africa and China, who have knowledge of and interest in the increased Sino-African cooperation. A few interviews were also carried out with CSOs in China.²

In total 27 interviews were carried out in Beijing. The interviewees are listed in the Appendix. In the report only government officials and donors to China/Africa are referred to by name if the source is an interview.

The interviews with Chinese stakeholders were conducted in English with the exception of three, during which an interpreter was used. There were some language barriers to overcome. Any misunderstandings and errors are the responsibility of the author. The report only refers to material in English which limits the information available. However, some scholars engaged in China's role in Africa have published in English.

A number of questions of interest for the work and objectives of CSOs guided the interviews and discussions. The Chinese views are also analysed from the perspective of questions, concerns etc. from CSOs and reactions from traditional donors to China's increased assistance to and cooperation with Africa. The questions were posed both to get a general understanding of China's assistance to and cooperation with Africa and to pursue three issues more in depth: 1) Chinese views on aid effectiveness 2) the implications of China's no political strings attached policy and 3) debt sustainability.

Some questions were left unanswered or partially so; in some cases as there is no public information available and in some cases probably because of the various constraints (time, language barriers, etc.) of the research.

The subject of Chinese development assistance in relation to African development is huge and needless to say, the report only includes certain aspects of a limited number of issues.

2. Information from a previous trip to China by the author in 2006, during which interviews were primarily held with Chinese CSOs, has also been used as input to this report.

1.3 Structure of the report

The report is divided into nine chapters. The Introduction is followed by Chapter 2, which gives a general overview of China's increased engagement in Africa.

Chapter 3 presents China as a recipient and developing country.

Chapter 4 describes the evolution of China's assistance to and cooperation with Africa.

Chapter 5 seeks to map out different aspects of Chinese development assistance to Africa.

The following three chapters cover three different issues which are the subject of lively discussion in relation to development assistance and China's engagement in Africa:

Chapter 6 deals with the concept of aid effectiveness which dominates international debates around development assistance.

Chapter 7 discusses the Chinese policy of providing assistance with "no political strings attached", an issue which has stirred debate among traditional donors and CSOs.

Chapter 8 deals with the issue of debt sustainability, another internationally debated concept to which, like aid effectiveness, fuel has been added with the increased Chinese lending.

The final chapter identifies a number of conclusions and suggestions for ways forward for different stakeholders.

2. China goes into Africa – an overview of its increased engagement

This chapter gives an introduction to China's commitments made at the high level meeting between China and Africa in 2006, followed by examples of the increased Chinese engagement and its drivers. Lastly, some aspects of the "What's in it for Africa?" debate are described.

2.1 2006 – The Year of Africa

2006 marked the 50th anniversary of the inauguration of diplomatic relations between China and African countries. 2006, dubbed by China as its "Year of Africa", was also a historical year in China-Africa relations in terms of political achievements. In January, China adopted its African Policy by which "the Chinese government wishes to present to the world the objectives of China's policy towards Africa and the measures to achieve them, [...] bringing the mutually beneficial cooperation to a new stage."³ The policy outlines the principles to guide China's African Policy (see below) and the cooperation to take place in different areas: the political field including international affairs and exchanges between legislative bodies etc.; the economic field including trade, investments, resource and agricultural cooperation, infrastructure, economic assistance etc.; education, science, culture, health and social aspects; peace and security.

3 *China's African Policy*, January 2006.

In November 2006 China hosted the Third Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) attended by heads of state and high level representatives from the 48 African countries which have diplomatic ties with China. This unprecedented high level meeting adopted a declaration which proclaimed “the establishment of a new type of strategic partnership between China and Africa featuring political equality and mutual trust, economic win-win cooperation and cultural exchanges.”⁴ An Action Plan for 2007–2009 was adopted which includes measures to be taken by the two sides. China, in President Hu Jintao’s opening speech, made a number of pledges reiterated in the Action Plan:⁵

- Continue to provide development assistance to African countries to the best of its ability and double its 2006 assistance to Africa by 2009;
- Provide US\$3 billion of preferential loans and US\$2 billion of preferential buyer’s credits to African countries in the next three years on favourable terms (favourable is not specified), more so for HIPC and LDCs;
- Set up a China-Africa development fund which will reach US\$5 billion to encourage Chinese companies to invest in Africa and provide support for them;⁶
- Build a conference centre for the African Union to support African countries in their efforts to strengthen themselves through unity and support the process of African integration;
- Cancel government interest free loans that had become due by the end of 2005 contracted by HIPC and LDCs in Africa with diplomatic ties with China;
- Further open up China’s market to Africa by increasing from 190 to over 440 the number of export items to China receiving zero-tariff treatment from the least developed countries in Africa which have diplomatic ties with China;
- Establish three to five trade and economic cooperation zones in Africa in the next three years;

4 Declaration of the Beijing Summit of the Forum on China-Africa Cooperation (Draft), 2006.

5 President Hu Jintao, Beijing, 4 November 2006. *Forum on China-Africa Cooperation Beijing Action Plan (2007–2009)*, hereafter *The Beijing Action Plan (2007–2009)*.

6 In May 2007 it was announced that the State Council had approved the Fund, and that it will be used to support African countries’ agriculture, manufacture, energy sectors, transportation, telecommunications, urban infrastructure, resource exploration and the development of Chinese enterprises in Africa. *China Daily*, 2007-05-14.

- Over the next three years, train 15,000 African professionals; send 100 senior agricultural experts to Africa; set up 10 special agricultural technology demonstration centres in Africa; build 30 hospitals in Africa and provide RMB 300 million of grant to provide anti-malaria drugs and build 30 malaria prevention and treatment centres to fight malaria in Africa; dispatch 300 youth volunteers to Africa; build 100 rural schools in Africa; and increase the number of Chinese government scholarships to African students from the current 2000 per year to 4000 per year by 2009.



We hereby solemnly proclaim the establishment of a new type of strategic partnership between China and Africa featuring political equality and mutual trust, economic win-win cooperation and cultural exchanges.”

Declaration of the Beijing Summit of the Forum on China-Africa Cooperation, November 2006.

2.2 China’s economic rise and march into Africa

The 2006 FOCAC Summit was a manifestation of the increased cooperation between China and Africa. The Chinese President and Premier have also in recent years made numerous visits to Africa signing so called “win-win” deals where China is gaining access to raw materials against investments in infrastructure and other types of economic assistance. China’s trade with and investments in Africa have expanded rapidly. Around 1000 Chinese enterprises are active in Africa and Chinese construction firms are increasingly outbidding contractors from other parts of the world.⁷

In 2005 China’s trade with Africa reached US\$39.7 billion, almost four times that of 2000.⁸ In 2006 it surged to US\$55 billion.⁹ China has announced that the trade is set to increase to US\$100 billion by 2010.¹⁰ It is said to be certain that this goal will be achieved and that Africa’s raw materials will make up the largest part of this increase.¹¹ China has overtaken the UK to become Africa’s third largest trade partner, after the US and France.¹² The share that different African countries take up in China’s imports differs significantly. Angola and South Africa jointly accounted

7 *African Business*, July 2006, pp. 16 & 18.

8 *China Daily*, 2006–11–06.

9 *Xinhua Online*, May 16, 2007.

10 *China Daily*, 2006–11–06.

11 Holslag et. al. 2007, p. 31. Holslag has further information on trade in terms of particular natural resources.

12 Wild and Mepham, 2006, p. 2.

for 52.6 per cent of total import volume from Africa in 2005. The top 5 exporting countries to China are Angola, South Africa, Sudan, Congo and Equatorial Guinea.¹³

The share of Africa in total Chinese outward Foreign Direct Investments (FDI) has been marginal up till now. According to an UNCTAD/UNDP report (2007), as of 2005 China's FDI stock in Africa had reached US\$1.6 billion, the equivalent of 3 per cent of the outward stock. Investments are however expanding rapidly and China is set to become a major foreign investor in the developing world. As with trade, there are great variances across countries. Sudan, Algeria and Zambia were the only 3 African countries among China's outward FDI stock top 20 host countries by 2005.¹⁴ According to an OECD report (2006), although data is limited, for Sub Saharan Africa, the share of Chinese plus Indian FDI flows is probably higher than for OECD countries, for which the region is a minor investment destination.¹⁵

China is moving rapidly ahead. By the end of 2006 China had, according to Chinese government statistics, invested US\$11.7 billion in Africa, mainly in infrastructure.¹⁶ Commitments exceeded that figure. In May 2007 China announced that it will provide about US\$20 billion in infrastructure and trade financing to Africa over the next three years.¹⁷ Large investments by Chinese companies include a US\$757 million investment project in oil by the China National Petroleum Corporation (CNPC) in Sudan, and a project signed in 2006 where China's offshore oil producer CNOOC paid around US\$2.7 billion for a stake in a Nigerian oil field. This was said to be China's largest ever overseas acquisition.¹⁸

It is clear that China's so called "march into Africa"¹⁹ is to a large extent linked to its growing economy. Economic growth has averaged 9.5 per cent per year over the past two decades and seems likely to continue at that pace for some time.²⁰ Estimates show that China's economy is expected to be larger than that of the US by 2041 and larger than everyone else's as early as 2016.²¹

At the same time, the amount of natural resources available per capita in China is, in most cases, far below the international average and compared with most developed countries. This means that China needs to look outside its borders to meet the growing demands of its economy and population.²² Access to raw materials and oil in particular is therefore a key motive for China's engagement in Africa. In 2005, 21.1 per cent of China's oil imports came from Africa. China has surpassed

13 Holslag et. al. 2007, pp. 25–26.

14 UNCTAD/UNDP 2007, pp. 52–53.

15 Goldstein et. al. 2006, p. 79.

16 Ministry of Foreign Affairs, 2007–05–16 (a).

17 *Financial Times*, May 17 2007.

18 UNCTAD/UNDP 2007, p. 57. *China Daily*, 2006–11–06.

19 The term was used by the *African Business*, July 2006.

20 OECD, September 2005. The figure 9.6 % is given by the World Bank Office Beijing, 2007.

21 Wilson and Purushothaman, 2003, p. 3

22 Pamlin and Baijin, 2007, pp. 4 & 11.

Japan and is said to equal the volume of oil import of the EU. However, in comparison with the US, China's import is modest amounting to only 37 per cent of the American oil imports from the African continent.²³

Resource security, of energy in particular, is in most analyses described as a key economic driver for China's engagement in Africa, together with access to export markets and investment opportunities. Another key driver is said to be a long term strategy to secure commodity assets at source, through negotiations with the African governments. China is thereby allowing itself to bypass international market pricing.²⁴

There are also more politically motivated drivers. Africa is important for China's foreign policy agenda and the building of alliances. China has always regarded Africa as its most reliable ally, according to Chinese scholar He Wenping. The strengthening of Sino-African relations can help China to realise the "one China policy".²⁵ Furthermore, the cooperation is seen as important for China's objective of a multi-polar world order and to promote China's and Africa's interest therein. Finally, the Sino-African cooperation is also seen as beneficial to the unity and cooperation between developing countries. It is China's goal to raise the international status of the developing world and "establish a new international order" by promoting South-South cooperation.²⁶

In much of the debate in a western context on China's role in Africa, China is often viewed as a threat, as a competitor to industrialised countries for access to Africa's natural resources. This view of China's expansion in Africa mirrors the view that exists of China as a threat in more general terms to, in particular, the economic interests of the United States.²⁷ China is often portrayed as the resource hungry dragon with an endless appetite to still for its ever expanding economy.

Two aspects of China's march into Africa which are seldom discussed in the context of competition over resources are:

First, much of the natural resources imported into China are re-exported in the form of value-added inputs or final products for consumption in other countries. This export is to a large extent dominated by foreign companies.²⁸ China is the factory of the world, not only producing to uphold domestic demands as its wealth increases, but to meet global demands and to a large extent to uphold unsustainable consumption and production patterns in the developed world. This

23 Holslag et. al. 2007, p. 26.

24 Naidu and Davies, 2006, p. 79.

25 The one China policy refers to the principle that there is one China and that mainland China, Hong Kong, Macau and Taiwan are all part of that China, as opposed to giving recognition to Taiwan also called Chinese Taipei or The Republic of China. See Wikipedia: http://en.wikipedia.org/wiki/One_China_Principle

26 He, 2006 (b), p. 4.

27 *The Economist*, May 19th 2007, p. 11.

28 Pamlin and Baijin, 2007, p. 5.

does not take away the responsibility of China to ensure that its resource extraction in African countries is carried out in a sustainable manner, but it has much wider global implications.

Secondly, China has a legitimate claim to lift its population out of poverty and to increase its wealth, and is doing so at a rapid pace. This will also mean an increase in the demand for resources.

These two aspects pose challenges not only for China and Africa relations, but for rich countries whose consumption and production patterns are unsustainable. This fact becomes more evident as China is rising and legitimately aspiring to the same standards of living. If China does this by following the same model as the western world this would threaten global environmental sustainability. As pointed out by Lester Brown, President of the Earth Policy Institute, “China is helping us see that the days of the old economy are numbered”, and that another economic model is needed also for industrial countries.²⁹

2.3 The “What’s in it for Africa?” debate

There is an evolving international debate about the benefits and drawbacks for Africa of this new strategic partnership as envisaged in China’s African Policy. It is beyond doubt that China as a global economic power – as an emerging donor, lender and as an investor and trading partner – does and will increasingly impact on developing countries in Africa and elsewhere. The question is how. This debate covers a whole range of issues including economic growth and terms of trade to issues such as poverty reduction, good governance, human rights and natural resource management.

Reactions to China’s increased engagement in Africa are, as one African CSO representative put it, “covering the whole range from excitement to panic, disappointment and uncertainty; and not just from Africans but from the whole international community.”³⁰ China is, for instance, on the positive side seen as a healthy competitor which could give Africa leverage towards traditional donors and address the structural imbalances of the international economic system within which many African countries are facing marginalisation. On the negative side China is also seen as engaging in secret negotiations which disregard the basic building blocks of development such as equality, social justice and a healthy environment.³¹ A couple of concerns raised in this evolving debate will be discussed in this report, others are beyond it.

On a general level, one analysis commissioned by the Norwegian government (with the purpose of looking at implications of China’s role in Africa for Norwegian

29 Brown, 2006, p. 3.

30 Chidaushe in Manji and Marks, 2007, p. 107.

31 See for example contributions in Manji and Marks, 2007.

Foreign and Development Policies), states that there is no conclusive evidence, based on the available data, on what China's new Africa engagement implies for African development. It states that at this stage we can identify trends and challenges and pose critical questions which can help to identify possible threats and opportunities which in turn will make it easier to develop appropriate responses.³²

Another report, consisting of various case studies of the emerging cooperation, states that what is clear is "the need to avoid sweeping generalisations about China's impact. The question is less *does* Africa gain or lose from China, but rather, *which* Africans might gain or lose, in which countries or sectors, and in which circumstances?"³³ Further analysis is needed, not least among those sectors of the population who are most vulnerable and marginalised, to be able to assess policies and attune them for their benefit.



The question is less does Africa gain or lose from China, but rather, which Africans might gain or lose, in which countries or sectors, and in which circumstances?"

Leni Wild and David Mephram, *The New Sinosphere, China in Africa*, 2006.

An OECD study on the rise of China and India, draws some "early conclusions", stating that the demand for Africa's natural resources has contributed to raise the price of raw materials and improve Africa's terms of trade. However, the report states this is "no reason to remain complacent [...] the future of labour-rich and skill-friendly activities in Africa may be compromised, inequalities may deepen and rent seeking activities get more pervasive."³⁴ A report on China's engagement in Central Africa portrays these risks and states it is doubtful whether the Central African population will profit much from China's presence. The new global division of labour with China as factory of the world does not automatically mean that peripheral regions like the Central African will benefit, rather that their main utility will be the supply of commodities. Complementarity, it is argued, becomes a synonym for hierarchy.³⁵

The picture is not black and white, which analyses of the impact of Chinese trade and investments show. On the one hand, the rising prices of commodities have benefited African exporting countries, but conversely this has negative impacts on countries dependent on imports of the same commodities, such as oil. Similarly, imports of Chinese manufactured goods have, on the one hand, provided low income consumers in Africa with much cheaper alternatives to more expensive goods from for example Europe. On the other hand evidence shows that imports from China have displaced African producers, which has resulted in job losses. China is also to some extent competing with African countries in third-country

32 Tjønneland et. al. 2006, p. 15.

33 Wild and Mephram, 2006, p. 4.

34 Goldstein et. al. 2006, p. 111.

35 Holslag, 2005, pp. 17 & 21.

markets with cheap manufactured goods. This has been the case for example in the textile sector where quota limits on Chinese exports were lifted in 2005 which hit, among others, South Africa and Lesotho.³⁶

A key question is how African countries are to make the most of the possibilities and address the challenges which China brings for poverty reduction and development at large.

First, this has implications for domestic policies in Africa. For example, it is imperative that the gains from higher commodity prices are used to close financing gaps for poverty reduction goals and for more long term investments to diversify and develop the economies. Managing the natural resources and containing China's involvement in the extractive industry is said to be one of the greatest challenges faced by African states.³⁷ This links to the need for good governance and regulatory systems which put long term strategic development gains for the benefit of poor people before short term gains for the benefit of a small elite.

Second, it also has implications for the negotiations between Africa and China. A major challenge is said to be that African countries have as yet not used their leverage as resource rich countries and converted it into negotiating power.³⁸ A round-table discussion on implications of China's growth for poverty reduction in the Southern African Development Community (SADC) region, convened by African civil society, similarly concluded that "SADC required a far stronger, responsible and more proactive role and management from both governments and the private sector and changes in the way of doing business that have characterised much of engagement to date."³⁹

The African Union (AU) has announced it will help member states to develop a strategy for China to enable African countries to develop a collective response to the future challenges that may emerge in the Africa-China partnership.⁴⁰ Steps have been taken to establish an African FOCAC Secretariat within the AU to present a unified African stance. It is clear that such an initiative and others are needed. In sum, as expressed by the South African Finance Minister, "China knows what it wants from Africa but Africa is not clear on what it wants from China".⁴¹

Third, the question also has implications for traditional donors who need to attune their policies towards Africa and China and find a new role as the Sino-African cooperation grows stronger. For example, donor countries need to develop strategies for supporting African countries in seizing the opportunities, as well as for engaging with China on poverty and development issues.

36 Kaplinsky in Wild and Mephram, 2006, pp. 15–18. Goldstein et. al. 2006, p. 111.

37 Sidiropoulos, 2006, p. 105.

38 Ibid. p. 104.

39 SARN, 2006, p. 8.

40 *The East African*, 28 June 2007.

41 Orr in *The China Monitor*, June 2007, p. 6.

3. China – a developing country and an emerging donor

China has an interesting dual role as both donor and recipient. Chinese scholars point out that China is still a developing country, sharing similar challenges to those of African countries. Below is a short introduction to China's experiences of poverty reduction followed by some views, as expressed by Chinese stakeholders, on what experiences China could share with Africa.

3.1 Poverty reduction and future challenges in China

China has achieved remarkable success in reducing poverty. According to the World Bank, since China's opening up policy in the late 1970s China has lifted several hundred million people out of absolute poverty, with the result that China alone accounted for over 75 per cent of poverty reduction in the developing world over the last 20 years.⁴² Since 1981, the estimated share of the population living on less than US\$1 per day has been slashed from 64 per cent to 16 per cent, lifting over 400 million people out of absolute poverty.⁴³

According to The State Council Leading Group Office of Poverty Alleviation and Development (LGOP) there are currently 120 million poor people living on less than a dollar per day, the international standard for extreme poverty. The Chinese

42 World Bank Office Beijing, 2007.

43 "UNDP China wins 2006 Poverty Eradication Awards"

government has however its own standards of measuring poverty, according to which there are around 100 million poor, of which around 20 million are absolute poor. China has by this measure reduced the number of absolute poor from 250 million to around 20 million since the late 1970s.⁴⁴

Regardless of this achievement China is facing a number of challenges:

- There is still a high prevalence of poverty in rural areas, especially in the western parts of China, and increasing poverty in urban areas due to migration by farmers who have lost their land.
- The rise in standards of living is unevenly spread and there is an increasing income inequality between rich coastal cities and rural poor areas.
- The Chinese development model has been focused on growth and resulted in huge negative impacts on the environment.
- How to establish the rule of law including the protection of rights.⁴⁵

Although the challenges are similar to those of many developing countries, Chinese organisations working on development and poverty reduction stress that the scale of the problems is huge since China is such a vast country. The Chinese Premier is said to have acknowledged this by saying that any minor difficulty plus our population equals tremendous challenges. Any progress divided by our population, equals minor progress.⁴⁶

China has in its 11th Five Year Plan (2006–2010), which guides government policies, tried to address some of these challenges. China's aim is to quadruple its 2000 level GDP by 2020. This will be done within the context of a so called Xiaokang society – an all round, moderately prosperous and harmonious socialist society by 2020. The concept of Xiaokang is similar to the UN Millennium Development Goals (MDGs). They are both “people-centred” and converge around human centred goals and objectives.⁴⁷ The Xiaokang means a more equitable sharing of prosperity, rather than a mere improvement in growth prospects or social stability. This involves putting people first and achieving the “five-balances” between: urban and rural development; development among regions; economic and social development; development between man and nature; domestic development with opening wider to the outside world.⁴⁸

44 Interview with LGOP, 2 April, 2007.

45 Findings based on interviews by the author with Chinese CSOs and government officials in Beijing, June 2006.

46 Ibid.

47 United Nations System in China 2006, p. 6 and interview with UNDP, 30 March, 2007.

48 Yusuf and Nabeshim 2006, p. 5.

China has been the largest aid recipient country for much of the past 20 years – with a peak in 1994 of US\$3.225 billion, but has in recent years slipped behind Iraq and other countries. Overseas Development Assistance (ODA) to China reached US\$1.757 billion in 2005.⁴⁹ The top three donors 2004–05 were Japan, Germany and France followed by the UK.⁵⁰

Given that China is an emerging economy with such high growth rates, donors have had discussions whether to phase out aid to China or not. Most donors, bilateral and multilateral, will probably stay engaged, but with some reducing their levels. Japan, China's largest donor by far, with a gross disbursement of US\$1.5 billion in 2005 from the Japanese Bank for International Cooperation (JBIC), will end new commitments in 2008. As a result China's net ODA will fall sharply.⁵¹

Even if aid to China has been substantial, the levels are small in comparison with the size of the population. According to Mr Nicholas Costello, First Counsellor of the European Commission Delegation in Beijing, there is no significant direct impact on poverty through the provision of investment funding. The Chinese budget for poverty reduction is almost 10,000 times as much as the funding provided by the EC in aid. Aid to China is however important more in terms of giving China access to Europe's experience of establishing poverty-oriented systems.⁵²

Likewise Chinese scholars, who have carried out research on incoming aid to China, point to how this has contributed to the introduction of new policies and concepts as well as institutional changes. From this perspective declining aid is viewed as problematic. This raises an interesting question of how aid results are measured. Clearly, China shows the value of measures beyond quantitative poverty eradication targets and the role aid can play in introducing ideas.

This is stressed by LGOP, the government body in charge of poverty reduction in China. Bilateral donations are not only seen as important because of the volume, but because of the benefits of exchanging ideas. For example, donors to China have introduced the participatory approach in development projects. A triangular exchange of ideas is said to be important where China could learn from developed countries and at the same time share experiences with developing countries on China's success in lifting large parts of its population out of poverty.⁵³ Such a triangular approach challenges current donor structures and flows.

49 Manning, 2007, p. 2.

50 Statistic from OECD website on ODA to China: <http://www.oecd.org/dataoecd/1/21/1880034.gif>

51 Manning, 2007, p. 2.

52 Interview with the European Commission, Beijing, 26 March, 2007.

53 Interview with LGOP, 2 April 2007.

3.2 What lessons to share with Africa?

The question of what China could share with Africa and what lessons Africa could learn from the Chinese development model is intriguing. The poverty trends in Africa stand in stark contradiction to those in China. One analysis, looking at the number of millions lifted out of poverty in China, somewhat provocatively asks “which G8 country can point to such success for its aid programme?”⁵⁴

Chinese scholars stress that China and African countries share similar experiences and challenges as developing countries. Chinese scholar Yang Lihua points out that China and Africa, apart from economic cooperation could also share experiences



The advice that the African leaders received from their Chinese counterparts was sound, and much more practical than what they typically get from the World Bank.”

Jeffrey Sachs, Professor of Economics, Director of the Earth Institute at Columbia University and Special Advisor to United Nations Secretary-General, *Guardian Unlimited*, May 24, 2007.

on common challenges such as rural development, labour migration, urbanisation and population growth, regional imbalances in development, the development of the domestic market and integration with the international market, to safeguard national interest in the globalisation of markets and to promote the interests of developing countries in world affairs.⁵⁵

On another level, it has been said that China’s development model offers an alternative to African countries to the structural

adjustment policies prescribed by the World Bank and the IMF, a view for instance expressed in a speech by the Chinese ambassador to South Africa.⁵⁶ China has not followed the standardised policy prescription of these institutions. Whether the China model will play out differently remains to be seen. Economist Jeffrey Sachs, Director of the Millennium Review Project and special advisor to the UN Secretary General, has commented that “the advice that the African leaders received from their Chinese counterparts was sound, and much more practical than what they typically get from the World Bank”.⁵⁷ His point is that the Chinese model is a lesson to the World Bank, not just to Africa. However, it has also been stated that there is not much evidence yet that China could provide an alternative to the market reforms promoted by the Bretton Woods institutions.⁵⁸

When asked what lessons China could share with Africa, the LGOP stressed the importance of formulating policies that are context specific, as opposed to a fixed model. As the factors causing poverty vary, different approaches are needed in different regions in China. Gradual reform is also seen as key, to introduce pilot projects on a small scale to test different development ideas on a local level. This,

54 Hilsum in Wild and Mephram, 2006, p. 6.

55 Yang, 2004, p. 8.

56 Liu, Guijin, 2006, p. 5.

57 Sachs, May 24, 2007.

58 *Financial Times*, May 18 2007. (a)

together with a multidimensional approach to poverty reduction, with a focus on capacity building of farmers, and a long term focus where growth is coupled with poverty reduction, were said to be key lessons. Also, to have a special government body in charge of the poverty reduction program is seen as a key to be able to target the poor.⁵⁹

Successes and failures of the Chinese development model are beyond the scope of this research. It might also be too early to say whether and to what extent China has been influenced by its own history of development in its engagement in Africa.⁶⁰ However, it is interesting to note that there are ideas from the Chinese side of what could be shared with Africa, building on the Chinese model. Initiatives are also underway for experience sharing.

A concrete example is that in 2004, at the Global Conference on Scaling Up Poverty Reduction in Shanghai, China in collaboration with the UNDP took the initiative to establish the International Poverty Reduction Center in China (IPRCC) to facilitate knowledge sharing and mutual learning between developing countries. Under its auspice workshops and trainings have been held in China for African government officials including field visits to share Chinese experiences of poverty reduction, and further exchanges are planned.⁶¹ The LGOP has at one of the workshops outlined three steps by which China will offer to help other developing countries: First, support capacity building with poverty reduction in developing countries; second, provide effective platforms for exchange and collaboration between developing countries; third, help with design and execution of poverty reduction projects in developing countries.⁶² Clearly China is prepared to take on an active role in sharing experiences related to poverty reduction.

59 Interview with LGOP, 2 April, 2007 and 15 June, 2006.

60 King, 2006, p. 8.

61 Interview with IPRCC, 18 April, 2007 and interview with LGOP, 2 April, 2007.

62 Liu, Jian, 2006.

4. The evolution of China's assistance to and cooperation with Africa

Among the questions asked during the course of this research was how China's policy towards Africa has evolved over time and what principles China's cooperation with and assistance to Africa are guided by. The findings, mainly based on the accounts of Chinese scholars, are outlined in the following two sections.

4.1 A historical overview

2006 marked the 50th anniversary of the inauguration of diplomatic ties between China and African countries, which started in 1956 with the establishment of Sino-Egyptian relations. However, links between China and Africa go much further back in history.⁶³

The shifts in China's African policy are closely interlinked with domestic development strategies as well as international events. According to the information received from Chinese scholars, China's African policy has in modern history gone through roughly three phases.⁶⁴

63 China already in ancient times formed links with the Egyptian city of Alexandria about 130BC. Trade links were later on developed with other parts of Africa via the Silk Road, and during the Chinese golden ages of the Tang and Song dynasties (600–1300) China's trade with Africa was flourishing. During the 14th and 15th centuries China made several large scale voyages to Africa. This brief exposé is based on Yang, 2004.

64 The information is based on interviews with Chinese scholars unless indicated otherwise. These changes are also described in papers by Li, 2006, Yang, 2004 and He, 2006. (b)

The first phase, starting with the founding of the People's Republic of China (PRC) in 1949, ran from the 50s to the 70s. This was a time when China's policy was primarily politically and ideologically driven. China's policy was mainly concentrated on supporting African people in their struggle for national independence and to unite African countries in the struggle against colonialism and imperialism. Chinese support, moral, military and economic, was given to African independence movements. Aid was an important tool.⁶⁵

This strategy is reflected in the "Five Principles on China's relations with African and Arab countries", put forward by the Chinese Premier Zhou Enlai during a tour to African countries in the early 60s. The first principle reads "China supports the Arab and African peoples in their struggle to oppose imperialism and old and new colonialism and to win and safeguard national independence."⁶⁶ Similarly, the eight principles for providing foreign aid, also put forward during the Premier's tour, among other things stressed self reliance of the recipient countries. This tour is described by the Chinese government as a milestone in the development of friendly relations between China and other Asian and African countries.⁶⁷

It was during this first phase that China constructed the Tanzania-Zambia railway, a flagship in Chinese cooperation, which according to one Chinese scholar, was primarily driven by political motivations from the Chinese side. China in turn sought and gained support from African countries in the international arena, namely support for China's seat in the Security Council of the UN. This support is something still often referred to. President Hu Jintao, in his opening speech at the 2006 FOCAC Summit, stated that "We in China will not forget Africa's full support for restoring the lawful rights of the People's Republic of China in the United Nations."⁶⁸

The second phase started with a move away from ideology to a focus on economic cooperation. In the late 70s, after the end of the Cultural Revolution in 1976 and with China's opening up policy which followed, there was a shift "from idealism to realism/pragmatism in China's economic aid to Africa [...]".⁶⁹ Domestic development was considered a top priority after a period of economic decline

65 Li, 2006, p. 8.

66 The five principles guiding China's relations with the Arab and African countries were: a. China supports the Arab and African peoples in their struggle to oppose imperialism and old and new colonialism and to win and safeguard national independence. b. It supports the pursuance of a policy of peace, neutrality and non-alignment by the Governments of Arab and African countries. c. It supports the desire of the Arab and African peoples to achieve unity and solidarity in the manner of their own choice. d. It supports the Arab and African countries in their efforts to settle their disputes through peaceful consultations. e. It holds that the sovereignty of the Arab and African countries should be respected by all other countries and that encroachment and interference from any quarter should be opposed. Ministry of Foreign Affairs, 2000/11/17.(a)

67 Ibid.

68 President Hu Jintao, 4 November 2006.

69 Yang, 2004, p. 5.

during the Cultural Revolution. This meant a decrease in Chinese aid to and trade with African countries. Instead increased focus was put on developing ties with developed countries including improving relations with the western world. The Premier at the time, Zhao Ziyang, during a state visit to Africa in the early 80s, issued four new principles on China-Africa cooperation which focused on economic-technological cooperation.⁷⁰ Thus the ideological/political focus was pushed aside.

From the 90s and onwards, could be described as a third phase. After Tiananmen Square in 1989⁷¹ China again intensified its cooperation with African countries during a period of frosty relationships with the west. Chinese aid increased dramatically.⁷² Since the 90s China's African policy has had both a political and economic focus, and other forms of cooperation, including cultural, have been added to this. The present strategy is thus described as more inclusive and holistic in its approach, which is manifested in the FOCAC. With the setting up of the FOCAC process in 2000 commenced a period which stands out in terms of intensity and the all encompassing strategies pursued by China. FOCAC, as expressed by one scholar, marks a completely new type of partnership between China and Africa. The establishment of this "new strategic partnership" was proclaimed at the 2006 FOCAC Summit.⁷³

Another way of describing the evolution of China's African policy is outlined by the Chinese scholar Li Anshan in three main shifts: from emphasis on ideology to neutrality, from unitary forms to multiple channels and from single aid to win-win strategy.⁷⁴ These three shifts took place at different moments in the above described chronology.

The first change of China's African policy lies in attitude towards ideology. China's insistence on linkage between foreign policy and ideology faced a dilemma in the 60s as it led to discontinued relationships with several African countries, partly due to the conflict between the Communist Party of China (CPC) and the Communist Party of the Soviet Union. This was resolved by the adoption of a new strategy by the CPC and a "liberation of party relations from the bondage of ideology"⁷⁵ after which the party began to receive delegations of African parties in the late 70s. This has been described as a breakthrough which greatly improved the development of China-Africa relations. Since then the CPC and African parties have developed their contacts further. Contacts are no longer ideologically based nor confined to ruling parties and stretch beyond party politics.

70 Li, 2006, pp. 10–11.

71 For further information see Wikipedia: http://en.wikipedia.org/wiki/Tiananmen_Square_protests_of_1989

72 Taylor, 2006, p. 2.

73 *Declaration of the Beijing Summit of the Forum on China-Africa Cooperation (Draft)* 2006.

74 The following section is based on Li, 2006.

75 Li, 2006, p. 6.

Today party delegation visits constitute an important part of the new partnership. There is a special section in China's African Policy on developing exchanges in various forms with friendly political parties and organisations of African countries with the purpose of increasing understanding and cooperation.⁷⁶

The second shift from unitary forms of relations with an emphasis on political contacts, to exchanges through multiple channels and on different levels coincided with the second phase as described above. The third shift was a move from mainly focusing on gratis aid and interest free loans, to multiple forms of cooperation based on the rhetoric of a win-win strategy. These last two shifts mean that today China's policies and strategies include a wide range of different forms of cooperation, including political high level exchanges, cooperation in international affairs, trade, investments, agricultural and health cooperation, aid, education, science, culture, sports etc.⁷⁷ In the words of Chinese scholar He Wenping: "This multi-dimensional approach to strengthening relations is markedly different from that which Africa has managed with its traditional development partners."⁷⁸ Besides covering many more areas than before, more actors have become involved. According to scholars interviewed, this also means that China's Africa cooperation is today much more complex.

One observation is that Chinese scholars put great emphasis on the historical ties between China and Africa. The past is very much present in discussions on aid to Africa today. For instance, the Chinese support to African liberation movements and the support China got from African countries in establishing its position within the UN is frequently mentioned. Another observation is that Chinese scholars put emphasis on the continuity of relations with African countries. The Chinese policy on aid and cooperation with African countries is said not to have changed so much in essence, but more on a practical level.

Although continuity is a key word, there has been a move towards more specific commitments and pledges in recent years including development assistance. In 2005 President Hu Jintao presented a "five point pledge" which consisted of specific commitments on, among other things, debt relief and the provision of new concessional finance and assistance.⁷⁹ This pledge marked a new era in China's aid to foreign countries, according to the government.⁸⁰ This was followed by the eight concrete measures to support African countries, presented by the President at the inauguration of the 2006 FOCAC Summit (see above).

76 *China's African Policy*, January 2006.

77 These are just a few of the areas in *China's African Policy*, January 2006.

78 He, 2006. (b) p. 6.

79 President Hu Jintao, New York, September 14, 2005.

80 *China Commerce Yearbook*, 2006, p. 438.

4.2 Guiding principles

A demonstration of the continuity of China's African policy is that the eight principles for providing aid to foreign countries, first laid out by Premier Zhou Enlai in the 60s, are still relevant principles that, according to scholars, continue to guide current policies.⁸¹ The eight principles are directed towards China itself as a discipline when delivering aid, rather than towards the recipients.

One of the eight principles from the 50s is to strictly respect the sovereignty of the recipient countries and never to attach conditions when providing aid. The same principle is today enshrined in China's African policy which says that China respects African countries' independent choice of development path and more explicitly; "China will do its best to provide and gradually increase assistance to African nations with no political strings attached."⁸² This is a fundamental principle of China's aid policy according to the Department of Aid to Foreign Countries at the Ministry of Commerce, the main government body in charge of aid.⁸³

China does however have one political condition in the African Policy and that is that the countries it develops state to state relationships with are to give recognition to the one China principle. Aid is however also channelled to African countries that do not recognise the one China principle (see below in Chapter 5). There is also a question of how one defines conditions. Albeit China does not push economic policy conditions in the form of reforms to take place in recipient countries as do traditional donors including the World Bank and IMF, the fact that China provides aid tied to the procurement of Chinese goods and services is a form of condition which favours Chinese interests (see further in Chapter 6). The so called no political strings attached policy is a principle which has caused concern and stirred much debate among the international community (see further in Chapter 7).

81 The eight principles are: a. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual. b. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges. c. China provides economic aid in the form of interest-free or low-interest loans and extends the time limit for repayment when necessary so as to lighten the burden of the recipient countries as far as possible. d. In providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development. e. The Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital. f. The Chinese Government provides the best-quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government undertakes to replace them. g. In providing any technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique. h. The experts dispatched by China to help in construction in the recipient countries will have the same standard of living as the experts of the recipient country. The Chinese experts are not allowed to make any special demands or enjoy any special amenities. Ministry of Foreign Affairs, 2000/11/17. (a)

82 *China's African Policy*, January 2006.

83 Interview with MOFCOM, 17 April, 2007.

Another of the eight principles dating from the 60s, which has been consistent throughout the years, is the principle of “equality and mutual benefit”. This means that aid is not regarded as a kind of unilateral alms but as something mutual. The words “equality and mutual benefit”, along with “friendship and solidarity with African countries”, were the most common way of describing the basic principles of China’s cooperation (not just aid) with Africa by the Chinese stakeholders interviewed for this research.

In the context of discussions on aid, the principle of South-South cooperation was also stressed as a fundament. Aid is in fact carried out within the framework of South-South cooperation as one of several forms of cooperation.⁸⁴ China does not use the language of donor and recipients when giving aid, but mutual benefit. The opening speech of President Hu Jintao at the 2006 FOCAC Summit is an example, which says that mutual support is the driving force behind the ever growing China-Africa cooperation.⁸⁵

It is not difficult to see that China’s rhetoric is attractive to African political leaders. In fact, it reflects the rhetoric used by the AU which recommends that “Africa’s relationship with the emerging powers should be that of true and equal partnerships of mutual trust and benefit, not that of donor and recipient.”⁸⁶

China’s African Policy, adopted by the government in January 2006, describes the basic principles to guide the new strategic partnership in the following way:

- *Sincerity, friendship and equality*; which states that China adheres to “the Five Principles of Peaceful Coexistence”, (another important set of basic principles guiding China’s foreign policies)⁸⁷, and respects African countries’ independent choice of development path;
- *Mutual benefit, reciprocity and common prosperity*; which says China supports African countries’ economic development and is committed to cooperation in various forms for the prosperity of both sides;
- *Mutual support and close coordination*; which includes a commitment from China to strengthen cooperation with Africa in multilateral systems and to appeal to the



Treating each other as equals is crucial for ensuring mutual trust. We both respect the development path independently embarked upon by the other side.”

President Hu Jintao, Address At the Opening Ceremony of The Forum on China-Africa Cooperation, Beijing, 4 November 2006.

84 Ibid.

85 President Hu Jintao, Beijing, 4 November 2006.

86 African Union, September 11–13, 2006.

87 For more information see Ministry of Foreign Affairs 2000/11/17. (b)

international community to give more attention to questions concerning peace and development in Africa;

– *Learning from each other and seeking common development*; which includes references to strengthened exchange and cooperation in various social fields and to support African countries to enhance capacity building, and work together for sustainable development.⁸⁸

88 *China's African Policy*, January 2006.

5. Chinese development assistance to Africa

One purpose of this research was to try to map out what Chinese assistance to African countries looks like and how it is delivered. Below is first an outline of the main institutions involved and their responsibilities. Second, an account is given of the volume and criteria for Chinese aid – an issue which has raised some question marks. The third and last section addresses how China spends its aid; what aid modalities there are, what kind of projects China engages in, to which countries assistance is given and finally China's view on bilateralism and multilateralism.

5.1 Main institutions and their role

There are many players involved in the Chinese development assistance processes. Below is a short description of the main institutions and their responsibilities mainly based on interviews with Chinese experts, government and other sources.⁸⁹

The State Council: The State Council is the highest executive organ as well as the highest organ of State administration, above the government ministries. The State Council is composed of a premier, vice-premiers, state councillors, ministers in charge of ministries and commissions, the auditor-general and the secretary-

89 Chinese government website: <http://english.gov.cn>. There are some written analyses on Chinese foreign aid policy processes and the institutional responsibilities, in Chinese and English, referred to by Glosny, 2006, p.24. Glosny is also used as a source of information for the description above.

general. The Premier often announces cooperation agreements in connection with state visits to Africa.

The Ministry of Commerce (MOFCOM): MOFCOM is the main government body in charge of Chinese aid, both incoming and outgoing. There is a Department of Aid to Foreign Countries in charge of China's outgoing aid.⁹⁰ According to the mission statement on MOFCOM's webpage its responsibilities include: "To formulate and implement China's foreign aid policies and plans, and sign the relevant agreements; To compile and execute annual foreign aid programs; To supervise and inspect the implementation of China's foreign aid projects; To manage China's foreign aid fund, concessional loans, special funds and other foreign aid funds of the Chinese government; To facilitate the reform on foreign aid provision modalities."⁹¹ MOFCOM is in charge of grant aid and government interest free loans.

Within MOFCOM there are also geographical units including the Department of West Asian and African Affairs which has an advisory role on aid and economic cooperation in general with Africa. MOFCOM coordinates aid policies with foremost the Ministry of Foreign Affairs, but also with other government ministries and bodies involved in the provision of development assistance. The Executive Bureau of International Cooperation, a policy executing body, administers the delivery of aid.

The Ministry of Foreign Affairs (MFA): The Ministry takes part in policy formulation; for example the Ministry drafted China's African Policy. The Ministry also has geographical units, including a Department for African Affairs which is, among other things, in charge of diplomatic contacts and of coordinating concrete policies in the bilateral undertakings. In terms of aid and economic cooperation the Ministry seems to have more of an advisory role to MOFCOM. It also plays a role overseeing the operation of the embassies in recipient countries.

The Ministry of Finance: The Ministry is in charge of the budget. As there is no specific annual aid budget MOFCOM, which is in charge of the policies, and the Ministry of Finance negotiate the aid budget each year. Multilateral aid through the International Financial Institutions is under the jurisdiction of the Ministry of Finance.⁹²

Embassies: The Chinese Embassies and more specifically the Economic and Commercial Counsellor's Offices, which are part of MOFCOM, monitor the implementation of projects and report on their progress to the Chinese government.

90 The Department of Aid to Foreign Countries is placed within MOFCOM due to historical reasons dating back to the merging of the Ministry of Foreign Trade and the Ministry of Foreign Economic Assistance, which became the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). In another restructuring this was renamed MOFCOM and the aid responsibilities remained within the department. Glosny, 2006, p. 25.

91 MOFCOM website: <http://english.mofcom.gov.cn/>

92 Manning, 2007, p. 3.

However, their presence is not so large and their duties include not only aid but economic cooperation in general which suggests their capacity to monitor projects is limited.⁹³ The embassies also usually have a small fund of their own from the overall MFA budget to use for emergency grant aid.

The Export-Import Bank of China (China Exim Bank): The China Exim Bank, set up in 1994, is a state policy bank under the direct leadership of the State Council. Among other things it provides export credits, including supplier's and buyer's credits and loans to overseas construction contracts and investment projects. Total assets are RMB350.6 billion end of 2005 (approximately US\$44 billion). The total value of its outstanding loans end of 2005 amounted to RMB 176 billion.⁹⁴ It is said to be the world's third largest export credit agency.

The China Exim Bank is the sole lending bank for Chinese government concessional loans and has a separate Concessional Loan Department. Most of the loans go to state owned enterprises. The China Exim Bank has extended concessional loans to more than 100 countries, with a total outstanding balance of approximately US\$8–9 billion each for Africa and Asia, much less for Latin America; it also has some initial activities in the Pacific region.⁹⁵

Other: Other Ministries also play a role. The *Ministry of Health* is involved in medical and health projects such as dispatching medical teams to African countries, which constitutes an important part of Chinese aid. Likewise the *Ministry of Education* is involved in educational projects, the *Ministry of Agriculture* in rural development and *The Ministry of Science and Technology* manages China's aid in this field.

Besides the China Exim Bank, there are a couple of other policy banks under the jurisdiction of the State Council which play an increasingly important role in the provision of finance for Chinese companies as part of the Chinese government's "going out strategy". One of them is the *China Development Bank (CDB)*, set up in 1994. Until now it has mainly focused on the provision of financing for domestic development projects but its overseas portfolio is growing.⁹⁶

For example, in 2006 the CDB signed a framework agreement with the East African Development Bank (EADB) to finance projects in the region. The CDB in 2006 had US\$300 billion in assets (RMB 2,314.3 billion), making it one of the biggest finance institutions in the world.⁹⁷ Its outstanding loans in Africa amounted to 1 billion US dollars by the end of March 2007.⁹⁸ The CDB will play a key role in channelling the pledged US\$5 billion of the China-Africa Development Fund (see above).

93 Glosny, 2006, p. 26.

94 China Exim Bank 2005 *Annual Report*, p. 5.

95 Manning, 2007, Annex 1, pp. 7 & 8.

96 Manning, 2007, p. 3.

97 *The China Monitor*, July 2006, p. 18. CDB webpage: <http://www.cdb.com.cn/english/NewsInfo.asp?NewsId=415>

98 *China Daily*, 2007-05-14.

There are also state owned commercial banks and purely commercial banks that provide loans for Chinese companies' activities abroad.⁹⁹ None of these banks however provide concessional funding like the China Exim Bank, and they are therefore not "aid providers", but play a role in the overall economic cooperation between China and Africa.

The model below, elaborated by a Chinese aid expert, illustrates the different government bodies involved in the aid process (apart from the China Exim Bank). For example, if China is building a conference hall (a typical aid project) in Ethiopia as part of a bilateral cooperation agreement, the project would be proposed by the State Council together with the Ethiopian government. MOFCOM would be in charge of the policies and allocation of the funds in negotiations with the Ministry of Finance. MOFCOM would also sign the contract. The MFA would give advice in the policy process. The Executive Bureau of International Cooperation, a parallel bureau to MOFCOM, would execute the policies on a project level when the contract has been signed. On the project level Chinese companies would bid for the actual construction of the projects. During the construction phase the Economic Counsellor's Office of the Chinese Embassy would supervise the project and report back on its progress to MOFCOM.



99 For a description of the Chinese banking sector see for example Chan-Fishel, 2007.

In closer detail Chinese development assistance processes are quite complicated; as one scholar explained, almost every institution with business in foreign countries is involved. China has no development cooperation agency, as is the custom in western donor countries, to coordinate the policies. There has been talk of setting one up and China has studied experiences and models of other donors.¹⁰⁰ There is concern about the fragmentation of aid programmes from other donors. The Chinese government is said to be facing the problem of a complex unregulated system of responsibilities spread over several political actors.¹⁰¹

Nevertheless there seems to be some coordination of policies, for example “big contributions” are discussed by a special committee with representatives from the powerful National Development and Reform Commission (NDRC), MFA, MOFCOM and the Ministry of Finance, which reports to the State Council.¹⁰²

The FOCAC process has also resulted in an institutionalised coordination process, covering cooperation beyond development assistance. The first Ministerial Conference took place in Beijing 2000, the second in Addis Ababa, Ethiopia 2003, the third in Beijing 2006. Soon after the first Ministerial Conference the Chinese side established the “Follow-up Committee of FOCAC” with 27 members including the relevant ministries. The Vice Ministers of the MFA and MOFCOM co-chair the Follow-up Committee. The FOCAC also provides the basis for coordination with the African side. According to the Follow-up Mechanism approved by all countries, senior officials will meet every second year and regular consultations will take place in Beijing between African ambassadors and the Chinese secretariat of the Follow up Committee.¹⁰³

5.2 Volume and definition of Chinese aid

As part of the Beijing Action Plan (2007–2009), China has committed to “continue to provide development assistance to African countries to the best of its ability and by 2009 double the size of its assistance to African countries in 2006”. However China does not disclose how much aid it gives to foreign countries on an annual basis or to which countries, projects and in what form of aid modality (loans, grants) mixes. It is therefore unknown what the doubling of the assistance will mean in actual figures.

In 2006, Premier Wen Jiabao, for the first time according to Chinese scholars, gave a figure when in a statement he said that China from 1949 to date has spent 44.4 billion yuan (approximately US\$5.6 billion) assisting African countries.¹⁰⁴ This figure is however thought to be too low according to Chinese scholars. As stated

100 Interview with the Delegation of the European Commission, Beijing, 26 March 2007.

101 Interview with Dept. of Economic Cooperation and Development, German Embassy, Beijing, 25 April 2007.

102 Manning, 2007, p. 4.

103 The FOCAC webpage: <http://www.focac.org>

104 He, 2006. (b) p. 6.

above, the China Exim Bank said in February 2007 that it has extended concessional loans to Africa with a total outstanding balance of approximately US\$8–9 billion.¹⁰⁵

The China Statistical Yearbook gives some figures; the 2005 edition reported China's expenditure for external assistance to be US\$731.20 million for 2004. Few of China's aid experts are said to accept this as an accurate figure, and estimates based on press reports suggest this figure to be too low.¹⁰⁶ The figures of the China Statistical Yearbook were not even mentioned by scholars during the course of interviews for this report.

Although no aggregate annual aid figure is disclosed, China has on several occasions made pledges of grants and concessional loans in figures such as at the 2006 FOCAC Summit (see above). Debt relief pledges have also been announced in aggregate figures when implemented (see below).

In the absence of officially reported annual aid flows, various estimates have been made based on press reports and pieces of information from official government speeches. According to one estimate by the scholar Kurlantzick, China's aid to Africa in 2004 was US\$2.7 billion, most of which would be classified as aid according to the OECD DAC definition. According to this, China already ranks as a significant donor to Africa.¹⁰⁷ This estimate was mentioned by the French development cooperation agency in Beijing during an interview for this research. They estimated that of the 2.7 billion, 2 goes to Sub Saharan Africa.¹⁰⁸ According to estimates (work in progress) from DFID, Africa receives the majority of China's ODA and it is likely that total "reported ODA" in 2006 will be somewhere in the region of US\$1.3–1.4 billion.¹⁰⁹ According to Chinese scholar Qi Guoqiang, China's foreign aid on a bilateral basis in 2006 was RMB8.2 billion, (equivalent to US\$1.05 billion) and in 2007, the total aid expenditure is budgeted to be at least RMB10.8 billion (US\$1.38 billion).¹¹⁰

According to the World Bank publication *Africa's Silk Road* (2007), as of end of 2005 China's concessional loans (via the China Exim Bank) to Africa cover 55 projects in 22 countries with an accumulated commitment of US\$800 million.¹¹¹ This is however way below the figure given by the China Exim Bank in February 2007 (see above). The World Bank publication estimates the total loans – concessional and non-concessional – to Sub-Saharan Africa to amount to over US\$12.5 billion as of mid 2006 in the infrastructure sector alone. The study points at the difficulty in knowing what proportion of these loans is made on concessional versus non-

105 Manning, 2007, p. 7.

106 Glosny, 2006, p. 14 with a reference to "Author's interviews in Beijing Spring 2006."

107 Kurlantzick, 2006, p. 2.

108 Interview with Service de Coopération et d'Action Culturelle, Ambassade de France en Chine. 17 April, 2007.

109 Unpublished document, DFID China 3.1.07

110 Qi, 2007, p. 3.

111 Broadman, 2007, p. 275.

concessional terms, what the duration and interest rates are, which in turn makes it difficult to know what would be comparable to ODA.

Regardless of the exact volume and the difficulty of knowing the terms of the assistance, it is clear that China is becoming an increasingly more important donor to Africa. According to Chinese scholars, with FOFAC China has substantially increased its aid to African countries and it is set to increase it further.

A comparison with the overall increased Chinese presence in Africa might also provide a clue. As aid is often part of the package deals China signs with African countries, there is reason to believe aid will follow similar expanding curves as investments and trade. However, the aid part will most likely be of less significance for African countries in comparison to the impact of China's total economic cooperation.¹¹² The pledge of providing about US\$20 billion in infrastructure and trade financing to Africa – also said to include concessionary loans – during the next three years, made at the annual meeting of the African Development Bank in Shanghai in May 2007, shows the scale of China's near future commitments and engagement in Africa. This sum is said to eclipse many of the continent's traditional big donors by a single pledge.¹¹³ By comparison, in the words of Donald Kaberuka, President of the AfDB: "What we do at the AfDB using donor money for the African Development Fund, we do \$5.4bn in 3 years. (World Bank) IDA is about four times that."¹¹⁴

Why aid figures are not disclosed

There are several explanations given by Chinese scholars for why aid figures – annual and disaggregated by countries and sectors – are not publicly available.¹¹⁵

One set of reasons relate to cautiousness or lack of will on the part of the government to report the volume:

1. First it was said that it might be sensitive for the recipients and that it is up to them whether they want to disclose the aid received or not. One scholar explained that according to Chinese philosophy, "if others have done something good to you, never forget it, but if something good is done to others you should never remember", meaning that it is rude for China to disclose the figures. If the recipient wants to tell about the volume that is fine, but it is up to them.
2. Another explanation given was that it is sensitive for the Chinese government to select which countries should benefit and thereby

112 Manning, 2006, p. 376.

113 *World Bank News and Broadcasts*, Friday May 18, 2007.

114 *Financial Times*, May 18 2007. (b)

115 The listed reasons were given by Chinese scholars in interviews, unless stated otherwise.

to show if one country receives more than the other. Also, that the recipients might think that China is not living up to the expectations of developing countries as China's aid is not so big.

3. Finally, public opinion in China was given as a reason for why the government is cautious to publish the figures. There are different views on whether China should give aid or not. The Chinese public might not be supportive of giving aid as poverty is still widespread and China is facing many domestic development challenges.

A second set of reasons relate to government constraints and to the fact that the government itself might not know the exact figures:

1. One explanation given was that there are difficulties in knowing the exact statistics as there are so many actors involved.¹¹⁶ Several government institutions provide different forms of aid. On top of that China's provinces have their own development channels to Africa and the central government does not know their total value.
2. Also, due to the rapid development of China-Africa relations the ministries are said to be too understaffed to develop the statistics. This was also brought up by donors to China who perceived the Chinese administration to be taken rather by surprise by the recent aid commitments and that it is struggling with how to implement them.¹¹⁷
3. Finally, there seem to be no clear Chinese criteria for or definition of aid. The distinction between aid and economic cooperation is blurred, hence it is difficult to differentiate and report on aid figures.¹¹⁸ The pledges are often made in terms of concrete outcomes; 30 hospitals to be built, or the number of trainings to be held, and these are not converted into separate price tags. The other way round, some commitments are made in figures, like the US\$20 billion funding for infrastructure, but not broken down into what could qualify as aid. There is no specific annual budget designated for aid, which contributes to the statistical and reporting challenges.

MOFCOM, the government body in charge of China's aid policies, was referred to by others who could only speculate on why the aid figures are not disclosed.

116 This was among others stated by the MFA in an interview, 5 April 2007.

117 Interviews with DFID, British Embassy Beijing, 16 March 2007. Dept. of Economic Cooperation and Development, German Embassy, Beijing, 25 April 2007.

118 Interview with the Delegation of European Commission, Beijing, 26 March 2007.

According to MOFCOM the Chinese government never deliberately made the aid figures a secret, but also confirmed that the government is somewhat cautious. One reason given for not disclosing the figure is that China does not have standardised criteria for aid, like for example the OECD and the World Bank, which confirms the reasons given by various scholars and donors. China is still an emerging donor and is as such developing its various reporting standards.

Furthermore according to MOFCOM, there are various criteria for aid so the government does not raise the issue of volume so as not to overestimate or underestimate. The government is still studying which figure can be named as development aid. In this context MOFCOM also said that the exact figure does not matter so much, what really matters is whether aid has really helped poor countries and how to raise its effectiveness. To the question that the fact that there is a commitment to double Chinese assistance to African countries by 2009 must mean there is some baseline, MOFCOM answered that the doubling of the figure is calculated within MOFCOM and this will not be published as it is not calculated as international standards.¹¹⁹

Criteria for aid

It is clear from the reasons given as to why aid figures are not disclosed, that China has no clear criteria for how aid is calculated, or at least no public criteria. The government is currently looking into what could be defined as aid. Chinese scholars explained that aid is loosely defined and carried out within the framework of South-South cooperation (see above), meaning that it is only one part of the picture of this cooperation.

China does not use the language of donor and recipients, but South-South cooperation, which according to one scholar is a reflection of the fact that China considers itself as an equal partner and does not see Africa as only a receiver and an economic burden, but as an opportunity for China within a win-win cooperation. From this angle, it was said that “as a Chinese scholar it is difficult to understand why we should separate aid from economic cooperation.”

It has also been pointed out by western scholars that attempts to identify the specific aid element in China’s overall strategies towards different African countries “may prove to be somewhat artificial” and may end up with a focus that does not capture the holistic nature of China’s strategies. The aid projects need to be seen in the context of the other elements in China’s engagement with individual countries.¹²⁰

It is clear that in order to get the whole picture of China’s assistance to African countries aid needs to be put in the context of the other forms of cooperation China carries out. However, there is also a strong case for clear criteria and a disclosure of criteria and aid figures.

119 Interview with MOFCOM, 17 April 2007.

120 King, 2006, pp.2 & 7.

First, it is important to disclose aid to be able to compare the figures with those of other donors, not for the comparison itself, but because this is a prerequisite for being able to measure global aid pledges and disbursements against global aid targets. This has been brought up by other donors in dialogue with China. When Mr. Richard Manning, the OECD DAC Chair visited China in February 2007 (the first visit of a DAC Chair to China) he “explained the relevance of DAC ODA statistics, not least in relation to international comparisons and international recognition of its efforts, e.g. in terms of Millennium Development Goal No.8.” In response, the Chinese Assistant Minister at MOFCOM said that improving statistics will take time, also in view of China’s emphasis on South – South co-operation, and that it would be possible to establish a mechanism for information sharing after China has established administrative and statistical systems for its assistance. This will be followed up by the DAC Chair.¹²¹

Secondly, it is also important to disclose aid figures to show that what has been pledged has actually been delivered. Public disclosure allows for NGOs, scholars etc. engaged in development work, as well as citizens in both recipient and donor countries, to be able to hold donors to account.

Third, it can be argued that increased transparency is in China’s own interest as the non disclosure of aid causes unnecessary suspicion and invites “China bashing”.

5.3 Aid modalities, projects and channels¹²²

Modalities

There are three forms of assistance:

1. Grants – in kind not in cash
2. Interest free loans – often converted into debt cancellations
3. Concessional loans

Grants: Grants in kind, not in cash, are usually given to social welfare projects (hospitals, schools, housing); technical assistance and human resource development (training of people); and disaster relief.

Interest free loans: Interest free loans are used for bigger sized projects mainly in infrastructure. Debts derived foremost from these loans – and some debts from concessional loans – have been subject to debt cancellations, in effect turning loans into grants.

Concessional loans: Concessional or so called preferential loans were introduced in 1995 and are provided by the China Exim Bank. They are medium and long-term loans – the longest period of use is 20 years, provided at a low interest, namely

121 Manning, 2007, p. 5 & Annex 1 p. 2.

122 The information is based on an interview with MOFCOM, 17 April 2007, unless indicated otherwise.

2 per cent according to MOFCOM. The government subsidizes the interest rate difference. According to David Dollar, World Bank Country Director in China and Chief of Mission, the loans would easily meet the terms of ODA. China like Japan has different terms for different recipients.¹²³

According to the China Exim Bank the purpose of the concessional loan is to promote economic development and improve living standards in developing countries as well as boost economic cooperation between developing countries and China. The borrower is normally the government of the borrowing country. Basic criteria include that the project can generate favourable economic returns (unclear for whom) and that it should have good social benefits.

The loan is mainly used to procure mechanical and electronic products, complete sets of equipment, high tech products, services as well as materials from China. In effect this means that the aid is tied (see also below). The main project sectors are infrastructure – which Chinese assistance is perhaps most renowned for – together with industry and social welfare. In 2005 the concessional loans went mainly to electric power, transportation and telecommunication sectors.¹²⁴

Debt relief: Debt relief was raised by MOFCOM in the context of interest free loans, as these are often written off.

There is debate in western donor countries whether to include debt relief in ODA figures or not. Although DAC rules permit debt cancellation to be counted as ODA, this is in breach of the commitments made by donor countries 2002 in the so called Monterrey Consensus according to which donors are encouraged to ensure that resources provided for debt relief do not detract from ODA intended to be available for developing countries.¹²⁵

Donors do however use aid for debt cancellation. Of the €47 billion of European ODA in 2006, as much as €11 billion was used for debt cancellation. This practice of inflating aid figures is criticised by European CSOs who argue that both aid and debt cancellation are needed to fight poverty.¹²⁶ It is unclear whether China calculates debt relief as aid as there is no public annual aid budget.

The Chinese government has announced three packages of debt relief:

- The first package was announced at the 2000 FOCAC Summit which has been delivered to a value of 10.9 billion RMB (approximately US\$1.38 billion) to 31 African countries.

123 Interview with The World Bank Office Beijing, 26 March, 2007.

124 China Exim Bank, 2005 *Annual Report*, p. 17 and website: <http://english.eximbank.gov.cn/business/government.jsp>

125 United Nations, 2002, p. 12.

126 Hayes, 2007, p. 9.

- The second package was announced by President Hu Jintao at the UN High Level Meeting on Financing for Development in 2005, which consisted of a commitment “to further expand its aid program to the Heavily Indebted Poor Countries (HIPCs) and LDCs and, working through bilateral channels, write off or forgive in other ways, within the next two years, all the overdue parts as of end of 2004 of the interest free and low interest governmental loans owed by all the HIPCs having diplomatic ties with China.”¹²⁷
- The third pledge was made at the 2006 FOCAC Summit and includes a cancellation of all the interest-free government loans that matured at the end of 2005 owed by the HIPCs and the LDCs in Africa that have diplomatic ties with China.

By April 17, 2007 only the first commitment had been implemented, and no figures were available for the other two. MOFCOM has announced that China will sign debt relief agreements with 33 African countries by the end of 2007 to honour the pledges it made at the 2006 FOCAC Summit.¹²⁸

On the question of the proportion of the three forms of assistance – grants, concessional and interest free loans – this seems to be case specific and vary according to countries’ requests. The criteria of selection are also based on World Bank indicators of levels of social and economic development. China mainly provides interest-free loans and grant assistance to the heavily indebted and least developed countries.¹²⁹

Concessional loans are according to some sources the most common form of finance to African countries, while grants are decreasing.¹³⁰ Another rough estimate is that half of China’s aid in total, not just to Africa, takes the form of grants and half the form of loans.¹³¹ This type of information is not so easy to verify. What is clear is that concessional lending increased rapidly as a form of assistance to developing countries at large in 2005.¹³²

Projects

China’s assistance is exclusively project based. China does not give programme or budget support like many western donors. However as the project based assistance is almost always part of bigger package deals, which include other types of

127 President Hu Jintao, New York, September 14, 2005.

128 *China Daily*, 2007-05-16. (b)

129 Interview with MOFCOM, 17 April 2007 and Ministry of Foreign Affairs, 2007/05/23.

130 Broadman, 2007, p. 274.

131 Glosny, 2006, p. 16.

132 *China Commerce Yearbook*, 2006, p. 438.

cooperation with the recipient countries, it could be argued the assistance is more comprehensive than just the projects themselves.

There are three types of projects:

- Projects where the Chinese government provides all components from the beginning to the end, so called turn key projects;
- Projects where parts of the material are provided and there is some form of technological collaboration;
- Human resource training projects and projects where China dispatches medical teams or volunteers.

Over the past 50 years China has, according to MOFCOM, assisted African countries with 133 infrastructure projects, 38 hospitals and has dispatched 16,000 medical personnel to Africa.¹³³ China has a preference for infrastructure projects, social infrastructure such as hospitals, the productive sector notably agriculture and finally construction of sports stadiums and government offices.¹³⁴ The President of the China Exim Bank has stated that by the end of 2006 the Bank had financed 280 projects in 37 African countries in such areas as telecommunications, power plants, bridges, roads, ports, railways, real estate, water supply, agriculture, schools and hospitals.¹³⁵

It is difficult to get aggregated information of the compilation of loans and grants, to which countries and what projects China directs its assistance. MOFCOM each year produces a *China Commerce Yearbook* (CCY) which contains a few pages on China's aid to foreign countries with lists of the number of agreements signed, undertakings of projects in which countries, the number of training courses held etc. There is also a chapter on economic and trade relations with Africa which includes a few lines on aid. According to the Yearbook, "In 2005 China provided various financial assistance in 171 batches to African countries, undertaking 26 complete plant projects, 36 technological cooperation projects and 9 projects using concessional loans there." By the end of 2005, China had altogether offered various assistance to 53 African countries, and helped 49 African countries finishing 772 complete projects. Chinese enterprises had undertaken 74 projects using concessional loans in 31 African countries.¹³⁶ There is no information of how priorities are defined or the basis for how aid is targeted.

There is reason to believe that the Yearbook does not give a complete picture of Chinese assistance to Africa, nor China's presence in African countries at large. Information on what projects in which countries China engages in can be found

133 Interview with MOFCOM, 17 April 2007.

134 Manning, 2007, p. 4.

135 World Economic Forum 2007. "Interview with President of the China Exim Bank"

136 *China Commerce Yearbook*, 2006, p. 685.

by compiling different official statements and media reports, African, Chinese and international.

The Centre for Chinese Studies (CCS) in South Africa on a regular basis provides updates on Chinese activities on the African continent based on such media reports. For example, an update evaluating President Hu Jintao's trip to eight African countries at the beginning of 2007 gives an account of the various agreements made as a follow up to the 2006 FOCAC Summit. The deals struck with Zambia, one of China's top aid recipients according to Chinese scholars, illustrate the Chinese way of embedding grant aid, concessional lending and debt relief within package deals also including trade, investments, joint ventures and loans on different terms. Some of the agreements are equivalent to the DAC definition of ODA, others not.

Agreements made with Zambia during President Hu Jintao's African tour 31 January – 10 February 2007:

Eight cooperation agreements on aid and investments were signed. The agreements include the cancellation of US\$3 billion of Zambian debt; enlarging the number of zero-tariff Zambian exports (from 190-440); the construction of a sports stadium in the city of Ndola, an agricultural technical demonstration centre, two rural schools, one hospital, and an anti-malaria centre; undertakings of 117 Chinese government scholarships between 2007-2008; increasing the number of Zambian professionals being trained; and enlarging the number of experts in agriculture as well as youth volunteers to the country. The Chinese state visit will bring US\$800 million worth of new investments to Zambia. Talks were also held to establish the first of 3-5 economic and trade zones in Africa, announced as one of the eight measures by the Chinese side at the 2006 FOCAC Summit.¹³⁷

Recipients/partner countries

China's strategy is not to concentrate on specific countries as the objective is, according to one scholar, to have a balanced way of giving assistance especially if grants are involved. In effect, by the end of 2006, the number of recipients is according to MOFCOM all 53 African countries.¹³⁸ The 53 countries strategy reflects China's sensitivity against favouritism.

It is noteworthy that this figure goes beyond the 48 African states China has diplomatic relations with, that is to say those which recognise the "one China principle",

137 Edinger in *The China Monitor*, 15 February 2007, pp.6-7.

138 Interview with MOFCOM, 17 April, 2007.

and which are member states of the FOCAC process. China's African Policy states that the one China principle is the political foundation for the establishment and development of China's relations with African countries and that "the Chinese government appreciates the fact that the overwhelming majority of African countries abide by the one China principle, refuse to have official relations and contacts with Taiwan [...]"¹³⁹ However, it clearly does not prevent China from channelling aid to all 53 African countries.

The lack of transparency makes it difficult to know how China prioritises its aid, if some countries are seen as more in need than others and what countries are of top priority on what basis, which is problematic from the viewpoint of assessing the effectiveness. Information is probably easier to obtain by looking at African countries' statistics, than Chinese. When Chinese scholars were asked to name top recipients Angola, Sudan, Tanzania, Zambia and Ethiopia were mentioned.

According to one source, Tanzania is China's over time largest aid recipient in Africa having received US\$2 billion in aid since the 1960s.¹⁴⁰ Angola, top trading partner of China and among its largest sources of oil imports, has according to one source been made the largest foreign aid destination in recent years.¹⁴¹ China is said to have overtaken Portugal, Russia and Brazil as Angola's top aid donor. In Angola Chinese companies have engaged in infrastructure projects including the rehabilitation of a railway.¹⁴²

In the interviews almost all Chinese mentioned the Tanzanian Zambian railway project constructed between 1970 and 76, to which China is still providing assistance for its improvement. This project seems to be the number one flagship in Chinese aid history, not least because of its strategic importance in forging ties between the two continents. The 1860 kilometre long railway is also said to be one of the largest foreign aid projects China has undertaken, financed by an interest free loan of approximately US\$500 million.¹⁴³

Bilateralism, multilateralism and the voice of developing countries

China's approach to development assistance is mostly bilateral. China does not seem to have specific country strategies; rather the modalities and projects seem to be based on the demands and proposals from the recipients as they arise coupled with the Chinese wish to see tangible results.¹⁴⁴

139 *China's African Policy*, January 2006. The 5 African countries with formal diplomatic relations with Taiwan are (as of end of 2006): Burkina Faso, Gambia, Malawi, Sao Tome and Principe, and Swaziland.

140 Centre for Chinese Studies 2006, p. 45. which bases this figure on *People's Daily Online*, April 18, 2005.

141 Wenran, 2006, p. 7.

142 Fabricius in *The China Monitor* July 2006, p. 9.

143 Centre for Chinese Studies 2006, p. 48 and He, 2006 (c) p. 6

144 According to both Chinese scholars and Manning, 2007, p. 4.

Assistance is mostly government to government, but more actors are becoming involved, foremost private enterprises. The African Policy mentions NGOs in the context of humanitarian aid and to “support exchange and cooperation between the Red Cross Society of China and other NGOs on the one side and their African counterparts on the other side.”¹⁴⁵

China channels some aid via multilateral institutions including UN agencies, the Asian Development Bank (ADB) and the African Development Bank (AfDB), and will do so increasingly.¹⁴⁶ China contributed with substantive aid to the UN after the tsunami catastrophe in Asia in 2004, which, according to the UNDP, is an example of China’s growing interest in cooperating in multilateral aid initiatives. China has in general a positive view of cooperation within the UN system on poverty reduction including supporting the MDGs.¹⁴⁷ An overview of the exact volume and to which institutions or global funds China contributes is not so easily obtained. However, public announcements have been made. For example, at the annual AfDB meeting in May 2007, China announced that through the AfDB, it has provided 314 million U.S. dollars to 14 projects in eight African countries.¹⁴⁸

African regional development banks and organisations have in general become a target for Chinese cooperation. As stated above, in 2006 the China Development Bank (CDB) signed a framework agreement with the East African Development Bank (EADB) to finance projects in the region. China is the only non-African shareholder in the Eastern and Southern African Trade and Development Bank (PTA Bank) and has strengthened its influence in the West African Development Bank (WADB) to which it has also provided a technical cooperation fund. In these regional development banks China often combines the positions of lender, decision-maker, and contractor.¹⁴⁹ Regarding regional organisations China foremost

cooperates with and has donated funds to the AU and the New Partnership for Africa’s Development (NEPAD); see also below.

Although China’s approach to aid programming is mainly bilateral, China adheres to the principle of multilateralism in its general political priorities. In particular China stresses the need to promote the interests of developing countries in the international arena. China’s African



China is devoted, as are African nations, to making the UN play a greater role [...] establishing a new international political and economic order featuring justice, rationality, equality and mutual benefit, promoting more democratic international relationship and rule of law in international affairs and safeguarding the legitimate rights and interests of developing countries.”

China’s African Policy, January 2006.

145 *China’s African Policy*, January 2006.

146 Manning, 2007, p. 5.

147 United Nations System in China 2006, p. 20 and interview with UNDP, 30 March, 2007.

148 Ministry of Foreign Affairs, 2007–05–16. (b)

149 Holslag et. al. 2007, pp. 14–15.

Policy states that China supports African nations' desires to be an equal partner in international affairs. Furthermore, China is devoted to establishing "a new international political and economic order" featuring, among other things, equality, and to promote a more democratic international relationship to safeguard the interests of developing countries.¹⁵⁰

On the question if China is promoting the voice of developing countries within the Bretton Woods institutions – an objective of many CSOs engaged in development issues given the fact that these institutions have such great influence over developing countries which in turn have little voice within them – it seems China is not so vocal. One analysis states that it is unclear what China's position is on the reform of the Bretton Woods institutions.¹⁵¹ However, in the context of discussions on the World Bank's strategy for good governance and anticorruption China has raised the need to look at the Bank's internal governance and the lack of influence of developing countries.¹⁵² China itself has benefited from the quota reform adopted by the IMF Board of Governors in September 2006 to increase the quotas for a group of underrepresented countries in terms of their positions in the world economy.¹⁵³

China's focus is mainly on the UN. The joint declaration adopted at the 2006 FO-CAC Summit calls for reform of multilateral institutions, only naming the UN in terms of increasing the participation of African countries. China's African Policy states that China is devoted to making the UN play a greater role. One analysis however states that China has a vested interest in blocking certain reforms in the UN. China does not, for example, support the addition of new permanent members to the UN Security Council.¹⁵⁴

In general China's attitude is to keep a low profile in international diplomacy; it does not see itself as a leader country. For example, while China is a member of the G20+ it has favoured a more discreet mode of engagement with the developed world in comparison with Brazil and India.¹⁵⁵ Part of the explanation is that China does not want to rock the boat. One scholar explained that when China takes initiatives it often raises the suspicion of the US and EU, so if China is at the forefront of a suggestion it could create more problems than solutions. Another part of the explanation is probably that China still is, and sees itself, as a developing country not yet ready to play such a leading role.

Still, China has advocated for more support for developing countries. The declaration adopted at the 2006 FO-CAC Summit calls on developed countries to honour

150 *China's African Policy*, January 2006.

151 Sidiropoulos, 2006, p. 100.

152 Interview with The World Bank Office Beijing, 26 March, 2007.

153 IMF, September 18, 2006.

154 Sidiropoulos, 2006, p. 100.

155 *Ibid.*

their commitments to opening up markets, cancelling debts and increasing official development assistance.

Looking ahead it is clear that China, which increasingly is portraying itself as a responsible international stakeholder and a development partner in Africa, will play an important role in shaping global governance and development finance systems.

6. Aid effectiveness

6.1 The concerns

Aid effectiveness, that is to improve the management of aid so that it reaches those who need it most and so that it contributes to development in the recipient countries, has become a key word in discussions around development finance. CSOs have long highlighted the need for not just more but better aid. CSOs monitor the performance of both donors and recipients and have contributed to the debate on what constitutes qualitative aid.¹⁵⁶

Key concerns include the multiplication of donor missions and procedures which have placed heavy burdens on recipient countries. The typical African country hosts on average 200 aid missions a year and submits 10,000 quarterly reports. Donor coordination could lower these transaction costs. Another key concern is that donors in different ways promote their own interests rather than aligning aid to the priorities of the poor countries including tying aid to the purchasing of goods from the donor countries. CSOs have also long campaigned against the use of economic policy conditions by donors in the delivery of development assistance (aid, loans and debt relief) which undermine national democratic decision making processes in developing countries and which have had negative effects on poor people.¹⁵⁷

156 See for example reports by the Reality of Aid Network (www.realityofaid.org), Real Aid reports produced by Action Aid International (www.actionaid.org) and Aid monitoring by Eurodad (www.eurodad.org), and reports by AFRODAD on African level monitoring (www.afrodad.org).

157 Eurodad, 2007.

In 2005 the Paris Declaration on Aid Effectiveness was adopted by both aid receiving and providing countries. Five principles, in turn broken down into specific indicators and targets, are to guide future aid relationships between donors and recipients:

- Ownership – donors are to base their overall support on partner countries' own national development plans etc;
- Alignment – partner countries are to exercise leadership over their policies and donors are to respect their leadership;
- Harmonisation – donors are to harmonise actions so as to lower transaction costs for the recipients;
- Managing for results – more results oriented decision making etc;
- Mutual accountability – including promoting transparency and participation.¹⁵⁸

CSOs have in general welcomed the Paris Declaration which addresses some of the key issues on aid effectiveness. CSOs have also pointed to some weaknesses, including the fact that even though ownership is a key principle the declaration does not explicitly mention conditionality and how this relates to national ownership of policies.

A huge debate in the context of aid effectiveness is how to combat corruption and promote good governance. The debate has intensified in donor countries in tune with increased aid pledges since 2005. The Paris Declaration includes commitments on action against corruption and lack of transparency, which among other things erode public support and impede effective use of resources for poverty reduction. The World Bank in March 2007 adopted a Governance and Anticorruption Strategy, after a prolonged debate and consultation period which reflects the complexity of the issue.

CSOs share the concern of donors for what negative effects corruption has in terms of siphoning off much needed resources for poverty reduction. A key message from CSOs in the debate has been to focus on the source of corruption: the institutions, companies, donors that engage in corrupt practices such as paying bribes, rather than just clamping down on the receiving end.¹⁵⁹

There are many aspects of the aid effectiveness agenda. In relation to China, a report commissioned by the Norwegian government concludes that although

158 *Paris Declaration on Aid Effectiveness*, 2005.

159 See for example the Governance section on Eurodad webpage: www.eurodad.org

China is emerging as a significant donor to Africa, “we know very little about the quality and impact of Chinese projects and assistance to Africa. Nor do we know how Chinese authorities assess such issues.”¹⁶⁰

At this stage there are more questions raised by external actors than outright concerns: What is China’s view on aid effectiveness? What mechanisms are there to assess effectiveness? How does China view the problem of corruption when giving aid? Does China view ownership as important when giving aid and if so how does China align its aid to African initiatives? Is China interested in cooperation with other donors according to the objective of harmonisation of aid as stated in the Paris Declaration?

Some concerns do however exist. The use of tied aid, which raises the transaction costs for recipient countries, and aid tied to the use of Chinese labour in construction and its impact on the objectives of local employment and capacity building, are raised in analyses on China’s role in Africa. Although China’s African Policy states that China provides assistance with no political strings attached, tied aid is a form of conditionality albeit different from the types of conditions that push for reforms to take place in domestic political or economic processes which is the practice of traditional donors such as the World Bank and IMF. The Chinese no political strings attached and non-interference policy, which is a general foreign policy not just in aid relationships, has itself raised concerns in terms of its effect on democracy, social and environmental protections etc, which will be dealt with in Chapter 7.

6.2 Chinese views and responses

To try to fill the knowledge gap, among the questions asked in the course of this research were Chinese views on aid effectiveness, what mechanisms there are to assess this and how China views the problem of corruption when giving aid. Also, questions were asked which to some extent relate to the targets of the Paris Declaration: Ownership, Alignment – the use of tied aid and the use of Chinese labour in construction projects, Harmonisation – whether China has shown interest in donor coordination. Below is a compilation of the findings. The issue of corruption is revisited in the context of the no political strings attached policy in Chapter 7.

What is effective aid and how is it measured?

A common answer to the question what aid effectiveness means for China, was that Chinese aid is effective as it is concrete. Chinese aid is providing Africa with concrete things they can use, like buildings and roads. The construction of schools, hospitals and infrastructure serves to meet the needs of African people, according

160 Tjønneland et. al. 2006, p. ix.

to the Department of Aid to Foreign Countries at MOFCOM. Furthermore, China considers how poor people can benefit in terms of access to education, beyond the physical construction projects. One scholar stated that China's practical approach to aid means that Chinese aid has been more effective than that of developed countries, where aid has become a business in itself with very complicated procedures and resources spent on personnel and consultants. Although China needs to learn from other donors, it was argued that it should not lose itself in these complicated aid practices.

Scholars mentioned China's human resource training and the medical teams sent to African countries as success stories in terms of effectiveness. These projects are assessed in the exact numbers of people trained or treated. Nearly 240 million patients have been treated by the 16,000 doctors who have worked in African countries since the 60s.¹⁶¹ This echoes the concrete way of measuring results in the number of roads, buildings built etc.

On the question what mechanisms there are in place to monitor and evaluate the effectiveness of aid, MOFCOM explained that an evaluation is done for each project. Before each project a feasibility study is carried out by technicians. This needs to be approved by both governments before the project is implemented. A joint mid term evaluation is carried out. Finally, after project completion a post evaluation is done for both countries to approve. Although mechanisms are in place, a Chinese scholar stated that there are only rough evaluations of the social benefits of aid and there is no systematic methodology for measuring this. This is a weakness and one scholar stressed the need for a third party to do the evaluation, which however was said to be sensitive.

On the issue of how to avoid resources being siphoned off through corruption, scholars and MOFCOM said that the fact that China does not give aid in cash but in kind (material, roads, hospitals etc.) means there is less risk of corruption. One scholar said that corruption has not been so serious a problem till now, but with more aid it might become a bigger issue.

A reflection is that although aid in kind might avoid direct support to corrupt elites or leaders, it does not guarantee that corruption does not occur on a project level among the companies in charge. The MFA, stated that the government is aware there are problems of corruption among Chinese companies. It was stressed that this is common among all enterprises regardless of nationality, but that the government should and is taking responsibility for this. A government study is being carried out on how to deal with the issue, including how companies can contribute more to local development.¹⁶² (See also Chapter 7).

161 Liu, Guijin, 2006.

162 Interview with MFA, 5 April, 2007.

Officials and scholars alike stated that China in general is interested in learning from other donors with a longer experience of providing aid. The view is that China is a newcomer and has a lot to learn. At the same time scholars expressed confidence in the success of Chinese aid, which indicates a high level of support of the Chinese way. The need for more Chinese development specialists was also raised. Here a scholar suggested that western countries could play a role by receiving Chinese scholars and interns. This was said to be important as the lack of development specialists does not offer good prospects for multilateral cooperation.

Scholars also stated that incoming aid to China has brought with it evaluation systems which could be applied to outgoing aid. According to the World Bank, China has a sophisticated analysis of incoming aid and has evaluated World Bank support.¹⁶³ One scholar suggested that the incoming and outgoing aid departments could be merged to facilitate the exchange of ideas.

Ownership and alignment and donor coordination

China has signed up to the Paris Declaration and has thereby committed to follow its five main principles including strengthening the ownership of recipient countries, aligning aid to their systems and priorities and cooperating with other donors so as to increase the harmonisation of aid.

However, according to donors to China, China probably signed up in its capacity as a recipient rather than as a donor country.¹⁶⁴ The Paris Declaration as such does not seem to be so well known among scholars, or at least it is not referred to. Still there seem to be some similarities between the principles of the declaration and issues stressed by China in its aid to and cooperation with Africa. One scholar however said the Paris Declaration has enhanced China's awareness of the need to coordinate assistance and that China is becoming more aware of donor recipient relationships.

Regarding ownership, China is said to put a lot of emphasis on ownership by recipient countries and on responding to the demands of their governments.¹⁶⁵ China aligns its aid to national priorities as presented by the governments, but through other mechanisms and in different ways from traditional donors. Poverty Reduction Strategies (PRSs) – an initiative launched by the World Bank and IMF in 1999, according to which all developing countries are to draw up their own strategies for poverty reduction and donors should align their aid to them – do not seem to be present in the Chinese aid discourse.¹⁶⁶ One explanation for this is probably that China rather adheres to its own principles and the agreements made with African

163 Interview with The World Bank Office, Beijing 26 March, 2007.

164 Ibid and interview with DFID China, British Embassy Beijing, 16 March 2007.

165 Interview with The World Bank Office, Beijing 26 March, 2007.

166 This conclusion is based on the fact that no one mentioned them in the discussions on aid during the interviews for this report and many had not heard of the concept of PRS.

countries within the FOCAC process, rather than to those developed by western dominated institutions like the World Bank and IMF.

Also, the Chinese way of aligning aid and its concept of ownership are focused on governments. The Chinese non-interference policy is an illustration of this. This means that China does not ask questions whether the national priorities presented by the recipient governments have been developed in a process of broad based participation with parliamentarian and civil society involvement, as is required for PRSs. Downward accountability to parliaments and citizens is also a commitment made in the Paris Declaration. China's view of ownership does not however seem to include this approach. (The concept of ownership is revisited below when discussing the no political strings attached policy.)

In terms of alignment, besides putting emphasis on governments, China has also committed in the African Policy and the FOCAC declarations to support and cooperate with the AU and the NEPAD. Chinese scholar He Wenping in a report stresses that the NEPAD and FOCAC share development desires and goals. The sectoral priorities are similar, for example focusing on infrastructure, human resource development and agriculture. She argues that the cooperation has generated tangible results, but could be strengthened by establishing a liaison office between the two and expertise committees to evaluate the feasibility of individual projects.¹⁶⁷

One concern and critical remark made by other donors and in the media is China's use of tied aid. For example criticism has been forwarded that the US\$5 billion pledged for the China-Africa Development Fund has been portrayed by Beijing as economic assistance but in reality will be used to invest exclusively in Chinese enterprises and their projects on the continent.¹⁶⁸ Basic criteria for concessional loans from the Exim Bank are that Chinese enterprises should be selected as contractors/exporters and equipment, materials, technology or services needed for the project should be procured from China ahead of other countries – no less than 50 per cent of the procurements shall come from China.¹⁶⁹ Albeit tied aid is different from conditions which impose policy reforms on recipient countries, aid tied to the procurement of Chinese goods etc. is, as pointed out by David Dollar, World Bank Country Director in China and Chief of Mission, a type of condition which China does have.¹⁷⁰

According to the OECD DAC tied aid increases the cost of aid for the recipient by 15 per cent–40 per cent.¹⁷¹ However, in the Chinese case some evidence shows that Chinese companies have contributed to the lowering of costs, but there are also examples where Chinese export credits have resulted in African countries having to

167 He, 2006 (a). p. 3.

168 *Financial Times*, June 25 2007.

169 China Exim Bank webpage.

170 Interview with The World Bank Office, Beijing, 26 March, 2007.

171 OECD, 2005.

pay more for Chinese goods and services.¹⁷² Additional to the cost aspect, tied aid means missed opportunities for local firms to use aid money to provide employment and develop local capacity.

DAC donors in 2001 agreed to untie all their aid to least developed countries, excluding food aid and technical assistance. Most donors have failed to live up to this commitment. Only three DAC countries – Norway, Ireland and the UK – have fully untied their aid. Analysis shows that even where donors officially have untied aid, a big bulk of donor contracts are awarded to host country firms.¹⁷³ The Paris Declaration target on tied aid is quite weak as it says progress should continue “over time”.

In the light of slow progress of DAC donors and, as pointed out by the DAC Chair, the fact that it took 40 years for DAC members just to agree to untie what is only a proportion of their bilateral aid, it is understandable that non DAC donors are less open to committing themselves. Similarly, Adrian Davis, the Head of DFID China, remarked that it took the UK 25 years to untie its aid and China is a new donor.¹⁷⁴ Nevertheless, the reason why tied aid is problematic remains and of course applies to all sources of funding, including Chinese. It is unclear if China has a goal to untie its aid.

Another common concern in analyses of China’s role in Africa is that Chinese projects, not just within the sphere of aid but in general, are carried out with and tied to Chinese labour. This inhibits local employment and the development of local skills, capacity and self reliance. Furthermore, there is a perception that Chinese companies underpay the labour they do employ.

A survey commissioned by DFID on China’s involvement in Africa’s construction and infrastructure sectors in four countries concludes that Chinese companies examined were usually found to employ a large amount of local labour, 85–95 percent of the total workforce. Locals were predominantly employed as low skill labour, but there were also many instances of locals in more senior positions. This shows that the perception of Chinese companies bringing their own workers is not always true. The survey shows it varies from country to country; the local employment rate is higher in Tanzania and Zambia, where Chinese companies have a longer presence, compared with Sierra Leone and Angola (very few local workers). Regarding salaries, Chinese companies are gradually increasing them. However, the study also says domestic labour dynamic gives an understanding of China’s activities abroad. Chinese construction labour mainly consists of rural migrant workers who are underpaid in comparison with global labour standards. Chinese

172 Tjønneland et al. 2006, p. 17.

173 Action Aid International, 2006, p. 35.

174 Manning, 2006, p. 378 and interview with DFID China, British Embassy Beijing, 16 March 2007.

companies abroad compete on price which makes it likely they will continue to push down the price of labour.¹⁷⁵

The Chinese government has said it has no preference per se for Chinese labour in response to the concern raised.¹⁷⁶ There is an acknowledgment of the concern about not contributing to the strengthening of the capacity of local workers and thereby the long term sustainability of projects. According to the MFA, there are criteria for exporting labour set by the government and China will raise the criteria (so as to further restrict export of labour) as well as establish a fund for Chinese companies to use local labour. It was also said that African governments could take further measures which China then will respect.¹⁷⁷

The MFA representative however said there is an issue of Chinese workers having the right experience, echoing the comment of Chinese companies in the above mentioned survey, who remarked on the lack of skills and high turn-over of local workers. African governments have according to one scholar specifically asked for Chinese workers as they are hard working. The same observation has been made by the DAC Chair and other analysts.¹⁷⁸

China has made some pledges to prioritise African capacity building and self-development. Self development is also said to be a key principle of Chinese assist-

ance. China will for this purpose train technicians and management personnel. China today provides technical support to prepare local people to take over and run projects. This reflects growing Chinese concern for sustainability of projects.¹⁷⁹ Under the African Human Resources Development Fund, set up with the purpose of sharing skills, China has trained over 10,000 African professionals in various fields.¹⁸⁰ Whether these measures are suf-

ficient to strengthen the ownership and long term sustainability of projects of course needs to be studied in the respective African countries.

Finally, on the question of whether China coordinates its aid with other donors, in general the UN was stated to be China's first choice if engaging in joint donor initiatives. The OECD DAC is seen as too donor dominated, and is according to one scholar problematic for China as it is built on a fixed model which is difficult to change. Other models of cooperation are needed. Similarly another scholar said



We in China always say that you'd better teach someone how to fish than give him fish. The purpose of China's assistance to Africa is to enhance the self-reliance capability of African countries."

Ministry of Foreign Affairs, 2007/05/23.

175 Centre for Chinese Studies, 2006, pp. 69–70.

176 Manning, 2007, p. 3.

177 Interview with MFA, 5 April 2007.

178 Manning 2007, p. 4 and Sidiropoulos 2006, p. 109.

179 Manning, 2007, Annex 1 p. 2 and Tjønneland et. al. p. 11.

180 *The Beijing Action Plan* (2007–2009).

DAC was very “politically oriented”. These comments indicate certain scepticism regarding the willingness of China to engage with traditional donors. However, contacts have been established between China and the DAC, including the visit of the DAC Chair to Beijing in February 2007, which resulted in some initial interest in further dialogue.¹⁸¹

In African countries, China very seldom engages in donor consortia, though a few examples exist including Kenya and Ghana.¹⁸² China participates in donor meetings if the recipient country governments invite them, but they do not want to be associated with donor driven initiatives.¹⁸³

It is early days yet for Chinese participation in coordination activities. Chinese scholars said donors want to cooperate with China and always raise this, while on the Chinese side there seems to be more caution. Donors to China and Africa try to engage China in joint discussion on Africa and development.

The most active bilateral on this front is the UK’s DFID which has a small team in Beijing dedicated to cooperating with China on Africa and whose offices in Africa are working to build relationships with Chinese counterparts. DFID is among other things encouraging the Chinese to join initiatives and groups that aim to coordinate and increase the effectiveness of the work to meet Africa’s needs. One of the key messages is that the UK hopes China will be able to take on a more proactive role in multilateral economic and development fora related to Africa. Meetings and exchanges have taken place on different levels to explore this further.¹⁸⁴

It is very likely that there will be more cooperation between China and other donors to Africa in the near future. This is at least the objective of donors to China. Besides DAC, the EU representative for Common Foreign and Security Policy, Javier Solana, has stated that Africa is an important focus for the EU’s strategic partnership with China and that the two sides need to work more closely together in Africa. The EU is said to recognise the importance of China as an emerging donor and will continue to work to support the integration of China into the international donor community, working together to achieve the MDGs and to implement the Paris Declaration.¹⁸⁵

China has also shown some willingness to coordinate and cooperate with other donors. Chinese Premier Wen Jiabao has made an official announcement that China is willing to consolidate communication and cooperation with the international community on aiding Africa.¹⁸⁶ One concrete example is that in May 2007 the World Bank and the China Exim Bank signed a memorandum of understand-

181 Manning, 2007, p. 6.

182 Interview with DFID China, British Embassy Beijing, 16 March 2007.

183 Interview with The World Bank Office, Beijing 26 March, 2007.

184 DFID, April 2007.

185 Solana, in *China Daily*, 7 February 2007.

186 *China Daily*, 2007-05-16. (a)

ing (MOU) to improve cooperation with a focus on road and energy investment projects in Africa. The agreement will initially focus on Uganda, Ghana and Mozambique. The World Bank's view is that if China is to become a major investor in Africa it is important that it becomes a part of the global donor system.¹⁸⁷

6.3 Challenges ahead

The aid effectiveness agenda encompasses many different aspects and this report has only scratched on the surface of some of them. Nevertheless some conclusions could be drawn on challenges ahead in terms of Chinese development assistance and how China and traditional donors are to increase cooperation including to jointly pursue targets in the Paris Declaration.

On a general level, one challenge in measuring and monitoring the effectiveness of Chinese aid is the fact that annual aid figures are not disclosed. Although it is clear that to get the whole picture of China's assistance to African countries aid needs to be put in the context of the other forms of cooperation, there is a strong case for disclosure of both criteria and aid figures as stated in Chapter 5. Transparency of aid volumes but also of how aid is targeted and how priorities are set are fundamental principles in order to be able to assess and discuss aid effectiveness with recipients and the global donor community at large.

In response to the suggestions to share information, made by the Chair of the DAC during his visit to China in February 2007, China has said it will be possible to set up a mechanism of information sharing after China has established administrative and statistical systems for its assistance. China's cautious interest in cooperation with other donors is a positive step. China and other non DAC donors have an important role to play in providing much needed aid to developing countries. Not least as DAC donors are failing to fulfil their announced commitments which anyhow, if fulfilled, still fall far short of what is needed. Without information on the Chinese figures and to which countries aid is given, it is however impossible to know how much has been disbursed by the various donors and what the financing gap is to be able to reach the MDGs and more ambitious development targets. This calls for collective approaches and cooperation among DAC and non DAC donors and recipients on how to best deliver aid.

Additionally, the close monitoring of aid figures also plays an important role when pledges are not fulfilled to hold governments to account and to spur discussion of what is effective aid. CSOs in Europe are closely monitoring and pushing for aid commitments to be fulfilled and have spurred a discussion on aid effectiveness by highlighting that nearly one third of Europe's reported ODA was not in fact genuine aid.¹⁸⁸

187 Reuters Africa, Tue 22 May 2007.

188 Hayes, 2007.

Interestingly, in this context Chinese scholars said they were surprised that the developed countries are failing to deliver their pledges on aid, given all the public announcements and importance given to it in connection with the G8 meeting in 2005. China has publicly urged developed countries to fulfil their commitments to assist African countries, including the commitments of the 2005 G8 Summit.¹⁸⁹

In the Chinese context there seems at the moment to be no way of knowing what the pledge of doubling its 2006 assistance means in more concrete terms. Not even Chinese Africa and aid experts know this. There seems however to be confidence in the government among Chinese scholars, one of whom said that if the government says something they will do it, like the promise to cancel debts which has been fulfilled. The government has also reaffirmed its 2006 FOCAC commitments in a statement by Premier Wen Jiabao at the AfDB annual meeting in Shanghai in May 2007: “We will fully deliver on our statements and we are working with African countries to implement those measures.”¹⁹⁰

One Chinese scholar pointed out that the Chinese institutional setup with the FOCAC summits held every three years, means that there is a mechanism for reviewing whether pledges have been met. At the next meeting in Egypt in 2009 there will be an assessment of the implementation of the commitments made in 2006, just as there has been a review in Beijing of the past six years of commitments.

Still, as pointed out by Chinese scholars, the mechanisms in place in terms of measuring social benefits of aid are not so sophisticated. It therefore seems to be difficult to know the effectiveness of Chinese aid, what the benefits are. For example, there is no critical assessment of what the effects are of tying aid to the purchase of Chinese goods and services which usually raises the transactions costs for recipient countries considerably. An independent, transparent audit and reporting process is called for, involving the African countries at the receiving end, to be able to verify government statements and to be able to measure them in terms of effects disaggregated into different sectors and different parts of the population in African countries. Such analysis is needed to be able to attune policies so that aid actually benefits those who need it most.

There are speculations that it is only a matter of time before China will provide details of the value of the aid. China is said to be waking up to the fact that the non disclosure raises suspicion and will become more open.¹⁹¹ The fact that China has indicated its interest in further cooperation is pointing in that direction. China could of course use its own criteria for aid, rather than adopting the ODA criteria, and it would not mean that China has to abandon its holistic approach of framing aid as just one part of the South-South cooperation. The main important thing is that there is a public debate on what constitutes aid effectiveness in China and Africa and with other donor countries.

189 Interview with MFA, 5 April, 2007 and *China Daily*, 2007-05-17.

190 *China Daily*, 2007-05-17.

191 Interview with The World Bank Office, Beijing, 26 March, 2007.

In terms of donor cooperation, a main challenge will be to overcome the barriers of suspicion which seem to exist. Some attempts have been made by traditional donors at establishing dialogue processes with China on different issue of aid effectiveness and there is cautious interest. Some attempts have also failed and some issues have so far gained little response from China, explained by their perception of being too western or donor dominated. Maybe this calls for innovative thinking rather than just focusing on getting China on board of already existing mechanisms mainly developed by western dominated donor institutions. African countries and their citizens are key in this, as they in the first place are the ones to define what aid effectiveness means in their respective contexts and what kind of assistance donors could provide. China has also signalled that if African countries invite them to donor consortia they are willing to come.

7. No political strings attached

7.1 The concerns

According to China's African Policy, China will "respect African countries' independent choice of the road of development" and provide assistance "with no political strings attached". The no political strings attached policy is one of the fundamental principles of China's development assistance as well as its foreign policy at large. The one political condition China does have which, according to the African Policy, is "the political foundation for the establishment and development of China's relations with African countries", is the one China principle, that is to say not to give formal recognition to Taiwan. As stated above, China does however give assistance to all 53 African countries, not just the 48 it has formal diplomatic ties with and which abide by the one China principle.

Although China does not push for reforms in recipient countries, China does have some conditions in place on a project level executed by Chinese companies, including aid tied to the procurement of Chinese goods and services (see Chapter 6).¹⁹²

The no political strings attached policy is probably what has raised most debate and reactions from external actors, ranging from warm welcoming to concern to fierce criticism. Many African governments have seen it as a positive stance in contrast to the onerous and at times very detailed and intrusive conditions of western donors and international financial institutions including the IMF and World Bank. The Chinese way is in contrast seen as more efficient in getting the job done with-

192 Interview with The World Bank Office, Beijing, 26 March, 2007.

out further ado, reflected by the following statement by the Ethiopian ambassador to Beijing, which however is not free from some ambivalence:

If a G8 country had wanted to rebuild the stadium, for example, we'd still be holding meetings! The Chinese just come and do it. They don't start to hold meetings about environmental impact assessment, human rights, bad governance and good governance. I'm not saying that's right, I'm just saying Chinese investment is succeeding because they don't set high benchmarks.¹⁹³

CSOs across the globe have for many years called for an end to economic policy conditions, such as liberalisation of certain sectors of the economy, or privatisation of public services. These conditions, part of the aid and lending practices of the World Bank and IMF, have often overridden national democratic decision making processes including parliaments and priorities made in national poverty reduction strategies. The main concern with these conditions is that they undermine national ownership of policies, and the possibility for citizens to hold their governments to account.

At the same time CSOs have championed international standards on human rights, transparency and environmental protection arguing that these are standards that both donors and recipients have an obligation to fulfil, which is different from imposing conditions on the recipients. From this perspective the main concern of CSOs is that there is a risk that the Chinese “no political strings attached policy” will: 1) strengthen repressive regimes/elites that are not working in the interest of poor people or development at large 2) weaken social and environmental standards and not benefit poor people and the environment 3) weaken efforts to combat corruption and promote good governance.

Other donor countries to Africa have also expressed concern. G8 development ministers have stated that the increasing volume of development aid from emerging economies like China should meet higher governance and transparency standards. The G8 ministers have urged emerging economies to join the Extractive Industries Transparency Initiative (EITI) and have called for a “global partnership” to address these issues.¹⁹⁴

The European Investment Bank (EIB) has voiced its concern in a comment on the competition from Chinese banks, when its President said rather bluntly “They don't bother about social or human rights conditions”. The EIB claims that Chinese banks have snatched projects from under its nose. It has suggested that there is a need to lower social and environmental standards and that there should be a thorough debate with other development banks including the World Bank to avoid “excessive conditions”.¹⁹⁵

193 Quote in Hilsum, 2006, p. 7.

194 *Financial Times*, March 28 2007.

195 *Financial Times*, November 28 2006.

While it is true that donors have used excessive conditions, the EIB statement is worrying as it signals a race to the bottom to lower standards that are important to poor people and the environment and by which both donors and recipients should abide. The fact that the OECD has decided to weaken their agreed Common Approaches of their export credit agencies, is an indication that this is already happening.¹⁹⁶

The former World Bank President Paul Wolfowitz has also, quite sharply, criticized China and its banks for ignoring human rights and environmental standards when lending to Africa. The President said that though Chinese banks were “relatively new to this kind of activity...they must not make the same mistakes as France and the US did with [President] Mobutu’s Zaire.”¹⁹⁷ Interestingly, this statement reveals that Chinese lenders are expected to learn what most western donors themselves have failed to recognize, namely responsibility for their past failed lending practices. Norway is the only country which has recognized responsibility for past lending practices when in an unprecedented move it cancelled the debts to five developing countries on the grounds of development policy failure. CSOs meanwhile campaign for more governments to follow suit and cancel so called illegitimate debts.¹⁹⁸

It has been pointed out that the criticism of China on issues of social and environmental protection, good governance etc, forwarded by western governments and western dominated financial institutions manifests a certain degree of hypocrisy. One commentator states that while China’s unconditional approach to investments is discouraging transparency and good governance, this is not different from that of the French, for example.¹⁹⁹ Similarly, another analysis of China’s role in Africa points to the fact that western oil companies, just like the Chinese, have been involved in regimes responsible for human rights violations, such as Total in Burma and Exxon Mobile in Equatorial Guinea.²⁰⁰

Northern governments and institutions would clearly be more credible if they practice what they preach. Furthermore, rather than responding to the Chinese no political strings attached policy by lowering existing standards to face the competition, CSOs and others argue that the way forward instead should be to keep and constantly improve the standards that exist and encourage Chinese financiers to strengthen theirs.²⁰¹ It is also clear that there is a need for joint discussions and cooperation on how to secure benefit for local people and the environment etc., issues that in the end are joint global challenges.

196 Bosshard, 2007, p. 14.

197 *Financial Times*, 23 October 2006.

198 For further information on illegitimate debt see Hurley, 2007.

199 Fabricius in *The China Monitor*, July 2006, p. 6.

200 Tjønneland et. al. 2006. p. 33.

201 For further information see Bosshard, 2007.

Nevertheless, there is clear evidence that there are grounds for the concerns expressed by CSOs and donors to Africa. On a project level, cases have been put forward foremost to do with the extraction of natural resources.

In Mozambique China's involvement in the logging industry and a dam construction project have been advanced as two examples of negative results of the no political strings attached policy. Weak social and environmental assessments have not hindered the China Exim Bank from backing the proposed Mphanda Nkuwa dam project which in turn has removed pressure on the Mozambique government to improve the assessments. Chinese support to timber buyers in the Zambezia province has resulted in a deforestation process referred to as "the Chinese takeaway". It is argued that the involvement is non compliant with Mozambiquan policies for pro-poor development and contrary to global conventions for sustainable development in the timber industry.²⁰² Other countries of concern regarding Chinese imports of timber include Tanzania, Liberia and Gabon.²⁰³

A frequently mentioned case is the Chinese support for the construction of the Merowe dam in northern Sudan. The dam is constructed by a consortium of two Chinese companies in cooperation with Sudanese companies and with European company involvement. China Exim Bank is co-financing the project with a number of regional institutions and the Sudanese government. CSOs and others have called attention to the fact that the project will have massive social and environmental impacts, including the displacement of 50,000 people to unproductive land which in turn has increased the poverty rates. There are reports of violence, shootings and detentions of community members by the Sudanese government.²⁰⁴

On another level, the Chinese cooperation with the Sudanese government is in itself also a cause for concern due to the human rights abuses on the part of the Sudanese ruling government. China is cooperating with and doing business in states where leadership is labelled non-accountable or authoritarian, including engaging in military and security cooperation for example in Sudan and Zimbabwe.²⁰⁵ Regardless if one agrees with these labels, the fact is that people are suffering under government policies, governments which are gaining financial support from China. Chinese cooperation with Sudan, Zimbabwe and Angola are probably the most controversial cases where concerns and negative effects of the no political strings attached policy have been raised.

Related to the above, China's investment in infrastructure has undermined efforts to strengthen transparency made by other donors in not so transparent and accountable states, for instance Angola. After Chinese loans and credits were offered

202 Lemos and Ribeiro, 2007 in Manji and Marks, pp. 63–69 and SARP – Southern African Regional Poverty Network, 2006.

203 Tjønneland et. al. 2006, p. 17 and Chan-Fishel, 2007.

204 Burke in *The China Monitor*, April 2007, p. 7 and Askouri, 2007 in Manji and Marks, pp. 71–82.

205 Holslag et. al. 2007, p. 21.

to Angola the government turned down a financing agreement with the IMF which included measures to strengthen transparency in the oil sector.²⁰⁶ China, the biggest contributor to Angola, is however not alone in striking bilateral deals with the Angolan government.²⁰⁷

Also, voices have spoken out on cases where China risks undermining efforts made on a national level to increase transparency. The message from the spokesperson for the National Accountability Group in Sierra Leone is clear: “We’ve spent 15 years working on conventions against corruption, and now the Chinese come in and they haven’t signed up to any of it. They’re secretive and they only deal with governments – they don’t consult civil society or anyone.”²⁰⁸

These are just a few examples mentioned in the growing body of literature on China-Africa relations. Although evidence exists which shows cause for alarm, one reflection is that there is relatively little written information on concrete cases which show on the ground impacts of Chinese support and cooperation with African countries. The conclusion should not be that Chinese assistance and cooperation are problem free, on the contrary the information there is suggests there are several worrying challenges, and more information is needed on impacts.

An explanation for the lack of in depth impact analyses, especially by CSOs, is probably that the cooperation between Africa and China is a relatively new phenomenon at least at the current scale and pace, so that so far few impact analyses have been done. It is clear this is an area where further analysis is needed and where civil society could play a role.

7.2 Chinese views and responses

China is aware of the criticism against its no political strings attached/non-interference policy. Below is a compilation of how Chinese stakeholders describe China’s motivation for its policy followed by examples of China’s response to some of the issues of concern. Needless to say, the compilation does not give a full picture and is drawn from general rather than in depth discussions around these issues.

About the principle

First, the non-interference policy is deeply rooted in China’s historical experience of western interference. China is from its own experience of being “semi-colonized and bullied by foreign powers”, as one scholar phrased it, careful not to interfere in African countries. China is very conscious of sharing similar historical experiences with Africa in this respect. The non-interference policy dates back, as stated above,

206 Edinger and Roberts in *The China Monitor* July 2006, p. 9 and Kurlantzick, 2006, p. 1.

207 Other countries include Brazil, India and Israel, and some traditional donors are seeking to enter into such deals. Tjønneland et. al. 2006, p. 20.

208 Hilsum, 2005.

to the principles for aid and China's relations with African countries laid out in the 60s when national independence was the overarching objective. Sovereignty is the last frontier of dignity, as one scholar phrased it, for which many African countries have fought, which is often forgotten by developed states. There is an issue of an



China has never imposed its will or unequal practices on other countries and will never do so in the future.”

President Hu Jintao, Speech at University of Pretoria, South Africa, 7 February 2007.

unbalanced dialogue between strong and weak which is said to make conditions a very sensitive matter.

Second, current political issues also explain China's position. The Chinese government is careful not to interfere as it sees its political problems in Taiwan and Tibet as internal affairs.

Third, China's own development experience is another factor said to explain China's policy. According to the Department of Aid to Foreign Countries at MOFCOM, China's ability to develop according to its own national context has been a key to its economic success. China has also managed to lift hundreds of millions of people out of poverty, which is highly praised by the international community. In the same way China respects African countries' right to establish their own ways, and “we are fully confident that Africans have the ability to develop their own economy”, as phrased by MOFCOM. Democratic liberalisation and good governance is seen as interference in other countries' policy choices. However, MOFCOM stressed that this does not mean that China does not care about democracy and good governance, but conditions are not seen as the right way to try to influence countries. MOFCOM also said that China tries to influence when it gives aid by convincing recipients that Chinese assistance is based on good governance (not clear from this conversation exactly how) but that Africans must however decide these matters for themselves. Interference is not the right way as history has proved this has increased poverty.²⁰⁹

The President of China Exim Bank has stated that the critical issue is how to make African countries stay internally in harmony and jointly strive for Africa's development. From an investor perspective the biggest risk lies in the possibility of getting involved in local conflicts or clashes. “Interference into the internal affairs of African countries and the African continent must be avoided. What we should concentrate on is to assist Africa to develop agriculture, infrastructure and vocational education in order to lay a good foundation for development. Everything should be focused on development, which is the overriding need. By doing so, risks such as the local political and security risks can be avoided. As under-development is the major cause of these risks, if sustainable development is made possible, the cause for all these risks or turbulences will disappear.”²¹⁰

209 Interview with MOFCOM 17 April, 2007.

210 World Economic Forum, 2007.

One scholar stated that although there is criticism by western and some developing countries of the non-interference policy, nonetheless, because of the past failure of the structural adjustment programmes in African countries, there is also the view that maybe the Chinese model is right for the economic development of African countries. On a similar note, one scholar raised the question what the results would have been if China had been subjected to the Washington Consensus model from its early reform in the 70s; “at least China can say it has been successful in terms of economic growth”. If China has refused interference it cannot impose a certain model on African countries, they must be able to choose their own economic and political model, and they know what fits best.

The term “Beijing Consensus” has been used to describe China’s model in contrast to the so called one size fits all Washington Consensus model.²¹¹ However, according to scholars China does not admit to a Beijing Consensus as China’s development model is not a fixed one. Change in China has been achieved by introducing reforms on a small scale to try them out before introducing them on a bigger scale. So in this sense one cannot talk of a fixed model.

A general view among Chinese scholars is that China is willing to learn from both positive and negative experiences, and find a middle way if dilemmas arise. If African countries raise issues of environmental and social concerns China will listen. A clear message from scholars was also that if dilemmas arise China is more likely to listen to Africans than Europeans, and if there are differences among African countries, China will listen to regional bodies such as the AU.

About repressive regimes not promoting development for the people

Regarding the concern that China supports regimes like those in Zimbabwe and Sudan, which western donors have shunned due to their human rights violations, China’s way is said to be to conduct quiet diplomacy in support of African regional organisations for them to solve their own problems. (As an outsider it is of course difficult to know how/to what extent this is carried out in practice). Most responses to this issue highlight that China’s concern is foremost with the sovereignty of the nation state as represented by the ruling leaders. Furthermore, one scholar said there is a problem that there are no criteria for when a government is totally corrupt or rogue. Several scholars raised the difficulty of knowing where to draw the line and that the Sudanese and Zimbabwean governments have been elected. One scholar said you need to find a balance, a balance of listening both to Europeans and Africans.

Scholars said that there are many countries with unhappy stories of western interference but that this does not mean that China, due to its non-interference policy, would let another Rwanda happen again. The international community including China can play a role in securing people’s rights and a peaceful development; it varies from case to case.

211 The term Beijing Consensus was coined by Joshua Cooper Ramo.

Several scholars stated that China's attitude in Sudan has changed and that China has showed increased engagement to contribute to a solution to the conflict. Scholars stressed that the Chinese President has, during state visits to Sudan, raised the issue of external peace keeping operations to solve the crisis. China has appointed a special envoy to focus on the Darfur situation after accusations of breaching a UN embargo against the selling of arms to Sudan.²¹² The special envoy has responded to external critique and said that China was instrumental when Sudan's government finally agreed to let UN and AU peacekeepers deploy in Darfur.²¹³ China feels, according to MOFCOM, that the criticism is unfair, neglecting that Chinese support to Sudan has contributed to the economic development of the country.

China's role in the conflict unfolding in Sudan is subject to several analyses and beyond the scope of this report and an issue yet to evolve. In the context of the discussion around the "no political strings attached policy", the case illustrates that China is not immune to critique raised by the international community. China's non-interference policy has not completely stopped it from taking initiatives to engage with the Sudanese government to resolve the conflict. This is not to say that China has done enough in terms of taking responsibility for its role in the Sudanese conflict.

About social and environmental standards

According to Chinese scholars the government is very aware of environmental and social concerns in relation to Chinese companies' activities abroad and is making efforts to address these. This is said to be a priority issue as China realises the risks of negative images of companies, echoing several external analyses which have come to similar conclusions. Backlashes such as those in Zambia, where protests have been held against poor working conditions, mining explosions and accidents on Chinese project sites, have added to the urgency of developing standards for companies.

According to scholars, the government is looking into the issue of principles to guide companies' behaviour in relation to the objectives of mutual benefits. The government has asked companies to take social and environmental responsibility, which is according to scholars a change from the start of the so called "go global strategy", when companies were encouraged to invest abroad and little attention was paid to such responsibilities. Now it is said to be a top priority for the government. For example, during a visit by the Premier Wen Jiabao in Southern Africa in 2006 the Premier himself addressed the Chinese companies and stressed the importance of their abiding by local laws of the resident countries.

Regarding written policies, the FOCAC Action Plan (2007–2009) includes a commitment to give high priority to protecting the local environment and promoting

212 *BBC News*, 16 May 2007.

213 *China Daily*, 2007–06–22.

sustainable social and economic development in Africa.²¹⁴ The State Council has issued nine principles on enterprises' overseas investments which require companies to abide by local laws and bid on contracts on the basis of transparency and equality, to protect labour rights of local employees and the environment.²¹⁵ China's Exim Bank, which finances most of the large Chinese infrastructure projects in Africa, in April 2007 made public its environmental policy adopted in 2004. Although it includes strict principles they are not so elaborated in detail.²¹⁶

The Chinese government has responded to concerns raised by CSOs on the specific case of the China funded Merowe dam in Sudan. The Chinese Foreign Ministry Spokesperson has on two occasions defended the project stating that it will promote Sudan's economic and social development as well as local people's livelihood. However, she has also said that China in the future is willing to enhance dialogue and cooperation with African countries in the field of environmental protection, signalling some openness to address the concerns. She has said China attaches great importance to the local people's livelihood and takes the possible environmental effects seriously.²¹⁷

About corruption and good governance

As already stated, the Chinese view is that Chinese aid is less afflicted by corruption as the aid is given in kind not in cash. The view is that this means that no money is going directly into the pockets of a corrupt leader. However, the problem of corruption as such has been acknowledged by the Chinese government. At a meeting with African entrepreneurs the Chinese Premier assured that projects under the auspices of Chinese firms would be conducted in an "open, fair, just and transparent manner".²¹⁸ According to MOFCOM it also has a system for penalising companies. If incidents occur the companies involved will lose out on 10 per cent of the project funds which the government keeps until one year after the project completion.²¹⁹

Rhetorically China supports the implementation of NEPAD and thereby its good governance agenda. China's African Policy states that China will work together with African countries to combat corruption. A concrete example mentioned in a study commissioned by the Norwegian government is that China in 2005 sent an anti-corruption delegation to Zambia to exchange views on how best to tackle corruption.²²⁰

China has signed up to and ratified the UN Convention against Corruption, which many developed countries have yet to do. Corruption is a huge challenge in China.

214 *Beijing Action Plan* (2007–2009).

215 *Asia Times, China Business*, November 3, 2006.

216 Bosshard, 2007, p. 16.

217 Ministry of Foreign Affairs, 2007/05/23 and Ministry of Foreign Affairs, 2007–05–16. (a).

218 Naidu and Corkin in *The China Monitor*, November 2006, p. 5.

219 Interview with MOFCOM, 17 April, 2007.

220 Tjønneland et. al. 2006, p. 16.

The government has launched political reforms to fight corruption more effectively. Interestingly, the Premier has stated there is a need to reduce the over-concentration of power and enhance the oversight over the government by the people. A high-profile anti-graft campaign brought down a series of high-ranking officials in 2006.²²¹

According to Transparency International (TI) the measures taken on a domestic level have so far not been extended abroad. TI ranks Chinese companies among the lowest when it comes to propensity to bribe abroad.²²² In contrast, the Norwegian study states that there is no evidence to conclude that Chinese companies are more or less corrupt than others. What we do know is that China until now has not offered support to strengthen institutional capacities or regulatory frameworks in African countries.²²³ This probably stems from the principle of non-interference in domestic political affairs.

One scholar commented that to try to solve the problem of corruption with interference, using aid money to pressure for change, will not work. This view is expressed in the Chinese comment made during the consultation on the World Bank's strategy on Governance and Anticorruption, adopted March 2007: "In engaging in the area of governance, the Bank should stay within its mandate. It should remain focused on development, refrain from interference in domestic affairs and politics, and respect client ownership. Governance is a means to development, not an end, and new conditionalities related to governance are not desirable." China also believes the World Bank should stay engaged in countries where corruption is a concern.²²⁴

7.3 Challenges ahead

How to ensure that China pays more attention to protection of the environment in its investment practices and how to ensure that Chinese investment practices do not undermine Africa's efforts on financial transparency and to combat corruption, have been identified by the AU as key challenges in Africa's new partnership with China.²²⁵ Although some measures have been taken to deal with the issue of social and environmental standards, it is clear that this remains a huge challenge for the successful implementation of China's African Policy.

On the one hand it reflects the complexity of several different driving forces and conflicting interests involved. The contradiction between Chinese enterprises' interests and China's national interests has been singled out as one of five challenges of China's involvement in Africa by the Chinese scholar Li Anshan. Chinese enter-

221 *News of the Communist Party of China*, March 2007.

222 Transparency International, 4 October 2006.

223 Tjønneland et. al. 2006, p. 21.

224 World Bank, January 23–24, 2007 and interview with The World Bank Office, Beijing, 26 March, 2007.

225 African Union, September 11–13, 2006.

prises exist to make profits, while the interest of the state is more strategic and of a broader diplomatic nature; there is also the conflict between a long term and a short term approach.²²⁶

On the other hand, it is not difficult to see that the social and environmental concerns in relation to China's activities in Africa also reflect some of the challenges China is facing and grappling with on a domestic level. China's labour protection is a case in point. Scholars also pointed out that the lack of transparency of the details in the agreements made with African countries is a reflection of the domestic level where transparency is still lacking.

There are however plenty of signs of an awakening and an increasingly strategic approach to environmental challenges and corruption in China. Hopefully this can be applied to activities abroad. Other donors have expressed a wish for China to join international initiatives such as the EITI and the Infrastructure Consortium for Africa.²²⁷

The key question is whether China's no political strings attached policy will benefit African people and the environment. Probably the only clear answer to this is "it depends". From the views presented by various Chinese stakeholders it is clear that the notion of sovereignty of the nation state is valued very highly. In this context, the belief is that Africans must be able to develop their own policies according to what is suitable in their context. In this respect the policy could be seen as fostering national ownership of policies.

Ownership can however be interpreted in many different ways. From the Chinese perspective the focus is on governments. Therefore, whether the no political strings attached policy will be beneficial to people and the environment is left in the hands of the governments in place. As one commentary states, China's no political strings attached engagement will not benefit ordinary Africans unless their governments manage it wisely, and that is where issues such as good governance and democracy come in, which China does not insist upon. In this context it is said that the policy is no doubt helping African governments, but it is not yet clear that it is really helping ordinary citizens.²²⁸ Similarly, David Dollar, World Bank Country Director China and Chief of Mission, stated that whether Chinese assistance will be beneficial or not depends a lot on the recipient countries' philosophy; the outcome will probably be beneficial in countries with good governance in place.²²⁹

The Chinese response to the concerns raised by external actors is that if African governments raise concerns, China is willing to listen and make adjustments to address them. The key question is what happens in cases where governments either lack the will or capacity to protect and work for the benefit of people, poor or

226 Li, 2006, p. 20 and elaborated on in interview.

227 DFID, April 2007.

228 Fabricius in *The China Monitor*, July 2006, p. 6.

229 Interview with The World Bank Office, Beijing, 26 March, 2007.

marginalised people in particular? Or what happens when governments for various reasons do not take measures to ensure that short term economic profits do not undermine the possibility of long term sustainable development? This is where the non-interference policy is faced with a dilemma and where it will leave poor people and the environment short.

This has been captured in a commentary by a policy analyst: “Africa’s peoples need to be as wary of being trampled underfoot by their own governments as they are of foreign powers. There are grave doubts about how well African governments are representing their stakeholders and whether Africa’s negotiating capacity is up



China – perhaps naively - assumed that it could do business in Africa whilst distancing itself from domestic political issues. [...] Whether China likes it or not, it will be sucked into domestic political situations it will have to deal with.”

Martyn Davies, Director, Centre for Chinese Studies,
University of Stellenbosch, Business Day, 31 May, 2007.

to scratch.”²³⁰ Resource rich countries in Africa in several cases demonstrate a sad concentration of these resources in the hands of a few elites, whether external or domestic, and few distributional or other development policies exist in such countries.

However in contrast to this pessimistic picture, the AU has rejected the idea of non-interference in the name of unconditional sovereignty, and replaced it with

an idea of non-indifference; an unwillingness to just ignore human rights abuses.²³¹ China will have to take a stand if the ambitious win-win rhetoric and brotherhood with African people, not just governments, are to stand the test of time.

The examples given by Chinese scholars show that China is increasingly taking on a role of, and has a desire to be perceived as, a responsible international stakeholder. Some analyses suggest that as China’s presence in Africa expands it will be more difficult to stay out of domestic policies. The non-interference is more and more difficult to reconcile with China’s other objective of being a responsible stakeholder. A common view is that China could make better use of its position and exert influence on states like Sudan and other key commercial partners to China whose respect for universal norms and standards is negligent. One commentator suggests that “China – perhaps naively – assumed that it could do business in Africa whilst distancing itself from domestic political issues. [...] Whether China likes it or not, it will be sucked into domestic political situations it will have to deal with.”²³²

China’s need for political stability and its wish to protect its investments will be and already has become difficult to reconcile with non-interference. The Chinese government has already intervened in Angola, where according to reports in the media, China demanded the resignation of an official after reported misuse of

230 Amosu, 2007.

231 Tjønneland et. al. 2006, p. 62.

232 Davies, 2007.

Chinese credits.²³³ In Zambia, the Chinese ambassador's warning against electing the opposition leader who threatened to kick out Chinese investors is one example of how China is getting involved in domestic policies, whether by choice or circumstance.

Sudan is also a case in point. Indeed, a critical analysis of China's engagement in Sudan stresses that the Chinese statement of non-interference in internal affairs is "untrue, provocative and insulting to many Africans who are aspiring to further democratic values" as China interferes in domestic affairs but always to the benefit of the ruling group.²³⁴

The examples suggest that non-interference is in practice not so simple to adhere to. It has also been pointed out that as China gets more influence in international financial institutions including the World Bank and IMF, this will result in tension between China's own non interventionist approach and the conditional assistance of these institutions.²³⁵ In the best case scenario this could lead the IFIs to drop their economic policy conditions which are undermining African countries' ownership of policies. And it could result in a much needed global agreement between new and old donor countries and recipients on responsible financing standards.

Time will tell whether China will adapt its no political strings attached policy so that it encompasses a broader concept of ownership which goes beyond governments. For this to be possible formal mechanisms need to be developed for how to listen to and take into account the views and perspectives of poor people, and for how to better assess and evaluate the social and environmental impact of policies. This is vital where for example the interest of the ruling elites and poor people diverge, and the ruling government shows little interest in working for a harmonious society.

Meanwhile, civil society could play a role. CSOs in Africa and their partners who monitor the effects of donor assistance can help to expose where policies risk going against the interests of poor people and the environment. Proposals can be put forward for how to improve policies, based on knowledge of the local context which many CSOs possess. A prerequisite for this to take place is transparency and availability of information. CSOs need to be given support, space and acknowledgement for this to be possible.

233 Tjønneland et. al. 2006, p. 21.

234 Askouri, 2007 in Manji and Marks, p. 73.

235 Centre for Chinese Studies, 2006, p. 79.

8. Debt sustainability

8.1 The concerns

The substantial increase of loans from China, as well as other emerging lenders, has generated a concern among development institutions that new non-concessional or low concessionality loans will threaten the debt sustainability of poor borrowing countries and thereby trigger a new debt crisis. This would undermine the debt cancellations granted under the HIPC initiative and the more recent Multilateral Debt Relief Initiative (MDRI) introduced in 2006, following the pledges made at the G8 summit in Gleneagles in 2005.

A new debt crisis in some of the world's poorest countries would of course be devastating. CSOs have for many years campaigned for debt cancellation for poor and heavily indebted countries, but also for others, from a perspective of social justice. The so called Jubilee 2000 Campaign managed to collect over 20 million signatures world wide for rich countries to cancel the debts of poor heavily indebted countries, which contributed to further promises. In 2005 civil society under the banner of the so called Global Call to Action Against Poverty (GCAP) – the world's biggest mobilisation ever to eradicate poverty – called on rich countries to cancel debts, deliver more and better aid and to make global trade fair. This among other things put pressure on the G8 leaders in time for the 2005 Summit to take further steps to facilitate development in Africa.

CSOs see many shortcomings of and have constructively criticised the initiatives of governments and international financial institutions in their attempt at solving the

debt crisis.²³⁶ The HIPC and MDRI have for example not materialised into 100 per cent debt cancellation as was promised. The way debt sustainability is defined by the Bretton Woods institutions does not sufficiently take into account the resource needs of developing countries. This is acknowledged by the former UN Secretary General who has stated that “Debt sustainability should be redefined as the level of debt that allows a country to achieve the Millennium Development Goals and reach 2015 without an increase in debt ratios.”²³⁷ Finally, the mechanisms for dealing with debt sustainability and debt cancellations fall short of taking into account the mutual responsibility of creditors and lenders, as the focus has largely been on the poor borrowing countries not the creditors.

However, the debt cancellations that have taken place have freed up resources which has made it possible for poor countries to make important investments in health, education etc. A new build up of unsustainable debts could threaten the progress made so far and future prospects for poor countries to lift themselves out of poverty.

Donors to Africa have expressed their concern for a new build up of debts. The DAC Chair, in an analysis of the phenomenon of emerging donors, sees the temptation of ex-HIPC countries (who have received debt cancellation) to use their new debt service capacity in ways which will once again condemn them to high and unsustainable debts, as one of three things that could go badly wrong in developing countries and where non DAC donors could be a force for good or ill.²³⁸

The German Finance Minister, representing the host of the G8 Presidency, at a press briefing said that the issue of ensuring borrowers can manage their debts would only gain acceptance among creditors if other countries such as those in the G20 group adopt the same principles. He directly referred to China in the G20.²³⁹ In another more critical remark the German Minister stated that China by its relation to African states appeared to be “willing, when buying resources, to re-launch what we wanted to break with our debt relief, meaning that African countries are overwhelmed by their debts and their debt service and this is totally not in line with the measures we have set”.²⁴⁰

The Pre-Summit of G8 Finance Ministers in 2007 resulted in a *G8 Action Plan for Good Financial Governance in Africa* in which the G8 “call for the effective use of countries’ own resources and restraint in borrowing on non-concessional terms in coherence with the International Development Agency’s (IDA) policy.” The debt sustainability framework, developed by the IMF and the World Bank, is said to provide an important guiding tool for decisions on new borrowing and lending and

236 For critical analyses of many aspects of the debt issues by CSOs see EURODAD: www.eurodad.org and AFRODAD: www.afrodad.org

237 United Nations, 2005, p. 18.

238 Manning, 2006, p. 381.

239 *Forbes*, 05.19.07.

240 AFP, May 19 2007.

the G8 encourage its broad use by all borrowers and creditors as a way to prevent new lend-and-forgive cycles. In the Action Plan the G8 also state that “We commit to applying responsible practices in our lending decisions. To this end, we urge all borrowers and creditors to share information on their borrowing and lending practices.” The message was reiterated in the G8 Summit Declaration on *Growth and Responsibility in Africa*.²⁴¹ If not naming China this time, it is clear that it is one of the intended targets.

The World Bank has also cautioned against excessive borrowing after the debt relief and underscored the importance of the joint Debt Sustainability Framework. The IDA, the concessional lending arm of the World Bank, in 2006 presented a proposal for how to deal with the risks associated with non-concessional borrowing after the provision of grants and debt relief have made it possible to take on such new and more expensive loans.

The problem is described as a collective action problem where there are different interests between creditors: While IDA’s aim is to lower the risk of debt distress in low-income countries by providing new financial assistance on concessional terms, other creditors may gain from the non-concessional lending and the debt relief provided to low income countries who then will have the possibility to take on new loans and will be in a better situation to service such loans. IDA in this context uses the term “free-riding” as “a shorthand to refer to situations in which IDA’s debt relief or grants could potentially cross-subsidize lenders that offer non-concessional loans to recipient countries.”²⁴²

IDA proposes two ways to deal with this problem: enhancing creditor coordination around an agreed framework and secondly to discourage free riding through disincentives aimed at the borrowing countries. In short this last point means that borrowing countries who take on such loans will either face a reduction of IDA allocations, or a hardening of the terms of its loans.²⁴³ The approach of IDA to punish poor borrowing countries who take on new more expensive loans has been criticised by CSOs. To go after the borrowing countries is not seen as very constructive from the perspective of the financing needs of poor countries (see below).

As there is little transparency on the exact terms of Chinese loans and to which countries what loans are given, it is difficult to know if Chinese lending is a threat to the debt sustainability of poor countries, and if so how big a problem it is. For example it is difficult to know what loans are provided to ex HIPC countries which have benefited from MDRI debt cancellation.

According to Helmut Reisen, researcher at the OECD Development Centre, the concern about the ‘free-riding’ is misplaced as the majority of the projects that

241 *G8 Action Plan for Good Financial Governance in Africa*, May 19, 2007. *G8 Summit Declaration, Growth and Responsibility in Africa*, 8 June, 2007.

242 International Development Association, June 2006.

243 *Ibid.* p. 2.

receive Chinese financing for Africa-based infrastructure projects are undertaken in non HIPC resource-rich countries. Debt sustainability, he argues, is still a concern in African countries exporting raw materials in view of low governance scores and exposure to external shocks, including a drop in oil prices.²⁴⁴

Countries that according to IDA are facing a medium or high risk of debt distress, so called “yellow” and “red light” countries according to the traffic light system that has been developed, include Angola and Sudan.²⁴⁵ Both are recipients of new Chinese lending. China has thereby been said to be willing to jump the lights.²⁴⁶ Both countries however show improvements in their debt indicators, said to be explained by Chinese stimulation of growth.²⁴⁷ Governance is a serious issue in both countries and the question remains, beyond economic debt sustainability figures, what broader long term development impacts the lending will have.

Again, there is some hypocrisy in the criticism which China sees through. As stated by Mr. Adrian Davis, Head of DFID China, Western private banks have just like China been giving loans to Angola.²⁴⁸

Regardless of the scarcity of exact information, it is clear that the substantial increase of Chinese lending coupled with little knowledge of how China sees the risk of debt sustainability, have caused some nervousness among traditional donors and that there is reason for expressing concern for the future debt sustainability impact.

8.2 Chinese views and responses

During the course of this research questions were asked how Chinese stakeholders view debt sustainability; if it is seen as a concern and what mechanisms there are in place to avoid a build up of new unsustainable and irresponsible debts in Africa. These are questions which have been posed to China by traditional donors to which there are yet few answers.²⁴⁹ Some initiatives for further dialogue are however underway.

A common response from Chinese scholars to the question of the risk of a debt build up for African countries is that China does not expect African countries to pay back if it is a government to government loan and that China will cancel debts if borrowing governments face pay back difficulties. This standpoint was confirmed by David Dollar, World Bank Country Director China and Chief of Mission, who

244 Reisen, 2007, pp. 4–5.

245 Ibid. p. 5.

246 *The Economist*, May 19th 2007, p. 38.

247 Reisen, 2007, pp. 5–6.

248 Interview with DFID China, British Embassy Beijing, 16 March 2007.

249 Statement by Mark George, DFID, 23 April 2007.

said that China has a long history of debt forgiveness: “a historian would say that every time a country could not pay back, a loan would be forgiven”.²⁵⁰

China has, as stated above, provided debt relief to 31 African countries to the amount of 10.9 billion RMB (approximately US\$1.38 billion) and has made further pledges of cancelling interest free and low interest governmental loans owed by HIPC and LDCs in Africa. MOFCOM has, as stated above, also announced that by the end of 2007 it will deliver on its promises.

Interestingly, the Chinese government has also called on traditional donors to fulfil their pledges on debt relief. At a press conference the Foreign Ministry spokesperson, to a question on the risks associated with Chinese lending, replied that the

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One thing I have to point out is, on the issue of poverty alleviation, the international community, the developed countries in particular, should adopt more substantial measures and deduct debts by a large margin so as to help the developing countries to shed off the vicious debt circle.”

Foreign Ministry Spokesperson,
Ministry of Foreign Affairs 2007/05/23.

international community, the developed countries in particular, should adopt more substantial measures for debt cancellation.²⁵¹ China has also committed itself to “take an active part in debt relief operations for Africa within the international multilateral framework”,²⁵² which signals its readiness to take on a more active global role.

Another common answer to the concern raised is that Chinese lending is still small. The MFA, in an interview for this research, stated that the criticism of China as free rider and the concern around debt sustainability show that they do not understand the volume of Chinese assistance – it is still quite small. According to an official statement by an MFA spokesperson, for large construction projects, stadiums, conference centres, hospitals, schools and roads, China provides grant assistance or interest-free loans which will not increase the burden on African countries.²⁵³

Professor He Wenping, Chinese Academy of Social Sciences, raises this issue in an article in response to the German Finance Minister’s statement that China’s lending risks undermining efforts made by traditional creditors to cancel the debts of African countries. The Chinese aid and loans to Africa are much smaller in sum than those from Western countries, so have less impact on the debt issue, she says. This factor, together with China’s efforts to solve the debt problem and the effects of Chinese aid and credits on African countries, she states, make it “hard to reach the conclusion that China’s supposedly irresponsible aid to African nations could trigger a new debt crisis.”²⁵⁴

250 Interview with The World Bank Office, Beijing, 26 March, 2007.

251 Ministry of Foreign Affairs, 2007/05/23.

252 *The Beijing Action Plan (2007–2009)*.

253 Ministry of Foreign Affairs, 2007/05/23.

254 He, 2007.

Professor He points out that Western countries are responsible for the debt crisis and that trade barriers erected by Western countries have contributed to the deteriorations for African countries' exports. She stresses the positive effects of the Chinese demand for primary products, which has helped raise the prices on the world market thereby improving the foreign trade climate and repayment capabilities of these exporting countries. "Now that the African economy has been growing at a rate of 5 to 6 per cent annually, some credit should go to the Chinese factor. [...] More attention ought to be paid to raising the impact of the aid and loans so that African recipients can improve their own payment capabilities through economic progress and step out from the vicious cycle of piling on new debt to pay off existing debt."²⁵⁵

As China steps up its lending to African countries the question of how the potential debt distress is assessed by China is still very relevant. The Chinese pledge in May 2007 of providing US\$20 billion in infrastructure and trade financing to Africa during the next three years, is a very substantial funding. Even though the details and terms of this pledge are not yet known it is enough to raise alarm bells. This and other pledges indicate that China in the near future will no longer be "a small provider of loans" as stated as an argument why Chinese lending is not such a big problem in terms of creating debt distress. The question is how China analyses the risk of debt distress, especially when providing non-concessional lending.

According to the Exim Bank, China deals with debt sustainability in the lending agreements in three ways:

1. They ensure project returns will be robust;
2. They will consult with the local IMF office to discuss the loan in the context of the debt sustainability framework;
3. They ensure that the project is part of the country's development plans.²⁵⁶

The Exim Bank states it has a good repayment record due to the effectiveness of its projects. For projects with limited return the government guarantees are important. The Exim Bank also states that there is awareness in recipients that repayment is the basis for more credits. However the Exim Bank has stated it is prepared for the loss of some loans and in the case of bad outcomes of projects it may also consider cancellation.²⁵⁷ It is however unclear how much cancellation it is prepared to make.

According to Donald Kaberuka, President of the AfDB, China's view of debt sustainability differs from that of traditional donors. The Chinese, he has said, look

255 Ibid.

256 Information received from Mark George DFID China, 24 April, 2007.

257 Manning, 2007, Annex pp.2 & 8.

at the potential of African countries in the long term, rather than assessing their immediate ability to repay loans. This he states, poses a challenge to traditional donors and the AfDB who are attempting to impose stricter criteria for debt management in the wake of their recent debt cancellations.

Kaberuka has stated that the Chinese Premier Wen Jiabao has assured him that China is alert to the dangers of a new debt pile-up. According to Kaberuka, the President of the Exim Bank used a word which he finds very interesting: “Yes, debt sustainability is important but development sustainability is what we are after”.²⁵⁸

8.3 Challenges ahead

As stated above, due to scarce information on the exact terms of Chinese loans, it is difficult to know if Chinese lending is contributing to a debt build up thereby threatening the debt sustainability of poor countries. So far concern has been raised but there is as of yet little evidence, at least in writing, that this is happening.²⁵⁹

The concern is however not difficult to motivate. Failed export credit lending was behind much of the previous debts of African countries. Although China, as pointed out by Chinese stakeholders, did not cause the current debt crisis of poor developing countries and the accusations of free riding might be misplaced, China is rapidly moving ahead in providing such export credit loans to African countries. China is no longer a small provider of loans and could therefore contribute to a debt build up in developing countries.

The impact of Chinese lending needs to be put into a larger context. Mr. Li Ruogu, the President of the China Exim Bank, has said that “The solution to all kinds of development challenges is to have economically sustainable growth.”²⁶⁰ This statement appears to ignore that economic growth sometimes clashes with other development objectives. Nevertheless, it is true that the impact of Chinese lending on the debt sustainability of African and other developing countries will depend upon the effects the Chinese assistance and cooperation will have on these economies at large, both in the long and the short term. If China’s assistance and cooperation contribute to better terms of trade, increased export earnings and growth figures, the countries will be better placed to service their loans and thus less vulnerable to a new debt crisis.

This is seen from a purely economic perspective and other aspects of the lending and assistance will of course also determine the future sustainability of loans and development at large. For example, if loans are given for a rapid and unsustainable

258 *Financial Times*, May 17, 2007.

259 Reuters Africa, 22 May, 2007.

260 *Ibid.*

extraction of natural resources this might yield high economic returns in the short term, including repayment capacity of loans. But it will at the same time deplete the resource base of that country for future economic and social development, which might put the country at risk in a more long term perspective. A crucial question is also of course what the development impacts are in terms of resource distribution and poverty. It is important to take such issues, including the greater macro economic development, into account for China and other donors in lending practices and when discussing debt sustainability.

Nonetheless, it is clear that China's growing role as a new lender has sparked nervousness among traditional donors. The reactions of traditional lenders have been criticized by CSOs and others, who at the same time share the concern for the debt sustainability of African countries. In particular the so called free rider policy of the World Bank is seen as counterproductive.

One critical analysis of this framework states that the World Bank proposals "are less motivated by a concern over the future debt sustainability of their low-income borrowers but by the *realpolitik* and financial exigencies facing the Bretton Woods institutions today." The mechanism is seen as a way to continue binding IDA countries to financial flows by the World Bank and the IMF at a time when these institutions are struggling to maintain their rapidly diminishing relevance and legitimacy.²⁶¹

Two main concerns are:

First, the punitive measure of punishing poor countries who take on new more expensive loans for the sake of preserving their debt sustainability might ironically hinder these countries from reaching global development and poverty targets. Rich countries would be better placed to deliver on their own aid and debt cancellation pledges as the scarcity of concessional funds is one reason why these countries might seek more expensive loans in the first place. This argument is put forward in a CSO analysis which remarks "To shift the blame to 'opportunistic' lenders such as China, without at the same time solving their part of the equation is an irresponsible attitude adopted by those present day economic and geopolitical powers who have firmly pledged to concretely contribute to the achievement of the MDGs."²⁶²

Secondly, instead of focusing on the borrower countries, traditional lenders should focus on reforming the existing mechanism and lending practices which according to CSOs do not sufficiently address the problem. One such issue to address is the present overload of economic policy conditions that come with concessional lending which traditional lenders should do away with. This does however not mean compromising on fundamental universal standards such as human rights and environmental and social safeguards (see also above).

261 Tan, 2006, Abstract.

262 Oddone, 2007, p. 18.

Another issue to address is that the rise of new lenders has highlighted the absence of and need for a “collective, truly multilateral mechanism which could create the conditions for the fair and orderly resolution of issues related to debt.”²⁶³ CSOs have long advocated such a Free and Transparent Arbitration Process (FTAP). Such a mechanism should involve both creditors and borrowers for it to be effective and to resolve the debt crisis in a fair manner.



Instead of finger-pointing at China, I think it would be better to bring them in. I'm sure they have their own position, so engage them.”

Donald Kaberuka, President AfDB, *Financial Times*, May 18 2007.

It is clear that China as a new lender has accelerated the debate on responsible lending practices among traditional donors. In the best case scenario, this could result in traditional donors stepping up their commitments and reforming some of the existing mechanisms which fall short of providing a long term solution to the debt crisis, as well as reaching an agreement with China on debt sustainability and other aspects of responsible lending.

Mutual understanding and dialogue are needed between new and old lenders and borrowing countries. For this to happen, the non constructive finger pointing, from both sides, needs to be overcome. As stated by the AfDB President in a comment on the risk of a new debt crisis: “Instead of finger-pointing at China, I think it would be better to bring them in. I'm sure they have their own position, so engage them.”²⁶⁴

There are already seeds of such a dialogue, for instance between China Exim Bank and the World Bank, which have signed an MOU designed to facilitate deepened cooperation and who have agreed to share analysis of the debt work in individual countries they are working together in.²⁶⁵ Such initiatives of further dialogue will hopefully bear fruit for the benefit of the poor borrowing countries for whom debt sustainability matters the most. African countries themselves are of course key for any initiatives on debt sustainability issues.

263 Ibid. p. 8.

264 *Financial Times*, May 18 2007. (b)

265 Reuters Africa, 22 May 2007 and *World Bank News Release*, 21 May 2007.

9. Conclusions and possible ways forward

This chapter presents some conclusions and possible ways forward based on the desk studies and interviews carried out for this report. The “possible” marks the fact that the issue of China’s role in Africa is a huge area and a number of different strategies could be pursued by different stakeholders depending on what the objectives are. The points raised below should be seen in general terms; more specific strategies will have to be developed for different policy areas.

Although the main target group for this report is CSOs, the conclusions might be relevant for different stakeholders: CSOs in western countries, in Africa and China. Governments: the Chinese, African and western.

The first two conclusions are more of a process kind focusing on institutions and dialogue. The third is directed to western governments and the fourth to the Chinese government. The two final conclusions focus on the need for a joint approach. In general, the conclusions tend to focus more on CSOs and western governments given the fact that the report is written from the perspective of a European CSO.

1. China’s assistance to and cooperation with Africa are changing the rules of the game and threaten to leave governments, institutions and organisations that do not act strategically by the wayside

China’s engagement in Africa is changing the dynamic and rules of the game of international diplomacy and decision making. China has become Africa’s third

largest trade partner. Investments are expanding rapidly. Chinese development assistance, although comparatively small in volume, is set to increase. Lending to Africa is rising and African countries are turning to China for credits. With the establishment of the FOCAC in 2000 China is engaging with Africa in an institutionalized manner which has resulted in the proclamation of a “new type of strategic partnership”.

Undisputedly, Chinese policies will bring opportunities and challenges for Africa’s development. Questions and concerns are raised on what this will mean for a number of issues including poverty reduction, democracy, good governance, the management of natural resources and human rights.

The China-Africa cooperation seems to have taken external actors by surprise. Some initiatives have been taken by traditional donors to engage with China. The UK’s DFID is in the lead and the only bilateral donor with an institutionalized China-Africa program. In comparison with the foreseeable impact and importance of China’s role in Africa the initiatives from most donors are minor. China is mainly approached from a perspective of enhancing trade with China, rather than how to cooperate around development challenges such as poverty reduction.

Among CSOs some initiatives have taken place, but CSOs, especially in western countries, are broadly speaking only now waking up to this new dynamic in terms of adapting work programmes and strategies.

In conclusion, there is a risk that China’s assistance and cooperation with Africa will leave governments, institutions and organisations by the wayside. As stated in an analysis looking at implications on China-Africa relations for the US, China’s high-profile in Africa presents the challenge of thinking far more comprehensively and strategically about how to engage China on Africa issues in the future.²⁶⁶

Western governments/traditional donors could as a first step make assessments of what the Sino-African cooperation entails for their foreign and development policies. Such assessments could result in strategies for:

- a) *bilateral policies on China* – to learn more about China’s assistance to and cooperation with Africa and identify areas for mutual experience sharing in relation to development challenges in Africa and on a global level.
- b) *policies for relations with African countries* – to in various ways support African countries in seizing the opportunities and addressing the challenges of China’s engagement on the continent.

266 Gill et.al. 2007, p. 3.

- c) *policies within multilateral institutions* – to engage with China within multilateral institutions in areas such as aid effectiveness and responsible lending standards.²⁶⁷

CSOs both in Africa and outside Africa similarly need to assess what the Sino-African cooperation means for both policy and advocacy work and for development programmes, two main work components of many development organisations. Current work structures and division of responsibilities might be challenged as China's role in Africa cuts across geographical boundaries as well as policy areas.

a) Strategies need to be developed for how to include aspects of the China-Africa cooperation in development work carried out in Africa. This could for example include joint initiatives between African and western CSOs on how to monitor the impacts of China's presence on the continent as well as how to engage with government representatives in Africa and donor countries. In donor countries the findings of such monitoring could feed into development cooperation strategies and in African countries they could feed into government negotiations with China.

b) Strategies need to be developed for how to make use of this new dynamic to try to strengthen existing policy work as well as to spur innovative thinking on how to adapt to the new landscape of development finance flows. This requires institutional capacity to monitor China-Africa relations, in house or via the pooling of resources with other CSOs.

2. Triangular dialogue approaches are needed

The Sino-African cooperation is of concern and interest not just to China and Africa, nor just to their governments. China's cooperation with Africa raises issues of global concern including poverty reduction, human rights, sustainable management of resources etc. These are development challenges in which many stakeholders have a legitimate interest, not least local communities, and which need collective responses where different stakeholders can play a constructive role.

A triangular dialogue approach is needed between Chinese, African and traditional donors/western governments and between CSOs in China, Africa and western countries. These two triangles should in turn overlap so that dialogue is not just carried out between governments but also between governments and CSOs, who could contribute with important on the ground knowledge to inform policies.

This approach should be the backdrop to all kinds of discussion on different issues. Below are just some brief examples focusing on process issues:

267 Some suggestions for how Norway could act in its relations with African countries, in its bilateral relations with China and in its multilateral agenda, are made in Tjønneland et. al. 2006.

Governments:

- Western governments/traditional donors and China could set up processes for mutual sharing of experiences as donor countries to Africa, including African governments, which also could draw on experiences of incoming aid to China and the Chinese success in lifting large parts of its population out of poverty.
- The Chinese and African governments could share experience of the FOCAC process with for example EU countries in setting up a similar forum for cooperation with Africa.
- African governments are key in setting the agenda in such triangular dialogue approaches and could define what they would like in terms of support from China and traditional donor governments and how their support could complement each other to avoid proliferation and maximise benefits. For example, the AU and NEPAD, to which China has committed, could take the lead and develop a collective approach with which donors could align.
- Western governments/traditional donors could include Africa in cooperation strategies with China and vice versa. For example, together with African countries they could invite China to donor meetings in Africa.
- CSOs should be given space to engage in dialogues and the possibility to hold their governments to account in relation to the principles set up in the FOCAC process by China and Africa. For example, CSOs could be invited to give input to the formal FOCAC summits and could be consulted by African governments before bilateral negotiations with China take place.

CSOs in Africa and western countries have so far had few contacts with Chinese organisations around China's role in Africa. Some examples exist including a CSO parallel meeting to the official AfDB annual meeting in Shanghai in May 2007, when CSOs from China, Africa and elsewhere got together to discuss China's role in Africa.²⁶⁸

Chinese CSOs are in general an important missing piece in the global puzzle of strategy meetings, workshops etc. of CSOs. One explanation given by Chinese CSOs is that they are preoccupied with domestic development challenges including the adverse effects of the Chinese economic growth on the environment and the fact that 120 million people live in extreme poverty in China, in spite of the success made

268 *Pambazuka News*, 2007-05-31.

in this field in recent years.²⁶⁹ The domestic focus is of course understandable. Nevertheless to include Chinese CSOs and researches in discussions of joint global development challenges is desirable and there seems to be some interest.

- CSOs could establish a parallel meeting to the official government FOCAC summits which take place every three years. At such meetings experiences/skills could be shared between CSOs in a range of different areas and CSOs could also put forward analyses and suggestions to government officials. The next and fourth official FOCAC meeting is scheduled to take place in Egypt in 2009.
- CSOs could organise exchanges between Chinese CSOs and colleagues in Africa and elsewhere to share concrete lessons from poverty reduction projects. Such exchanges are taking place between Chinese and African governments, and CSOs could contribute to these as well as establish their own.
- CSOs and researchers could meet for joint discussions around the results of monitoring activities of the concrete impact of China's assistance to and cooperation with Africa.
- Similarly CSOs in western countries could provide analysis of the activities of their nations' companies in China which are part of the global triangular dynamic of trade and investments to which China's increased engagement in Africa pertains.

3. Western governments should practise what they preach

Western governments/traditional donors to Africa have a legitimate interest in human rights, good governance, environmental and social protection etc. in relation to China's activities in Africa. These are core global values and part of a development model which puts people and the environment first.

As stated in this report, evidence has also been put forward that there are grounds for the concerns expressed by donors to Africa and CSOs. However, it is clear that western governments/donor countries would be more effective and better placed to engage China on good governance, human rights, environmental and social safeguards, effective aid and debt sustainability, if they a) delivered on their own pledges and b) ended their policies that currently disadvantage African countries. This is of course also crucial regardless of engaging with China or not.

269 Statement made by Chinese CSOs in author's interviews, Beijing, June 2006.

The conclusion, to practice what the West preaches, has also been raised in other analyses on China's role in Africa. One analysis states that "Too often in "western" discussions about China's role in Africa there is an underlying assumption that western policy is essentially progressive and Chinese policy essentially negative and damaging." The report states that this is a serious simplification and that it is wrong to demonise Chinese policy. "Western governments and companies – both currently and in the recent past – leave much to be desired."²⁷⁰

Chinese scholars also point to the fact that China is very sensitive to one sided criticism when there seem to be double standards involved. Chinese scholars and the Chinese government have also called on developed countries to adopt more substantial measures for debt cancellations and to fulfil their aid pledges, in response to the concerns raised over Chinese lending practices, signalling a certain degree of defensiveness.

Western governments could in a number of areas set a best example for China to follow:

- Western governments could deliver on their pledges to increase aid levels to Africa.²⁷¹ Delivering on aid pledges would be more effective in preventing a build up of new unsustainable debts, than punishing African governments for taking on new expensive loans, which currently is the practice of the IDA/World Bank. Not least as one reason (there are others) why African governments are turning to new more expensive sources of finance is lack of available concessional funding due to failed aid pledges.
- Western governments could live up to the commitment of untying aid, which is included in the Paris Declaration of Aid Effectiveness. Only three DAC countries – Norway, Ireland and the UK – have fully untied their aid.
- On corruption and good governance western governments could do more in terms of prosecuting their own companies who engage in bribery, sign up to the UN Convention to combat corruption, which very few western governments have done, as well as initiate reform of the governance structures of the IMF and the World Bank which leave much to be asked for in terms of giving voice to poor countries. Governments would also be more credible in engaging China on concerns of supporting authoritarian regimes if they enforced effective policies to prevent western companies from engaging in such practices.

270 Wild and Mephram, 2006, pp.69–70.

271 In 2005 western governments made a pledge to double their assistance to Africa. Yet aid volumes to Africa have been static since 2004 and Africa is receiving a decreasing rather than a growing share of European aid resources. Hayes, 2007, p. 3.

- Western governments could also end policies that currently disadvantage African countries such as trade policies which in the national self interest discriminate against developing countries through export subsidies and tariff barriers.
- Western governments could commit to standards for responsible lending (see below).

CSOs are already working to engage with western governments in all of the above policy areas. CSOs could encourage western governments to do more in the light of China's engagement in Africa and gain leverage from the new dynamic that China's cooperation with and assistance to China brings (see also under point 5).

4. The Chinese government should convert words into action – from a narrow non-interference to a broad based “non-indifference”

To provide assistance “with no political strings attached” is a fundamental principle of China's development assistance as well as its foreign policy at large. China does however tie its aid to the procurement of Chinese goods and services. The no political strings attached principle has caused much debate and China has been criticised on this point. Concerns are raised that this policy risks undermining efforts to strengthen transparency and good governance as well as weakening social and environmental standards. As stated in this report, evidence has also been presented that there are grounds for the concerns.

China motivates its policy partly out of its own negative historical experience with western semi-colonisation, as well as its own positive economic development without following external policy prescriptions. Thus, it is for Africans to develop their own economy.

The Chinese response to the concerns is that if African governments raise issues, China is willing to listen and make adjustments. Similarly, according to African scholars and government representatives, China is willing to align its aid to African government priorities.

The challenge with this response is that it is very much focused on governments. The key question is what happens in cases where governments either lack the will or capacity to protect and work for the benefit of the people, poor or marginalised people in particular? Or what happens when governments for various reasons do not take measures to ensure that short term economic profits do not undermine the possibility of long term sustainable development? Here the non-interference approach risks supporting policies which leave people and the environment short. There is a stark contrast between the Chinese rhetoric of never imposing unequal practices on African countries and the concerns raised, including by African citizens. This is something which China will have to deal with.

At the same time China is striving to become a responsible stakeholder in the international development policy arena. Analyses also show that it is increasingly difficult for China to stay out of domestic policies as its presence in Africa grows. China will face situations where it needs to take a stand if the win-win rhetoric and brotherhood with African people, not just governments, are to guide its policies.

The Chinese government could shift emphasis from “non-interference” to “non-indifference”. This would not necessarily mean that China would have to totally abandon the policy of non-interference. This shift of emphasis would also mirror the AU which has rejected the idea of non-interference in the name of unconditional sovereignty, and replaced it with an idea of non-indifference.²⁷²

The non-indifference approach would require a broad based concept of ownership, as is already required by traditional donors to Africa who are to align policies based on national Poverty Reduction Strategies (PRSs) that have been developed in broad based processes involving a variety of stakeholders. Similarly, the Chinese government could institutionalise processes to receive input from different stakeholders in African countries, including parliaments and civil society, to inform its policies. This could serve in the interest of China to engage with a better understanding of the potential risks and challenges, which could help to avoid backlashes, for instance in the form of protests against Chinese presence which have taken place.

Increased transparency in the delivery and formulation of aid strategies and priorities is called for to make this possible. It can also be argued that increased transparency is in China’s self interest as the current lack of disclosure of aid figures and terms of loans etc. invites criticism and creates unnecessary suspicion.

A key challenge ahead in terms of aid effectiveness is the fact that annual aid figures are not disclosed. There is a need for independent and transparent audit and reporting processes, involving the African countries at the receiving end, in order to be able to verify government statements and to be able to measure them in terms of effects disaggregated into different sectors and different parts of the population.

It can also be argued that China has a sovereign right to adopt policies that safeguard against negative environmental and social effects, which is different from interference. This could be done in a dialogue with African stakeholders, based on internationally agreed standards.

CSOs in Africa could formulate strategies for assessing and monitoring the effects of China’s assistance to and cooperation with Africa. Relatively few in depth analyses have been done, especially by CSOs, on poverty and environmental impacts etc. and relatively little is known of the impact of for example Chinese aid. This is probably explained by the fact that the cooperation between Africa and China is a relatively new phenomenon at the current scale and pace.

272 Wild and Mephram, 2006, p. 62.

Assessments could be made to see what the risks are, what potential and real negative effects the no political strings attached policy has and how these can be overcome. Similarly assessments could be made to identify the positive impacts of the Sino-African cooperation, which in turn could be used in dialogues with other donors.

Monitoring could be done in a range of areas including the conduct of Chinese companies, social and environmental impacts of projects, skill sharing of Chinese with local labour etc.

Examples of what actually is happening on the ground could be put forward to the Chinese government as well as African governments to help the latter to make well informed and beneficial deals with the Chinese government and to involve relevant stakeholders in a process of mutual respect. This could be done systematically as a regular input to the government driven FOCAC processes.

CSOs are especially well placed to make such assessments/monitoring as they often have first hand information from on the ground situations. For this to be possible, CSOs would need support and acknowledgement and transparency needs to be ensured. Traditional donors to China could play a role in providing support.

5. China's growing role as a lender and donor to Africa challenges current development paradigms – towards joint standards for responsible lending and effective aid

China's growing importance as a lender and donor to Africa has accelerated the debate on responsibility in development financing. The former World Bank President has sharply criticized China and its banks for ignoring human rights and environmental standards when lending to Africa and called on China not to make the same mistakes as France and the US did with Mobutu's Zaire.²⁷³ China has in the face of such criticism responded defensively.

In the face of competition from Chinese banks, the President of the EIB has suggested that there is a need to lower social and environmental standards and that there should be a thorough debate with other development banks to avoid "excessive conditions".²⁷⁴

The debate on responsible lending should be welcomed. In the worst case scenario China's emergence as a creditor could trigger a race to the bottom to lower standards. The reaction of the EIB President shows this is a real risk. In the best case scenario the "China effect" could result in both a revision of current practices of traditional creditors seen as problematic by CSOs, and the spurring of innovative thinking on joint responsible practices.

²⁷³ *Financial Times*, 23 October 2006.

²⁷⁴ *Financial Times*, November 28 2006.

Interestingly, there are signs that China's emergence as a creditor and donor is resulting in an increased focus on responsible practices. The G8 has adopted an *Action Plan for Good Financial Governance in Africa*, in which they commit to responsible practices in their own lending decisions and urge all borrowers and creditors to share information on their borrowing and lending practices.²⁷⁵

From the Chinese perspective, China is on the one hand a newcomer as a major donor and creditor country and is, as pointed out by Chinese scholars, interested in learning from others with more experience. China is according to the Department of Aid to Foreign Countries just about to develop criteria for aid and has for various reasons so far not disclosed its annual aid. The aid effectiveness debate is at a very general level and there seems to be little assessment of social benefits of aid and the cost of tied aid as it is practiced.

On the other hand, there is strong confidence in the Chinese model in terms of benefits for Africa. China has developed its own principles for cooperation with/assistance to Africa including the core principle of non-interference (see above). China also emphasises that assistance to Africa is carried out in the framework of South-South cooperation. There is some reluctance to engage in donor driven initiatives and fora, stemming from the desire to keep to the core principles developed with African countries in the FOCAC process. China has however signed up to the Paris Declaration on Aid Effectiveness.

China has also shown commitments to cancelling African countries' debts to China and to take part in multilateral agreements on debt cancellation. In the wake of the debt sustainability debate, Chinese stakeholders are very conscious of the fact that it was lending from traditional donors which caused the crisis. Nevertheless, concern raised by traditional donors about the risk of a new debt build up is not difficult to motivate. Failed export credit lending was behind much of the previous debts of African countries, and China is rapidly providing such loans, while transparency in the deals seems to be lacking.

Traditional donors/creditors and China both need to move from the at times non constructive finger pointing, to a constructive dialogue to develop a joint approach to responsible lending practices and effective aid involving African borrowing/recipient countries.

Attempts have been made by traditional donors to establish dialogue processes with China on different issues related to aid effectiveness, debt sustainability and principles for responsible lending. Chinese Premier Wen Jiabao has made an official announcement that China is willing to consolidate communication and cooperation with the international community on aiding Africa.²⁷⁶ This is positive. Hopefully in a few years' time more constructive initiatives will have taken place for

275 *G8 Action Plan for Good Financial Governance in Africa*, May 19, 2007.

276 *China Daily*, 2007-05-16. (a)

the benefit of people in borrower/recipient countries and a better understanding will have been reached between the two sides.

There are however barriers of suspicion to overcome. China is said to be reluctant to engage in donor dominated fora. This calls for innovative thinking rather than just focusing on getting China on board of already existing mechanisms mainly developed by western dominated donor institutions. Both sides clearly have experiences to share and already share fundamental principles that could serve as the starting point, including the MDGs.

Any outcome should be based on a people centred development model where responsible lending and aid is putting people and the environment in the centre.

African countries could take the lead in discussions on aid effectiveness and responsible lending. African countries are in the first place the ones to define for example what debt sustainability and aid effectiveness mean in their respective context and what kind of assistance donors could provide. China has also signalled that if African countries invite them to donor consortia, they are willing to come.

African governments could engage with China and assert principles China should adhere to in order to ensure that its engagement is beneficial for their citizens and for the long term sustainable development in their countries. AU and NEPAD initiatives could serve as a basis. A clear message from Chinese stakeholders is that if African countries raise concerns, China is willing to adopt changes.

CSOs in Africa and elsewhere working on various aspects of development finance could use the opportunity this new dynamic of China's emergence as a donor and creditor brings. CSOs could focus on practices of traditional donors that are seen as problematic, which CSOs are already engaged in. CSOs could also use this window of opportunity and call for new and more progressive policies. Some examples could be:

- To call for responsible lending practices which are attuned to the financing needs of developing countries and are binding for creditors and borrowers. A forward looking responsible lending charter should clearly spell out the responsibility of creditors and borrowers and ensure that resources are spent in a manner which is transparent, accountable and beneficial to the peoples of the borrower countries. This is very different from donors imposing conditions on borrower countries. The emergence of China and other new major lenders strengthens the case for such a framework.
- To highlight the need for the recognition of past irresponsible lending practices. CSOs are calling for the cancellation of so

called illegitimate debts derived from irresponsible lending to non democratic regimes, or projects which have not benefited people. The Norwegian government is so far the only creditor which has cancelled debts referring to past irresponsible lending. China's emergence has strengthened the case as the cancelling of illegitimate debts would make western governments better placed to engage with China on standards for future responsible lending.

- To call for the end of economic policy conditions, part of the aid and lending practices of the World Bank and IMF. Such conditions have overridden decision making processes and priorities in poverty reduction strategies of poor countries. In the wake of competition from Chinese credits, the argument for the abolition of such conditions is strengthened. Although CSOs are calling for an end to these kinds of conditions, this does not imply compromising on fundamental values (human rights, environmental protection etc.) which both donors and recipients have an obligation to fulfil and which should be part of a charter for responsible lending.
- To call for a revision of current mechanisms to address debt sustainability and debt settlements. China as a new lender has brought to attention the absence of a transparent and equitable debt settlement mechanism and debt sustainability approaches which are focused on the financing needs of developing countries, both needed to reach globally agreed development goals such as the MDGs.

CSOs engaged in development work could also try to engage with the Chinese government on principles for responsible lending and effective aid. CSOs have, as stated above, often on the ground information and ideas of best practices which could be shared with the Chinese government as well as African governments in time for negotiations between the two sides. Such information could also be presented to Chinese scholars and citizens to try to spark a debate on how China best can implement its African Policy so as to bring real benefit to people.

6. China's economic rise and so called march into Africa challenges unsustainable consumption and production patterns – towards global cooperation for sustainability.

China's economic growth has averaged 9.5 per cent per year over the past two decades and seems likely to continue at that pace for some time. At the same time, the amount of natural resources available per capita in China is, in most cases, far below the international average and compared with most developed countries. To

secure access to natural resources and oil in particular is therefore a key motive for China's engagement in Africa.

China is often seen as a competitor to industrialised countries for access to Africa's natural resources. At the same time, China has a legitimate interest to lift its population out of poverty and to increase its wealth. Figures show that China has been very effective in doing so. At the same time poverty is still a huge challenge. Added to this fact, China is "the factory of the world" and much of the natural resources imported into China are re-exported in the form of products, to uphold consumption, often unsustainable, in western countries. Western countries have also outsourced production to China to lower the costs.

These two aspects pose challenges not only for China-Africa relations, but for rich countries whose development model is unsustainable, a fact which becomes more evident as China is rising, and legitimately aspiring, to the same standards of living.

China of course has the responsibility to ensure that its natural resource extraction in African countries is carried out in a sustainable manner. However, from a global perspective China's quest for natural resources could be the tipping point of an already unsustainable development model, practiced foremost by industrialised countries. Whether China follows a more sustainable development model or not, will have a major impact on the global environment including climate change.

The analyses of challenges of, and solutions to, China's entry into globally unsustainable development models is beyond the scope of this report,²⁷⁷ but it is clear that this is an issue that is intimately interlinked with the increased Sino-African engagement and should form part of the model of triangular discussions as outlined above.

Western governments have the responsibility to develop strategies for sustainable consumption and production in their respective countries. Western governments also have an imperative to assist China in developing sustainable solutions which in turn also could be part of China's cooperation and assistance to African countries. A triangular approach is needed.

CSOs have a role to play in for example calling for more sustainable consumption and production foremost in western countries as part of an agenda for social justice.

277 For a discussion of solutions see Pamlin and Baijin, WWF, April 2007.

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Appendix: List of organisations/people interviewed

Chinese government bodies

Ministry of Commerce (MOFCOM)

Lin Pei, Deputy Division Director, Department of West Asian & African Affairs, Ministry of Commerce, People's Republic of China.

Liu, Junfeng, Director, Department of Aid to Foreign Countries, Ministry of Commerce, People's Republic of China.

Ministry of Foreign Affairs (MFA)

Liu Tao, Third-Secretary, African Department, Ministry of Foreign Affairs, People's Republic of China.

The State Council Leading Group Office of Poverty Alleviation and Development (LGOP)

Wu Zhong, Director General, International Cooperation & Social Mobilization Department, The State Council Leading Group Office of Poverty Alleviation and Development (LGOP), P.R.China.

Chinese research institutes (including government affiliated/and or advisory)

China Institutes of Contemporary International Relations (CICIR)

Xu Weizhong, Director, Department of African Studies, Director, Center for Third World Studies and Yu Wensheng, Associate Research Fellow, Institute of Asian and African Studies, China Institutes of Contemporary International Relations (CICIR)

China Institute of International Studies, (CIIS)

Wang Hong yi, Assistant Research Fellow, China Institute of International Studies, (CIIS). Deputy Director, Department of the Study of Developing World. Secretary General, Center for Africa Studies.

Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce, P.R. China

Lu Bo, Associate Research Fellow, Deputy Director, Department of World Economy & Trade/WTO Study Centre, Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce, P.R. China.

Qi Guoqiang, Vice Chairman Chinese Association of African Studies, President International Economic Cooperation, CAITEC, Ministry of Commerce, People's Republic of China.

Chinese Academy of Social Sciences (CASS)

He Wenping, Professor, Director of African Studies Section, Institute of West Asian and African Studies (IWAAS), Chinese Academy of Social Sciences. Secretary General of Chinese Asian & African Research Society.

Yang Lihua, Director of Centre of Southern African Studies (COSAS) , Institute of West Asian and African Studies (IWAAS), Chinese Academy of Social Sciences.

Zhang Yong-peng, Associate Professor, Deputy Director, Institute of West Asian and African Studies (IWAAS) Chinese Academy of Social Sciences (CASS), International Section

Zhou Hong, Director Professor and Zhang Min, Associate Professor, Deputy Director of Economic Department, Institute of European Studies (IES), Chinese Academy of Social Sciences (CASS)

Peking University

Li Anshan, Professor of History, School of International Studies, Peking University.

Donors to both China and Africa

Delegation of the European Commission

Nicholas Costello, First Counsellor, Development and Co-operation and Giovanni Cremonini, Counsellor Political Affairs, European Union.

Department for International Development China, British Embassy Beijing

Adrian Davis, Counsellor (Development), Head of DFID China.

Dept. of Economic Cooperation and Development, Embassy of the Federal Republic of Germany, Beijing

Dr. Thomas Helfen, Counsellor, Head.

Service de Coopération et d'Action Culturelle, Ambassade de France en Chine

Donatienne HISSARD, Premier Secrétaire, Attachée de coopération technique, Environnement, Développement.

Sida, Embassy of Sweden Beijing

Annika Siwertz, Head of Development Cooperation Section.

The Ford Foundation

Andrew Watson, Representative.

The World Bank Office Beijing

David Dollar, Country Director China & Chief of Mission.

United Nations Development Programme (UNDP)

Luo Zhiyang, Team Leader, Regional and South-South Cooperation Team.

Non Governmental Organisations (Chinese and international)

Action Aid China

Zhang Lanying, Country Director and Tariqul Islam (Tariq), Impact Assessment and Shared Learning Coordinator.

China-Africa Business Council (CABC)

Kaiyong Ge, Deputy Director.

China Development Brief

Nick Young, Founding Editor.

Focus on the Global South

Dorothy Grace Guerrero, Research Associate and Programme Co-ordinator, China Program.

Global Environmental Institute

Lila Buckley, Assistant Executive Director and Peng Ren, Program Officer.

International Poverty Reduction Center in China (IPRCC)

Huang Chengwei, Deputy Director, Deng Yetao, Programme Officer, Lu Liqun, Chief of Division External Exchange.

Mekong Watch

Kaori Ohsawa.

Information from a previous trip to China by the author in 2006, during which interviews were primarily held with Chinese CSOs, has also been used as input to this report.

