

Pehnel, Gernot

Working Paper

The political economy of China's aid policy in Africa

Jena Economic Research Papers, No. 2007,051

Provided in Cooperation with:
Max Planck Institute of Economics

Suggested Citation: Pehnel, Gernot (2007) : The political economy of China's aid policy in Africa, Jena Economic Research Papers, No. 2007,051, Friedrich Schiller University Jena and Max Planck Institute of Economics, Jena

This Version is available at:

<https://hdl.handle.net/10419/25615>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



JENA ECONOMIC RESEARCH PAPERS



2007 – 051

The Political Economy of China's Aid Policy in Africa

by

Gernot Pehnelt

www.jenecon.de

ISSN 1864-7057

The JENA ECONOMIC RESEARCH PAPERS is a joint publication of the Friedrich-Schiller-University and the Max Planck Institute of Economics, Jena, Germany. For editorial correspondence please contact m.pasche@wiwi.uni-jena.de.

Impressum:

Friedrich-Schiller-University Jena
Carl-Zeiß-Str. 3
D-07743 Jena
www.uni-jena.de

Max-Planck-Institute of Economics
Kahlaische Str. 10
D-07745 Jena
www.econ.mpg.de

© by the author.

THE POLITICAL ECONOMY OF CHINA'S AID POLICY IN AFRICA*

Gernot Pehnelt

Chair of Economic Policy, Friedrich-Schiller-University Jena

Carl-Zeiss-Str. 3, 07743 Jena, Germany

email: g.pehnelt@uni-jena.de

August, 24 2007

ABSTRACT

In recent years, China has become a major power on the African continent, not only with respect to trade and investment, but also as a donor of development aid. Although there is no accurate measure of the exact size of China's aid program, since China rather underestimates the volume in official statistics, estimates on the basis of press releases, official announcements and assessments of major projects in Africa suggest that China has already overtaken the World Bank in lending to Africa. In this article, we analyze China's aid policy in Africa from a political economy perspective. We show that China is using (tied) aid and loans in order to reach specific economic and political goals and that Beijing has been quite successful in doing so. The impressive success of China in getting access to African countries can be explained by comparative advantages of the People's Republic, especially in unstable nations and "rough" states. China's engagement in Africa causes some serious problems with traditional donors. We discuss these conflicts and provide a critical assessment of China's role in Africa. Finally, we discuss the policy implications for the donor community.

Keywords: China, Africa, development aid, political economy

JEL: O16, O19, F35, F50

* I want to thank Martin Abel who considerably contributed to this article. I also want to thank Philip Alves and Peter Draper for helpful comments.

1 INTRODUCTION

China's emergence as a significant stake-holder in Sub-Saharan Africa (SSA) has raised contentious debates amongst the traditional powers on the continent as well as academics and observers. On the one hand, China has been accused of backing corrupt elites in "rogue states" in exchange for exploitation rights or other forms of access to raw materials, in the process undermining Western initiatives to fight corruption and enhance governance standards. On the other hand, increasing trade and investment relations as well as Chinese foreign aid and project finance offer new opportunities to some of the poorest countries in the world. Chinese-African relations have changed the conditions for Africa's development within an impressively short period of time (Hofmann et al. 2007). In this paper we analyse China's engagement in Africa from a political economy perspective. It will become clear that China's behaviour is the consequence of China's economic needs, its political goals and, not least, its specific comparative advantages on the African continent. Since China has already become a significant player in Africa and is expected to gain more influence in upcoming years, Western donors may take into account our findings and reconsider their development strategies.

2 QUALITY AND SIZE OF CHINA'S AID PROGRAM

Analyzing the size and quality of China's aid program is not a trivial task because of a fundamental lack of transparency. China does not have a single institutional body that governs the country's development aid program. The main authority is the Ministry of Commerce¹, but various other governmental bodies such as the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of National Defence, the Ministry of Science and Technology, the Chinese Embassies, and the State Council are involved in the decision making process. Since many province-level state owned enterprises are investing abroad, some provincial governments are supposed to be heavily engaged in China's investment strategy in Africa (see Broadman 2007). Some of these institutions run their own aid related budgets. Furthermore, the embassies play a key role in China's foreign aid policy, since they are the main channel of providing aid. Embassy staffs negotiate with recipient governments, define the specific requirements, and frequently implement the projects. Chinese aid is almost exclusively disbursed bilaterally and directly to recipient governments. However, these individual aid flows are not reported.

Contrary to other countries, Chinese official statistics are supposed to underestimate the total amount of aid transfers. One reason could be that the Chinese government really does not know the exact size of the different aid related budgets due to the

¹ The Department of Foreign Aid and the Tendering Board of Foreign Assistance Projects are the main administrative bodies within the Ministry of Commerce.

fragmented institutional setting and complex aid-delivery apparatus. Another reason might be the fact that despite the impressive reduction of poverty over the last decades, there are still about 100 million people living below the \$1 per day line² and chronic poverty is still widespread among the rural population. Therefore, it is difficult for the government to justify and “sell” a more generous foreign aid policy to (poor) Chinese citizens. In order to prevent backlashes in rural areas the government might consciously underestimate the size of its aid program in official statistics.

China neither takes part in the DAC statistics³ nor defines what is officially referred to as aid. Therefore, the exact size of China’s foreign aid program is unknown, perhaps even to the Chinese government. Furthermore, aid payments in the narrower sense can hardly be separated from other dimensions of China’s foreign policy such as direct investments, trade related credits, project finance, and other resource transfers. According to official statistics, expenditures for external assistance accounted for \$731.2 million in 2004. The accuracy of this figure is highly questionable, first because China does not give a precise definition what it refers to. Estimates on the basis of press reports (among others Reuters, the BBC, AP, and Xinhua News Agency) and official announcements suggest that the annual volume of Chinese aid payments (excluding subsidized loans) was at least 1.2 billion in 2004. Even this figure might underestimate the total dimension of China’s aid program since China’s Export-Import Bank (Eximbank) provides billions of dollars in preferential loans and export buyers’ credits. In 2006, lending by China’s Exim Bank was \$12.5 billion – and is set to rise by more than \$5 billion in 2007, according to the EIU estimates (Harman 2007).

China gives emphasis to loans rather than grants⁴ and usually provides project assistance with a strong focus on physical infrastructure and prestige projects. The reason why China provides primarily loans may be that Beijing tries to use these loans as leverage over recipient nations. Loans offer the chance to generate positive perceptions in two ways: first when providing the loan, and then again by forgiving the debt (if required). Evidence suggests that Beijing is using debt relief as a reward for closer political and economic relationships (Kurlantzick, 2006). Aid is often delivered as tied commodity and technical assistance. Much of China’s aid is in the form of concessional loans to African governments for infrastructure projects. Most of them are implemented primarily by Chinese corporations. The Department of Aid

² According to Chinese official statistics, approximately 20 million people live below the national poverty line which is far below the internationally accepted \$1/day line. See Asian Development Bank (2004) for an accurate report on China’s poverty profile.

³ The Development Assistance Committee (DAC) provides statistics and reports on aid and other resource flows, based on reporting by DAC Members. The DAC has already integrated China into its discussions as an official observer. However, it remains unclear what proportion of Chinese aid increases would qualify as concessional under DAC definitions (Manning 2006).

⁴ China provides primarily loans, possibly in order to use these loans as leverage over recipient nations. Loans offer the chance to generate positive perceptions in two ways: first when providing the loan, and then again by forgiving the debt (if required). Evidence suggests that Beijing is using debt relief as a reward for closer political and economic relationships (Kurlantzick, 2006).

approves all corporations permitted to tender bids on aid projects, manages the bidding process, and oversees the project itself (Gill & Reilly 2007).

Traditionally, the largest proportion of China's development aid has been provided to Asian countries in order to secure a stable environment and support economic growth in the region. Almost 50 percent of China's aid still goes to Asian countries. However, Africa has gained importance in China's foreign aid policy. According to open source estimates suggest that between 2000 and 2007 China has given \$5.5 billion in development aid to the African continent and cancelled more than \$10 billion in debt for African countries and (Harman 2007). African countries now account for more than a third of Chinese development assistance. And, according to recent announcements, this trend is set to continue. In an official announcement at the path-breaking Beijing Summit of the Forum on China-Africa Cooperation (FOCAC)⁵ in November 2006, President Hu promised to:

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

3 CHINA'S "GRAND STRATEGY"

China, of course, did not evolve its aid program because of pure altruistic and humanitarian motives. China's aid policy has always been part of a broader strategy that has been referred to as "Grand Strategy" (Goldstein 2005). Although this term is used here as well, it is somehow misleading since China's modernization process since the late 1970s has not been a holistic and well-structured process and far from straight forward. Although the main goals and some underlying principles – such as the One-China principle and the non-interference principle – did not change during the

⁵ FOCAC, established in 2000, is the institutional basis and main mechanism for the relationship between China and Africa.

last decades, the specific tactics and instruments in various fields surely did. China has shown itself as very flexible and pragmatic and in recent years the world has witnessed a shift to a much more differentiated Chinese foreign policy. As in other policy fields, this pragmatism and flexibility together with continuity of major principles is a key feature of China's development policy.

3.1 POLITICAL GOALS

One of China's main political goals is to gain political influence both on the bilateral and multilateral level in order to reinforce China's claims to political and economic power. Chinese officials have in the last decade consistently promoted a multi-polar world that limits US hegemony. Along with the goal of a multi-polar world China seeks alliances with other developing countries, South-South-partnerships and support in international organizations. China's efforts to find allies across Africa aim at safeguarding China's interests in international organizations, such as the UN Commission on Human Rights and the WTO. One decisive issue in Chinese international relations is the One-China Principle insisting that Taiwan is an inalienable part of the People's Republic of China. The rejection of Taiwan's status as a separate and sovereign country is essentially the only political condition in Chinese diplomatic relations to most African countries. This strategy has been quite successful since most African countries have switched their diplomatic relations from Taiwan to China.⁶

Another political goal that became most apparent after the Tiananmen incident in 1989 is to prevent political isolation. After the massacre on the Tiananmen Square, some Western countries suspended their diplomatic relations to the Peoples Republic of China (PRC). The Chinese government tried to prevent political isolation by enhancing its bilateral relations to other developing countries. In this context, development aid and strategic investments played an important role in China's strategy mix. It is fair to say that in the early 1990s political goals dominated China's "Grand Strategy". But the focus has changed. Although there is no clear cut caesura in China's development aid policy, China's tremendous economic growth in the 1990s has caused a shift in approach: economic objectives now take precedence over political considerations (Meidan 2006).

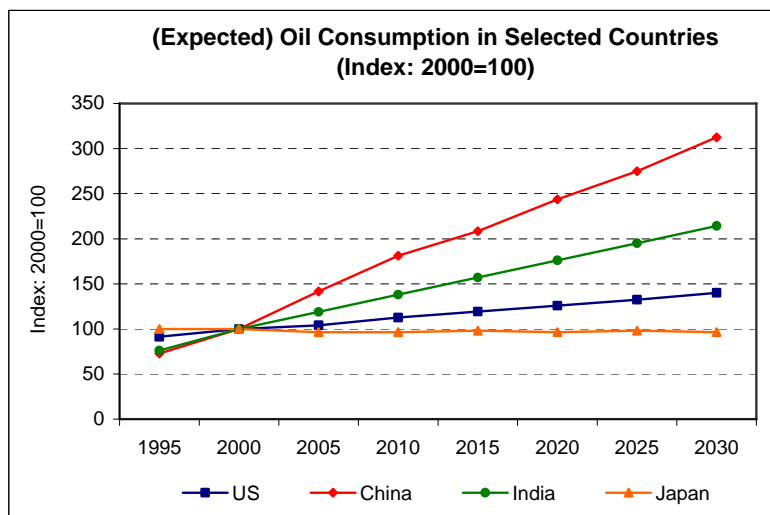
3.2 ECONOMIC GOALS

China's economic presence in Africa has risen dramatically over the last 10 years. Its trade with the continent has swollen from \$4 billion in 1995 to more than \$55 billion in 2006 and is supposed to increase to 100 billion U.S. dollars by 2010 (FOCAC 2006; Department of Foreign Affairs Republic of South Africa 2007). The tremendous

⁶ Only five African countries - Burkina Faso, Gambia, Malawi, Sao Tome and Principe, and Swaziland - still maintain diplomatic ties with Taiwan.

growth of China's economy involves fast-rising demand for energy and raw materials. China is already the largest global consumer of some raw materials such as copper, iron ore and wood, and is supposed to surpass the United States as the world's largest consumer of oil within the next 10 years.

Figure 1: (Expected) Oil Consumption in Selected Countries



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

In recent years, China has intensified its efforts to establish stable bilateral relations with oil producing, ore extracting and timber exporting countries.⁷ Development aid has played a major role in China's strategy-mix.⁸ Noticeably, China imported only a limited number of products – mainly commodities – from a limited number of Sub-Saharan countries.⁹ The increase in exports from African countries to China is by all means outstanding (see figure 2).

Another economic goal is to develop business opportunities for Chinese companies and to conquer new export markets for Chinese manufactures and services.¹⁰ The tied and highly strategic nature of foreign assistance as well as the fact that the Ministry of Commerce is the dominating authority in China's foreign aid policy emphasizes the importance of these considerations.

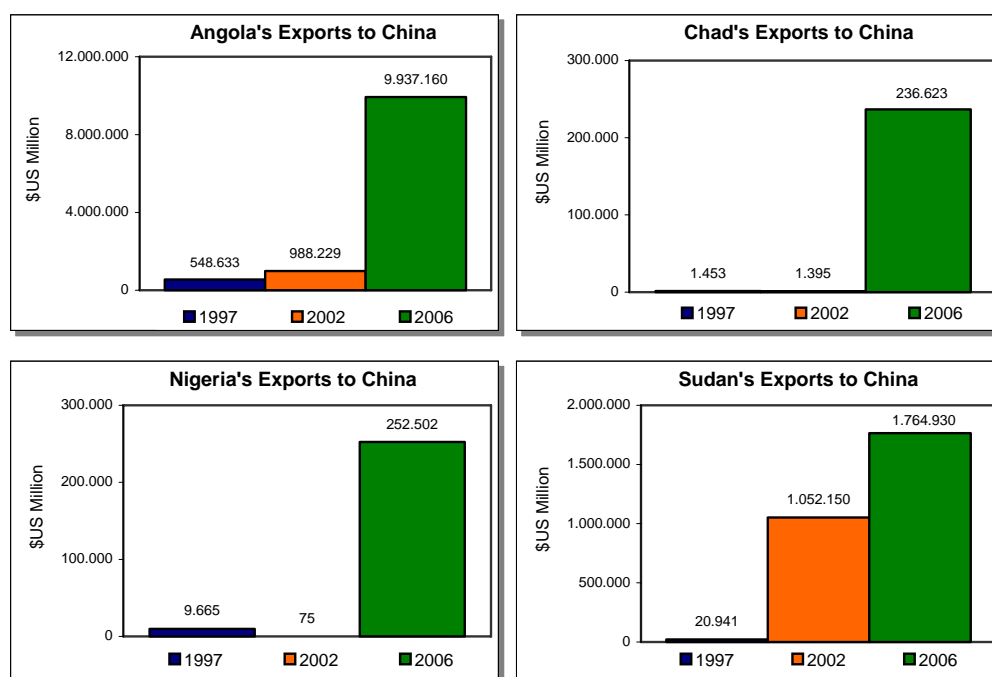
⁷ In Angola, which currently exports 25 percent of its oil production to China, Beijing has secured a major stake in future oil production with a \$2 billion package of loans and aid that includes funds for Chinese companies to build railroads, schools, roads, hospitals, bridges, and offices; lay a fiber-optic network; and train Angolan telecommunications workers.

⁸ Latin America has also gained importance in China's foreign policy. The share of Latin American countries in Chinese import has doubled during the last decade. In order to satisfy its increasing demand for oil (Ecuador and Venezuela), iron ore (Brazil), copper (Chile and Brazil) and especially soy (Argentina and Brazil), China is going to invest up to \$100 billion in these countries in the next couple of years (Funakushi & Loser 2005; Logan & Bain 2005).

⁹ For a detailed analysis of Chinese-African trade flows and FDI and its impact on employment and growth in African economies, read Kaplinsky et al., 2006.

¹⁰ In November 2004, China established the China-Africa Business Council (CABC) jointly with the UN Development Program in order to support China's private-sector investment in Sub-Saharan Africa (Gill & Reilly 2007).

Figure 2: Exports from Selected SSA Countries to China



Source: IMF Directions of Trade

3.3 OTHER GOALS

Beyond the political and economic goals Chinese government is addressing several other targets in order to strengthen its role in international affairs. China has enhanced its efforts to spread Chinese culture and philosophy by promoting Chinese language, sponsoring cultural studies, establishing Confucius schools and providing scholarships to foreign students to study in China. Since these are of lesser significance, we do not address them in detail.

4 CHINA'S AFRICAN SAFARI: A POLITICAL ECONOMY PERSPECTIVE

4.1 "Opportunity Costs of Morality"

China is a relatively new force in international commodity markets. The central challenge created by late entry is the fact these markets are characterised by relatively stable relations and long-term contracts between major exporting countries (in Africa and elsewhere) and the traditional powers (particularly the US, EU, and Japan). Furthermore, huge Western multinationals are engaged in almost every resource rich region in the world and exercise great economic as well as political power. Since there are not many "unoccupied" oilfields left, energy security has become a crucial issue in

China's foreign policy and Chinese officials and businessmen are desperately looking for new partners. Therefore, they simply cannot afford to reject potential suppliers and have to go where no one else goes, irrespective of moral considerations.¹¹

The African continent provides attractive opportunities for China because of undeveloped and even undiscovered resources in regions where Western countries and multinationals hesitate to engage and invest. China must invest in these states regardless the governance structures or other issues traditional donors or Western companies take into account. Put differently, China has higher opportunity costs of morality and governance and human rights oriented policies than the traditional powers on international commodity markets. This is one explanation of China's safari towards unstable African nations using tied aid as an important pillar in its oil diplomacy.

4.2 "No Strings Attached"

One major pillar of China's foreign policy is the principle of non-interference (called the 'sovereignty doctrine' by some). This principle, which contrasts strongly with the West's 'conditionality approach', has been the basis of Chinese foreign policy since the Five Principles of Peaceful Coexistence were formulated in the 1950s. Beijing consistently argues that non-interference is a necessary condition for building a harmonious world (Glosny 2006). Consequently, China maintains diplomatic relations, encourages state-owned companies to invest in resource rich regions and provides aid and military equipment regardless of governance quality or human rights records, two key considerations that G8 countries and the International Financial Institutions (IFIs) incorporate into their decision-making over aid.

Chinese engagement enables African governments to reject demands made by the IMF, the World Bank and other donors for enhancing transparency, implementing anti-corruption strategies, and furthering their democratization efforts. Examples are Angola¹², Chad, Sudan and Zimbabwe. China is even trying to enforce the non-interference principal on the international level. Because of their relatively large share in international organisations where the one-country-one-vote principle is followed, African countries are of special interest for China's political goals. China advertises itself as a representative of African interests in international forums in order to build South-South bridges. Improving their political terms of trade has been a mutual interest. As Clapham (2006) points out: "One very important reason why China's involvement in Africa has been so widely welcomed and readily accommodated has

¹¹ Zweig and Bi point out that "...the West must recognize that it would be irresponsible for China's leaders not to increase the country's energy supply." (Zweig & Bi, 2005: "China's Global Hunt for Energy"). For a detailed analysis of China's engagement in Sudan and Angola read Taylor, 2006.

¹² In 2005, Angola broke up talks about a financing agreement with the IMF and announced that it would take unconditioned loans, worth about \$US 5 billion (this figure is estimated at 9 billion by some – may be worth putting a range in here instead of one number), from China instead.

been that it fits so neatly into the familiar patterns of rentier statehood and politics with which Africa's rulers have been accustomed to maintain themselves. After a brief period following the end of the Cold War, when the political terms of trade between Africa and the newly hegemonic states of the West turned so sharply to the latter's advantage that African bargaining power was drastically reduced, China has provided a counterweight to the governance agendas promoted by the 'Washington consensus'." This strategy has been quite successful if one looks at the voting behaviour of African countries in the UN, as well as China's role regarding some resolutions concerning African countries such as Sudan and Congo. China has also supported proposals favoured by African countries on UN Security Council reform, debt relief, and other issues.¹³

The no strings attached policy gives China a historical comparative advantage in Africa, especially in rogue states. The partial isolation of these "pariah states" by Western countries and international donors has given China the opportunity to fill the gap.

4.3 "State-Led Business Model"

It seems that state-owned Chinese companies have a lower risk aversion than Western companies because they are heavily backed, both financially and politically, by the government. The close coordination between government officials and Chinese businessmen makes it easier for China to stimulate investments in risky but strategically important countries. Chinese companies have a rather long time horizon and are to a much lesser extent under short-term profit pressure than an ordinary Western firm that has to satisfy private shareholders. Chinese corporations may feel free to act risk less risk averse than their competitors because they can rely on China's state-controlled banks for financial support regardless of their economic performance (Gill & Reilly 2007). Furthermore, Chinese businessmen seem to recognize difficult circumstances, such as prevalent corruption, political instability and the absence of the rule of law rather as an economic opportunity than a risk. This gives Chinese state-owned enterprises quasi-monopolistic power in certain sectors of some African economies (Tull 2005).

Beijing is using tied aid as an instrument to improve the business opportunities for Chinese companies in Africa and pave the way for huge investment projects. It is no wonder that China is concentrating its investment and aid strategies on countries where multinationals are barely present yet or where they have withdrawn their activities because of international sanctions (e.g. Sudan). All in all, Chinese

¹³ According to the Democratic Coalition Project, China and many SSA countries vote similarly in the UN General Assembly; especially on resolutions concerning the violation of human rights. For a detailed analysis on the voting pattern on human rights resolutions, read the annual DCR report: <http://www.democracycaucus.net/html/unvot.html>.

companies are better prepared to deal with the specific political risks in Africa than many Western firms, which gives them a comparative advantage in unstable states.

4.4 “Niche Strategy“

China traditionally funds high-profile and prestige infrastructure projects, such as stadiums, dams, railroads, state houses, ministry buildings as well as hospitals and plants.

Other donors usually do not finance most of these kind of projects any more which gives China a competitive edge because prestige projects still seem to be quite popular amongst African leaders. China is in a way following a niche strategy, filling the gap other donors have left. This gives Beijing another advantage in using aid as a vehicle to gain influence on the African continent.

China projects itself as a developing country that better understands the situation and special needs of other developing countries than the G8 countries and the IFIs. China is offering complete solutions for infrastructure projects via its Eximbank, including financing, planning, construction, and training of staff. Chinese construction firms are much cheaper than Western companies¹⁴ and Chinese workers and engineers in contrast to citizens of Western countries are willing to work and live abroad without high compensation. This results in significant cost advantages in the construction sector and related fields.

The niche strategy and the all-embracing supply concept in combination with significantly lower costs makes China an attractive partner for African leaders that are keen on any kind of infrastructure project. Taking into consideration that these Chinese companies often cannot compete with Western firms on a technological basis, this niche strategy seems very pragmatic.

4.5 Interim Conclusion

China’s increasing engagement on the African continent can easily be explained by political and economic goals. In order to gain support in international organizations, establish itself as a new super power, and secure access to energy resources and other commodities, China has aggressively entered the African markets using tied aid as a major instrument. In so doing, it must be understood that China has very little room to disregard potential partners by taking humanitarian considerations into account. Furthermore, China has significant comparative advantages in unstable and problematic regions and rogue states.

¹⁴ Construction costs of Chinese firms are often 20 to 50 percent lower than the costs of Western companies. For a comprehensive analysis read “China’s Interest and Activity in Africa’s Construction and Infrastructure Sectors” published by the Centre for Chinese Studies, Stellenbosch University; <http://www.dfid.gov.uk/pubs/files/chinese-investment-africa-full.pdf>.

China's higher opportunity costs of morality and the specific comparative advantages of China regarding its foreign aid policy should be taken into account when dealing with conflicts and formulating roadmaps towards a better coordination of aid policies.

5 FIELDS OF CONFLICTS AND CRITICAL ASSESSMENT

5.1 Fields of Conflict

China's engagement on the African continent has caused conflicts with traditional donors. One reason is simply the fact that Western countries and the IFIs are losing some of their influence in those African countries where China has become a significant player. G8 and IFI officials have criticised China for its strategy in Africa claiming that China undermines the G8's efforts to increase the effectiveness of foreign aid. Backing corrupt elites, so the argument goes, also undermines Western attempts to enhance transparency and governance quality, fight corruption, and further democratize the continent. It is argued that this has detrimental effects on the development prospects in Africa, since good institutions and governance standards are crucial for a sustainable economic development.

Furthermore, by providing loans to countries that benefited from the HIPC, HIPC II and the Gleneagles debt relief initiatives, China is acting as a free-rider, risking a new debt crisis and possibly jeopardizing some of the Millennium Development Goals (MDG). One could argue that the massive debt relief provided by traditional donors (see the study by Freytag and Pehnelt in this issue) was a necessary condition that highly indebted poor African countries could borrow again. There are also worries about the delivery of Chinese military equipment to rogue regimes and conflicting parties.¹⁵

Four out of five China's most important African trading partners show considerably miserable performance with respect to civil liberties, political freedom, governance quality, and stability (see table 1).

¹⁵ During the military conflict between Ethiopia and Eritrea, 1998-2000, China delivered weapons to both parties. China has become the largest supplier of arms to Sudan (Reisen, 2007). According to Amnesty International, a substantial share of small arms collected by peacekeepers in the Congo was of Chinese design. However, according to a study by ControlArms, Russian exports to Sub Saharan Africa are still more than twice as high as those of China (http://www.controlarms.org/documents/chapter4_colour.pdf).

Table 1: Main Trading Partners & Governance Quality

China's Main African Trading Partners	% of Chinese Imports from Africa	Share of Chinese Oil Imports from Africa in 2005	Freedom House Index ¹⁶			Failed States Index ¹⁷ Rank in 2006 (out of 146)
			Civil Liberties Score 2006	Political Freedom Score 2006	Status	
Angola	27,4%	50%	5	6	Non Free	37
South Africa	20,6%	<1%	2	1	Free	110
Sudan	13,4%	19%	7	7	Non Free	1
Republic of Congo	9,8%	16%	6	6	Non Free	2
Equatorial Guinea	6,3%	10%	6	7	Non Free	52
Total	77,5%	95%				

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

Oil and other resources are also likely to cause conflicts of some form; a “battle for resources” is taking place in SSA. Since Beijing is using tactics unavailable to Western companies and countries, the latter are falling behind, especially in the most problematic African states like Sudan, the Chad and Zimbabwe. Unconditioned aid and loans are no longer “state of the art” in the developing strategies of traditional donors. That is why China might crowd-out aid (and investments) by Western countries (and companies). Some Western companies (also US) had to withdraw their activities in some African countries such as Sudan and Zimbabwe. Critics claim that China ignoring social, environmental and anti-corruption standards in Africa. Since these have not been major concerns in China for quite a while, this criticism should not be surprising. However, most recently environmental issues have attracted much more attention amongst Chinese officials, at least inside the People’s Republic.¹⁸

¹⁶ The scores of the Freedom House Index are determined by several questions concerning political rights and civil liberties. The political rights questions cover the three sub-categories (1) electoral process, (2) political pluralism and participation, and (3) functioning of government. Civil liberties refer to (1) freedom of expression and belief, (2) associational and organizational rights, (3) rule of law, and (4) personal autonomy and individual rights. The sum of each country and territory's sub-category scores for political rights translates to a rating on the aforementioned 1 to 7 scale; the same process is used to determine the civil liberties rating. Higher values indicate a lower degree of freedom. For further information see <http://www.freedomhouse.org>.

¹⁷ The Failed States Index published by the magazine Foreign Policy is compiled using the Fund for Peace's internationally recognized methodology, the Conflict Assessment System Tool (CAST). It assesses violent internal conflicts and measures the impact of mitigating strategies. In addition to rating indicators of state failure that drive conflict, it offers techniques for assessing the capacities of core state institutions and analyzing trends in state instability.

¹⁸ Especially efforts to control the dramatic pollution problems in major Chinese cities are on top of the agenda. In 2006 the Chinese government announced to expand the expenses for environmental protection and released new environmental laws.

5.2 CRITICAL ASSESSMENT OF CHINA'S ENGAGEMENT IN AFRICA

Although part of the criticism above is true, a close and objective assessment sheds a more sophisticated light on China's role in Africa.

First of all, one has to recognize that despite its increasing engagement China is not yet an overwhelmingly powerful player in Africa and is still spending less money on aid than the traditional powers. With their repeated promise to increase assistance¹⁹ to Africa in the next couple of years, the G8, together with the IFIs will remain the predominant presence on the continent with respect to aid. However, regarding loans and foreign direct investments in Africa China most definitely ranks among the major powers on the African continent. China has already overtaken the World Bank in lending to Africa. In 2006, lending by China's Exim Bank was \$12.5 billion. The loans China offered Africa in 2006 were three times the total development aid given by OECD countries (Harman 2007).

Next, if one is inclined to criticize China for using aid as an instrument to get access to resources or to achieve political goals, one has to bear in mind that the G8's engagement on the continent has never been solely humanitarian. The traditional donors have always used aid for strategic purposes and are still doing so. Apart from that, the vast majority of aid programs in SSA over the last decades had very little effect on poverty reduction and development. Empirical evidence suggests that the various aid initiatives did not bring out any good for SSA and some scholars even argue that foreign assistance rather harms development prospects in some African countries.²⁰ Furthermore, the argument that China is behaving as a free-rider offering new loans to (former) highly indebted (but still very) poor countries is not very convincing if one looks at the way recent debt relief initiatives have been decided on. While implementing debt relief for highly indebted poor countries, international donors should have taken into account the possibility of free-riding by other existing or new creditors. Therefore, it is rather unfortunate that China and other creditor countries to SSA have not joined the talks about recent debt relief initiatives like the G8's Gleneagles Summit (Reisen 2007).

Given the poor record of traditional donors' aid programs, China's engagement might be a stroke of good fortune for aid recipients. China is breaking the "aid cartel" of traditional donors and offers an alternative approach; China asserts that much of its aid projects are highly effective (especially in infrastructure provision). Therefore, the G8 and the IFIs must prove that their foreign assistance to Africa does in fact foster economic growth and development in SSA. The increased competition in the "aid industry", which creates space for different strategies, might enhance the efficiency of all aid programs. To be sure, traditional donors seem to have learned from the

¹⁹ At the recent G8 Summit in Heiligendamm, Germany, the leaders of the world's richest nations pledged to give \$60 billion "over the coming years" to fight the spread of disease - such as HIV, Malaria and Tuberculosis - and poverty in Africa.

²⁰ We recommend the extensive work of Peter Bauer and William Easterly for further reading.

disappointing experience and already adjusted their aid and debt relief programs (Freytag & Pehnelt 2007). But now, because of China's emergence, the need to enhance effectiveness and efficiency is more acute.²¹

Assessing China's foreign aid to Africa, one should not forget that China is a supporter of the Millennium Development Goals and a signatory to the Paris Declaration on Aid Effectiveness, though it has hardly harmonised its aid programs with the policies of other donors so far.²² However, China has increased its contributions within the multilateral development framework and is becoming a more active member in international organisations such as the World Bank. China has also made various and constructive contributions to the African Development Bank (AfDB) since the country became an AfDB member in 1985. Therefore, China does not stand completely outside the international donor community. Recently, China has enhanced its participation in donor coordination groups and is now establishing mechanisms to review the impact of its aid programmes (Tjonneland et al. 2006).

Furthermore, the G8 and China do have some shared interests in Africa. Both parties are major oil consumers and – besides Russia – net oil importers. Although the quest for resources has a competitive dimension, China and the G8 are interested in reliable suppliers of oil and raw materials. Since Western and Chinese companies have significantly invested in African countries and many G8 and Chinese citizens live and work in Africa, the G8 and China are interested in a politically and economically stable environment on the continent.

However, in the longer term China cannot escape the issue of 'governance', because this is the essential precondition for maintaining stable economic relationships. China, for instance, might find it increasingly difficult to follow its non-interference policy in Sudan, while also ensuring the stability of its investments in the country's oil industry. China will most probably go through the same learning processes that other outside powers have had to resort to in the past, and is likely to come up with similar responses to similar predicaments. In particular, both Chinese companies and the Chinese state itself will need to grapple with ways to protect their own political and economic investments, within the uncertain and potentially rapidly changing environment that Africa provides (Clapham 2006). Most recently, international criticism of China's supportive stance toward Sudan and campaigns to discredit and even boycott the 2008 Olympic Games in China have deeply concerned Chinese

²¹ Rieffel (2007) even raises the following questions: "Who will blink first? Will the Paris Club start doing unconditional debt relief deals for the next wave of low-income country cases in order to draw China into the Club? Or will China discover the virtues of conditional relief as a step that low-income countries will have to take on the road to becoming responsible middle-income debtors?"

²² Although China donors (such as the OECD countries) and partners (e.g. China) are treated differently, they jointly committed to "work together to establish mutually agreed frameworks that provide reliable assessments of performance, transparency and accountability of country systems", to "integrate diagnostic reviews and performance assessment frameworks within country-led strategies for capacity development", and to "develop the specialised technical and policy capacity necessary for environmental analysis and for enforcement of legislation", among other things (see Paris Declaration on Aid Effectiveness).

officials. Some Hollywood stars have said that because China is refusing to censure the bloodbath in Darfur, the 2008 games could become known as the "Genocide Olympics". In the latest upset for Beijing, Hollywood's celebrated director Steven Spielberg has warned he is considering resigning his position as artistic adviser to the 2008 Olympic Games unless China did more to stop the bloodshed in Darfur (Bezlova 2007). Not least because of the increasing international criticism China introduced a special envoy in May 2007.

Essentially, the G8 and China share the interest to alleviate poverty, improve governance and institutional quality, eliminate terrorist 'hotbeds', and cultivate export markets on the African continent.

Obviously, there is not only the necessity for coordination of aid programs but also enough room for cooperation between traditional donors and China. Beijing not only has some common interests but is most probably willing to cooperate with the G8, the international financial institutions and other international donors. This is because China's Africa policy sheds light on how Beijing interprets its future role in international relations--China's performance on the African continent can be seen as a reference for the direction of China's development as a major economic and political power.

6 IMPLICATIONS FOR THE DONOR COMMUNITY

Firstly, further investigation and monitoring of China's African policy is necessary. Donor countries should enhance dialogue with China and African countries. In doing so, international donors must not talk exclusively to governments, but should also enhance diplomatic and informal ties to Chinese embassies in Africa, as well as African interest groups and NGOs operating in SSA. It is crucial to get a deeper understanding of China's engagement in Africa. A permanent exchange of information and an active conflict management through a permanent or at least a regular 'G8-China Development Forum' could be a meaningful facility. The Heiligendamm (follow-up) process introducing closer communication between the G8 and the O5²³ could be a promising starting point.

The G8 should further support China to develop a permanent and specialized aid bureaucracy. This could reduce the influence of the Ministry of Commerce and enhance the transparency of China's aid programs.

The G8 must develop approaches to integrate China into a collaborative and comprehensive development strategy for the African continent. Traditional donors should therefore figure out shared interests and fields of cooperation with the new players on the market for foreign assistance. Since not all countries share the same

²³ Outreach countries: Brazil, China, India, Mexico, and South Africa.

interests, this is not exclusively a matter of multilateral negotiations but could be done on a bilateral basis in some cases as well. If the G8 wants China to act as a responsible stakeholder in development policy, it must offer China a stake by integrating China into the framework of international development assistance.²⁴ This could include offering China a larger voice in the international financial institutions, encouraging China to become a larger shareholder in the IMF²⁵ and the World Bank. The World Bank and China plan to work together in African aid projects as Beijing expands ties with the continent. This development is a good sign that China's reluctance to coordinate with international donors will decline in the near future.

Accepting China as a significant power within the group of industrialized nations and acknowledging China's economic need to expand globally rather than demonising its engagement in Africa is the key for a collaborative, effective and efficient development strategy. This appears to be the only way to remedy the shortcomings of China's current development policy and to facilitate long-term benefits for the African continent.

²⁴ China is already involved (as a recipient and donor) in multilateral regional development programs in Asia.

²⁵ Some aspects of aid architecture are already on the agenda. For example, the process of reform of the governance of the IMF has begun following the ad hoc increases in the quotas for China, Turkey, South Korea and Mexico in 2006 (Burall et al. 2006).

REFERENCES

- Asian Development Bank (2004): "Poverty Profile of the People's Republic of China". May 2004.
- Bezlova, A. (2007): "Sudan: Close Links cast Shadow on Olympics". Inter Press Service, 30 July 2007.
- Broadman, H. (2007): "Africa's Silk Road: China and India's New Economic Frontier". Washington, D.C.
- Burall, S.; Maxwell, S. & Rocha Menocal, A. (2006): "Reforming the international aid architecture: Options and ways forward". Overseas Development Institute Working Paper 278.
- Clapham, C. (2006): "Fitting China In". Brenthurst Discussion Paper 8/2006.
- Department of Foreign Affairs Republic of South Africa (2007): "Minister Dlamini Zuma to hold discussions with Chinese Counterpart". [<http://www.dfa.gov.za/docs/2007/chin0515.htm>]
- FOCAC (2006): "Beijing Summit adopts declaration, highlighting China-Africa strategic partnership". Forum on China-Africa Cooperation, Xinhua News Agency, 2006-11-05.
- Freytag, A. & Pehnelt G. (2006): "Debt Relief and Changing Governance Structures in Developing Countries". ECIPE Working Papers. No. 02/2006.
- Funakushi, T. & Loser, C. (2005): "China's Rising Economic Presence in Latin America" Inter-American Dialogue Op-Ed, July 2005.
- Gill, B. & Reilly, J. (2007): "The Tenuous Hold of China Inc. in Africa". The Washington Quarterly, Vol. 30(3), pp. 37-52.
- Glosny, M. (2006): "Meeting the Development Challenge in the 21st Century: American and Chinese Perspectives on Foreign Aid." China Policy Series. Policy Brief 21. August 2006. National Committee on United States-China Relations. New York.
- Goldstein, A. (2005): "Rising to the Challenge. China's Grand Strategy and International Security. Stanford, Stanford University Press."
- Harman, D. (2007): "China takes up Civic Work in Africa". The Christian Science Monitor June 27, 2007.
- Hofmann, K., Kretz, J., Roll, M. & Sperling, S. (2007): "Contrasting perceptions: Chinese, African, and European perspectives on the China-Africa summit". Internationale Politik und Gesellschaft. Bonn, Dietz, pp. 75-90.
- Kamplinsky, R., McCormick, D. & Morris, M. (2006): "The Impact of China on Sub Saharan Africa". Mimeo. DFID China Office, Beijing.
- Logan, S. & Bain, B. (2005): "China's Courtship of Brazil and LatAm Makes Washington See Red". Brazzil Magazine, 02 September 2005.
- Manning, R. (2006): "Will 'Emerging Donors' Change the Face of International Co-Operation?" Development Policy Review, Vol. 24(4), pp. 371-85.

- Meidan, M. (2006): "China's Africa Policy: Business now, politics later". Asian Perspective, Vol. 30(4), pp.69-93.
- Pan, E. (2007): "China, Africa, and Oil". CFR-Backgrounder, January 26, 2007.
- Paris Declaration on Aid Effectiveness.
[<http://www.oecd.org/dataoecd/11/41/34428351.pdf>]
- Reisen, H. (2007): "Wer hat Angst vor China in Afrika?". Internationale Politik. May 2007. Berlin.
- Rieffel, L. (2007): "Why Bad Loans Are Good For Africa". The Globalist, February 13, 2007.
- Taylor, I. (2006): "China's oil diplomacy in Africa". International Affairs. Vol. 82(5), pp. 937-959.
- Tjonneland, E., Bandtzaeg, B., Kolas, A. & le Perle, G. (2006): „China in Africa – Implications for Norwegian foreign and development policies“. Chr. Michelsen Institute. R2006: 15.
- Tull, D.M. (2005): "Die Afrikapolitik der Volksrepublik China". SWP-Studie 2005/S 20. August 2005. Berlin.
- Zafar, A. (2007): "The Growing Relationship between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links". The World Bank Research Observer, Vol. 22(1), pp. 103-130.
- Zweig, D. and Bi, J. (2005): "China's Global Hunt for Energy". Foreign Affairs, September/ October 2005