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China's role in development in Africa

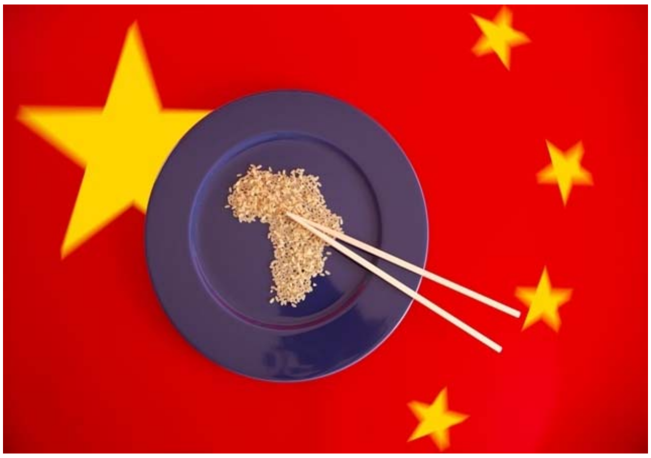
Challenging the EU approach

SUMMARY *China's two-way "win-win" partnerships with African countries contrast sharply with the traditional asymmetric, one-way donor-recipient relationships between the EU and its African partners.*

China's approach to Africa is primarily guided by the quest for natural resources for manufacturing, energy security, and export markets to sustain the burgeoning Chinese economy. Trade, investment and aid are inextricably linked. In recent years China has broadened the scope of its development agenda for Africa from a narrow focus on trade and investment to a broad array of areas such as regional integration and sustainable development.

The EU's approach to Africa's development has, in contrast, largely centred on the achievement of the eight Millennium Development Goals (MDGs) by 2015. Emphasis has thus been put on social infrastructure as opposed to China's focus on economic infrastructure.

There is a deep divide between China and the EU in respect of key principles such as non-interference, and conditionality based on good governance, democratic principles and the rule of law. Therefore, some scholars advocate pragmatic ways of cooperation on Africa rather than attempting to unilaterally socialise China into Western norms and values.



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In this briefing:

EU-China-Africa trilateral cooperation

China is eager to engage more intensively with the African Union (AU), and the New Partnership for Africa's Development (NEPAD), in areas like regional integration and sustainable development. That is the message of the Beijing Action Plan (2013-2015), adopted at the Fifth Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) held in Beijing in July 2012. The action plan stresses the need to prioritise agriculture and food security. It also envisages the creation of a China-Africa energy forum to enhance energy cooperation.

China's interest in cooperating with the African Union in fields which form an integral part of the EU Strategy for Africa could give new momentum to the idea of trilateral cooperation between Africa, China and the EU. Such an approach was put forward by the European Commission in 2008, when it proposed trilateral dialogue and cooperation between the EU, Africa and China focusing on four areas: peace and security, infrastructure, sustainable management of the environment and natural resources, as well as agriculture and food security. This has not materialised, mainly due to conflicting perceptions of the principles underlying trilateral cooperation, and different approaches to development such as non-interference and conditionality.

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China's policy towards Africa

Basic principles

In China, overseas development issues are not treated as a separate policy area. There is no ministry of development cooperation. "Foreign aid" for Africa is, to a great extent, approved by the Ministry of Commerce (MOFCOM) and is mostly linked to foreign trade and investment projects. China's policy towards Africa relies on the framework of South-South cooperation between developing countries. It is guided by China's eight principles on economic aid and technical assistance to other countries, derived from China's five core foreign policy principles on peaceful co-existence. Mutual respect for each other's territorial integrity and sovereignty, **non-interference** in each other's internal affairs, **equality** and **mutual benefit** feature prominently among them. In addition, acceptance of the One-China policy is a diplomatic condition for the establishment and development of China's relations with Africa. China also seeks to further its ambition to speak for the developing world in multilateral fora such as the United Nations and the World Trade Organisation (WTO).

Past experience

China's approach to Africa's development is inspired by its own experience as a recipient of aid under Japanese aid instruments, such as **commodity-backed loans** granted either on commercial or concessional terms[1]. Since these have proven successful for China's development, China has by and large employed them to replicate its dynamic industrialisation on the African continent.

Foreign aid with "no strings attached"

China's non-interference policy is intimately linked to what China terms its policy of delivering funds with no political strings attached, i.e. the deliberate decoupling of economic development and political reform. Some African countries, particularly those with poor track records in human rights and good governance, perceive Chinese foreign aid as an attractive alternative to the traditional asymmetric donor-recipient model of North-South cooperation involving the World Bank or the IMF and various forms of conditionality.

Two-way, economic "win-win" situation

The emergence of China as a prominent provider of funding to the African continent in the 1990s has been linked inextricably to the Chinese Government's "Going Global" policy, as a response to the growing demand for energy supplies, natural resources and export markets for China's thriving economy. In line with the principle of equality, China defines itself not as a "donor"[2] of grants but rather as a, still developing, business partner offering African countries a "win-win" situation, through striking **project-based package deals**. These provide China with access to African natural resources and markets, in exchange for low-interest loans or concessional loans usually employed for large-scale infrastructure projects in Africa.

Concessional loans are mainly used to finance large and medium-sized infrastructure projects or to provide complete plants, mechanical and electrical products, technical services and other materials. They are made at a subsidised annual interest rate of between 2% and 3%, with a repayment period, usually, of 15 to 20 years (including five to seven years' grace).

Source: China's White Paper on Foreign Aid 2011.

China's foreign aid in practice

Since the 1990s, China has addressed Africa's development challenges primarily from a perspective of mutual economic benefit, and tends to strategically blend aid and investment flows through project-related funding[3]. Chinese funding fills financing gaps, particularly for large infra-structure programmes as well as in other key areas such as education, health and agriculture. It is considered to be fast, efficient and flexible, not requiring a predefined country strategy, and is tailored to individual needs. Yet, Chinese foreign aid

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is largely tied. Frequently a substantial part of the projects is realised by Chinese staff, with the adverse side effect of limited employment opportunities for local workers.

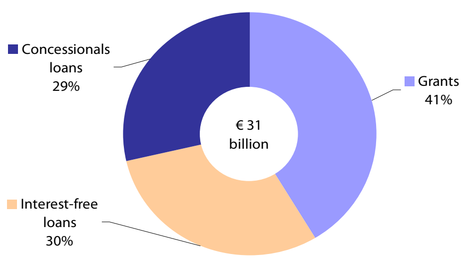
Tied aid: Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include most aid recipient countries. Source: OECD/DAC.

Poor transparency of foreign aid data

China prefers to channel its foreign aid through bilateral relations with African countries rather than contributing to multilateral donor organisations. It has so far largely remained outside the international donor architecture and until recently did not disclose any data on its foreign aid, which has led to wide ranging external estimates.

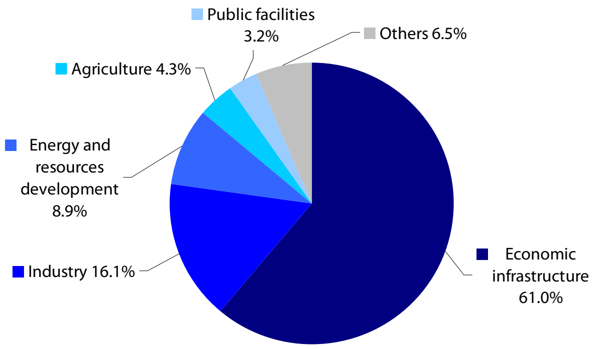
In April 2011, China published a White Paper on Foreign Aid which, for the first time ever, gave an overview of the country's foreign aid policy, forms of aid and areas of activity in recent decades. An entire section is devoted to international cooperation. The sparse information revealed mostly consists of aggregated figures. Country-specific data or trends are not reported. In 2009, **Africa** accounted for **45.7%** of total annual foreign aid delivered by China, followed by Asia with 32.8%. The precise overall amount is not given. Chinese foreign aid encompasses three elements: grants, interest-free loans and concessional loans.

Fig. 1: Total foreign aid disbursed by China worldwide in the period 1950-2009 by instrument (€ billion)



Source: White Paper on Foreign Aid, 2011

Fig. 2: Sectoral distribution of concessional loans granted worldwide in the period 1950-2009



Source: White Paper on Foreign Aid, 2011

"Foreign aid" or ODA?

China is not an OECD member and arguably does not apply the method of calculation[4] of official development assistance (ODA) as defined by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD). This renders comparisons difficult.

Official development assistance (ODA): Grants or loans to countries and territories on the DAC list of ODA recipients and multilateral agencies, that are made by the official sector with the promotion of economic development and welfare as the main objective; at concessional financial terms (loans with a grant element of at least 25%). Source: OECD/DAC.

Based on the ODA definition, all three forms of Chinese foreign aid, as well as debt relief, would all qualify as ODA[5]. However, China's official finance in Africa also includes other official flows (OOF) such as preferential export credits, market-rate export buyers' credits and commercial loans from Chinese banks, which do not meet the ODA criteria.

Considerable focus on LDCs

China's special emphasis on foreign aid delivery to least developed countries (LDCs) is reflected in their **37.9%** share of total foreign aid disbursed in 2009. In addition, China is constantly increasing its debt relief for LDCs. It has pledged to expand its zero tariff treatment to 95% of the products of African LDCs. The policy is set in particular to encourage African agricultural exports to China.

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In July 2011, China launched a WTO agreed aid for trade programme (renewed in 2012), to help LDCs participate more effectively in WTO activities.

Main recipients of foreign aid

While in theory China pursues a single approach to Africa, in practice it has privileged two categories of African countries as recipients of foreign aid during the past decade: first, a small number of states with which it had long-established political ties, such as Egypt, Ethiopia, Mali and Tanzania, and second, some hand-picked resource-rich Sub-Saharan countries, such as Algeria, Angola, Congo (Brazzaville), the Democratic Republic of Congo (DRC), Nigeria, Sudan and Zambia[6].

The impact of selectivity

By 2007 about 70 % of Africa's exports to China came from Angola, South Africa, Sudan, and Congo. Exports consisted predominantly of raw materials such as oil, copper, cobalt, and cotton. Of African imports from China, mainly manufactured goods, almost 60% went to South Africa, Egypt, Nigeria, Algeria and Morocco.

In 2008, some African countries ran a huge trade deficit (Ethiopia, Nigeria, Mauritius) or surplus (Angola, Sudan, Congo) with China. Most other African economies had only a limited trade relationship with China.

Special economic zones (SEZs)

SEZs are specific geographic areas designed as long-term projects to attract foreign investment, mainly in manufacturing, by providing a favourable economic environment and infrastructure. They are intended to foster the clustering of production facilities of domestic and foreign investors, to enhance competitiveness, diversification and facilitate export-led growth. SEZs may operate under different regimes, such as Economic and Trade Cooperation Zones, Free Trade Zones, Export Processing Zones (EPZs) and industrial parks.

The 2006 Beijing Action Plan (2007-2009) envisaged the establishment of several SEZs. Seven SEZs in six different African countries were approved: one each in Algeria, Egypt, Ethiopia, Mauritius, Zambia and two in Nigeria. They differ in size, scope, structure and objectives, some being China-African joint-ventures while others are completely Chinese-owned. The Chinese-led SEZs are designed, developed and managed by private companies, while the governments act only as facilitators and regulators. Partly still under construction, they have so far not yet become showcases of sustainable economic progress. Due to the lack of engagement of the African partners to connect the zones to local suppliers, the SEZs risk remaining limited enclaves of dynamism. The envisaged spill-over in terms of technology and skills transfers as well as local job creation may fail to materialise[9].

A similar pattern of concentration applied to Chinese investments in Africa, which up to 2007 had principally targeted a small number of countries (Nigeria, South Africa, Sudan, Algeria and Zambia)[7].

Meanwhile China has expanded its engagement to cover most African countries[8] and, as evidenced by the latest action plan, has shifted its policy from a narrow focus on trade and investment relations towards a broader range of development issues.

State-backed providers of funds

The China EXIM Bank (China Export-Import Bank) was established in 1994 to promote Chinese exports and foreign direct investment (FDI) specifically in the infrastructure sector. It is one of China's three policy banks and the only provider of concessional financing.

The China Development Bank (CDB) was set up in 1994. Recently, the two banks' lending volume to developing countries taken together out-paced the World Bank's loan commitments. The CDB manages the China-Africa Development Fund, created in 2007, which is mandated to support the market entry of Chinese firms into the African economy and to facilitate the transfer of mature labour-intensive industries *inter alia* to Chinese-led SEZs in Africa. These have played a vital role in China's own dynamic development.

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The EU approach to Africa

The EU strategy for Africa

Building on the 2005 EU Strategy for Africa the 2007 Joint Africa-EU Strategic Partnership is currently the political framework for EU-AU relations, based on **equality**, **mutual interest** and **shared responsibility**. It encompasses eight policy areas in which development is envisaged:

1. peace and security;
2. democratic governance & human rights;
3. trade, regional integration & infra-structure;
4. Millennium Development Goals (MDGs);
5. energy;
6. climate change, migration;
7. mobility and employment;
8. science, information society and space.

The EU's normative principles

The EU's development policy has a strong normative dimension which is reflected in a policy of **conditionality**. It is aimed at promoting the EU's common norms and values, enshrined in the EU Treaties, such as human rights, democratic principles and good governance. Aid delivery is linked to compliance with these norms and values, and violation of them may result in the suspension of development aid.

Bilateral and multilateral commitments

The EU and its Member States are bilateral ODA donors and contribute to multilateral donor frameworks. The EU is the biggest trading partner for Africa and its most important donor. From 2007 to 2012, the EU provided ODA worth roughly €24 billion.

EU financing instruments

The European Development Fund (EDF) pools Member States' development assistance to the 79 African, Caribbean and Pacific (ACP) countries, under the 2010 Cotonou Partnership Agreement. The EU's other main financing instruments for Africa are the thematic programmes of the Instrument for Development Cooperation (DCI) and the European Neighbourhood and Partnership Instrument (ENPI), both included in the EU budget, unlike the EDF. Specific issue-related funds have recently been created, such as the EU-Africa Infrastructure Trust Fund with activities in the fields of energy, transport, ICT and water. It combines grants and loans and its endowment amounts to €746.4 million.

Parliament's position

In its resolution of 23 April 2008 on China's policy and its effects on Africa, the EP called on the EU to engage in a development policy dialogue with China. But it should uphold its own approach to development cooperation rather than endorsing China's methods and objectives, since these might not necessarily be in line with EU values, principles and long-term interests. Moreover, it stressed the need for the EU to strengthen untied aid commitments, and to encourage China to provide untied aid to African partners in order to ensure that economic conditions attached to international grants or loans do not undermine sustainable development. The EP called on the EU to engage in constructive dialogue with China, within the OECD/DAC framework with a view to encouraging it to adopt DAC guidelines and standards or equivalent codes, and to respect the principles of the Paris Declaration on Aid Effectiveness.

In its resolution of 14 March 2013 on EU-China relations the EP welcomes China's promotion of diversification of its activities in Africa in the wake of harsh criticism of its imbalanced, resource-focused African policy. It commended China for its announcement of a credit of US$20 billion to African countries in the next three years for the development of their infrastructure agriculture, manufacturing and SMEs.

Academic views

Yun Sun, Julius Agbor and Jessica Smith (Brookings Institution) posit that China's current economic model for Africa could undermine the consolidation of democratic governance and the rule of law in Africa and that it would be better geared towards sustainable development. An empirical study by Christine Hackenesch (German

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Development Institute) reveals that the lack of effectiveness of EU conditionality in Angola and Ethiopia does not stem from China's engagement in these countries but from the EU's difficulties in finding appropriate instruments to promote good governance in countries where the government is not supportive of related reforms. Marcus Power (University of Durham) and Giles Mohan (Open University) are critical of calls for dialogue and partnership with China which tend to tacitly assume that China can be socialised into the norms of the international aid community and that China's engagement with Africa should conform to established patterns of Western involvement in Africa. In the same vein, Liu Lirong (Institute for Security Studies) warns against the EU's attempt to spread European norms and values through unilateral socialisation of China, as this will undermine its willingness to cooperate. In her view the EU should seek common ground and develop a pragmatic approach. Contrasting key features of the EU's and China's development models, namely conditionality, good governance and a focus on social infrastructure versus non-interference, concessional loans and project-based package deals, Jin Ling (South African Institute of International Affairs) concludes that the different logics behind the two policy approaches are not necessarily contradictory. However, rather than maintaining the perception of "competing models", points of overlap for pragmatic cooperation should be explored.

Further reading

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