

► **The G8 in an Endangered Global Economic and Political Climate**

Berlin Roundtable Meeting

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China's Development Policy in Africa

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► **China's Foreign Aid Policy: What are we talking about?**

- **Lack of transparency:**
 - **fragmented institutional setting** and complex aid apparatus
 - China does not take part in DAC statistics
 - **no reliable official data**, not even exact definition
 - Strong focus on bilateral aid directly to recipient governments often channeled through Chinese embassies
- Chinese officials rather **underestimate** foreign aid:
 - Officially: total expenditures for external assistance 2004: \$731.2 million
 - Estimates: total value of China's aid in 2004 at least \$1.2 billion
 - Some observers suggest **annual foreign aid** to outreach **\$3 billion** (Still 50% to Asian countries and approximately **one third to Africa**)
 - Even this might underestimate the total dimension since China's **Eximbank** provides **billions of \$** in **preferential loans** and **buyers credits**
 - **Debt relief** of more than **\$1.5 billion since 2000** to African countries
 - Training programs, technical assistance, peace-keeping forces...

⇒ **Total volume of aid / resource transfer remains unclear**



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▶ **Excursus: „New Strategic Partnership“**

Beijing Summit of the Forum on China-Africa Cooperation (FOCAC), November 2006:

- **Double** the 2006-level of **annual assistance** to Africa by 2009
- **\$3 billion** of preferential **loans** and **\$2 billion** of preferential **buyers credits**
- **China-Africa development fund** with **\$5 billion** in funds to encourage and support Chinese investment in Africa
- Conference center for the African Union to support its efforts to strengthen the continent through unity and integration
- **Cancel** all interest-free **government loans** that matured at the end of 2005 owed by nations that have diplomatic ties with China (\$1.5 billion)
- **Extending zero-tariff treatment** from currently 190 to 440 exports from African LDCs
- Furthermore:
Establish three to five trade and economic cooperation zones in Africa over the next 3 years; train 15,000 African professionals; setup 10 special agricultural technology demonstration centers; build 30 hospitals and 100 rural schools; increase the number of Chinese government scholarships to African students from 2,000 to 4,000 per year



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▶ **China's "Grand Strategy": Main Goals**

- **Political Goals:**
 - prevent political isolation (especially after the Tiananmen massacre in 1989)
 - gain political influence and reinforce China's claims to political and economic power
 - multi-polar world, limiting US dominance
 - alliances with other developing countries, South-South-partnerships, support in international organizations
 - One-China Principle / isolation of Taiwan
- **Economic Goals:**
 - secure and stabilize economic growth
 - satisfy the growing hunger for natural resources, esp. energy security
 - develop new markets and business opportunities for Chinese companies
- **Other Goals:**
 - Spread Chinese culture and philosophy
 - Introduce the state-driven approach of a "socialist market economy"



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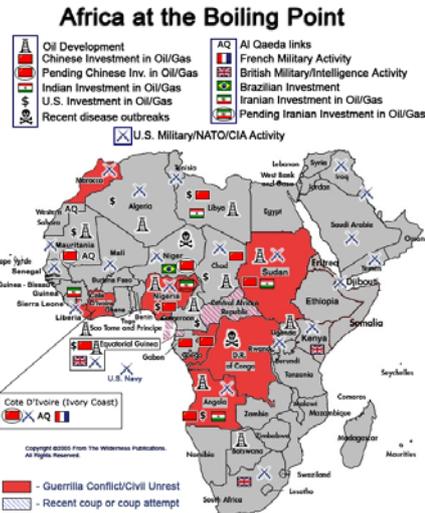
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▶ China's African Safari: A Political Economy Perspective I

China as a late developer on oil and commodity markets:

- Increasing demand for oil and other resources in China
- Energy security as a major task
- Relatively stable trade relations between oil producing countries and the industrialized world
- Not so many “unoccupied” oilfields and oil drilling licenses left
- (tied) aid as an important pillar in China's “oil diplomacy”

⇒ High opportunity costs of morality



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▶ China's African Safari: A Political Economy Perspective II

- **Non-Conditionality / no-strings attached principle** (except the Taiwan issue)
- Aid, investment and military equipment regardless governance quality
- ⇒ **Non-interference** in internal affairs as a **historical comparative advantage**, especially in “rough states”
- By the way, colonial experience surely far from forgotten



„Independence and Self-Reliance“



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▶ **China's African Safari: A Political Economy Perspective III**

- State-owned Chinese companies with **low risk aversion, long time horizon** and **no short-term pressure** to make huge profits
 - **Problematic circumstances** (corruption, political instability, rule of reason):
 - Risk / threat to Western enterprises ↔ economic **opportunity for Chinese companies**
 - Western companies rather stay away ⇒ lack of competition in some African countries
 - Chinese enterprises as quasi-monopolists
 - **(tied) aid as an instrument to pave the way for Chinese companies**
- ⇒ **Comparative advantage for China especially in unstable states**



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▶ **China's African Safari: A Political Economy Perspective IV**

- China traditionally funds **high-profile and prestige infrastructure projects**, such as stadiums, dams, state houses and presidential palaces (though not exclusively)
 - Other donors usually do not finance these kind of projects any more
 - China stresses that it better understands the specific needs of other developing countries
- ⇒ **Niche strategy** closing the gap the IFIs and other donors have left = **comparative advantage**
- Chinese construction firms often much cheaper than Western companies
 - Chinese construction workers and engineers are willing to work and live abroad without high compensation
- ⇒ Significant **Comparative (cost) advantage** in construction



Merowe-Dam, Sudan



General Hospital, Luanda



Cement Plant, Zimbabwe



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► **China's African Safari: Impact on Development in Africa**

Positive effects???

- Additional **resource transfer** to SSA countries
- Enhanced **infrastructure** and **export capacities**
- **Increasing purchasing power** of African consumers due to cheap imports
- **Lower costs** for African producers due to cheaper inputs
- At least some transfer of **know-how** and **technology**
- China as an **alternative for African countries**: as donor, investor and export market

Negative effects???

- **Tying aid** reduces effectiveness with respect to people's needs and future development
- **Adverse impact on diversification** of African economies & **Dutch disease**
- Transfer of skills and know-how very limited
- Export credits and tied loans may lead to **suboptimal resource allocation** (higher costs)
- Social and environmental **sustainability rather questionable**
- **New debt crisis** due to increasing loans from China
- Support for **rough regimes** and **corrupt elites**
- State-driven approach may even increase **corruption** and **graft**



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► **China's African Safari: Conflicts with the G8**

G8's concerns and blames:

- **Reduced influence of Western countries** (and the IFIs) on the African continent
- China as the **"spoiler"** in **G8's efforts** to increase aid effectiveness and enhance governance quality, undermining decent development strategies and jeopardizing MDGs
- Disregard of **human rights, social standards** and **environmental issues**
- China as a **free-rider** in the "fight for resources"
- Delivery of **military equipment** to conflicting parties

But:

- China **breaks the "aid cartel"** of traditional donors
⇒ "alternative" approach **increases competition** and may even enhance efficiency
- **G8's engagement** in Africa has **never** been **solely humanitarian** and international donors have always been using aid for strategic purposes (and are still delivering arms)
- Some **shared interests**: energy security, stable environment, protection of investments, developing business opportunities... (though sometimes competitive dimension)
- China is a supporter of the Millennium Development Goals and a signatory to the Paris Declaration on Aid Effectiveness
- Most recently, China has **increased its contributions within the multilateral development framework** and is becoming more active in international organisations



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▶ **China's African Safari: Implications for the G8**

- Further investigate and monitor China's African policy
- Enhance bilateral dialogue both with China (embassies, central government) and African countries (governments, interest groups, NGOs...)
- Permanent exchange of information and active conflict management (e.g. through a permanent or periodical Chinese-G8 Development / Africa Forum)
- ⇒ **Get a deeper understanding of China's engagement in Africa**
- Figure out shared interests and fields of cooperation with China (bilaterally and as a group)
- Support China to establish an efficient aid bureaucracy, transparent policy and mechanisms to evaluate the aid programs
- Further integrate China into the donor community (larger quota and voice in the IMF and the World Bank)
- Aid policy as a vehicle to improve the Sino-G8 relationship as a whole
- ⇒ **Offer China a larger stake in international development policy**

• **AND...**



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▶ **...Permanently reconsider the G8's foreign aid (and trade) strategies!!!**

Thank you for your attention

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