



# How China delivers development assistance to Africa

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## List of Acronyms

AADRI	Asia-Africa Development Research Institute
AfDB	African Development Bank
ANC	African National Congress
APRM	African Peer Review Mechanism
ASEAN	Association of South East Asian Nations
AU	African Union
CADF	China-Africa Development Fund
CASS	Chinese Academy of Social Sciences
CATIC	China National Aero-Technology Import and Export Corporation
CBMI	China Building Materials Construction Tangshan Installation Engineering Company
CDB	China Development Bank
CEMEC	China National Machinery Equipment Import and Export Company
CHICO	China Henan International Corporation
CNMC	China Nonferrous Metal Mining Group
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COMESA	Common Market for Eastern and Southern Africa
COVEC	China Overseas Engineering Company
CPPCC	Chinese People's Political Consultative Conference
DAC	Development Assistance Committee
DAFC	Department of Aid to Foreign Countries
DAG	Donor Assistance Group
DFID	UK Department for International Development
DRC	Development Research Centre
DRC	Democratic Republic of the Congo
DSA	Debt Sustainability Analysis
ECA	Export Credit Agency
ERA	Ethiopian Roads Authority
EU	European Union
EXIM Bank	Export-Import Bank of China
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
G77	Group of 77 Developing countries
G8	Group of Eight
GDP	Gross Domestic Product
GPRS	Growth and Poverty Reduction Strategy

HIPC	Heavily Indebted Poor Country Initiative
ICBC	Industrial and Commercial Bank of China
ICT	Information and Communications Technologies
IDA	International Development Association
IFI	International Financial Institution
IMF	International Monetary Fund
IWAAS	Institute of West Asian and African Studies
JAS	Joint Assistance Strategy group
JDC	Joint Development Commission
JECC	Joint Ethiopian-China Commission
JICA	Japan International Cooperation Agency
JV	Joint Venture
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MMD	Movement for Multi-Party Democracy
MOFA	Chinese Ministry of Foreign Affairs
MOFCOM	Chinese Ministry of Commerce
MOFTEC	Chinese Ministry of Foreign Trade and Economic Co-operation
MOU	Memorandum of Understanding
MW	Megawatt
NEPAD	New Partnership for Africa's Development
NGOs	Non-governmental Organisations
NPV	Net Present Value
OAU	Organisation of African Unity
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PASDP	Poverty Alleviation and Sustainable Development Programme
PRC	People's Republic of China
PSI	Presidential Special Initiative
PSRC	Tanzanian Presidential Parastatal Sector Reform Commission
REC	Regional Economic Community
RMB	Chinese Renminbi
SADC	Southern African Development Community
SCO	Shanghai Cooperation Organisation
SEZ	Special Economic Zone
Sinopec	China Petroleum & Chemical Corporation
SME	Small and Medium Enterprises
SOE	State-owned Enterprise
TAZARA	Tanzania-Zambia Railway
TICAD	Tokyo International Conference on African Development
UBA	United Bank of Africa
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US	United States of America

WEF	World Economic Forum
WFP	United Nations World Food Programme
ZESCO	Zambia Electricity Supply Corporation
ZPA	Zambian Privatisation Agency
ZTE	Zhongxing Telecommunications Equipment

## Executive Summary

The Centre for Chinese Studies at Stellenbosch University embarked on this research project to gather information and gain insight into China's aid policies vis-à-vis Africa. The research is intended to inform both Chinese and traditional donor efforts toward the continent.

China's "new foray" into Africa is attracting much international attention and contentious debate. China is seemingly engaging Africa on new terms – terms that are not shaped by traditional powers, nor perhaps even by Africans themselves. It represents a new approach to the continent that the authors have termed China's "coalition engagements" in Africa – a collaborative state-business approach to foreign policy. China's foreign aid forms an integral component of this paradigm.

Chinese foreign policy towards Africa at the turn of the century underwent a dramatic shift. As "China Inc." started to internationalise after 1998, Africa became a strategic focus for Chinese outward-bound companies, especially in the extractive industries. Beijing accorded Africa renewed importance. This resulted in the conceptualisation and creation of a new vehicle, the Forum for China-Africa Cooperation (FOCAC) housed within the Ministry of Foreign Affairs, to coordinate Chinese foreign policy objectives toward Africa.

Through FOCAC, China's Ministries of Foreign Affairs and Commerce are starting to align their respective responsibilities toward more effective coordination and implementation of a Chinese foreign and aid policy toward Africa. This attempt at formulating a coherent foreign policy between two government departments is playing out in Africa but this joint departmental coordination is being made more difficult by the dramatic increase in aid spending by Beijing.

The government of the People's Republic of China has a broad and, at times, vague definition of what constitutes foreign aid. While there may be gradual alignment of Chinese aid with the OECD-DAC's definition of the constitution of "aid" over the medium term, some unique components of China's approach will remain. The monitoring of its aid commitments and their implementation is proving difficult, even for the Ministry of Commerce, as well as government think-tanks.

China's approach has been one of mutual respect, also awarding small African countries with relatively little economic or political significance, with aid and investment support. However, it is likely that resource-rich countries such as Angola, Sudan, Nigeria and Zambia, as well as more politically strategic countries, such as South Africa, Ethiopia and Egypt, are priority countries in China's broader African engagement.

Figures on China's aid disbursements to Africa remain vague. In absence of a central aid agency, the lack of general time series data on aid flows and the non-transparent nature of Chinese loans complicate the process of defining, calculating and monitoring China's development assistance to the continent.

The Chinese Government delivers bilateral aid in terms of grants, interest-free loans and concessional loans and the aid policy formulation process for these is outlined and discussed in this report. China EXIM Bank, one of China's three policy banks and the sole provider of concessional financing, had financed over 300 projects in Africa by mid-2007, constituting almost 40 percent of its loan book. The Bank's lending practices are often linked to China's foreign aid policy providing concessional loans mostly to infrastructure development. The recent MOU between China EXIM Bank and the World Bank holds out the promise of donor collaboration between both institutions in African infrastructure programmes of which the first potential project for cooperation is said to be the Mphanda Nkuwa Dam in Mozambique.

Extending financing on commercial terms is China Development Bank. The Bank, in May 2007, was designated to manage the \$5 billion China-Africa Development Fund announced at the FOCAC 2006 Summit. Even though it is termed a "development" fund, it has been put in place to finance the market entry of Chinese firms into the African economy.

Part of China's strategic industrial plan toward Africa is to establish five preferential trade and industrial zones for Chinese business entry in Africa. Located in Zambia, Mauritius, Egypt, Nigeria, and possibly Tanzania, this initiative emanated from the Beijing Action Plan announced at FOCAC 2006. A financing and infrastructure component of these zones will be categorised as foreign aid by the Ministry of Commerce at the next FOCAC summit to be held in late 2009 in Cairo.

The research incorporated in-market visits to Ethiopia, Ghana and Zambia. In Ethiopia, China is providing assistance across various fields and has become an important development partner for the country. Whilst Chinese engagement in Ethiopia initially emerged in the construction sector, controlling 50-60 percent of road construction, China has made commercial inroads into the manufacturing industry.

Compared to Ethiopia, Ghana has been awarded several loan agreements across the construction and infrastructure sectors. The construction of the Bui Dam, financed by China EXIM Bank, is the single largest Chinese financial commitment to Ghana to date and will have a significant impact on the power generation capacity of the country.

In Zambia, Chinese companies have been involved in more than 35 aid projects in agriculture and infrastructure development. This has included the construction of the Government Complex and more recently the construction of the first Chinese Special Economic Zone in Africa, in the Chambishi copper belt.

While it is a challenging task to evaluate the aid policy and practice of the Chinese Government to Africa, the authors outline the main drivers of this process, with emphasis on South-South Cooperation, a focus on the intersection of the aid and commercial incentives, political drivers and Asian competition, as well as the issue of conditionality.

In conclusion, the authors provide recommendations to relevant stakeholders that are engaged in the aid process. Recommendations for African countries include developing a better understanding of the Chinese approach to aid; facilitating regional coordination; avoiding poor coordination which may lead to Chinese aid fatigue; avoiding the division of traditional and emerging donors; strengthening the African voice; improving the reporting mechanisms within recipient countries as well as aid monitoring; and improving debt reporting.

For the PRC Government, recommendations are structured around managing aid policy efficiently; cooperation with traditional donors; greater transparency in the aid system; broadening the FOCAC constituency; and engaging African institutions.

Traditional donors are encouraged to work towards constructive partnerships; to avoid political suspicion; as well as to coordinate and pursue dialogue around harmonisation to build a partnership for Africa to meet the MDGs.

The turn of the millennium marked the prioritisation of Africa in Chinese foreign policy thinking. The continent has not received attention from China to this extent since the 1970s. This strategic shift in international relations between China and Africa is attracting a great deal of interest and commentary. It is imperative that this engagement be channelled toward the development of Africa economies and societies. This, however, is as much the responsibility of Africans themselves as it is the Chinese.

# 1. Introduction

The publication of this report is timely. The year 2008 is the Thirtieth anniversary of the People's Republic of China's economic reform programme. Over the last three decades, a number approaching a half a billion Chinese people have been uplifted out of poverty – the greatest developmental achievement ever. Guided by the state, this reform process has remained relatively consistent despite massive challenges – both internal as well as external. China's development trajectory has been nothing short of incredible.

Africa is a continent that requires a new approach to development. Whilst Africa languishes in the development rankings, China is forging ahead and uplifting the lives of a substantial portion of its people.

Whilst focusing on its own domestic economic reform programme during the 1980s and 1990s, Africa was no longer prioritised in China's foreign policy thinking. This represented a departure from a high in the early 1970s which culminated with the PRC's acceptance into the United Nations Security Council.

China's economic progression has resulted in a renewed confidence by its leadership to engage the outside world, a position that China has not been in for six centuries. China is assertively engaging with the global political economy, including that of the African continent. In October 2000, Beijing launched the Forum for China-Africa Cooperation (FOCAC) to elevate its relations with Africa and utilise the Forum as a platform with which to coordinate Chinese foreign policy toward the continent.

When engaging Africa, all foreign players realise the need for a foreign aid component in their foreign policy programme, with China being no exception. Since the initiation of FOCAC, it has been increasing its commitment of aid to the continent. But this has not come without controversy.

China's "new foray" into Africa, guided through FOCAC, has stimulated much debate and sometimes attracted criticism from Western quarters. China is seemingly engaging Africa on new terms – terms that are not shaped by traditional powers or even by Africans themselves. It brings a new model that the author has termed "coalition engagements" – a collaborative state-business approach to foreign policy. China's assistance forms part of this model.

The China-Africa dynamic is politicised, but considering the long history of external involvement in Africa, and China's own political structure, this is inevitable.

We, as African academics, are now attempting to interrogate China's foreign policies toward Africa to gain a deeper understanding of the drivers behind and direction of the China-Africa dynamic. Our motive is the desire to accelerate sustainable development across our continent to fulfil the Millennium Development Goals (MDGs). Africa needs to develop its own informed views and forge its own policies to engage with China. In 2008, almost a decade since the launch of FOCAC, a coherent African agenda is still lacking.

It is against this backdrop that the Centre for Chinese Studies at Stellenbosch University embarked on this research project to gain insight into China's aid policies vis-à-vis Africa that is being planned within the FOCAC framework.

### **Aim of the Research**

The research focus is on China's foreign aid policy towards Africa. The policy itself is fluid and still in a period of consolidation. China's view of itself as a donor, and how it defines aid is different to that of the traditional donor community. The CCS' aim of the research undertaking is thus threefold:

- ✓ To evaluate the dynamics of foreign aid policy making in the PRC Government and to gain a better understanding of the institutions involved in the delivery of China's overseas developmental assistance to Africa.
- ✓ To gain an empirical understanding into China's ODA in three African country case studies - Ethiopia, Ghana and Zambia.
- ✓ To provide informed commentary on the implications for the continent, traditional donors and China's development assistance itself in Africa.

### **Country Case Studies**

Three African country case studies were selected – Ethiopia, Ghana and Zambia. This choice was motivated by a number of factors.

**Ethiopia:** The country was the previous African chair of FOCAC; it is home to the African Union seat of government; and is one of Africa's most populated countries. Ethiopia has been a recipient of Chinese aid and humanitarian assistance since the early 1980's.

**Ghana:** As one of the first countries in sub-Saharan Africa to establish relations with Beijing in 1960, Ghana has benefitted from a number of development assistance packages from China. It has also, under the World Bank MOU with EXIM Bank, been identified as a development priority in Africa. Ghana is one of the few Africa countries on track to meeting its MDGs, and China's largest aid commitment to the country to date has been the financing of the Bui Dam, highlighting their cooperation in the infrastructure sector.

**Zambia:** Zambia represents one of China's oldest friends on the continent; the TanZam railway is an historic symbol of China's aid for its developing brothers. It also has a resource-based economy, and significant Chinese investment has taken place in the southern mining region of Chambishi. This copper-rich region is also set to become the first Chinese Special Economic Zone (SEZ) in Africa.

A two-person Centre for Chinese Studies research team visited each of the three countries. In addition to field work in-market, interviews were also carried in Beijing in mid-2007, findings of which were fed into the research process. The interviews in China were important to provide insight into the foreign aid policy-making process in the PRC Government.

In preparing this report we consulted extensively in China and in the three case study countries. The Centre for Chinese Studies is grateful for the financial support provided by the Department for International Development (DFID), UK Government for this study. All views expressed in the publication do not necessarily reflect the views of DFID. We would like to thank all organisations and individuals interviewed who shared their informed opinions on the subject.

## 2. China's Aid Policy

### 2.1 What is aid? China's perspective

The Government of the People's Republic of China has a broad and, at times, vague definition of what constitutes foreign aid. China's position on the definition of "aid" does enjoy some parallels with the official OECD-Development Assistance Committee (DAC) definition of Overseas Development Assistance (ODA). According to the DAC definition, grants or loans that are extended to developing countries constitute ODA when they are undertaken by government or government bodies, with the promotion of economic development and welfare as their main objectives, at concessional financial terms.

China's interpretation of what the term "aid" encompasses can be viewed to correspond to the DAC definition, as applied by traditional donors. However, despite some broad correlations between these interpretations, China's foreign aid policy has a wider, more ambiguous scope. It can be argued that the PRC Government, in particular, the Ministry of Commerce, is itself in the process of defining what constitutes "aid". This process is fed into by research from a variety of sectors – some commissioned by MOFCOM, and others independently funded and conducted. For example, in early 2008, a group of academics from the Chinese Academy of Social Sciences (CASS), accompanied by a MOFCOM official, visited a number of African states in an attempt to acquire information into African perceptions of Chinese aid to their respective countries and regions.

It is important at the outset to clearly draw the distinction between what many may *perceive* to be "aid", and actual aid funding. For example, trade concessions or the provision of commercial loans to companies that may aid in a country's development may be regarded as "development assistance", but this does not involve any donation of funds from one government to another.

According to senior Chinese government representatives, the Ministry of Finance in the PRC is instructed by the State Council at the beginning of every budgetary year to set aside a basket of funds to be allocated to foreign aid. These funds are disbursed as grants (but always in kind), interest subsidies for interest-free and concessional loans, or are spent to provide technical assistance, as required. There may be a number of other initiatives implemented by the PRC Government that may assist with development in African countries, but these do not require funds from this portion of money [from the Ministry of Finance] to be disbursed, and therefore, in this paper, we refer to these initiatives as "development assistance" rather than "aid".

Furthermore, especially in the context of aid and assistance provided by the PRC to African countries, it is imperative to clarify the distinction between the provision of "aid" as referred to

by President Hu Jintao in his much-lauded speech in November 2006, when he promised to “double aid by 2009” – and the provision of “humanitarian aid”. The provision of humanitarian aid – that is, aid that is given in extreme circumstances of disaster or great need – is determined by circumstance and requirement. The PRC government will provide humanitarian aid in the event of a famine, natural disaster, or similar event, but it is important to recognise that this does *not* fall under their “aid policy” as discussed here, or as referred to by Chinese officials. As noted by one Beijing respondent, “humanitarian aid” is administered by a completely different ministry – the Ministry of Social Welfare – and is a stop-gap measure, intended to prevent excessive suffering, rather than provide support for sustainable development. It has been noted, on occasion, that the Chinese government has also contributed funds through its various Ministries to NGOs working in the field, such as the Red Cross Society of China, which in turn, delivers humanitarian aid.

In order to interpret China’s aid policy, one can take various different approaches. One approach assumes that the Chinese government defines aid according to two different formats: “co-operation” and “ODA”. One respondent differentiated between them by suggesting that “co-operation” refers to FDI and contracts with Chinese companies, while “ODA” refers to concessionary loans, debt relief and grants. Trade concessions may also fall into this category. However, there were conflicting views from other respondents, who identified only the transfer of funds between governments (including the funds involved in donations of aid in kind), as constituting “aid”. These conflicting definitions offered by both Chinese government and well-positioned academic sources reflect the ambiguity in Chinese foreign aid policy circles. There is clearly no official definition of aid at present.

The current inconsistencies in China’s definition of aid give rise to the lack of clarity on its framework and policy-making process, as well as the implementation of aid programmes. It is apparent that communication between respective ministries may often be lacking, and the tracking of aid disbursements itself is a challenging task. This situation was very apparent in discussions held with the Asia-Africa Development Research Institute (AADRI) of the Development Research Centre, a research body that reports to the State Council.

The AADRI is tasked with collecting data on China-Africa cooperation projects, and themselves admitted to the difficulty of obtaining timely and accurate information from its own government. Under the November FOCAC 2006 commitments, foreign aid disbursements to Africa in the political, economic, social and cultural spheres are growing rapidly. The monitoring of these commitments and their implementation, as well as delivery to Africa in terms of aid projects is proving difficult for Chinese Government authorities and state-aligned think-tanks to track, not to mention foreign parties.

Thus following our conversations with Government officials and Chinese think tanks on the subject, it becomes apparent that aid spending is quite disorganised and lacking in effective coordination. The challenge for the PRC Government is to prioritise aid projects in Africa, coordinate their implementation through state institutions or state-aligned companies, and ultimately monitor their effectiveness. At present, the capacity and systems to do this effectively is still largely lacking.

In an attempt to rectify the situation and build greater capacity around Africa within its own

government-academic think tanks, there is a move to expand the research capacity at Chinese institutions around African issues. For instance, Nanjing University (Nanjing), Zhejiang Normal University (Jin Hua) and East China Normal University (Shanghai) are all receiving state funding to expand their resources and increase their ability to engage on topics relating to Africa. These inputs may, over time, feed into the FOCAC process.

## 2.2 The drivers of China's Foreign Aid Policy towards Africa

A confluence of events, both international and domestic resulted in the downgrading of Africa in Chinese foreign policy importance from the mid-1970's until the latter part of the century. Africa had been core to China's foreign policy focus in the 1960's, talking the rhetoric of revolution, anti-colonialism and third world solidarity. Political ideology was the priority, but it masked a strategic intent by Beijing to leverage post-colonial African support for the entry of the PRC into the international arena. Aid to Africa became a tool to promote this foreign policy objective.

African votes in the UN General Assembly made a weighty contribution to the accession of the People's Republic of China into the United Nations Security Council in October 1971. However, after this internal events in China began to influence Chinese foreign policy. A period of introspection and political consolidation followed the end of the Cultural Revolution after the death of Chairman Mao Zedong in September 1976. Following this period of heightened instability and uncertainty over leadership, the launch of the economic reform program at the 11<sup>th</sup> Party Congress of the Chinese Communist Party in December 1978 ensued. China rather focused on managing its own domestic reform rather than expending large amounts of resources and funds to Africa. This period of relative foreign policy neglect lasted for a period of two decades.

The success of China's developmental progress and the unleashing of economic market forces since the early-to-mid 1980's resulted in the erosion of ideological leanings of the Chinese leadership and society as a whole. With the entrenching of reform, market opening and liberalisation, Chinese firms also began to look outward and establish an international footprint from 1998. Africa quickly became a significant recipient of outbound Chinese investment. As China Inc. internationalises, so Chinese foreign policy is adapting to this new reality. From the late 1990's, the Chinese leadership began to pay far greater attention to Africa. Africa was elevated in priority and this resulted in the conceptualisation and creation of a new vehicle, housed within the Ministry of Foreign Affairs, to project Chinese foreign policy objectives toward Africa.

Following its launch in October 2000, the Forum on China-Africa Co-operation (FOCAC) was formed. Since its inception and through three summits held in Beijing (October 2000 & November 2006) and Addis Ababa, Ethiopia (December 2003), FOCAC has become the institutional mechanism for China-Africa multilateral engagement.

Through FOCAC, China's Ministries of Foreign Affairs and Commerce are starting to align their respective responsibilities toward more effective coordination and implementation of a Chinese foreign and aid policy toward Africa. This attempt at formulating a coherent foreign policy between two government departments is playing out in Africa. This is especially the case with aid disbursements where both departments are collaborating to both select aid programmes and

affect their delivery on the continent. But this joint departmental coordination is being made more difficult by the dramatic increase in aid spending by Beijing.

In November 2006, President Hu Jintao announced the doubling of Chinese aid to Africa by the upcoming FOCAC Summit to be held in Cairo in late 2009. Both the Ministries of Foreign Affairs and Commerce are now scrambling to meet these commitments.

China's engagement of African countries is driven by a number of political, economic and arguably also social drivers. Whilst the objectives of the broader bilateral relationships may be easier to identify, the different tools used to develop and leverage these relationships are harder to differentiate.

Aid and development assistance are tools, used as part of a broader strategy, to meet these objectives. It is therefore necessary to see the drivers of China's foreign aid policy in the context of the broader drivers of the China's engagement of Africa. For example, China often uses grants, loans and debt relief alongside commercial investments and preferential trade access in order to gain access to strategic resource assets or to build stronger political ties.

However, although China's growing economic strength at home has allowed the Chinese Government to step up its overseas aid capacity beyond the token grants and loans of the 1980s and 1990s, China still faces major developmental challenges at home. This includes dealing with rural poverty, where almost 500 million people are living on less than \$2 a day.

China's aid policy is guided by the principles of *lisuonengji* and *liangli erxing*, meaning that overseas aid should be within China's capacity and fiscal capabilities. When discussing China's aid capacity, Chinese officials always stress that China remains a developing country and that it should therefore not be compared to traditional donor nations (developed countries). This argument is often used in defence of criticisms that China's aid to Africa countries is lagging its investment and trade initiatives.

Our assessment is that the main driver of China's interest in Africa is to secure energy and resource assets. In order to hedge against immediate rising commodity prices and possibly long-run supply shortages, the Chinese Government has encouraged its companies to secure a wide range of commodity assets. The Chinese Government's aid policy plays an important role in support these companies (largely SOEs) in outbidding foreign companies in securing these resource assets.

In many African countries, a lack of transparency in the tendering process allows Governments to direct contracts to bidding companies with national benefits procuring from peripheral aid and development assistance. For example, in Zambia, the Chinese government's position as a prominent donor has helped both large SOEs and smaller Chinese SMEs to expand their market access opportunities.

The PRC Government also uses aid as part of a package of tools to support Chinese companies in expanding export markets and business scope overseas. China's "Go Out" Strategy, launched in 2002, aims to create a number of "national champions", globally competitive enterprises which will act as foreign commercial policy vehicles for the PRC. Chinese Government aid provides

Chinese companies a distinct advantage in overcoming protectionism and regulatory red tape. In part due to peripheral aid projects, Chinese companies are preferred bidders in securing contracts.

Although economic and resource factors now dominate China's foreign policy toward Africa, political factors continue to play an important part in the relationship. China enjoys historical ties with many of the African liberation movements and political elites.

Although there is almost an inevitability over China displacing Taiwan from Africa, it is clear that some African governments will continue to play the Taiwan card when dealing with the PRC. For example, the threat of Taiwanese supported opposition Patriotic Front party in Zambia's 2006 national elections forced Beijing to step up both aid and investment initiatives in the country.

In multilateral fora, it is often said that China's foreign policy reflects its domestic realities. Accordingly, the resources and political drivers reflect China's "need" for resources to fuel its domestic industrialisation, and its 'need' to respond to real or perceived diplomatic isolation.

The key aim of China's 11<sup>th</sup> Five Year Plan is to build a "harmonious society" at home. While this aim may be expressed in the international arena, for the moment, developmental challenges at home are prioritised. Although Chinese humanitarian assistance pales in comparisons to infrastructure aid and "investment-supporting" aid, China continues to extend aid and technical assistance to build schools, hospitals and to fight disease in Africa.

The social drivers of China's aid to Africa have been high in rhetoric, but low in relative financial terms - although humanitarian aid can be expected to rise as China's financial clout grows and it seeks to utilise a more "soft power" approach to foreign policy in Africa.

## **2.2a What are the PRC's priorities in Africa?**

One of the arguments for China not publishing country-specific aid figures is that this would result in African countries demanding additional assistance on a par with the most supported recipient country<sup>1</sup>. Although Chinese policy-makers may have prioritised key strategic partners in Africa, Chinese Government officials are very conscious of not elevating one country over another. Mutual respect is a key element of China's foreign policy and even smaller African countries with relatively little economic or political significance have received relatively large aid and investment support from China.

This said, the resource-rich countries of Angola, Sudan, Nigeria and Zambia, as well as the more politically strategic countries of South Africa, Ethiopia and Egypt are priority countries in China's broader African engagement. It could be argued that the resource-rich DRC is increasing in importance. A number of respondents noted that all foreign aid, be it from the PRC or from traditional donors, is a political and economic tool, wielded in support of foreign policy goals. It could be surmised that the countries which Beijing appears to prioritise in terms of diplomatic importance are also those prioritised in terms of foreign aid. However, some Chinese government officials differ.

With specific regard to aid and development assistance, Counsellor Ling Guiru, the Economic

Counsellor at the PRC Embassy in South Africa, suggested that African countries are prioritised in terms of need. Accordingly, Least Developed Countries (LDCs) should receive more aid than their more developed counterparts. LDCs have benefited in the form of debt relief, the building of schools and hospitals and also in the form of technical assistance.

## **2.2b How much is China giving?**

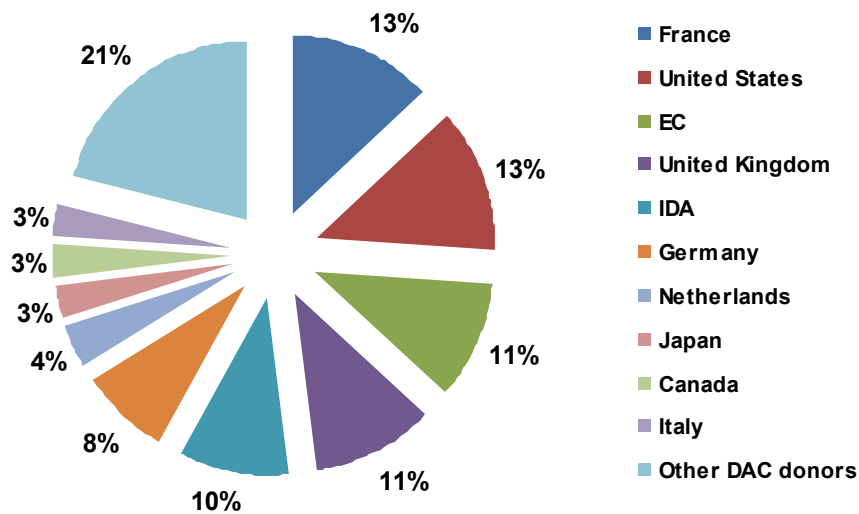
While time series data on China's global aid and development assistance commitments is not publicly available, China's global aid disbursements for 2005, according to the *China Statistical Yearbook 2003-2006*, amounted to \$970 million. This figure is believed to be underestimated, and a number of further informed estimations have been made by various institutions<sup>2</sup>. It is however without doubt that China's aid disbursements to Africa have increased substantially since 2000, when FOCAC was launched.

Before the first FOCAC Summit, held in October 2000, China's bilateral aid commitments to Africa were minimal. While Beijing has granted assistance to Africa since 1956, it is estimated that in the period of the late 1960s to the early 1980s China's assistance to Africa - predominantly in the construction and infrastructure sectors - only amounted to \$100 million per annum. This figure is modest when compared to the assistance of Britain, France and the United States, who delivered annual support to the value of \$250 million, \$1300 million and \$800 million respectively during 1971-1981<sup>3</sup>.

Since 2000, China's development assistance to Africa has gained momentum. Hundreds of cooperation and assistance agreements have been signed over the past seven years and major project-based assistance commitments have been announced. In 2002 it was reported that China's total aid and economic support to Africa for that year reached \$1.8 billion. According to the Chinese Academy of Social Sciences by May 2006 more than \$5.7 billion had been extended to Africa for over 800 projects across the continent<sup>4</sup>. One senior official in China estimated that approximately \$4.5 billion in aid had been disbursed to Africa in 2006<sup>5</sup>. In comparison, official development assistance by the DAC members in 2006 to Africa amounted to \$43.4 billion, up from \$40.9 billion in 2005<sup>6</sup>.

Over the past decade the largest bilateral donors to Africa were France and the United States. The other top DAC donors extending official development assistance to Africa are displayed in the below figure. More than 80% of official disbursements were granted to Africa's least developed economies and low income countries in 2005<sup>7</sup>.

Figure 1: Top 10 DAC donors to Africa in 2005



Source: OECD

With EXIM Bank – one of China’s leading so-called policy banks – financing dominating China’s assistance to Africa, the World Bank estimated that by mid-2006 more than \$12.5 billion of EXIM Bank financing (including concessional and non-concessional loans) had been granted to infrastructure projects in Sub-Saharan Africa<sup>8</sup>. At the WEF Africa Summit in June 2007, Li Ruogu, Chairman of China EXIM Bank, announced that the Bank had financed over 300 projects in Africa, constituting approximately 40 percent of its entire loan book.

The inconsistency in the figures and definition of China’s development assistance to Africa remains difficult to gauge and is magnified by the lack of data available on the terms of the loans extended. While the Department of Aid to Foreign Countries (which sits in the Ministry of Commerce) is ostensibly the coordinating body for all aid, there is a lack of information sharing, even within government – between regional divisions between the department, between departments in the Ministry, and especially between Ministries.

This is occurring to the extent that even senior diplomats posted in African states are unaware of anything that may be happening beyond their own missions, even regarding other projects taking place within the immediate region. This issue is further complicated when trying to estimate the value of aid in-kind and technical and cooperation assistance due to the difficulty of pricing Chinese labour in Africa<sup>9</sup>.

Aid figures are also exclusive of debt relief granted by China to African states. Since the first FOCAC Summit in 2000 a number of bilateral debt write-offs have been signed. On aggregate, Beijing wrote off 156 outstanding loans totalling \$1.3 billion within two years of the first FOCAC Summit<sup>10</sup>. At the FOCAC Summit in 2006, Beijing pledged to cancel a further 168 interest-free loans maturing at the end of 2005, valued at \$1.3 billion, that were in place with 33 of Africa’s heavily indebted and least developed states. One third of the states concluded debt write-off agreements with China by May 2007<sup>11</sup>.

As an aid recipient itself, a great share of China’s assistance is targeted at the developing Asian

region. Based on interviews in Beijing it is estimated that with most of China's aid going to Asia, approximately a third of China's total global aid disbursements are made to the African continent. The aggregate annual flows of China's economic and development assistance to Africa undoubtedly will expand in the run up to the fourth FOCAC Summit, to be held in Cairo, Egypt in late 2009.

In November 2006 Beijing announced that it would extend \$3 billion in preferential loans to African states, as well as an additional \$2 billion in preferential export buyer's credits over 3 years. Furthermore, on the heels of the African Development Bank meeting in Shanghai in May 2007, China announced a \$20 billion fund for infrastructure and trade financing to Africa. This figure, however, may be grossly exaggerated and was not published by the PRC Government itself. Rather, the amount was announced by Donald Kaberuka, President of the AfDB in an interview with the Financial Times newspaper. Kaberuka also retorted that "That (the amount) is quite something because it shows you what traditional donors are up against."<sup>12</sup>

The Chinese fund that has been established is to focus on projects including transport and power generation infrastructure and is said to finance, for example, the current rail rehabilitation project in Angola<sup>13</sup>.

The inconsistency in the figures of China's aid to Africa remains difficult to gauge. From the Chinese Statistical Yearbook and from interviews with Chinese scholars, it can be assumed that approximately a third to a half of China's total global aid disbursements goes to the African continent. Yet, in comparison to other donors, China's monetary disbursements still remain small, although they are growing.

### **2.3 Who gives? National and provincial disbursements**

There has also been confusion as to whether the PRC central government is the only body dispensing aid to African governments. From some of the interviews conducted, it would appear that apart from the official national channels, provincial governments were also engaged in various types of partnerships that could fall into the broad category of development assistance, predominantly through twinning relationships with overseas provinces and cities. One respondent indicated that this contributed to the difficulty to quantify China's aid disbursements to Africa.

Again, there were divergent views on this issue. For example, another respondent countered that aid constitutes government money from the national budget and can only be administered by the central government – therefore no contributions made from provincial bodies could be classified as aid.

Regardless, the aid programmes of provincial governments certainly do not draw upon the funds set aside by the Ministry of Finance and designated for 'foreign aid'. These aid programmes may also include independent private technical assistant teams, for example, local medical teams dispatched from local hospitals that remain on the local hospital payroll.

Because they are disparate in nature, they are difficult to monitor and to quantify, but do also contribute to developmental efforts on the African continent. The difficulty of monitoring these

programmes reflects the domestic situation in the PRC, whereby provincial actors are not always included as a part of national processes, and in turn, create challenges for the central government in terms of control and coordination.

Additionally, because of the nature of the large aid packages being announced by Beijing, especially those involving large sums of money and big commercial contracts, provincial governments are increasingly under pressure from firms headquartered in their province, to lobby on their behalf in Beijing, when competition for contracts intensifies. This suggests that China's "Going Global" strategy incorporates not only the "national champions" in their respective business fields, but, with or without intent, also incorporates the "provincial champions".

## 2.4 FOCAC: Dialogue and direction

### The Forum for China-Africa Cooperation

To further cement the political, commercial and cultural relationship between China and Africa the Forum on China-Africa Co-operation (FOCAC) was established in 2000 with the first Ministerial Meeting taking place in Beijing in that year. Since then, there have been two more FOCAC summits – 2003 in Addis Ababa, and 2006 in Beijing. FOCAC was designed as a vehicle to conceptualise, strategise and project Chinese foreign policy interests toward Africa.

The first head of state conference was held in Beijing in October 2000, and was attended by four African heads of state, ministers from 44 African countries and representatives from 17 international and regional organisations. The conference passed the Beijing Declaration of the Forum on China-Africa Cooperation and Programme for China-Africa Cooperation in Economic and Social Development.

The 2003 meeting went on to pass the Addis Ababa Action Plan (2004-2006) and consolidate trade relations, with the PRC Government announcing the Special Preferential Tariff Treatment programme, which removed import tariffs on 190 different items from twenty-five African countries. It was implemented in January 2005 and has resulted in a substantial boost to China-Africa trade.

The November 2006 Beijing summit adopted the Beijing Action Plan (BAP) - from 2007 to the end of 2009. The multibillion-dollar development package included a number of commitments from the PRC Government.

Chinese President Hu Jintao also pledged that China would forgive all interest-free loans that matured at the end of 2006, owed by the most heavily-indebted and underdeveloped African nations.

The primary function of FOCAC is for it to become an effective mechanism for dialogue between China and Africa. FOCAC is the institutional vehicle through which China sets out the terms of its engagement toward Africa. African states and multilateral institutions, such as the African Union and the NEPAD Secretariat, have however been slow to respond in formulating their own foreign

policy positions in the FOCAC forum. The consequence of this has been a distinct tendency for negotiations between China and African countries to take place bilaterally – and hence, for aid projects to be disconnected from one country to another.

There has been much discussion of China's impact on regional integration in Africa, and how aid may be more effective for poverty alleviation if it is harmonised – across borders, between African countries and between donors working in-country. One way to achieve this, given the vast differences in environment and situation from country to country on the continent, would be to approach aid through each African Regional Economic Community (REC). This would strengthen the negotiating positions of African governments, and ensure that aid projects will have maximum impact in respective regions.

Despite the importance of RECs, the involvement of the African Union, and especially NEPAD, is key<sup>14</sup>. Having established an African vehicle to coordinate and encourage development throughout the African continent, China could recognise to a greater extent the importance of “indigenous African” development organisations, and their role in the aid process.

Future engagement with the African Union and the NEPAD Secretariat will prove beneficial for both sides, and as China begins to develop its relationship with these bodies, and as its aid becomes progressively more multilateral in approach, there is likely to be less suspicion aroused by certain media groups and traditional donors around its growing engagement with the continent. It should be noted that NEPAD, for the first time, had a presence at FOCAC in 2006, and this is an encouraging signal of further future engagement.

However, in principle at least, FOCAC offers African countries the opportunity to direct China's efforts towards their developmental needs, through various development assistance programmes and projects. FOCAC is a significant feature of China-Africa relations and is viewed as the centrepiece of China's current aid practice to Africa. It also reviews China's development co-operation to Africa in terms of what is being undertaken and the timelines for their execution. The latter is complemented by the nature of the FOCAC Head of State summits that are held every three years. Additionally, ministerial meetings take place, in principle, at least once in between each major summit, in order to monitor implementation of the commitments from the previous summit.

At each of the FOCAC summits, a series of commitments has been made by the PRC and African parties, to strengthen relationships in a variety of fields, including trade and investment and diplomatic support in international fora. Amongst these commitments, are a range of commitments around aid provision, and these have grown in number and magnitude with every summit<sup>15</sup>.

From discussions with various Chinese government officials, it appears evident that the majority – if not all – the FOCAC commitments were agreed upon bilaterally prior to the FOCAC summit. Negotiations had taken place between high-ranking state counterparts, and the November 2006 FOCAC summit served as a platform to announce the agreed projects cumulatively. This tends to be the trend with most major aid or development assistance announcements – whereby the bilateral negotiations have taken place extensively in the background, and announcements are put aside until large diplomatic events, where they receive the most publicity.

## 2.5 Types of Chinese Aid

There are three modes of delivery with respect to China's bilateral aid – grant aid, interest-free loans, and concessional loans. The ratio of each of these modes to the overall amount of development assistance disbursed varies. Estimates of the ratio of grants to loans range from 2:100 to 50:50.

A senior diplomat noted that the ratio of grants to loans is constantly changing – particularly with the realisation on the Chinese side that loan repayments are not always guaranteed. Two generous rounds of debt forgiveness have given rise to a philosophy of giving more in grants than loans, rather than having to chase loan repayments, only to forgive the full amount further down the line. The same diplomat suggested that whereas the ratio of grants to loans would have been more in the range of a third to two thirds in the 1960s-1980s, this ratio now appears to be closer to 50:50.

### 2.5a Grant aid & technical assistance

As noted by a number of Chinese officials interviewed, grants awarded by the PRC government tend to be disbursed in kind, through various projects, as requested by the recipient country. This is viewed in Chinese policy-making circles as preferable, given the continent's history with cash disbursements by traditional donors.

In Zambia, for example, grant aid has included office equipment and a web printing press. Zimbabwe has received agricultural equipment and irrigation equipment and in Ghana, China has provided grant assistance for the training of government officials as well as military assistance.

China has also provided technical assistance to African states across a wide-ranging spectrum. A regular influx of teachers, medical personnel, and agricultural experts have provided core expertise in the fields of education, health, agriculture, environmental conservation, military and processing. Technical assistance from China is often in the form of turnkey joint ventures, where cooperation brings the broadening of relations and further cooperation in other areas.

Liberia has received agricultural assistance since 2005, when an expert team was sent to work on disseminating high-yielding hybrid rice technology, followed by the establishment of an Agricultural Technology Demonstration Centre. Recently, a \$12 million vocational training college was opened in Ethiopia, entirely funded by the Chinese government aimed at improving the quality of Ethiopian language development. In Uganda, development projects such as the Uganda Industrial Research Institute and the construction of the 1,721 acre Kibimba rice scheme in western Uganda are well-known examples. In South Africa, through the Accelerated Shared Growth Initiative for South Africa (ASGISA) and the Joint Initiatives for Priority Acquisition (JIPSA), funds have been distributed to help with technical training in agriculture, tourism, defence and foreign affairs.

Under the Forum on China-Africa Cooperation framework, technical assistance was highlighted in various areas and the benefits of knowledge and skills-sharing is well acknowledged as being

beneficial to both Africans and Chinese.

There is an element of “lessons learned” in this regard. The rationale is premised on the notion that if an African country is in need of aid, and can identify the project that it requires the aid to pursue – then it is simpler for the aid giver to simply deliver on the project, rather than just transfer the funds. This prevents the possibility of corruption in-country eating away at the funds, as well as giving the aid-giver control over the tendering process, and the quality of the project delivered.

### **2.5b Concessional finance & interest-free loans**

Preferential or concessional loans are extended by the PRC Government and provided by the EXIM Bank and given an interest subsidy by MOFCOM (MOFCOM approves this process and the funds for the interest subsidy are taken from the budget allocated to foreign aid that sits with the Ministry of Finance). These are medium to long-term loans with an emphasis on the profitability of projects. Technically, only the subsidised portion of the interest rate is “aid”, as given by the PRC Government. For example, if a concessional loan was given with a 3 percent interest rate, and the commercial interest rate is 8 percent, the remaining 5 percent is paid out of the pot of funds designated as “foreign aid” by the Ministry of Finance.

Normally they are officially extended to the recipient country, although the recipient government may never actually receive the funding. It may be directly transferred to the approved implementing company as soon as they have won the tender, but the recipient country will be invoiced as the official payee of the loan.

### **2.5c Debt relief**

Debt relief is, along with low-interest loans and large-scale infrastructure projects, one of the incentives used by Beijing to develop and nurture close ties with African states. At the 2006 Summit in Beijing, President Hu Jintao announced that China would cancel all interest-free government loans due at end-2005 owed by the poorest and least developed countries in Africa with diplomatic relations with China<sup>16</sup>.

The exact amount of bilateral debt that has actually been cancelled to date is difficult to approximate. Eisenman and Kurlantzick estimate that China in 2000 wrote off \$1.2 billion in African debt, and subsequently in 2003 forgave debt of another \$750 million<sup>17</sup>. Stamp notes that in June 2006 China had given more than \$5.5 billion in assistance to the African continent and also forgiven the debt of 31 countries<sup>18</sup>. In November the same year, Beijing announced that it had cancelled \$1.42 billion of African debt and that until mid-2007 would have cancelled another \$1 billion<sup>19</sup>.

During his eight-nation trip to Africa in early 2007, Chinese President Hu Jintao visited Mozambique and announced the cancellation of all of Mozambique’s debt to China, a total of \$20 million. Similarly, the Chinese foreign Minister Li Zhaoxing visited seven African countries in January 2007, during which he cancelled debt for several of the countries visited. According to an IMF working paper since the inception of FOCAC China has granted debt relief of \$1.3 billion to African states, with a further \$1.3 billion in write-offs promised at the Beijing Summit in 2006<sup>20</sup>.

While debt relief to individual African countries has only been in the proximity of a few millions of dollars it is estimated that a total of \$260 million had been forgiven by June 2007 collectively to the following least developed countries in Africa: the DRC, Ethiopia, Mali, Senegal, Togo, Rwanda, Guinea and Uganda<sup>21</sup>.

China's debt relief in Africa has been mostly the cancellation of interest free loans, and to a lesser extent the write-off of concessional loans. By relieving African governments of the principal (and interest) payments of preferential loans, these effectively are converted into grant aid<sup>22</sup>.

## 2.6 Who decides? Aid policy formulation in the PRC

From the research conducted, the main official institutions that govern China's development assistance programme are as follows:

- The **State Council**, which is the highest executive organ of the state administration, essentially is the oversight body that oversees all aid programs of the Chinese State. The State Council as a whole decides on the portion of the national budget that will be designated as foreign aid, at the beginning of every budgetary year.
- The **Ministry of Finance**, which is responsible for drawing up the foreign aid budget which is done in consultation with the Ministry of Commerce. Multilateral aid through the International Financial Institutions (World Bank and IMF) also falls under the jurisdiction of this Ministry.
- The **Ministry of Commerce (MOFCOM)** is the lead agency governing China's aid - programme – both incoming and outgoing. MOFCOM, as an institution, emerged following the restructuring of the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) in 2003 and has continued to oversee most of MOFTEC's original duties, including foreign aid. Under MOFCOM there are two departments that are in charge of aid. The Department of International Co-operation which manages incoming aid (ie. for the PRC) while the Department of Aid to Foreign Countries (DAFC) supervises China's outgoing aid. One set of estimates around the number of personnel in these departments suggests that there are over 100 staff members in the DAFC, with 20 to 30 of these working solely on Africa, split into regional divisions. Within the DAFC, sits the Executive Bureau of International Economic Cooperation, a policy-executing body, which administers the delivery of aid, executing MOFCOM's policies on a project level.

MOFCOM, and more specifically, the DAFC coordinates China's foreign aid policy including negotiating inter-government agreements, reviewing requests that come from the Ministry of Foreign Affairs (MOFA) that require approval, conducting feasibility studies for aid projects, choosing aid implementers and conducting project reviews. MOFCOM is also responsible for managing the foreign aid fund, concessional loans, special funds of the Chinese government, as well as facilitating reform on foreign aid provision modalities.

There are also several internal directorates (for instance the Department of West Asian and African Affairs) within MOFCOM that are also involved in playing an advisory role on aid and economic co-operation with Africa. MOFCOM is essentially in charge of all aid disbursements to Africa – including grant aid, technical assistance, and all interest-free and concessional loans. Although EXIM Bank is involved in the evaluation process of concessional loans, MOFCOM is the decision-making body.

- **Ministry of Foreign Affairs (MOFA)** is in charge of institutionalising China’s foreign policy, such as drafting China’s Africa Policy, and shaping the announcements of aid packages and commitments, especially in fora like FOCAC. In terms of aid, MOFA plays an advisory role to MOFCOM. It is involved to a greater extent in the negotiating and provision of humanitarian assistance, but as mentioned previously, this does not come under the category of “foreign aid”, as disbursed from the pot of funds set aside by the Ministry of Finance.
- **Embassies:** The embassies, especially through the Economic and Commercial Counsellor’s Offices, which are staffed by MOFCOM officials, play a significant role in terms of determining recipient countries’ needs and the type of aid required. In addition, the Embassies serve as the agency within the recipient country, assisting with reporting on the monitoring and evaluation of the project as it is implemented. While individual embassies may not be well-informed of regional developments, each is tasked with monitoring the projects and disbursements within its own country, and are generally quite knowledgeable regarding these.
- **Other Ministries:** Ministries such as Agriculture, Education and Health are also involved in the provision of China’s aid programme. These include the deployment of medical teams, scholarships and educational projects as well as agricultural programmes for rural development. In terms of science and technology the Ministry of Science and Technology oversees this sphere of China’s aid process. These Ministries play a consultative role in the aid disbursement process, up to the point that MOFCOM is allocated the funds, when they assist to a greater extent in terms of administration and implementation of any foreign aid that falls under their jurisdiction and expertise.
- **Export-Import Bank of China (EXIM Bank):** EXIM Bank is the sole administrating body of concessional loan financing. For a detailed discussion of loans and EXIM Bank’s role in the aid mechanism, please see Section 2.7.

## 2.6a Grants

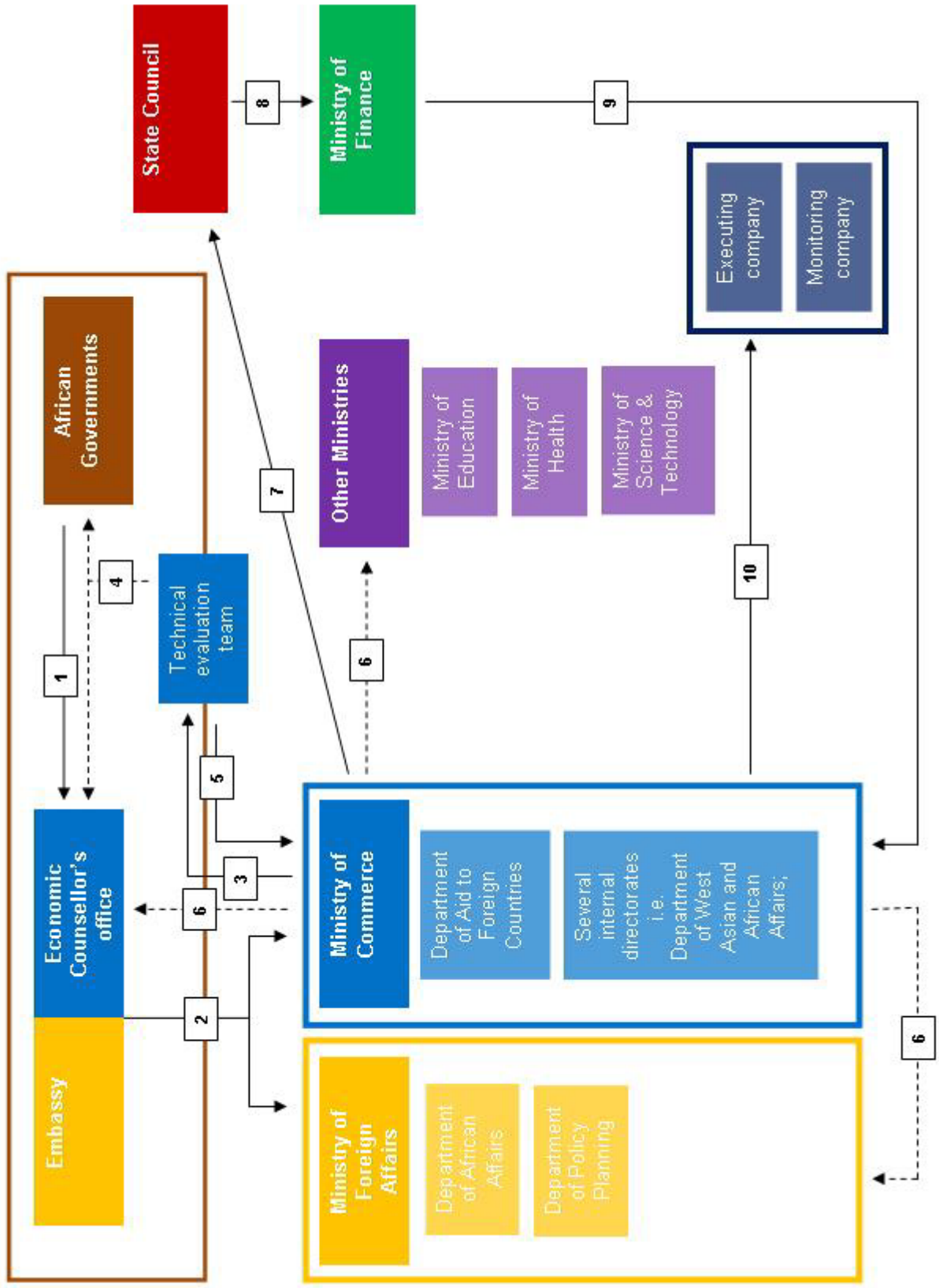
In line with their mantra of aid for development, grant aid is specifically extended for social welfare projects (like hospitals, schools, and housing), material assistance, technical assistance, personnel training. Interest-free loans are primarily granted for infrastructure projects, while concessional loans had a strong focus on the profitability of projects.

The first three forms of aid disbursement, as described above in Section 2.5, are administered by the Executive Bureau of International Economic Cooperation, within the DAFC. In all cases, the preferred method of disbursing aid is in kind rather than in cash. This essentially indicates that money stays within the Chinese system. It also ensures that aid-financed projects, as much as they are developed in consultation with recipient country, still remains at the discretion of the Chinese government, especially in terms of the contract tendering process. However, as discussed above, some feel that aid in kind is better as it neutralises the possibility of graft and corruption.

The grant-awarding process, from inception to implementation, generally follows this procedure:

1. The recipient government makes a request to the Chinese diplomatic mission in their country. This request will generally go through the Economic Counsellor's office.
2. The Embassy screens the request, and if it appears viable, it is passed onto MOFA and MOFCOM in Beijing.
3. MOFCOM appoints a technical team to be dispatched to the recipient country, to evaluate the viability of the proposal, and develop a preliminary budget.
4. The technical team makes its assessment of the proposal. This takes place in discussions with both the local Chinese embassy, and the relevant Ministries/ Departments of the recipient country.
5. The technical team returns to Beijing and submits their detailed report to MOFCOM, and specifically, the Department of Aid to Foreign Countries.
6. MOFCOM circulates the proposal, evaluation, and budget to various parties, to garner their opinions on the project. This consultative process includes the embassy in the recipient country, MOFA, and the relevant Ministry or Ministries on the Chinese side (For example, if it is a proposal for a housing project, the Department of Housing in Beijing will get involved).
7. If the project is deemed viable and worthwhile, MOFCOM submits the proposal and the results of the consultative process to the State Council.
8. The State Council makes the final decision regarding whether or not the project will go ahead. If the project is to be implemented, the State Council then instructs the Ministry of Finance to release the relevant funds to MOFCOM.
9. Once the funds are released, MOFCOM then initiates the tendering process. This may involve provincial governments lobbying for their own firms to win contracts.
10. Once the tendering process is complete, the companies who have won the contracts will begin project implementation, under agreement with MOFCOM. There will always be more than one contract awarded per project, as another company will always be appointed to supervise the project, and act as 'quality control'.
11. After the project has been awarded, the Executive Bureau of International Economic

Figure 2: Structure of Grants



Cooperation, a unit within MOFCOM, would execute the policies at a project level when the actual construction of the project begins. It has no overseas staff and therefore has to rely on the Chinese Embassies for their input into specific countries. The Bureau, however, does make mid-term site visits as well as upon completion of the project, and this is done in conjunction with the DAFC.

This entire process usually takes at least one year to complete – from inception to implementation. (Please see for Figure 2).

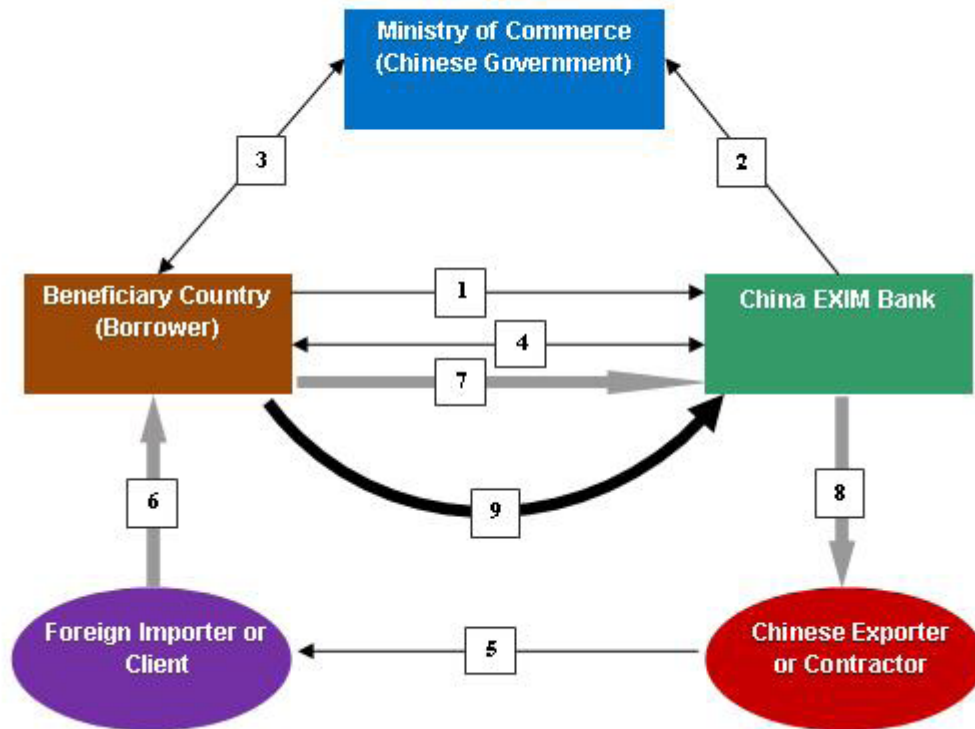
Generally, the aid-financed projects are of a turnkey nature. It is often assumed that this provides an entry point for Chinese labour to gain employment on such projects. However, during the in-market research, it was noted on several occasions that the use of Chinese labour was dependent on the level of and availability of skills in the local market. In instances where the requisite skills were available locally, the preference was to use Chinese labour in the capacity of supervision, engineering, design or at a more senior level with tasks involving technical expertise, such as the grading of roads and the operation of sophisticated machinery.

Chinese companies have no automatic preference for Chinese labour, but given the lack of specialised skills in many African markets where aid projects are being implemented, the import of Chinese skilled labour is sometimes required. This is partly also to ensure that project deadlines were met and that the project was delivered within budget. Interestingly, what has become increasingly apparent is that as much as Chinese labour employed on projects may be skilled, they also engage in manual labour, working with local labourers. In these cases it is easy to note where misperceptions around the employment practices of Chinese companies may have arisen, as it may appear that Chinese companies are importing manual labour, when, in reality, Chinese labourers are brought in for their skills.

## **2.6b Loans**

In cases where a concessional loan is extended from China EXIM Bank - the only provider of Chinese Government concessional loan financing - the following constitutes the process.

Figure 3: Structure of Concessional Loans by China EXIM Bank<sup>23</sup>



1. The government of the borrowing country (represented by its Ministry of Finance) submits an application to China EXIM Bank of no less than RMB20 million (\$2.4 million).
2. The Bank does an evaluation in the form of a feasibility assessment report of the application and the intended project and submits a recommendation to the Ministry of Commerce.
3. The Chinese Government signs a framework agreement with the borrowing country, given that the recommendation is accepted.
4. The borrowing country (represented by a minister of the borrowing government) signs a project loan agreement with the EXIM Bank (represented by a President or Vice-President of the Bank). The loan interest rate and grace period are separately negotiated, with repayment due semi-annually following loan negotiations. Each agreement signed provides the occasion for a high profile signing ceremony, often reported in public news sources and on official government websites.
5. According to the contractual terms, the Chinese contractors and exporters invoice the foreign executing agency requesting payment.
6. The foreign executing agency submits the invoice and progress report to the borrowing country government.
7. The foreign government submits a drawing application, invoice and progress report to the China EXIM Bank.
8. China EXIM Bank then disburses the funds to the exporter.
9. The foreign government pays the principal, interest, fees and loan repayments to China EXIM Bank.

As much as the above outlines how China conducts its aid processes, it still remains a complicated procedure. For instance in the case of concessional loans from the EXIM Bank,

it is difficult to know whether these conform to the ODA definition of promoting economic development and welfare as the main objective, as very little information on the maturity, interest rate and grace period, affecting the grant element of the loan, is disclosed.

A better understanding of Chinese concessionary financing is required. In comparison to English news and media sources, Chinese sources, publicly available, can present more information on the terms of loan agreements, based on the official signing ceremony between the borrowing government and EXIM Bank. These Chinese sources at times report both the size of the loan and the proposed purpose thereof<sup>24</sup>. Generally, loans must be utilised for infrastructure (energy, transportation, telecommunications), social (health and housing) or industrial (manufacturing, mining) projects.

According to EXIM Bank's concessional loan requirements, Chinese contractors must be awarded the infrastructure contract financed by the loan. This was confirmed from in-market interviews carried out. This is similar to concessionary finance of traditional donors and provides these companies with an entry point to set up a presence in host markets where they can bid for commercial contracts, independent of projects under the concessional loan agreements.

In principle concessional loans are used for procuring equipment, materials, technology and services, with no less than 50 percent of the contract's procurement coming from China. The loan is denominated in Chinese Renminbi (RMB) and has a maximum maturity of 20 years. A grace period of 3-7 years may be granted to the borrower, during which the borrower will only repay interest payments and not the principal. The interest rate which ranges between 2-4 percent is subsidised by the Chinese Government.

Even though there is not any moratorium placed on recipient countries from disseminating information on the loans, experience from the in-market research in Ethiopia, Ghana and Zambia suggests that very little is known about these loans and what constitutes either concessional or commercial loans.

The loans are seen as a foreign policy tool, particularly with regards to Africa's cash-strapped but resource-rich countries - especially those with major infrastructure needs, who can use their proven resource reserves as collateral.

While China EXIM Bank is the lead financial institution in concessional loans, other banks are also engaged providing other forms of finance. These financial institutions have positioned themselves to become suppliers of non-concessionary finance, predominantly in the sphere of facilitating trade and investment opportunities for Chinese companies wishing to invest abroad. A case in point is the China Development Bank (CDB) which played a key role in the inception of the \$5 billion China-Africa Development Fund announced at the FOCAC 2006 Summit (see section 2.7 for a discussion on the role of policy banks and for more detail on the Fund).

Other banks engaged in such economic co-operation are China Construction Bank and the Industrial and Commercial Bank of China (ICBC) which recently acquired a 20 percent stake in South Africa's Standard Bank.

### **2.6c Project-monitoring**

A number of different bodies play a role in monitoring the roll out of various projects, after implementation begins. For all projects, a second company is appointed by contract, purely to monitor the practices and implementation policies of the first company, who actually carries out the project. These companies have no link to one another. In addition, the local embassy, the economic counsellor's office, and visiting DAFC staff also provide some supervision.

In the case of loans, obviously EXIM Bank, as the financier of the project, maintains a close eye on proceedings, along with the local embassy in country, the economic counsellor's office, and visiting MOFCOM officials.

When questioned about quality control on aid projects on the continent, a senior Chinese diplomat asserted their concerns about maintaining the reputation of China abroad. If a company were to be found to be lacking, and did not respond adequately to resolve the criticisms raised of it, it would be stripped of its contract, deported, and face having their trading license revoked in China.

## **2.7 The role of the Policy Banks**

In 1994 the PRC government created three policy banks, the Agricultural Development Bank of China, the China Development Bank and the Export-Import Bank of China with the mandate to focus on and support the government's development policies in China. These three state-owned banks officially captured the policy lending role of China's four state-owned commercial banks that were created during the economic reform of the late 1970s and early 1980s to implement government policies and developmental goals.

The four commercial banks - Agriculture Bank of China, Bank of China, China Construction Bank and Industrial and Commercial Bank of China – previously focussed on agricultural development, trade finance, infrastructure and construction, and industrial and commercial activities respectively. However, increasing competition in the commercial banking sector between the “big four” resulted in a shift away from their original mandate to support growth initiatives of the state. As such, the three policy banks were tasked to support government's long-term development projects. As these banks are not commercial banks their *raison d'être* is not profit generation.

### **2.7a China EXIM Bank**

The Export-Import Bank of China (China EXIM Bank), established in 1994, is a government policy bank that is exclusively managed by the State Council. It is the third largest export credit agency (ECA) in the world and has been a vital cog in the rapid expansion of Chinese global trade and investment<sup>25</sup>. The Bank is playing an increasingly important role in promoting the development of the export-oriented economy of China and has taken on the role of trade financing, previously executed by the Bank of China.

China EXIM Bank carries out three major functions: 1) it is the official export agency looking after trade and investment guarantees, 2) it provides aid administration (i.e. evaluating projects) and 3) it acts as the policy bank that deals with foreign aid that comes to China. There are two

divisions within the bank that oversee financial outflows: a commercial as well as concessional arm.

The Bank performs a number of financing roles and, as mentioned above, is also the sole provider of government concessional loans. While it is difficult to distinguish between concessional and non-concessional loan financing of the Bank, total loan approvals reached \$20 billion in 2005, with a high proportion being allocated to African countries.

EXIM Bank's activities in Africa have been growing rapidly and by September 2006, the Bank had 259 China projects in 36 African countries. Almost 80 percent of these projects have been committed to infrastructure development, such as dams (Bui in Ghana; Mphanda Nkuwa in Mozambique; and Merowe in Sudan), railways (Benguela and Port Sudan), oil facilities (Nigeria), thermal power plants (Nigeria and Sudan), and copper mines (Congo and Zambia)<sup>26</sup>.

The Bank's role within the Chinese aid process was informed by the 1995 reorganisation and attempt to increase the number of preferential loans, whereby MOFCOM was tasked to conduct initial feasibility studies which this policy bank carries out in terms of the logistics relating to the granting of the loans. The Bank's lending practices are closely tied to China's foreign policy, with package deals that tend to focus *inter alia* on projects in the construction industry and exploration of resources abroad, and concessional loans mainly targeted towards infrastructure development. What sets EXIM Bank apart from other ECAs and international financial institutions (IFIs) is that its infrastructure loans in Africa are offered without domestic political reform requirements.

### **Lending Policies of EXIM Bank**

According to EXIM Bank its key products can be summarised in the following four categories: 1) Loans for the exports of Chinese products (export buyer's credits), 2) Loans to Chinese companies' overseas investment projects; 3) Loans to Chinese companies' overseas construction projects; and 4) Government concessional loans.

### ***Government Concessional Loans***

PRC government concessional loans, regarded as official assistance by the PRC Government, are extended from the Chinese Government to the Government of the borrowing country. The loans are granted to borrowing governments with the intention of "promot[ing] economic development and improv[ing] living standards in developing countries", and to further "economic cooperation between developing countries and China"<sup>27</sup>.

For a detailed structure on how China EXIM Bank extends concessional financing see Section 2.6b.

### ***Other financing***

Besides extending concessional funding the Bank finances export buyer's credits, and overseas construction and investment projects. The latter project assistance is extended to Chinese companies investing in oil and gas, mining, infrastructure and telecom projects abroad. As such,

this cannot be included as part of official assistance extended by the Chinese government to foreign governments.

Instead these loans support Chinese companies “going global” and this type of assistance to Chinese SOEs has been expanded across a number of sectors. Yet extractive and infrastructure industries have benefited substantially. With more than RMB30 billion in corporate loans to CNPC, Sinopec and CNOOC over 5 years, EXIM Bank has been financing major overseas investment and construction projects in mainly Africa’s energy sector.

In turn, export buyer’s credits, even though not considered as official development assistance, provide foreign importers (Ministry of Finance of borrowing government or other authorised institution of the borrowing government) with the ability to defer payment on loans to import Chinese capital goods and equipment. The loan facility is extended at a competitive interest rate over a time period of up to 15 years and follows the OECD Guidelines for Officially Supported Export Credits.

Although the loan facility (minimum of \$2 million) is commercial rather than concessional and does not come out of the “aid” funds set aside by the Chinese Ministry of Finance, it allows borrowing governments to import vital inputs for development across sectors such as agriculture, manufacturing, construction and infrastructure development. Export buyer’s credits may be regarded as “development assistance”.

EXIM Bank has extended credits to more than 100 countries with a total outstanding balance of approximately \$8-9 billion for Africa and Asia each, much lower for Latin America with some activity in the Pacific region.

### **2.7 a (i) EXIM Bank MOU with World Bank**

On 21<sup>st</sup> May 2007 a Memorandum of Understanding (MOU) was signed by senior managers of the Export-Import Bank of China and the World Bank in Washington DC, with the intention of improving cooperation between the two organisations on development, attaching special importance to Africa.

The signing of the MOU by Li Ruogu, Chairman of the Board and President of EXIM Bank and M. Juan Jose Daboub, Managing Director of the World Bank represents a major step for the World Bank in better grasping the Asian giant’s interests in Africa. China’s trade, investment and aid activities in Africa have escalated immensely over the past decade. China EXIM Bank has been the major player in trade between China and Africa that had reached \$56 billion in 2006.

World Bank Vice President for Asia, Jim Adams, feels strongly that China needed to operate within the global donor system considering that its investment in Africa automatically made the country part of that system.<sup>28</sup> Western donors wrote off \$50 billion in debt for HIPC countries in 2006, and have been particularly concerned that China’s growing aid, trade and business links with Africa could raise debt on the continent again.

The agreement with the World Bank will initially focus on three African countries, namely Ghana, Mozambique and Uganda, and will begin by looking at transport and energy investment

### **Case Study: EXIM Bank-World Bank joint cooperation on Mozambique dam project?**

Over the past decade, both EXIM Bank and the World Bank have expressed interest in funding the building of a dam and hydro power station at Mphanda Nkuwa in Mozambique. This dam will not only assist Mozambique in attracting energy-intensive FDI, but, as most of the electricity will be exported to neighboring countries, the dam will help alleviate the currently dire power shortages in Southern Africa.

The total cost of the Mphanda Nkuwa Dam project is estimated at \$2.3 billion. Construction of the dam itself will cost \$1.1 billion with a further \$1.2 billion for the transmission lines and supporting infrastructure. The project was initiated by Mozambique's Ministry for Mineral Resources and Energy and is a priority project under NEPAD. The Mozambican Government has already signed an agreement with a Brazilian engineering company, Camargo Corrêa and its Mozambican partner group, Insitec, to manage the project. On 27<sup>th</sup> September 2007 the Mozambique Parliament approved the project, but the financing model has not yet been finalised.

The European Investment Bank and the World Bank had previously expressed interest in the financing of this project. However, both institutions were unsatisfied with the 2001 feasibility study carried out by UTIP "Unidade Técnica de Implementação dos Projectos Hidroeléctricos" (Technical Unit of the Implementation of Hydroelectric Projects).

In May 2006 China's EXIM Bank first announced its interest in the project, signing a MOU with the Mozambique Government. According to International Rivers Network, EXIM Bank agreed to finance the entire project through a \$2.3 billion concessional loan, and that the dam would be built by Chinese company Sino Hydro. However, in a November 2007 interview, a senior EXIM Bank official stated that the company had not yet come to a final financing arrangement with the Mozambique Government.

Other similar EXIM Bank-funded projects, including the Merowe dam in Sudan, have all been built by Chinese construction companies. In Africa, EXIM bank has not yet funded a construction project to be built by contractors from a third country. Such a trilateral arrangement between an African Government, EXIM Bank and a third country contractor would be a new form of Chinese project financing in Africa.

The EXIM Bank official also added that EXIM Bank was unlikely to fund the entire \$2.3 billion cost of this project and would consider an 'aid pooling' type arrangement with other donor institutions. He said that EXIM Bank's MOU with the World Bank would fast-track joint cooperation in Africa, possibly including the Mphanda Nkuwa Dam project.

As of January 2008, the two institutions have not announced any concrete funding plans, and the Mphanda Nkuwa Dam lies awaiting a financier. However, there is still a possibility that this project will be used as a model of joint cooperation between EXIM Bank and the World Bank in Africa, with the contractor chosen by open tender. This project could bring EXIM Bank closer to traditional donor practices in aid and development assistance in Africa.

projects by the EXIM Bank in Africa. Detailed reasons for the agreement are not entirely known, nor has the full text of the MOU been disclosed. Cooperation between the two parties on debt sustainability has been signalled and the two institutions have also expressed interest to exchange views on procurement, financial management, and environmental and social impact analysis. Juan Jose Daboub, Managing Director of the World Bank, commented at the signing, "This collaboration draws on the complementary strengths of each organisation – notably, China's development experience and the World Bank's expertise in analysis and capacity building."<sup>29</sup>

## 2.7b China Development Bank

The China Development Bank (CDB), one of China's three policy banks, is a development-focused financial institution controlled by the People's Republic of China. Its function since 1994 has been to finance key projects and support construction in infrastructure, as well as in diverse industrial pillars by following the macroeconomic public policies of China. This institution has proven to direct crucial investment in high priority sectors of the economy, and makes key assessments in order to enhance the competitiveness of the economy, and to increase economic growth and employment.

It is imperative to note that the CDB is *not* an aid disbursement body, and operates as a commercial bank. While it has assisted in the establishment of the China-Africa Development Fund (CADF), the fund itself is an independent commercial fund, with its own offices and staff. The CDB can be viewed as contributing development assistance to the African continent through commercial means – but the extent of this remains to be determined, as the CADF finances a growing number of projects in Africa, but if it is regarded as an independent funding institution (as CDB would suggest), then the number of CDB projects in Africa is negligible<sup>30</sup>.

Indeed, according to the Chinese Xinhua news agency in February 2008, reform plans for CDB have been ratified, which will turn the policy bank into a commercial lender. The CDB will go through a series of reforms including restructuring and company management framework adjustment, and will also go public in the near future. The bank will expand its wholesale banking business, and market investments, as well as continuing to support the country's key sectors and priority projects.

Over the last decade, CDB accumulated loans across nearly 4,000 projects in various countries around the world valued at RMB 1.6 trillion. Throughout this period, the bank has also increased its efforts in promoting international cooperation and in sharing development experience with other developing countries. China Development Bank's expanding international cooperation has focussed on African and Latin American countries, directing major attention to the areas of infrastructure, construction and energy exploration.

By the end of 2006, the overall amount of international projects undertaken by the Bank numbered 105 with a loan balance of \$18,760 million. By the end of March 2007 CDB had loans to the value of \$1 billion outstanding in Africa and was monitoring developments around more than 30 projects across Africa, valued at \$3 billion<sup>31</sup>.

In 2006, through the Shanghai Cooperation Organisation (SCO) Summit, China ASEAN Expo, FOCAC, and overseas visits of the Bank's leaders, the Bank has communicated with various levels of governmental agencies, financial institutions and enterprises of developing countries, and entered into a series of framework cooperation agreements with them.

CDB is also very likely to purchase a \$5 billion stake in United Bank of Africa (UBA) of Nigeria in 2008 which would provide the bank with a number of funding opportunities for mainly resource and infrastructure projects in Nigeria and in the twelve West African countries into which UBA has plans of expanding into.

As a financial institution CDB has also positioned itself to become a supplier of non-concessionary finance, predominantly in the sphere of facilitating trade and investment opportunities for Chinese corporates wishing to invest abroad. The CDB undertakes project finance in sectors including infrastructure, basic industry, railways, telecoms, power and utilities, SME, technology, agriculture and health.

### **2.7c The African Development Bank conference and development outcomes**

May 2007 saw substantial development in China-Africa relations on the foreign aid and assistance front. From 16<sup>th</sup>-17<sup>th</sup> May 2007, the African Development Bank (AfDB) held the 42<sup>nd</sup> Annual Board meeting in Shanghai<sup>32</sup>. The meeting brought together more than 2,500 participants from top government officials, business leaders, representatives of NGOs, civil society, as well as members of the academic community and the media. A ministerial round table discussion dealt with the development of partnerships between Africa and Asia, and the trade and capital flows between the two continents and in-depth discussions on Sino-Africa economic cooperation were also carried out.

Shanghai as the choice of venue was significant because it is only the second time that AfDB has convened outside of the African continent, and the first time an Asian venue was selected. In Shanghai, the AfDB clearly acknowledged China and Africa's burgeoning relations and the substantial role foreseen for China as a donor for Africa.

### **2.7d Development and commercial incentives: Special Economic Zones (SEZs)**

Under the Beijing Action Plan, from FOCAC 2006, the PRC Government announced its intention to develop between three and five special economic zones (SEZs) on the African continent, to serve as enclaves for Chinese investment in key African states. So far, the location of two Zones has been announced; the mining hub in Zambia and the Indian Ocean Rim trading hub in Mauritius. Three other zones are in the process of being established in Nigeria, Egypt, and possibly Tanzania.

While there has been substantial infrastructure investment in SEZ regions, it can be regarded as "development assistance", as far as it aids economic development in the region. Yet this is not necessarily "aid", as the type of the financing is not clear, and may well be predominantly commercial in nature.

These special economic zones (SEZs) focus on strategic industries and provide liberalised

investment environments. The model of dedicated geographic zones where investing companies enjoy preferential economic policies is by no means unique. Numerous African governments are establishing such zones in their countries in an attempt to attract foreign direct investment especially in labour-intensive manufacturing industries. Kenya, Egypt and Mauritius are the most proactive on the continent in establishing such zones.

What makes this development unique is that it has been initiated by the Government of the People's Republic of China (PRC). Rather than being initiators of this process, African governments are rather recipients of Chinese-initiated special economic zones. These SEZs will require large amounts of investment in infrastructure, both within the zones and linking them to ports and the regional markets. If completed as envisioned, the infrastructure corridors will provide the essential linkages between the fragmented African markets and have a positive impact upon regional economic integration. The SEZs are positioned to become Africa's new economic growth nodes, with one established in each region of the continent. So far the Chinese-initiated SEZs have been declared in Zambia and in Mauritius, with Nigeria and Egypt hosting the next two zones, and Tanzania likely to follow.

### **The Zambian Mining hub**

In February 2007, President Hu Jintao paid an official visit to Zambia - the fourth leg of his eight-nation African tour<sup>33</sup>. Hu stayed in Zambia for three days, the longest of any state during his African visit. This was interpreted by many observers as a clear indication of the importance China attributes to its relations with Zambia. Behind the usual rhetoric and the different measures and assistance packages announced, designed to further boost bilateral relations, the most important announcement was the establishment of the SEZ focusing on the mining sector in Chambishi, in the heart of Zambia's copper belt region.

The region is a commodity rich strategic centre of the African mining industry. Not only does China seek to secure a supply line of copper from the SEZ but other commodities are plentiful in the region, including cobalt, diamonds, tin, and uranium.

An initial amount of \$800 million in investment credit for Chinese firms to tap into was committed. Firms located in the zone will enjoy import duty waivers and tax incentives. In terms of the SEZ agreement, 45 square kilometres of land has been set aside by the Zambian government for the zone, with construction being carried out by Chinese companies.

The zone's anchor investment will be a \$250 million copper smelter. In 2007 China EXIM Bank granted a \$208 million concessional loan for the construction of plant infrastructure<sup>34</sup>. This can be regarded as "development assistance".

There appears to be some policy uncertainty between the PRC and Zambian Governments over which firms are permitted to invest in the zone and qualify for the investment incentives. The lack of clarity over policy from both governments is of concern and needs to be addressed in order to maximise the local developmental benefits that the SEZ will offer to the African private sector.

### **The Indian Ocean Rim Trading hub**

The second official SEZ was announced in July 2007 and will be located in Mauritius, which provides a strategic destination for a Chinese investment hub. It is well-situated in the Indian Ocean rim region; it is an offshore financial centre with attractive investment laws; Mauritian firms are well integrated into the economies of South Asia; Mauritius is a member of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) and thus enjoys preferential market access into the African region; and finally Mauritius has a sizeable ethnic Chinese community that is active in trading with China.

One of the PRC Government's leading policy banks, the China Development Bank (CDB) will be the main financier of the project, and is also set to open an office in Mauritius, its first within Africa. In 2007, Mauritius received economic support in the form of a loan worth UA30 million (more than \$45 million) from China Development Bank<sup>35</sup>.

The entire manufacturing zone is estimated to require investment worth \$500 million and will host up to 40 Chinese companies, creating a forecast 5,000 jobs for locals and 8,000 for Chinese contractors. Construction on the 210-hectare (zone's infrastructure was forecast to begin in late 2007 and will be completed within five years. Key infrastructure projects to be built include the construction of a fishing port, a dam, a roads project from Verdun to Terre Rouge near Port Louis as well as a new town development at Highlands.

The majority of Chinese firms will have their origin in the Chinese provincial economy of Shanxi. One of the zone's main investors is Shanxi Tianli Enterprises Group – a diversified and state-influenced industrial group with its roots in Shanxi province. A number of its member companies will set up shop in the SEZ.

Investment will be in manufacturing with specific sectors targeted that include light industrial goods, medicine production, textiles and electrical goods. It is also forecast that exports from the zones will earn the Mauritian fiscus more than \$200 million per year. Manufacturing firms in the zone will enjoy import duty waivers for raw material inputs. The SEZ investment will be the largest investment in the country to date.

### **Other zones**

The two zones announced thus far are both strategically and commercially important. Zambia and Mauritius have enjoyed a long relationship of political trust with the PRC. Similar relationships were built between Beijing and Dar es Salaam, where another SEZ, a logistics hub, is likely to be established soon.

Nigeria, as a growing investment destination for Chinese companies, and the most populous economy in Africa, will host the fourth SEZ - a manufacturing and assembly operation for Chinese manufacturing and trading firms. The last strategic recipient country of the 3-5 SEZs committed to in 2006, is a manufacturing hub in Egypt, which will be expanded in a number of phases over the next decade.

Up until the present, China's commercial engagement of Africa has been politically led. Chinese investment or project participation is either by state-owned firms or micro enterprises through

Chinese migrant entrepreneurs. As the Mauritian SEZ becomes more entrenched and export oriented, China's growing body of private firms will be attracted to the zone.

It is envisioned by Beijing that SEZs serving as hubs of Chinese economic activity in Africa will offer a package of favourable incentives for Chinese business and serve to reduce investment risk on the continent whilst at the same time becoming the new growth nodes of the African economy. It is important to recognise that while SEZs represent an opportunity for African economic development, it is yet unclear as to whether any of the financing from Beijing is of a "foreign aid" nature.

## 2.8 The China-Africa Development Fund

In late 2006, the Chinese State Council approved the creation of \$5 billion China-Africa Development Fund, established by the China Development Bank, announced at the 2006 FOCAC Summit in Beijing. Chi Jianxin, President of the Fund, has said that the CDB Investments Bureau will analyse proposed projects from each branch and recommend the most promising programmes to fund managers. However the CDB has denied itself controlling stakes since shares from a single investment will not exceed 40 percent of a given enterprise's total equity<sup>36</sup>.

The investments of the fund will be targeted at providing capital for Chinese enterprises engaged in development, investment, economic and trade activities in Africa. The fund will also provide support for African countries' agricultural, manufacturing and energy sectors, as well as support for urban infrastructure and the extractive industries<sup>37</sup>. As such the fund aims both at financing development projects in Africa, but also offers assistance on a commercial level to Chinese companies engaged in such projects. The fund acts as a commercial financing institution.

The China Development Bank forecasts a 50-year lifespan for the fund, touted as the largest global fund aimed exclusively at African development. According to Gao Jian, the fund's chairman and vice president of the CDB, the fund will seek primarily to advance economic, political and societal development in Africa, with the potential to realise significant gains<sup>38</sup>.

This is a noteworthy development in China-Africa relations as it is a further gesture of China's intention to play a major role in Africa's development. It is interesting that China has chosen to establish its own vehicle for assistance, rather than work within the existing framework of international institutions already in place. Nevertheless, it is possible that China feels that this structure will be more effective and easier to manage as a bilateral partnership between China and Africa.

January 15<sup>th</sup> 2008 marked the first official commitments of the China-Africa Development Fund. Shortly after Chinese Foreign Minister Yang Jiechi's 4-nation Africa tour the same month, four cooperative agreements worth over \$90 million were signed in Ethiopia, Ghana and Zimbabwe<sup>39</sup>.

In cooperation with Overseas Construction Co Ltd. the first investment project will provide Ethiopia with a glass factory, the first of its kind in the country, with production commencing in May 2008. In Ghana Shenzhen Energy Investment Co Ltd committed to build a 200 MW gas-fired power station to counter the country's severe energy crisis. Zimbabwe has received

assistance in the minerals sector, crucial for earning foreign exchange in the rapidly deteriorating economy. A ferrochrome processing plant was committed to the resource-rich country in conjunction with China Steel Group. The fourth project in Africa is together with Building Materials Corp to invest in building materials, including cement, across Africa.

With initial capital of \$1 billion the fund will be extended to \$5 billion over the next few years to be invested in mainly infrastructure related projects. Even though the scope of the fund includes financial and cooperation support for African states in especially infrastructure development, it also strongly supports the development of Chinese enterprises in Africa and “going global” strategy.

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Figure 4: EXIM Bank and CADF Major Projects in Africa (2000-2008)



## 3. Case Study I: Ethiopia

China and Ethiopia established diplomatic relations on 24<sup>th</sup> November 1970. However, relations deteriorated, and were broken off in 1977, only to be re-established in 1982. Chinese assistance to Ethiopia dates from 1984 when Ethiopia suffered a severe drought. China included Ethiopia in a humanitarian assistance programme involving 120,000 tonnes of maize to drought-stricken sub-Saharan countries. The following year China provided an additional 170,000 tonnes of maize to sub-Saharan Africa even though China itself experienced a turbulent year of natural disasters.

Additional aid agreements covering economic, technological and cultural cooperation were channelled through the Joint Ethiopian-China Commission (JECC) that was established in 1988. These included an agreement on the promotion and protection of investment, in addition to cultural and economic agreements such as scholarships for ten Ethiopian students to study in China.

International aid to Ethiopia has been predominantly emergency relief, and the majority of this has been multilateral rather than bilateral aid. Over the past five years bilateral sources have accounted for about 45 percent of aid (based on UNDP data) while multilateral sources accounted for 55 percent. The largest bilateral donors have historically been the United States, Japan, Italy and Canada, followed by Germany, the Netherlands and Ireland.

### 3.1 China's Aid / Development Assistance to Ethiopia

China is providing assistance to Ethiopia in various fields. Soft loans, grants, technical co-operation, human resources development and urban planning are all part of the Chinese support, and this has made China an important development partner for Ethiopia. The JECC provides China and Ethiopia with an economic forum for dialogue, where past projects can be reviewed and areas of mutual interest discussed along with requests for additional development aid. The JECC is also the forum where most of the cooperation agreements are negotiated, of which the construction of a \$12 million occupational training college in Addis Ababa, which was built by a Chinese company and given equipment by the Chinese government, is a topical example<sup>1</sup>.

The seventh meeting of the JECC was held in Beijing in March 2007. In preparation, the Ethiopian government requested that all departments and ministries develop a set of project proposals that dovetailed with the outcomes of the 2006 FOCAC Summit. The goal was to extract concrete projects from the FOCAC commitments, in particular the construction of hospitals, schools and medical clinics. The Ethiopian government sought to use the occasion

to advance their national development priorities. This resulted in the Ethiopian Government preparing a package of requests in line with the Government's Five Year Poverty Alleviation and Sustainable Development Program (PASDP) which were submitted to the March meeting.

The PASDP has six priority areas: agriculture, food security, health, water, education, and infrastructure including power, roads, industry and cement. Ethiopia cannot mobilise finance domestically and is looking for external partners to help meet its goals under the current five year national development plan.

In early 2006, the Ethiopian Ministry of Finance and Economic Development sought to approach the China EXIM bank for a concessional loan. For the purpose of approaching the EXIM Bank and securing the loan, a Development Cooperation Framework was signed with the Chinese Ministry of Foreign Affairs and Commerce (MOFCOM), since the Ethiopians realised their limited experiences of and the challenges involved in dealing with the Chinese. Rightfully, the negotiations turned out to be demanding and the help of MOFCOM representatives became essential in order for the negotiations not to break down.

In the negotiations with the Ethiopians, the Chinese government wanted to use the "Angolan model", developed according to the agreements met with the Angolan government. In essence, the "Angolan model" implies a certain structure of the loan where the country's natural resources are used as security. The Chinese Government has a strong preference for this model which reinforces the strategic objectives of its African engagement and the need for resources.

From the Ethiopian side, power generation, roads and industry were to be the main target areas for this loan; areas that fall under the priority areas of the PASDP (see Box 2 on the construction sector below). Ethiopia had recently graduated from the Heavily Indebted Poor Countries (HIPC) programme and was cautious to avoid becoming re-indebted by commercial loans. The loan had been approved in principle by August 2007 and the Ethiopian Government was expecting a response from the Chinese side on the final details of the loan by the end of 2007. EXIM Bank is to finance 85 percent of the development project while the Ethiopian government is to provide the remaining 15 percent. Furthermore, the loan is tied to the use of Chinese companies. The Ethiopian government requested a list of companies that had been pre-approved by the Chinese Government so that their performance and credibility could be checked to minimise risk. The Ethiopian embassy in Beijing cross-checked these companies.

In September 2007, it was reported that a loan agreement was signed between the Commercial Bank of Ethiopia and China EXIM Bank to finance the expansion of Muger Cement Enterprise and the construction of a Fincha-Amerti-Neshe multi-purpose project, that included hydro-power generation and irrigation. The two projects had a combined value of \$276 million: \$208 million from the EXIM Bank and \$68 million from the Ethiopian Government.

### **Case Study: Ethiopia's Construction Sector**

The general construction sector in Ethiopia has experienced steady growth since the early 1990's, with the unfortunate exception of the Ethiopian-Eritrean conflict between 1998 and 2000. In the late 1990's, Chinese companies began to gain influence within the sector and there are currently around 10 Chinese companies operating in Ethiopia. The Chinese ambassador Lin Lin was quoted by China Radio International in 2007 as saying that the figure of Chinese contracted projects in Ethiopia had doubled in the last two years, from \$ 800 million to \$1.7 billion. Lin stated that the rehabilitation of the poor Ethiopian infrastructure, including roads, houses, power stations and the water supply system, offers the Chinese companies good opportunities.

Certainly over the last five years a surge in demand for building materials has been created through infrastructural developments funded by general international aid. Important opportunities for construction firms have emerged especially within road construction, which is also where the Chinese feature most prominently, controlling 50-60percent of the sector. Mid-2007 the Chinese SinoHydro Corporation was awarded three road construction projects to a total value of over \$ 93 million by the Ethiopian Roads Authority (ERA). The World Bank is the most important fonder of the project with a 70percent stake, with the Ethiopian government covering the remaining 30percent. The total stretch of the projects is 252km of which the construction of a 355m bridge is an important contribution to the local economy, since it will save travellers a journey of 1,500 km via the capital Addis Ababa to cross the Blue Nile. Another important Chinese contribution within road construction was the Addis Ababa Ring Road, financed partly through an interest-free \$ 12 million loan from the Chinese government, constructed by China Road & Bridge Corporation (CRBC) from 1998-2003 and inaugurated in 2003. The total cost of the Ring Road project was \$ 76 million and once completed, it helped greatly in avoiding congestion and ameliorating infrastructure in the capital.

Yet, the Ethiopian construction sector still suffers from several deficiencies, according to a 2006 Ethiopian Government Construction Sector study. Accordingly the Ethiopian government has begun implementing measures to develop the domestic construction industry, of which the most important are an inadequate capital base, to limited equipment and other technical, managerial and financial deficiencies.

### **3.2 Debt Sustainability**

Ethiopia became a beneficiary of the Enhanced HIPC initiative in November 2001 and reached its completion point in April 2004. In addition to the net present value (NPV) of \$1.275 billion in HIPC debt relief announced at Decision Point, the Executive Boards also approved a topping-up of debt relief by an additional \$707 million in NPV terms. Ethiopia's external debt position has improved over the last decade, with its total outstanding debt accounting for 118.8 percent of its GDP in 1996 (\$10.1billion) to 55 percent in 2005 (\$6.26 billion).

In 2006, the World Bank's Board of Executive Directors approved 100 percent cancellation of Ethiopia's debt to IDA as part of the Multilateral Debt Relief Initiative (MDRI). The Executive

Board of the IMF had already approved cancellation of debt owed to the Fund under MDRI in December 2005, and the African Development Bank also approved debt relief under MDRI in April 2006. To ensure prudent borrowing in the future, the government has developed a debt management strategy with a forward looking set of aid and debt management policies. A joint World Bank-IMF Debt Sustainability Analysis (DSA), completed before approval of IDA's MDRI debt relief, concluded that Ethiopia's risk of debt distress was moderate. The Bank and Fund are in the process of preparing an updated DSA<sup>2</sup>.

In May 2007, Ethiopia and China signed a debt relief agreement in Addis Ababa amounting to \$18.5 million. This bodes well for the Ethiopia's long-term development prospects as it graduates from the HIPC initiative. As in Ghana, some traditional donors fear that Ethiopia will not be able to raise the necessary funds domestically if the government does not leverage relations with China and other emerging donors effectively. Concessional loans that require governments to provide a percentage of the project finance exert additional pressure on the Ethiopian government to raise money on the capital market, where it is already struggling to mobilise funding for the national development plan. This was observed in Ghana where money was freed through debt relief to service loans from China.

### **3.3 Chinese commercial interests in Ethiopia**

Chinese companies began establishing themselves in Ethiopia in the 1980s, with construction companies initially dominating investments, to be overtaken by the manufacturing sector a decade later. Chinese businesses are active in the manufacturing of a broad range of products including steel, chemicals, pharmaceuticals, textiles, machinery, paper and glass. The manufacturing sector currently accounts for 50 percent of Chinese investments in Ethiopia, with around 60 active businesses in 2007, valued at approximately \$60 million. Generally speaking, Ethiopia presently hosts 95 registered Chinese companies with investments at a value of \$117 million<sup>3</sup>. However, Chinese actors do not engage in retailing the products they produce, since Ethiopia strictly enforces investment laws preventing all foreign companies from engaging in retail. In January 2008, the China-Africa Development Fund (CADF) signed an agreement with CGC Overseas Construction to finance a factory in Ethiopia. CGC Overseas Construction has been engaged in civil engineering and water boring in Ethiopia since 1996 and recently listed an additional investment of over \$10 million. While the fund itself is not regarded as development assistance, it gears Chinese companies to penetrate the African market in a number of priority sectors.

### **3.4 Summary**

The 'Look East Policy' appears to have become more entrenched since the post-2005 election crisis when other donors began pushing governance reform in the development agenda. UK DFID adopted a new aid instrument that channels money towards regional support instead of direct budgetary support. Entitled the Protection of Basic Services the focus of the new programme is on education, health care and agriculture and has a built-in governance test. Several other Western donors have implemented similar programs. Such moves have encouraged the Ethiopian Government to consider China and its state commanded development policy as an attractive development model.

Donors have expressed an interest to see greater engagement with China and other emerging donors to augment Ethiopia's poverty reduction programme and development needs. Beijing's development assistance was perceived as aid for trade. One senior Ethiopian Government official acknowledged that China's aid commitments supported its own national interests. This individual described the delivery of Chinese aid as very similar to the policies of the UK, Netherlands and Nordic countries only 10-15 years ago and little different to US aid policies today, though considerably more efficient<sup>4</sup>.

China's development assistance was considered to be making a significant contribution to Ethiopia's development priorities. The Chinese were commended for the skilled work ethics they displayed in executing their duties. Others believed that the Chinese were more appropriate development partners because they were seen as being responsive to Ethiopia's needs. The sense was that Ethiopia could learn valuable lessons from China's poverty reduction strategies.

From the Chinese perspective, Ethiopia is considered a strategic ally as the political capital of Africa due to the fact that the African Union (AU) is seated in Addis Ababa. In the coming years China's activity in Ethiopia can be expected to increase and deepen. This will be reinforced as the AU moves toward institutionalising a FOCAC Secretariat and relocating the NEPAD Secretariat to Addis Ababa within the next few years. As such, China will continue to strengthen relations with Ethiopia and use its presence in Ethiopia to further cement engagements with other African countries. However, the critical question remains: will China do this bilaterally or see utility in engaging in the DAG?

The Chinese attach great value to Ethiopia and their relationship with Addis Ababa. Ethiopia represents a culture of discipline and performance that permeates all levels of government and the civil service. The government has displayed considerable seriousness and sense of purpose in pursuing the FOCAC commitments through the JECC, and translating the FOCAC commitments into viable projects. With functioning service delivery bureaucracy, this shows that aid related projects can be transferred into appropriate programmes. Unburdened by colonial ties Ethiopia is better positioned to leverage relations with the donor community.

**Figure 5: Overview of China's financial assistance to Ethiopia from 2000-Present**

Year	Type	Amount
2001	Interest-free loan in support of construction of ring-road and low-cost housing project, Addis Ababa	\$12 million
2001	Interest-free loan to support production expansion, textile factory, Awassa	\$2.4 million
2005	Donation by PRC Embassy to Ethiopian Ministry of Foreign Affairs	\$23 000
2005	Loan for construction of model TVET	\$8.9 million
2005	Interest-free loan in support of construction of ring-road project, Addis Ababa (Phase II)	\$15 million
2007	Building a vocational college in Addis Ababa	\$8.9 million
2007	Donation to assist people affected by HIV-AIDS	\$250 000
2007	Loan to finance new power generation and expand a cement factory	\$208 million
2006/7	Vocational Training College	\$13.5 million

2007	Developmental loans	\$708 million
2008	Support for construction of glass factory	part of CADF

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Endnotes

- 1 Interview Addis Abba, 26<sup>th</sup> July 2007
- 2 World Bank Country Brief, [http://devdata.worldbank.org/AAG/eth\\_aag.pdf](http://devdata.worldbank.org/AAG/eth_aag.pdf)
- 3 Government of Ethiopia, July 2007
- 4 Interview Addis Abba, 25 July 2007

## 4. Case Study II: Ghana

The People's Republic of China established diplomatic relations with the Republic of Ghana on 5<sup>th</sup> July 1960. Between 1964 and 1967 Ghana received \$3.5 million in economic aid from China while between 1967 and 1970 China extended \$40 million in credits and grants to the West African state. The two countries entered into an economic and technological cooperation and trade agreement, which saw China provide development assistance for the construction of the national theatre in Accra, the Afeji Irrigation project, vocational training centre, and the Dangme East District Hospital. Ghana has also benefited from cotton-textile machinery and methane-gas equipment supplied by China.

In 1983 Ghana and China entered into a cooperation arrangement until 2004. In terms of this arrangement the total value of contracts signed by the Chinese companies for work undertaken reached \$390 million. The projects included a bank building, woolen-sweater mill, school buildings and a water supply project. As part of a cultural and educational exchange programme Ghana has been a recipient of Chinese scholarships from the 1960s. Currently there are more than 30 Ghanaian students studying in China while two Chinese teachers have been deployed to teach at the national university.

### 4.1 China's Aid / Development Assistance to Ghana

Ghana has been expanding its cooperation with China in a number of sectors that have been ignored by traditional donors in the past. While China's aid to Ghana cuts across infrastructure, education, agriculture and building construction, it is especially cooperation in the infrastructure and energy sectors that has been welcomed by Ghana. It is estimated that the country is suffering a \$2.5 billion infrastructure gap in financing<sup>1</sup>.

From a development perspective, China's foreign aid assistance to Ghana reflects a broad sectoral approach. Couched within bilateral relations, China has provided a large variety of economic and technological assistance that takes the form of grant assistance, interest free loans, preferential government loans as well as human resource promotion covering the areas of agriculture, agricultural products processing, irrigation construction programmes, road constructions, hospital buildings, medical and health sector, cultural facilities, hydro-power stations, office buildings and telecommunication.

Following the first FOCAC Summit in 2000, China has undertaken a series of projects aimed at assisting Ghana in its infrastructural needs. These include:

- The construction of the military and police barracks in Accra, financed through a grant of \$3.9 million from the Chinese government, which was completed in 2004.

- A \$28 million interest-free loan to finance the reconstruction of the 17.4 km Ofankor-Nsawam stretch of the Accra-Kumasi Highway by China Railway Construction Corporation, which links the southern sector to the northern sector of the country.
- The provision of some \$18 million to help co-operatives in Ghana for further development.

The above aid commitments from China, together with other grant and loan receipts have been tabulated in Figure 6. It is evident that China's assistance profile has gained momentum since 2006.

In June 2006, on the second leg of his 7-nation Africa trip, Premier Wen Jiabao was welcomed by Ghanaian President John Agyekum Kufuor to discuss a number of agreements on improving infrastructure, communication and human resource development. Six agreements to boost economic and technical cooperation were signed, including an accord for \$66 million for the expansion and upgrading of the telecommunications network, the construction of a primary school and a malaria centre. A notation of \$250,000 for the treatment of malaria was authorised and Chinese medical personnel were promised to be dispatched to train locals.

During the Premier's stay the official inauguration ceremony of the carriage way stretch between Kumasi and Accra was inaugurated and Premier Wen expressed his satisfaction with the construction outcomes. Both leaders also agreed to maintain and nurture the current friendship and cooperation between the two nations and issued a Joint Communique on 19<sup>th</sup> June 2006, with emphasis on strengthening bilateral cooperation in economy and trade, telecommunications, culture, education and health.

On the sidelines of the 2006 FOCAC Summit, the Ghanaian and Chinese governments held bilateral talks around six agreements. These included a concessional loan of \$30 million for the implementation of a dedicated communication system for the security agencies, and the cancellation of \$24 million of debt owed to China. The construction of the Bui Dam project (see case study below), Ghana's largest aid commitment from the PRC to date, as well as an economic and technical co-operation grant, tourism promotion and a feasibility study on the construction of a new office building for the Ghanaian Ministry of Foreign Affairs were agreed to.

Further assistance in the energy sector has been provided through the China-Africa Development Fund. Utilising some of these funds China's Shenzhen Energy Investment Co Ltd has committed to build a 200 MW gas-fired plant in Ghana through a joint venture. The project is estimated at a total cost of 1.03 billion RMB and Shenzhen, the Chinese energy company is expected to have a 60 percent stake in the proposed venture. The remaining 40 percent will be held through the China-Africa Development Fund.

China's development assistance also complements what has become part of China's symbolic diplomacy in public infrastructure financing and for hosting mega sporting events. In 2008, Ghana hosted the African Cup of Nations Soccer Tournament. The tournament was an important event in Ghana's sporting calendar, signalling its importance in terms of the international recognition of Ghana's capabilities and political stability. To this end, the government embarked upon a massive programme of infrastructure rehabilitation and renewal. This involved the construction of roads, expansion of airports, creation of new hotels and the building of new stadia. This infrastructure will have long-term benefits for Ghana's economic development.

### Case Study: The Bui Dam<sup>1</sup>

Ghana has been experiencing an acute energy crisis as a result of the low water levels and capacity problems at the existing Akosombo Dam. To resolve the current crisis the construction of the Bui Dam, which has been in the pipeline for 5 decades, will commence soon to provide 10 percent of Ghana's current energy requirements of 1,700 MW.

In 2007 the Chinese government agreed to extend a loan of \$622 million which will cover dam and power station construction. Yet total project costs are estimated closer to \$1.2 billion. The loan will be delivered in two portions and Ghana is to provide counterpart funding of \$60 million.

In September 2007, the first portion of the loan was contracted by the Ghanaian government as a buyer credit facility of \$292 million from China EXIM Bank. The second portion of the financing package, which is a concessionary loan of \$270 million, will be extended by the Chinese government also through EXIM Bank.

In April 2007 The Ghanaian Government signed an agreement with Sino-Hydro, the Chinese Company that will build the 400 megawatt hydro-electric dam. The signing of the Engineering, Procurement and Construction (EPC) agreement formed part of final moves by the government to start the project by mid 2007. The Ghanaian government has already made arrangements to provide Sino-Hydro with \$10 million to finance works on site preparation and other ancillary expenses. But it was only in August 2007 that the sod cutting for the project took place. It is expected that the Dam will take five years to build and will be completed in early 2012.

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<sup>1</sup> Based on interviews, Accra, July 2007 and various newspaper articles.

As part of this emphasis the Shanghai Construction Group of China has been contracted to build two new stadia in Takoradi-Sekondi and Tamale. It is believed that the project would be completed a month ahead of schedule for the soccer extravaganza. Finance for the stadia involved a soft loan from China as well as from Barclay, with total project costs reported at \$38.5 million and \$275 million respectively. According to a number of interviewees the original tender process was cancelled at the detriment of a number of prospective bidders. Shanghai Construction Group was awarded the projects allegedly as "the Chinese" were viewed more competent in finishing the stadia before or on time and below costs<sup>2</sup>.

Ghana and China have also established cooperation in the ICT sector. In August 2007 President Kufuor officially commissioned the construction of phase one of Ghana's fibre-optic cable. The construction of the cable is also expected to serve as a platform for the implementation of the e-Ghana project and reduce the cost of bandwidth, as well as providing greater access to information, communications and technology. China's Huawei Technologies Company is installing the cable from the capital, Accra to Tamale in the Northern region at a cost of \$30 million.

Overall, China's role as a development partner is aimed at making a contribution to Ghana's poverty alleviation programme. In terms of the support that China gives Ghana the following emerged:

- The exchange of documents between the respective governments in an effort to write-off all the matured debt owed by Ghana;
- Six agreements signed during the visit of Mr Jia Qinglin, Chairperson of the political advisory body, the Chinese People's Political Consultative Conference (CPPCC). The visit in April 2007 was aimed at promoting economic, technical and bilateral co-operation between the two sides, including the concessional loan of the communication system for security agencies and an Economic and Technical Co-operation grant;
- The undertaking of feasibility studies for the construction of three basic schools in rural areas;
- The feasibility of dispatching senior Chinese agricultural experts to provide Ghana with technological guidance and assistance to facilitate the development of its agricultural sector;
- The establishment of one or two malaria prevention and treatment centres as well as to simultaneously dispatch medical teams to share experiences and where possible to teach and help in medical practices;
- The continuous free provision of medicines like artemisinin for the treatment of malaria;
- The commitment to build a hospital in Accra;
- The assistance to train more than several hundred government officials and professionals through Chinese-sponsored training programmes, which include seminars on agriculture, management, industrial and health issues.

China has also provided technical training through seminars on agriculture, management, healthcare and traditional acupuncture for various ministry officials. Some 80 officials had attended these seminars between January and June 2007.

#### **4.2 Debt Sustainability**

Debt cancellation has improved Ghana's external debt position significantly from 120.5 percent of GDP in 2001 (\$6.325 billion) to 17.6 percent of GDP in September 2007 (\$2.637 billion). As a beneficiary of the HIPC and MDRI programmes - reaching completion point in record time - Ghana has been able to free-up resources, previously allocated to debt servicing. The reduced budget pressure has created greater space for funding poverty reduction and social programmes and other growth-stimulating expenditures including power generation programmes<sup>3</sup>.

Yet, as a HIPC graduate, the concern does exist that Ghana might fall into the old cycle of debt dependency and debt rescheduling. Being a low income country, which has made significant progress towards achieving the MDGs, the country needs to be careful of not falling back into the debt trap through low-cost concessional financing made available from example China. With multilateral debt accounting for 60.4 percent of all external debt and 6.8 percent to commercial creditors, the difference, 32.8 percent is owed bilaterally.

During the 2000 FOCAC Summit China promised to cancel part of Ghana's debt owed to China valued at over 100 million RMB. So far, China has granted two debt relief packages to Ghana. In 2003 it cancelled \$66 million bilateral debt to Ghana and a further \$24 million in 2007. Yet it is estimated that in the period 2001-2005 a total of \$100.5 million in aid was extended to Ghana from the Chinese government for police and military upgrading, as well as irrigation projects and feasibility studies for railway upgrades. In contrast the two years 2006-2007 record an amount over \$500 million that was granted. This included the buyer credits component for the Bui Dam construction of \$292 million.

The increasing amount of Chinese financing extended to Ghana since 2001 has created concerns in the donor community. To meet current and future debt obligations without compromising economic growth it is important for China to provide financing to Ghana within a framework consistent with the latter's long-term debt sustainability and MDG progress. As such concerns rest mainly on the lack of clarity and transparency of the loans provided, and the nature of the loans. This is in contrast to the move within the donor community towards direct budgetary support to improve aid effectiveness.

As China's emergence as a donor in Ghana increases, the donor community agrees that China itself should be engaged through dialogue to ensure aid effectiveness. This should be pursued through an ensuing dialogue with China, such as the Ghana Joint Assistance Strategy group meetings.

#### **4.3 Chinese commercial interests in Ghana**

A number of Chinese companies, large SOEs but also smaller private Chinese entrepreneurs, have established a footprint in Ghana. According to the Ghana-Chinese Chamber of Commerce there are approximately 250 Chinese companies registered in the country<sup>4</sup>. A Chinese company with a visible presence in the Ghanaian construction sector includes China State Hualong Construction Limited, who constructed the Burma Hall Complex at the Burma Camp in Accra, financed by a \$1.2 million Chinese government grant and complemented with resources from the Peacekeeping Account of Ghana. The construction of a wing of the 37<sup>th</sup> Military Hospital also formed part of the project, completed in 2006.

Whereas a number of SOEs penetrate the Ghanaian market by implementing EXIM Bank-financed concessional loan projects Chinese companies are also becoming part of consortia to take advantage of project opportunities in Ghana. China National Machinery Import and Export Corporation is part of the Dubai-based Kampac Oil Company consortium that won a \$1.6 billion contract for a railway project in the western part of Ghana. The project involves the construction of a 800km new rail line and the rehabilitation of 400km of existing tracks. The contract is a 35-year concession agreement with the Ghana Railway Corporation and construction of the new line will be commissioned in 48 months. The project seeks to strengthen the country's key freight corridor and is expected to boost trade and investment. The project financing was backstopped by the assignment of \$2 billion worth of mineral and mining rights in Ghana to the consortium on an exclusive basis.

#### 4.4 Summary

It appears that Ghana has significantly benefited from China's development assistance. While the projects in this section reflected a modest overview of what has been reported, it can only be assumed that since the inception of the FOCAC process in 2000 China's bilateral development assistance to Ghana has certainly seen significant gains for the country.

Ghana's energy needs are being addressed, especially at a time when the country's macroeconomic indicators are showing signs of impressive growth. China's infrastructural investments are assisting the Ghanaian government in improving the prospects for both inter and intra regional trade, improving the country's technological ability and advancing the stable political and economic base towards becoming a regional hub in West Africa. Social assistance in the form of scholarships, proposed schools and hospitals, medical centres as well as the deployment of health workers and educators, helps to augment the human resources that Ghana needs to expand its national development plans.

Yet there are inherent concerns about whether what China construes as development assistance is not actually masking a more embedded approach of commercial interests. In addition, unlike resource-rich countries where China has used development finance as a gateway into the country, in Ghana the factors seem to be more complex. Gold still is the biggest resource export, although in 2006 it was eclipsed by cocoa exports. Other resources abundant in China are bauxite, timber, manganese and recently oil, discovered on the Cape Coast.

Some observers believe that China's economic engagements could be aligned to gaining access to these resources through development assistance and investments. The Chinese Embassy, however, argues that Ghana is a strategic partner because it has demonstrated good political and economic stability after undergoing the APRM process, being on track to meeting the MDGs and currently holding the chair of the AU. In a region underpinned by instability, Ghana stands out and for this reason is seen as representing the future of the region.

Observers in Ghana view China's development assistance as a strategy for entering the market. This poses serious risks for local traders and the development of the SME sector within the country. The policy of a win-win partnership was questioned in this context. From the private sector perspective some believed that the Ghanaian government should leverage its relationship with China around channeling more development aid towards the promotion of the SME sector. It was agreed that this is something that China could assist with by forging partnerships with local entrepreneurs, which, in turn, will lead to technology transfers and other aspects of knowledge building. In this way this will negate the influx of cheap Chinese goods and fake replicas of Ghana's national products and help to increase local skills and employment.

Nevertheless, while China's development assistance remains negligible to that of other donors, it is assumed that China will definitely increase its trade, investment and aid engagements with Ghana. Assistance and cooperation in key development sectors and priority initiatives, such as the Presidential Special Initiative (PSI), which aims to attract increasing investment to encourage private sector growth in the development of cassava, palm oil, textiles & garments and salt, can be expected from China.

**Figure 6: Overview of China's financial assistance to Ghana from 2000-Present**

Year	Type	Amount
2001	Grant for economic development	\$3.6 million
2003	Grant for the construction of Burma Hall Complex	\$1.2 million
2003	Interest free loan by the Chinese government for the construction of the 17.4-km Ofankor-Nsawam section of the Accra-Kumasi Road, and an exchange of notes on the construction of the Kumasi Youth Centre	\$28 million
2003	Military grant	\$0.963 million
2003	Grant for restorations of national theatre	\$2 million
2003	Chinese government grant for the construction of barracks for the military	\$3.9 million
2003	Debt cancellation	\$66 million
2005	Loan, telecommunications equipment (ZTE)	\$75 million
2006	Expansion and upgrading of telecommunications network construction of a primary school and a malaria centre	\$66 million
2006	Donation for treatment of malaria	\$0.25 million
2006	Grant to foster economic and technical cooperation	\$3.75 million
2006	Interest-free loan	\$3.75 million
2006	Loan, construction of two stadia (Takoradi/Sekondi and Tamale)	\$275 million & \$38.5 million
2006	Military grant	\$1.25 million
2007	Loan for Buyer Credit Component of Bui Dam	\$292 million
	Refurbishing government buildings	
2007	Grant in kind, training in China of Ghanaian officials	
2007	2 <sup>nd</sup> loan agreement in communications (2 percent over 20 years); contractor is ZTE	\$30 million
2007	Agreement signed for construction of Ministry of Foreign Affairs	
2007	Agreement signed for economic and technical cooperation	
2007	Cancellation of debt	\$24 million

Source: Interviews and various newspapers

Endnotes

- 1 Interview, Accra, 9<sup>th</sup> July 2007.
- 2 Interviews, Accra, 9<sup>th</sup> and 10<sup>th</sup> July, 2007.
- 3 Ghana Golden Jubilee Budget, 2007. Ministry of Finance.
- 4 At present the following companies are registered in Ghana: China Building Engineering Corporation, China Hydraulic Engineering and Power Company for Foreign Business, China Telecommunication Construction Corporation, Guangzhou International Company and Shaanxi Building Engineering Corporation

## 5. Case Study III: Zambia

Zambia established diplomatic relations with the People's Republic of China on 29<sup>th</sup> October 1964, three days after independence, becoming the first country in the southern part of Africa to do so. Staunchly non-aligned, President Kenneth Kaunda decided to “recognise China’s population of over 400 million people against Taiwan’s population of 18 million as a matter of principle”<sup>1</sup>.

While initial relations between the two countries were steeped in ideological rhetoric, interest in Zambia’s mineral resources soon formed the basis of Beijing’s economic engagement with Lusaka. The Chambishi Copper Mine is of significant importance as a source of copper for China and catalysed the rapidly growing Chinese investment in Zambia across a broad range of areas.

President Hu Jintao visited Zambia on 3<sup>rd</sup> February 2007, on the fourth leg of his eight-nation African tour. His stay in Zambia was considerably longer than in any of the other seven African states. This was interpreted by many observers as a clear indication of the importance China attributed to its relations with Zambia. During his visit President Hu announced a package of measures designed to further boost bilateral relations, including debt relief, an expansion of Zambian tariff-free exports to China and the establishment of a special economic and trade zone in the Chambishi mining area<sup>2</sup>.

During his stay President Hu Jintao and his Zambian counterpart, President Levy Patrick Mwanawasa also signed a joint communiqué strengthening economic and political cooperation between their two countries. It signals an intensification of consultation and dialogue, the expansion of mutually beneficial cooperation, an increase in people-to-people and cultural interactions and the strengthening of international cooperation.

Both countries pledged to continue supporting each other on matters concerning their sovereignty, territorial integrity, national stability and political and economic development. It was also agreed that cooperation would focus on infrastructure, agriculture, mining and human resources development and expanded cooperation in culture, education, health, tourism and aviation. Though political relations between China and Zambia remain extremely strong, economic considerations seem to permeate the relationship.

### 5.1 China’s Aid / Development Assistance to Zambia

Official statistics regarding China’s development assistance to Zambia are difficult to ascertain. It is estimated that Chinese aid to Zambia between 1967, when the first aid agreement was established, until 1996 was \$372 million. This figure covers traditional grants and zero-interest

loans, medical teams and scholarships and excludes concessional loans.

China has been involved in over 35 aid projects in Zambia, including agricultural initiatives, infrastructure developmental projects such as roads, the flagship Tanzania-Zambia (Tazara) Railway (see case study below), public buildings including the Government Complex, a maize flour factory, a textile mill, several water supply developments and the Mulungushi Textiles plant which was recently closed.

The details of many financial arrangements, such as loans associated with the Tazara railway, are several decades old and the precise debt payments outstanding are yet to be worked out. This is despite the recent announcement made by President Mwanawasa that the Tazara railway line debt had been written off. Nevertheless the Tazara Railway remains China's prized political project in Africa simply because it symbolises Beijing's ideology of solidarity and friendship in Africa, as well as the economic independence and freedom for the two newly independent African states.

In Zambia, China is a relatively small donor when compared to traditional donors. Its development assistance is structured around helping Zambia become self-reliant. This thinking is aligned to the view around South-South co-operation. China is also seen as a more amicable development partner because as much as traditional donors provide assistance, it is not provided consistently, hence African governments turn to the East to find the assistance it needs<sup>3</sup>. This was something that was noted in most interviews with government departments. It seems to follow closely to the thinking within the Presidency. Consider the following comments by President Mwanawasa:

"Those who oppose Chinese investment ... all they need to do is to equal the help we are getting from China. We only turned to the East when you people in the West let us down ... Give us the same or more cooperation we are getting from China and you will see that we are friends....The good thing is that I know of no strings that are attached to Chinese investment"<sup>4</sup>.

As noted in the other two case studies and in the preceding discussion, FOCAC has become an important vehicle in China institutionalising its development assistance to Zambia. The policy measures committed to at FOCAC 2006 were implemented a few months later during President Hu's visit to Zambia. The following was agreed upon:

- A \$3 million debt write-off;
- A special economic zone (SEZ) in the Copperbelt;
- The enlargement of the number of zero-tariff Zambian exports from 190 to over 440;
- The construction of a Sports Stadium in Ndola;
- An agricultural demonstration centre;
- Two rural schools;
- One hospital;
- An anti-malaria centre;
- 117 Chinese government scholarships between 2007 and 2008;
- An increase in the number of Zambian professionals receiving training in China; and
- An increase in the number of experts in agriculture and youth volunteers to the country.

From the in-market research conducted in Zambia it was understood that the design for the

stadium had been completed, and that an engineering team had visited the site area to complete the feasibility study.

Progress on the developments of the Special Economic Zone had also been made, which will be constructed by state-controlled China Nonferrous Metal Mining Group (CNMC). CNMC will construct a copper smelter at the Chambishi mine. The \$220 million smelter forms the key investment in the export-orientated zone and is expected to boost Zambia's exports by \$450 million<sup>5</sup>.

The Zambian government negotiated the design together with the Chinese Government and it is estimated that the SEZ will create about 6000 jobs for Zambians. It is anticipated that the SEZ will become a little city alongside the mine with schools, houses and healthcare facilities.

The Chinese Economic Counsellor also noted that about 300 Zambian officials had been on diplomatic and bureaucratic training programmes organised by the Chinese government, which covered approximately 30 to 40 courses from economic development to health care and environmental issues<sup>6</sup>.

It became evident that China's development assistance is seen as a way to enhance Zambia's integrated trade and industrial policy. This was conveyed by a senior government official who noted that China's aid is not seen as a panacea for Zambia's development challenges but rather to enhance the country's industrial capacities<sup>7</sup>. Obviously the promotion of the SEZ is viewed as a means to this end. Essentially then China's aid is seen as developing greater opportunities for the recipient country in trade and investment terms.

## **5.2 Debt Sustainability**

As a beneficiary of the MDRI and HIPC initiatives Zambia's external debt stock has declined 86.7 percent from \$4.5 billion at the end of 2005, to \$635 million in December 2006. This has significantly cut the country's foreign debt service expenditures from \$373.2 million in 2004 to an estimated cost of \$33.9 million in 2007<sup>8</sup>.

The budgetary savings from the debt relief have been allocated to private and public development and poverty-reducing programmes, including health and education, towards the realisation of the MDGs. Given the large debt relief and consequent lower debt stock the Zambian Government has signaled its commitment to prudent management and utilisation of debt resources in the current post-HIPC era. Debt sustainability has become a key focus. This entails that foreign grants will be earmarked for developmental programmes, and concessional loans will only be sought for projects where grants are not sufficient.

But there are some challenges in the post-HIPC and MDRI eras for Zambia. One of these being the rising debt levels from bilateral donors such as China. As of 31<sup>st</sup> December 2006 Zambia's debt to China stood at just over \$217 million, making China Zambia's largest non-Paris Club creditor<sup>9</sup>. This indebtedness is concentrated in two major areas: the Tazara project loans as well as the money received for the China National Aero-Technology Import and Export Corporation (CATIC) project. New loans from China totaling more than \$500 million in the first half of 2007 will significantly have increased Zambia's external debt figure in 2007.

Recently it was announced that government-to-government debt was cancelled including the incurred debt for the Tazara railway line. However, loans involving non-government institutions were not included in the cancellation and the precise nature of many of the loans made by China to Zambia are far from clear. The Jubilee programme highlighted that in 2007 Zambia's largest bilateral debt installments were made to China, accounting for almost one third of Zambia's bilateral debt repayments.

It was noted that most of this was owed to the Chinese EXIM Bank<sup>10</sup>. It was alleged that part of this debt repayment included loans incurred for the equipment for the Tazara Railway. Yet in January 2007 President Hu Jintao made the announcement that \$200 million debt incurred from the construction of the Tazara line will be cancelled. So it remains unclear what aspects of the Tazara loan has been cancelled.

Between January and March 2007 the following new loans from China were announced to Zambia:

- \$39 million for electricity upgrade with ZESCO;
- \$400 million for agricultural equipment; and
- \$96 million for stadium construction.

The agreements surrounding the nature of these loans remain vague. A point that civil society debt groups are extremely concerned about as this could see Zambia's debt stock rise and compromise its debt sustainability.

Overall China as a donor in Zambia cannot be ignored. In this regard the British High Commission and the DFID Office indicated their intentions of pursuing a dialogue with the Chinese Embassy. So too did the EU delegation. But this is a gradual process.

In the medium term it was perceived that China will increasingly align itself to the global consensus on aid, especially over the issue of governance. Respondents also highlighted that once China perceives and disburses its aid within the multilateral aid architecture, engagement on donor co-ordination will be made easier. But it was cautioned that the Chinese Embassies are not as free to make decisions and will act once they have received instructions from Beijing, thereby implying that for a dialogue on donor co-ordination to take place constructively the process has to be strengthened with Beijing.

### **5.3 Chinese commercial interests in Zambia**

Apart from the commitments noted above, it was also visible that China currently is engaged in various other types of infrastructure development in and around Lusaka. These include:

- A World Bank tender for the restoration of the Lusaka-Chirundu Road on the way to the Zimbabwe border by China Henan International Corporation (CHICO)
- Construction of the Zamtel Tower and network for CellZ
- Construction of a Steel Plant by Yangtze Jiang Enterprises in Kafue
- Building of the Chilanga Cement Plant for LaFarge Cement Company 20 kilometres outside of Lusaka by CBMI

A key project by Chinese state-controlled companies in Zambia is that of the Government Complex. Construction was initiated by China Overseas Engineering Company (COVEC) and completed by Shanghai Construction Company, with a grant financing the \$8.4 million project. The complex consists of 6 buildings, one of which is occupied by the Ministry of Commerce, Trade and Industry.

China Gansu Construction and Engineering Company Ltd, China Geo-Engineering Company and China Building Materials Construction Tangshan Installation Engineering Company (CBMI) have also established a significant footprint in Zambia's construction sector.

#### 5.4 Summary

Zambia represents an interesting intersection between China's development assistance, trade and investment interests. Moreover it provides a platform to explore how the resource factor may be seen as a significant vector in China's deepening involvement in Zambia. The establishment of the Special Economic Zone through aid and investment financing indemnifies China's long term economic interests in the resource-rich country.

Under the FOCAC process Zambia will benefit from increased opportunities to draw on the experiences and acquisition of technology and financial resources to advance the country's development plans and attain the Millennium Development Goals. But Zambia maintains a much longer history of development assistance with China. The political dynamics that underpin this relationship will certainly play a significant role in strengthening China's development assistance to Zambia in the future. This is amplified by the constant reference to the Tazara Railway, which has an important symbolic meaning for both sides. Not only does it represent the deep rooted relations between the two sides but it also reflects a symbolic diplomacy. The establishment of the first of 3-5 SEZs across Africa in Zambia also signifies this.

**Figure 7: Overview of China's financial assistance to Zambia from 2000-Present**

Year	Type	Amount
2000	Grant, equipment for National Assembly	RMB1 million
2000	Economic and technical cooperation	RMB30 million
2001	Grant, cash for OAU	\$0.5 million
2001	Loan	RMB100 million
2001	Grant, good to OAU and web printing press	RMB6.9 million
2001	Economic and technical cooperation	RMB20 million
2002	Loan, FM transmitters for seven provinces, new government complex & special loan	RMB120.9 million
2002	Grant, maize	4,500 tonnes
2002	Economic and technical cooperation	RMB30 million

2003	Grant, web printing press	RMB0.55 million
2003	Economic and technical cooperation	\$6 million
2004	Economic and technical cooperation	\$7.1 million
2004	Loan, TAZARA	\$11 million
2005	EXIM Bank indicate willingness to fund 85 % for Kafue Gorge Lower hydro electric project	\$519 million
2006	Loan, TAZARA	\$10 million
2006	Grant, relief food	\$1 million
2006	Economic and technical cooperation, extension of radio transmitters	RMB3.8 million
2006	Economic and technical cooperation, anti malaria medicines	\$0.2 million
2007	Aid agreements: 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	\$60-70 million (estimated)
2007-2008	117 Chinese government scholarships, training of Zambian professionals, sending agricultural exports and youth to the country	
2007	EXIM Bank loan to renovate Kariba North Bank Power (85 % of total project cost)	\$255 million
2007	EXIM Bank loan for improvement of rural telecommunication infrastructure	\$96 million
2007	The cancellation of debts to China in the form of interest-free government loans that matured by the end of 2005	\$200 million

Source: Interviews and various newspapers

#### Endnotes

- 1 Interview with former Zambian President Kenneth Kaunda, Lusaka, 16<sup>th</sup> August 2006 by Chris Burke, Research Fellow, CCS.
- 2 Edinger, H., 2007, "In Hu's Agenda", The China Monitor, February; The other seven countries included Cameroon, Liberia, Sudan, Namibia, South Africa, Mozambique and the Seychelles.
- 3 Interview, Lusaka, 4<sup>th</sup> September 2007
- 4 Baldwin, K., 2007, "Zambian leader challenges West over investment", Reuters, 6<sup>th</sup> June (<http://africa.reuters.com/top/news/usnBAN624883.html>)
- 5 Xinhua News Agency, 2006, "Chinese company signs 220 mln USD deal with Zambian gov't", 8<sup>th</sup> November.
- 6 Interview, Lusaka, September 2007
- 7 Interview, Lusaka, September, 2007
- 8 Budget Address by the Hon. NG' Andu P. Magande, Minister of Finance and National Planning, delivered to the National Assembly, 9<sup>th</sup> February 2007.
- 9 AFRODAD, 2007, "A Critical Assessment of Chinese Development Assistance in Zambia", African Forum & Network on Debt and Development.
- 10 Interview, Lusaka, September 2007.

## 6. Evaluating China's Foreign Aid Policy & Practice

Disaggregating China's foreign aid policy and practice to Africa remains a challenging task. At the very outset, it must be noted that attempting to identify a "one size fits all" policy for China's foreign aid policy and practice to Africa is extremely difficult.

Moreover, consideration must be given to the historical ties that China has garnered with the recipient country, and its strategic importance to China's broader foreign policy goals. In addition, it is relevant to recognise that there is no fixed aid model and that disbursements are based on the requests received from the recipient country, as well as what the MOFCOM assessment team views as achievable.

From this perspective, the following themes recur in the discourse about China's foreign aid policy and practice in Africa.

### 6.1 South-South Cooperation

Historical relations play a significant role in China's foreign aid practice to most African countries, especially where memories of the support provided by China for newly independent African states reinforce the image of China as a partner that has stood the test of time. In particular, this applies to such countries as Tanzania, Zambia and Ghana – long term political allies of China through the "romantic" 1960's and 1970's.

As much as historical alignment features prominently, appealing to the image of South-South co-operation is equally important as it complements this element of China's relationship with African states. It invokes the image that Beijing has not abandoned its founding principles that have guided its engagement with the continent. Reinforced over the years, the eight principles of foreign aid continue to serve as the basis which underpins China's African engagement. Stated as being "mutually beneficial", the eight principles are in line with China's status as a developing country and therefore perpetuate the image of China's understanding of Africa's development needs – and the availability of an alternative aid paradigm.

### 6.2 The Aid & Trade intersection

In-market research conducted in Ethiopia, Ghana and Zambia, suggested that China's foreign aid practice is used by Chinese aspirant multinationals as leverage for market access and other investment opportunities. What is clear is that aid, mainly in the form of concessional loans, but

also commercial financing, serves as a platform for mainly Chinese state-aligned enterprises to establish a foothold in the African market.

Once a foothold has been established, Chinese companies are likely to start bidding for tenders in the host country. Familiar with the market, and in most cases, equipped with imported machinery these enterprises are viewed as competitive bidders for state projects as well as international tenders, such as those put out by the World Bank. This was evident in Ghana with Chinese construction firm, China Railway Corporation Company.

Yet the aid for trade intersection has a more embedded commercial dimension to it. The state-directed nature of Chinese engagement in Africa is about “coalition engagements” across various sectors, which aligns to the long-term view of Beijing’s global aspirations and business expansion into the continent. This is evident where Chinese companies work on projects spanning construction and extractive industries such as in Zambia. The announced Chambishi special economic mining zone is a case in point.

This provides China Inc with a competitive advantage that its traditional competitors do not enjoy, especially if financed by the PRC Government’s concessional loans. This is aided by the fact that these companies are less answerable to political stakeholders rather than they are to private shareholders. As a result this positions Chinese SOEs in the market in a variety of ways which widens China’s distribution and transport networks to bring in capital and high-tech goods to secure resources.

Investment in road and railway systems like the Tazara is of strategic importance in providing Chinese products market access. It also provides China with an efficient transport grid that expands borders. In addition related investment in telecommunication infrastructure, SEZs, hydroelectric power systems and irrigation projects, along with procurement, supply and distribution networks across the continent can be expected to have a significant impact in reducing the cost of producing and transporting products.

China’s foreign policy and aid commitments are becoming an increasingly sophisticated instrument that helps to entrench China’s commercial engagement, by assisting in the one sector which other traditional donors have disengaged, namely infrastructure. Africa’s resource exports have also been boosted by the extension of resource-backed loan financing, such as the so-called financial arrangement that is termed the “Angolan Model”.

Other credit facilities for African governments such as export buyer’s credits, or commercial loans for Chinese companies promote imports from China. These higher-value goods, usually specialised machinery and equipment, are imported by African states for infrastructure and construction projects, often contracted to Chinese state-aligned firms.

Besides spurring Sino-African trade, China’s investment in Africa’s key support infrastructure, including roads, railways, ports, airports, dams and ICT has created a platform for future production activities and opportunities for private sector development across Africa. Hard infrastructure will also not only make Africa more accessible to Chinese and other foreign commercial partners, but will enable increased intra regional trade in Africa.

Poor infrastructure has been a major impediment to economic development in sub-Saharan Africa. Even leading African economies such as South Africa have experienced the constraints to growth due to the lack of investment in infrastructure. Chinese construction firms with massive infrastructural spend should not be criticised for pursuing foreign commercial interests, but should be reconciled with development needs to the recipient economy.

To reduce the supply-side risk for resource extraction Chinese contractors will, by rehabilitating both the Tazara rail line, which links Zambia to the east coast, and the Benguela line, linking the Zambian copper belt and DRC to the west coast, bisect sub-Saharan Africa, potentially creating a functioning east-west infrastructure corridor.

The economic landscape of Africa is being impacted upon by China's commercial engagement. African economies are certainly given the injection required to implement growth-facilitating programmes, providing a platform for private sector development. Professor Yang Lihua, at the Institute of West Asian and African Studies, describes China's aid strategy as "walking on two legs" (an old Chinese phrase). This refers to taking a two-track approach, addressing both social and economic development simultaneously. For example, addressing social development in conjunction with trade expansion.

#### **6.2a The "Angola Model"<sup>1</sup>**

The PRC Government has repeatedly expressed a desire for resource-backed financing agreements in Africa modelled on its relations with Luanda – increasingly known as the "Angola Model". An emerging trend is that of China's rolling out concessional loans in Africa, of which China EXIM Bank is the sole lender. Essentially, the debtor country, represented by its Finance Minister will negotiate a minimum RMB 20 million (\$2.4 million) loan. The loan interest rate and grace period are separately negotiated, with, in the case of Angola, repayment due on the 21<sup>st</sup> March and the 21<sup>st</sup> September of each year following loan negotiation. Loans are given for infrastructure, social or industrial projects.

The loans are a foreign policy tool, particularly in Africa's cash-strapped but resource-rich countries, and especially those with major infrastructure needs and those who can use their proven resources as collateral. The financing arrangement also addresses China's domestic challenge of structural unemployment. According to the China EXIM Bank's concessional loan requirements, Chinese contractors must be awarded the infrastructure contract financed by the loan.

China EXIM Bank has extended loans of an estimated \$4.5 billion cumulative total to the Angolan Government to date to assist Angola in the rebuilding of vital infrastructure following three decades of civil conflict. In exchange for the loan, payable at Libor plus 1.5 percent over 17 years, including a grace period of 5 years, China has secured 10,000 barrels of oil per day from Angola. The price of the oil is also the spot market price of the day, which, in the current oil climate assists with Angola's debt amortisation<sup>2</sup>.

Furthermore, in principle no less than 50 percent of the contract's procurement in terms of equipments, materials, technology or services must come from China. Projects are determined by the Angolan Government, who must then present a proposal to the joint-committee of the

PRC's MOFCOM and the Angolan Ministry of Finance before it can be put to tender. The loan operates like a current account held in China under the name of the debtor government, and contract fees are paid directly to the Chinese companies responsible that have been selected for the infrastructure development work. In Angola's case, 35 Chinese companies have been pre-approved by the PRC Government to bid for projects that are put to tender in China. This ensures that a large portion of the loan money returns to China's domestic economy, while assisting to alleviate pressure on a China's own over capacitated market.

The so-called "Angola Model" as it is now referred to by Chinese diplomats, whereby low-interest loans are secured with commodities as collateral in a barter arrangement, is readily becoming China's preferred structure of concessional loans to the continent.

In the case of Zimbabwe China's willingness to enter into barter trade agreements provides Harare with an attractive alternative to the market. While details of these transactions remain obscure, a considerable quantity of Zimbabwe's exports to China serve as repayment of concessional financing provided. One of the largest deals of this nature was the \$58 million extended by China EXIM Bank for agricultural equipment in exchange for tobacco exports.

The Gabonese Government awarded the China National Machinery Equipment Import and Export Company (CEMEC) sole rights to exploit the rich iron deposits in the Belinga region in September 2006. This project represents a substantial investment. It will bring in approximately 30 percent of Gabon's current GDP, at a value of \$3.5 billion. It has an estimated initial capital requirement of \$590 million due to the required infrastructural investment to extract the iron ore. This deal follows the "Angola Model" closely as the iron ore reserves will be used as collateral and Gabon will use these off-take revenues to pay for the substantial infrastructural investment.

In the case of Gabon, the PRC Government thus takes a long-term view of its financier role in Africa as return on the Belinga project will only emerge over the long term. This longer term vision of commercial engagement thus calculates risk in a different manner to traditional international financing arrangements.

Chinese companies are often perceived to be less cognisant of risk when investing in Africa compared to other foreign investors; however, this is not necessarily true. Chinese state-supported banks are simply afforded a longer lead-period in order to allow their investment to be realised. China's "state capital" approach through China EXIM Bank is more answerable to political stakeholders than it is to private or institutional shareholders. The loans are also all backed by commodities in a resource barter system of sorts.

The state-directed nature of Chinese engagement in Africa thus results in "coalition investments" across various sectors. This is very evident in several African countries where Chinese companies work on projects spanning construction and extractive industries, such as in Angola, Gabon, Zambia and Zimbabwe.

### **6.3 Political drivers and Asian competition**

The Taiwan factor as a determinant of the PRC's foreign policy in Africa is most often exaggerated. Admittedly, political competition with Taiwan for African support was previously

a major influence on China's engagement of the continent. Prior to the PRC's entry into the United Nations – bolstered by African votes in the General Assembly – Beijing's desire to counter Taiwan's diplomatic presence was the main factor.

When Beijing launched FOCAC in October 2000, the first summit was astutely held from the 9<sup>th</sup>-11<sup>th</sup> October – dates that straddle Taiwan's national day held on the 10<sup>th</sup> October. The FOCAC summit neutralised Taiwan's national day celebrations that year with the African media solely focused on events in Beijing rather than Taipei.

As the FOCAC process has become institutionalised between China and Africa, so Taiwan's formal relations with African states have dwindled. In late 2000, when FOCAC was initiated, Taiwan had diplomatic ties with 8 African states (Liberia (severed ties in 2003); Senegal (severed ties in 2005); Gambia; Burkina Faso; Chad (severed ties in 2006); Malawi (severed ties in 2008); Swaziland; Sao Tome and Principe). Today this number stands at four, all small, resource-poor and relatively minor in political importance.<sup>3</sup>

Despite the erosion of influence, Taiwan has tried to respond China's political (and rising commercial) influence in Africa. In an attempt to counterbalance China, the Taiwanese President's office stated that Taiwan "must adopt forward-looking concepts in its diplomatic efforts in the light of China's rise." Further, it said that "China's diplomatic work is based on strategic ambitions and its own interests, while Taiwan is willing to help solve the problems in African countries with a more sincere approach." With this in mind, Taiwan hosted its own Africa forum in Taipei in September 2007. However, the forum was not significant with few important participants beyond Taiwan's existing African diplomatic partners attending.

Beijing continues to insist on strict compliance to the "One China" principle, but is less obsessed with countering Taiwan's political efforts in Africa. This is reflected in the fact that China is now willing to engage in commerce and provide foreign aid to African states with which it does not have diplomatic ties. Its approach is more pragmatic and less ideological. But concurrently, its investments in the extractive industries in these states (Sao Tome & Principe and Gambia) are driven by commercial interests rather than strategic political issues. The chart below lists Chinese foreign aid and investment projects in the four African states.

**Figure 8: Chinese Aid & Investment Projects in 4(+1) States that Recognise Taiwan**

Year	Country	Main Project	Amount
2008	Malawi	Lilongwe Science and Technology University	-
2008	Malawi	Fibre-optic communication project	\$22.94 million
2008	Malawi	Construction of the National Assembly	-
2008	Malawi	Chitipa-Karonga road	-
2008	Malawi	Humanitarian projects, health and agriculture	-
2007	Gambia	Sayang Mineral Extraction (Carnegie Minerals)	\$3.9 million (approx)
2006	Sao Tome & Principe	Sinopec oil rights exploration	\$71 million

China has also, through the Red Cross Society of China, previously delivered humanitarian assistance to Malawi during the 2002-3 famine in the country. As Malawi did not diplomatically recognise Beijing during that period, the PRC Government was unable to provide any official humanitarian assistance. China's Economic Counsellor to South Africa, Ling Guiru, purchased 100 tonnes of South African maize utilising the embassy's budget, and accompanied it to Malawi, where it was distributed under the auspices of the Red Cross Society of China due to the lack of formal relations between the two governments. This maize was classified as humanitarian assistance, funded out of PRC Government coffers.

Malawi severed diplomatic relations with Taiwan in early January 2008. The aid projects that China is now offering Malawi were proposed by the Malawian Government. In February this year, shortly after establishing diplomatic ties, the Malawian Government dispatched a delegation to Beijing to present the proposals for aid funding. A figure of US\$6 billion in aid and investment was mentioned in the press - a figure that is grossly exaggerated and quite possibly a mischievous figure circulated by the Taiwanese foreign ministry to create unrealistic expectations that Beijing will not be able to deliver upon.<sup>4</sup> The aid package presented by the Malawians to be funded by China is under negotiation at the time of writing.

Taiwan is thus less of a critical factor than before in Chinese foreign policy making and practice toward Africa. The possibility of resurgence in Taiwan's political fortunes in Africa is highly unlikely. Rather, we are likely to witness the further whittling of Taiwan's diplomatic presence on the continent over the medium term. The rising presence of China in the minds of African policy makers is resulting in increased influence. Whilst China's influence is waxing, Taiwan's must wane.

If the Taiwan factor is discounted in China's foreign policy toward the continent, it is being replaced by growing strategic competition between China and Japan. In similar fashion to the China-Taiwan rivalry, intra-regional Asian political issues will play themselves out in Africa. But the competition is not for recognition but rather strategic influence in the broader international community.

Japan's foreign policy toward Africa is centred on the disbursement of aid that has been rendered to all African states. Japan is considered a "traditional" donor in Africa and is now the second largest donor to the continent.

Sub-Saharan Africa is a conspicuous recipient of Japanese ODA as it serves to increase the visibility of Japan in the international arena. Seeking political support for a seat on a reformed Security Council within the United Nations, African backing is important toward this end. In the same manner in which China courted Africa to secure its UN Security Council seat, Japan's efforts are not too dissimilar, although far less obvious to the African observer. Aid is the common instrument in both foreign policy cases.

Japan's ODA is administered through the Tokyo International Conference on Aid and Development (TICAD) initiative. What is emerging is a silent strategic rivalry – with foreign aid an important component thereof – with Japanese apprehension over China's aid policies and questions arising over how this relates to Japan's existing aid distribution structures and political

relationships in the region. It is a premature exaggeration to create a FOCAC vs. TICAD analogy, but the trend of Japan's anxiety over China's engagement of Africa is already clear. Japan has replaced Taiwan in the Chinese policy-makers mind vis-à-vis its aid strategy in Africa.

Indeed, Japan's concerns can also be heard amongst other traditional donors from the West who are expressing concern over China's new approach to aid in Africa that seemingly includes a commercial component. This study must provide new insight into the subject and service this need for greater understanding of China's role as an emerging donor and aid policies in Africa. It is this desire for information and clarity by African and traditional donors alike that motivated this study. Despite the best efforts to focus aid on developmental outcomes, it appears that China's revitalised aid strategy in Africa is resulting in the re-politicisation of aid in Africa. The harmonisation of aid efforts by all donors – traditional and emerging – is advisable to avoid this potentially damaging trend.

#### 6.4 Conditionality

Respect for sovereignty and non-interference are two key phrases that have been repeated in China's rhetoric surrounding its aid disbursements to Africa. This rhetoric encourages the impression that China is not imposing its political views, ideals nor principles onto recipient countries. The fact that aid is bilaterally negotiated and recipient countries feel that they determine what projects are required in line with their national development priorities, this perpetuates the feeling of ownership of the aid process amongst African leaderships. Perceptions of the seemingly non-prescriptive nature of Chinese aid are complemented by the Chinese approach of underpinning aid with commercial incentives.

But the contours of this engagement are blurred when it comes to the issue of unconditional aid. At least in the case of the "One China" policy there are some political imperatives to the granting of aid.

According to China EXIM Bank the basic criteria for concessional loans is 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 percent of the procurement shall come from China"<sup>5</sup>. In the case of Angola, this figure was negotiated upwards to 70 percent.

Such arrangements are not entirely new, as other donors have engaged in similar structures. But by most standards, the official 50 percent tie to Chinese procurement can be considered generous.

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#### Endnotes

- 1 This section is based on Corkin, L., 2007, "'Angola Model' sets the trend for Chinese funding', *African Energy*, Issue 120 (5), September, pages 6-8; Burke, C. and Edinger, H., 2007, "AERC Scoping Studies on China-Africa Relations: A Research Report on Zimbabwe"; Draft, October.
- 2 This is in contrast to the US\$ 2.2 million loan from the National Bank of Paris that was oil-backed at a fixed price of approximately US\$25 per barrel.
- 3 These states are Burkina Faso, Gambia, Sao Tome & Principe, and Swaziland.
- 4 Conversation between the authors and a diplomat from the PRC's Ministry of Foreign Affairs.
- 5 Chinese EXIM Bank webpage.

## 7. China in Africa: Recommendations

It is evident that China's role in the development assistance arena has shifted the rules of the game. Other donors are beginning to contemplate the China factor in their development assistance policies with African countries.

In as much as the debate on China's aid policy has raised significant questions about how to interpret its relationship with African countries, and to what extent recipient countries are gleaning strategic benefits from China's development assistance, there is also a growing sense that China needs to be engaged so that a sustainable global aid environment can be achieved. The objective of this report is to provide new insights into the mechanisms of China's foreign aid policies and practice. But beyond this, it would be incomplete without extracting key lessons and making modest recommendations to all relevant stakeholders that are engaged in the process. These suggestions or recommendations fall into three categories: Recommendations for African countries; Recommendations for China; and Recommendations for Traditional Donors.

### 7.1 Recommendations for African countries

#### *(i) Gain an understanding of the Chinese approach to aid*

China clearly is adopting a different strategy toward aid provision in Africa – one that is inclusive of commercial ambitions. In order to better embrace this new approach, it is recommended that African Governments strive to gain a greater understanding of the dynamics affecting China's aid policy. This will enable recipient governments to better coordinate and shape their own agendas.

#### *(ii) Regional Economic Community Coordination*

It is apparent that whilst China has a long-term engagement strategy toward Africa, it is not reciprocal. When engaging FOCAC, African Governments need to be far more co-ordinated in their approach, with broader multilateral or regional avenues being advised. This would be best coordinated by the numerous Regional Economic Communities (RECs) across the continent. The RECs require more access to information related to China and experience in dealing with its institutions. Plugging China's foreign aid /commercial intent into planned developmental initiatives across regions would be a positive development.

#### *(iii) Poor coordination may lead to Chinese aid fatigue*

Though it may be premature to say, the medium-term possibility of Chinese aid fatigue exists. Better coordination on the African side will reduce the large number of requests for aid from

individual African states. If spin-off benefits on the commercial side do not accrue to China over this period, there is a possibility that Beijing will become more reluctant to sink funds into relatively minor projects that do not have a great developmental impact. The commercial component of Chinese foreign aid should therefore not necessarily be shunned by African states.

***(iv) Avoid dividing traditional & emerging donors***

African Governments must also avoid playing off traditional and emerging donors (i.e. China, or India) for cash in return for strategic influence. This is already becoming apparent when one hears quotes on the topic from numerous African politicians and local multilateral organisation representatives. This approach will serve no constructive purpose other than to further reduce prospects for development where it is needed most.

***(v) Strengthening the African Voice***

China and Africa have developed a strategic partnership, and it has emerged from the Chinese side that aid is based on needs and requests of African governments. Considering that Beijing, at least in principle, is open to the views from the African side, it will be useful for African governments to consider how to engage China in the joint assistance strategy group.

The role of African Governments must be emphasised in the process of donor harmonisation. As important stakeholders to the donor process, African Governments can use the leverage from their bilateral relations to encourage Chinese that being part of such groups enables greater ownership and promotes more alignment towards implementing the national development priorities. It will also be in the interest of African Governments to have more control over donor support than in a piecemeal fashion.

***(vi) Improving reporting mechanisms within recipient countries and improving aid monitoring***

The capacity of national governments appears to be weak in monitoring and regulating how much aid is being received from China. Improving the reporting capacity of national ministries is critical in developing greater accountability for this. From the in-market visits it was evident that a lack of information stemmed from the way in which power resided in the executive control of the President. This kind of state to state engagement perpetuates suspicion around the nature of China's aid engagements with recipient countries.

An AU FOCAC Secretariat may be crucial at the continental level. Even though China's aid is co-ordinated bilaterally, recipient countries seem to lack the necessary capacity to monitor this process. The bilateral co-operation desk in the Ministry of Finance within the three case studies noted that monitoring responsibilities resided with them. However the monitoring process of aid pledges made to African states through an agency such as the AU FOCAC Secretariat would facilitate this, allowing recipient countries to monitor the process and disseminate information to the AU.

***(vii) Improving Debt Reporting***

Debt reporting needs to be improved, specifically from the aid recipients. Weak reporting by recipient countries in the absence of comprehensive data on new debt means singling out China for being responsible for undermining debt relief efforts is unfounded. Borrowing countries must be urged to be more transparent in debt reporting and accurately reflect the new debt that they are accumulating. The Joint Bank-fund Debt Sustainability Framework provides for such reporting but the capacity in African countries in this regard must be strengthened.

Furthermore, focus needs to be placed on transparency of information and appealing to China that the value of such information is crucial for the long-term sustainability of debt management in Africa and Beijing's core policy in Africa, namely its desire to promote sustainable long-term development across the continent.

## **7.2 Recommendations for China**

### ***(i) Managing Aid Policy***

At present the management of China's aid programme resides with several actors with the State Council playing an oversight role. As much as the Department of Foreign Aid within the Ministry of Commerce (MOFCOM) appears to be the body that is in charge of the outward aid, it would seem that the functions of this body are based on responding to decisions made at the top. Developing an aid agency effectively co-ordinating China's outward aid would provide for a more effective and efficient programme. The agency can also become the platform for dialogue with other donors for the effective dissemination of information to relevant parties.

### ***(ii) Co-operation with traditional donors***

The MOU signed between China EXIM Bank and the World Bank is a positive development. Co-financing of an infrastructure project in a needy African state would go a long way in building trust between the respective donors in the African context. Such collaboration should be welcomed by the various Chinese institutions that are active in aid policy formulation and implementation thereof.

### ***(iii) Greater Transparency on Aid Figures and Loan Agreements***

It was apparent during the course of this research report that obtaining Chinese flow and stock figures on the topic is difficult. Why should this be? Publishing a formal definition of what constitutes aid by the Ministry of Commerce would be beneficial to academic bodies and interested stakeholders alike. A willingness to share information on aid commitments of all sorts to the African continent would assist in appeasing western concerns, however real or not, over China's aid policies in Africa. The common goal after all is the building of African institutions and uplifting the poor and vulnerable in African societies.

Greater transparency around the terms of concessional and other loans is required. This will not only diffuse political tension, but also improve the image of China within African countries, generating confidence internationally by providing a more apparent picture of China's development assistance policies in Africa.

#### ***(iv) Broadening the FOCAC constituency***

Until this time, FOCAC has provided a high level forum for Government and business. Consideration should be given by the PRC Ministry of Foreign Affairs along with African Governments for the inclusion of African civil society at summit events. These NGO communities may make a positive contribution toward Chinese aid policy and its implementation in Africa. A parallel session at future FOCAC summits would act to build closer institutional and people-to-people ties between Chinese and Africans, something that is lacking at present.

#### ***(v) Engaging African institutions***

As Africans themselves could be seeking to coordinate and harmonise inbound aid from China through their RECs, Beijing could proactively engage the regional secretariats and consult on the rollout of aid to their respective regions. After three FOCAC summits, relations remain predominantly bilateral and not multilateral.

### **7.3 Recommendations for Traditional Donors**

#### ***(i) Working toward constructive partnerships***

Building on the comments above around the China EXIM Bank World Bank MOU relationship, traditional donors should be active in engaging Chinese institutions. This will serve to diffuse potential suspicions that exist on both sides over the motivations of aid to Africa. Proposing projects for collaborative funding is also likely to be positively received in Beijing.

#### ***(ii) Donor Harmonisation***

Even though the DAC countries have moved to untied aid and restructuring of donor programmes towards budgetary support, there are several issues that indicate that traditional donors have not consolidated donor co-ordination amongst themselves. For instance amongst the DAC countries only Norway, Ireland and the UK have fully united their aid, while, a substantial portion of the donor contracts still flows back to host country firms. In this regard China's aid behaviour is not unique or exceptional.

While it is not explicitly purported by the Western discourse around policy reform, recent shifts in China's foreign policy behaviour indicate that these values are beginning to play a significant role. The appointment of a Special Envoy to Africa, the modification of Beijing's stance on the Darfur crisis in Sudan in terms of persuading Khartoum to allow the entry of a UN peacekeeping force, and the recent loan to the Khartoum Government for reparations to the Darfur people are clear signs that the non-interference policy is not as immutable as originally anticipated by foreign observers.

But, it is important for traditional development partners to bear in mind that such an engagement has to be facilitated at the state-to-state level before instructing country representative offices to initiate such dialogue with their Chinese counterparts. There are movements in this regard with donors like DFID and other like-minded partners working towards promoting a more positive engagement with China in African capitals. This was evident in the three case studies where

indications were that some form of dialogue has been initiated with the Chinese embassies.

***(iii) Strengthening Goal 8 of the MDGs: The Global Compact***

Donor co-ordination has important implications for Africa in meeting its MDGs and poverty reduction. Goal 8 of the MDGs is critical in realising the latter. China has indicated a willingness to pursue its donor strategies such as peacekeeping and other forms of disaster relief through the UN system. Developing a dialogue around the Global Compact provides an important platform for donor harmonisation with China. This was evident in President Hu's pledges at the Millennium Review Summit in 2005, which showed that China is closely aligning its financing for development to global initiatives.

***(ii) Avoiding politicisation***

Up until this point, there is an element of political suspicion around China's foreign aid engagement of the African continent. This is mostly absent in Africa but is prevalent amongst western states. The western media has for the most part, reported on the China-Africa dynamic in a negative manner. This has caused a great deal of resentment in Chinese Government circles.

The atmosphere is charged and is not conducive to the forging of trilateral Sino-African-Western partnerships around aid collaboration. All attempts to de-couple foreign policy agendas and matters pertaining to aid to African should be pursued. Progress toward this can only be made through ongoing dialogue and interaction between the respective stakeholders. Our observations lead us to be concerned over the enmity between the West and the East on these issues. However, we remain hopeful that African institutions themselves will not remain passive actors, but seek to bring both camps closer together for the common goal of the continent's development.

## Appendix I: FOCAC Commitments (2000, 2003, 2006)

### China's FOCAC Commitments (2000)

- Provide development assistance to African countries, focusing on the promotion of local industries, sourcing of local materials and the creation of employment. In such co-operation, the Chinese side considers accepting various forms of payment such as payment in kind, to ease African countries' financial burden and help increase their export to China.
- Support African countries in their economic and social development, by providing assistance within the framework of South-South co-operation. In the form of aid grants, concessional loans and interest-free loans.
- Establishment of a China-Africa Joint Business Council in co-ordination with the Chambers of Commerce of African countries which provides government support for investment by Chinese enterprises in African countries and establishes an array of economic partnerships.
- Establishment of a China-Africa Products Exhibition Center in China to promote two-way trade and facilitate access for African products to the Chinese market.
- Allocation of special funds to support and encourage investment by well-established Chinese enterprises in African countries to set up joint equity or co-operation projects adapted to local need in terms of job creation and transfer of technologies.
- Encouragement of well-established Chinese enterprises to participate in economic and infrastructure construction and development projects in African countries, by enhancing employment and training.
- Encourage investment in the development of tourism infrastructure and capacity, with specific focus on the development of small, micro and medium enterprises
- Set up of an African Human Resources Development Fund exclusively for African personnel training.
- Convocation of the China-Africa Forum on Traditional Medicine and adoption of the Plan of Action for the Cooperation of Traditional Medicine between China and African Countries.

### China's FOCAC Addis Ababa Action Plan (2004-2006) (FOCAC Commitments, 2003)

- Strengthen the capacity of African States to undertake Peace Keeping operations by supporting the areas of logistics. Provision of financial and material assistance as

- well as relevant training to the Peace and Security Council of the African Union.
- Support in priority sectors identified under the NEPAD, such as infrastructure development, prevention and treatment of communicable and infectious diseases (HIV/AIDS, malaria and tuberculosis, etc.) human resources development and agriculture.
  - Agricultural cooperation through a work plan on China-Africa agricultural cooperation (2004-2006), to bring support in such areas as land and water resource management, agro-infrastructure development, farming, breeding, aquaculture, food security, exchange and transfer of applied agricultural technology, skills transfer, technical assistance, manufacturing of farm machinery and processing of farm produce.
  - Further encouragement of Chinese enterprises to take an active part in Africa's infrastructure projects and expand cooperation in transportation, telecommunication, energy, water supply, electricity and other fields.
  - Grant of zero-tariff treatment to some commodities of African LDCs for access to Chinese market.
  - Establishment of a China-Africa Chamber of Industry and Commerce.
  - Grant of Approved Destination Status (ADS) to Mauritius, Zimbabwe, Tanzania, Kenya, Ethiopia, Seychelles, Tunisia, and Zambia, and further promise of ADS grant to other African countries.
  - Increase of China's financial contribution to the African Human Resources Development Fund for the training of up to 10,000 African personnel in different fields.
  - Enhance technical medicine exchanges in the prevention and control of HIV/AIDS, malaria, tuberculosis, SARS and Ebola.
  - Announcement of the annual international art festival "Meet in Beijing" to be held in 2004, featuring Africa and its arts.
  - Planning of a culture programme "Voyage of Chinese Culture to Africa" in 2004. Staging a Chinese Art Festival in Africa.
  - Announcement of the "China-Africa Youth Festival" to be celebrated in China in 2004, which would serve as a channel for collective dialogue and cooperation between Chinese and African youth organizations.

**China's FOCAC Action Plan Commitments (2007-2009)  
(FOCAC Commitments, 2006)**

- Send 100 senior Chinese agricultural experts to Africa and set up 10 agricultural demonstration sites in Africa.
- Set up a China-Africa Development Fund gradually amounting to \$5 billion to support "well-established and reputable" Chinese firms investing in Africa.
- Increase the number (from 190 to over 440) of items exported to China from the least developed countries in Africa that have diplomatic relations with China and are eligible for zero-tariff treatment.
- Double development assistance to Africa by 2009.
- Provide \$3 billion for preferential loans and \$2 billion for preferential export buyers' credit to African countries in the next three years.
- Cancel the interest-free government loans that were due by the end of 2005, for

African countries with diplomatic ties with China and are classified as heavily-indebted poor countries (HIPC) and/or least developed countries (LDCs).

- Train 15,000 professionals from African countries in the next three years.
- Set up 100 rural schools and double the number of scholarships for African student so 4,000.
- Build 10 hospitals and 30 anti-malaria clinics, while providing approximately \$37.5 million for the purchase of anti-malarial drugs.
- Send 300 Chinese young people to Africa over the next three years, under the Chinese Young Volunteers Serving Africa Programme, to support education, agriculture, sports and health-related programmes.
- Establish 3-5 Special economic zones across Africa.

## Appendix II: EXIM Bank and CADF Major projects in Africa (2000-2008)

This information was collated from various media reports, by the Centre for Chinese Studies.

Year	Country	Main Project	Amount	Type of Funding	Financier
2000	Congo	Cement	\$24.15 million	Concessional Loan	EXIM
2000	DRC	Telecommunications	\$9.66 million	Concessional Loan	EXIM
2000	Mali	Cement	\$18.12 million	Concessional Loan	EXIM
2000	Mauritius	Sewage	\$18.12 million	Concessional Loan	EXIM
2001	Sudan	Power	\$110 million	Loan	EXIM
2001	Zimbabwe	Infrastructure	\$7.45 million	Concessional Loan	EXIM
2002	Mauritius	Housing	\$12.07 million	Concessional Loan	EXIM
2002	Morocco	Dam Infrastructure	\$6.03 million	Concessional Loan	EXIM
2002	Sudan	Power	\$150 million	Loan	EXIM
2003	Congo	Dam Infrastructure	\$280 million	Concessional Loan	EXIM
2003	Djibouti	Telecommunications	\$12 million	Concessional Loan	EXIM
2003	Ethiopia	Dam Infrastructure	\$224 million (total)	Loan	EXIM
2003	Zambia	Dam Infrastructure	\$600 million	Concessional Loan	EXIM
2004	Angola	Transport Infrastructure	\$2 billion	Credit Line	EXIM
2004	Botswana	Housing	\$24.13 million	Concessional Loan	EXIM

2004	Sudan	Dam Infrastructure	\$1.8 billion	Loan	EXIM
2004	Togo	-	-	Concessional Loan	EXIM
2004	Tunisia	Telecommunications	\$16.89 million	Concessional Loan	EXIM
2005	Angola	Energy	\$1-3 billion	Loan	EXIM
2005	Botswana	Road	\$18.29 million	Concessional Loan	EXIM
2005	Egypt	Plant Repair & Conference Repair	\$16.3 million and \$ 20 million	Soft loans	EXIM
2005	Egypt	Textiles	\$15.85 million	Concessional Loan	EXIM
2005	Kenya	-	-	Concessional Loan	EXIM
2005/06	Mozambique	Dam & Plant Infrastructure	\$2.3 billion	Loan	EXIM
2005/06	Mozambique	Dam Infrastructure	\$300 million	Loan	EXIM
2005	Namibia	Transport	N\$204 million	Loan	EXIM
2005	Togo	-	-	Concessional Loan	EXIM
2006	Benin	Economic and technological cooperation	-	Concessional Loan	EXIM
2006	Cameroon	Military	\$1.1 billion	Material Assistance	EXIM
2006	DRC	-	-	Concessional Loan	EXIM
2006	Eritrea	Telecommunications	\$20.80 million	Concessional Loan	EXIM
2006	Kenya	Electricity	\$20.17 million	Concessional Loan	EXIM
2006	Kenya	Telecommunications	\$29.94 million	Concessional Loan	EXIM
2006	Nigeria	Dam & Power Infrastructure	\$2.5 billion	Loan	EXIM
2006	Tunisia	Telecommunications	\$6.26 million	Concessional Loan	EXIM
2006	Zambia	Tanzania-Zambia Railway	-	Concessional Loan	EXIM
2006	Zimbabwe	Agricultural Equipment	\$25.06 million	Loan	EXIM
2007	Angola	Safe drinking water project	\$230 Million	Concessional Loan	EXIM

2007	DRC	Infrastructure & Mining	\$8.5 billion	Loan	EXIM
2007	Eritrea	Mining	\$60 million	Loan	EXIM
2007	Eritrea	Cement	\$45.28 million	Concessional Loan	EXIM
2007	Ethiopia	Hydropower/Irrigation and Expansion of Cement factory	\$208 million	Concessional Loan	EXIM
2007	Ghana	Dam Infrastructure	\$292 million (total committed over \$600 million)	Export Credits	EXIM
2007	Ghana	Power	\$137.2 million (total cost)		CADF
2007	Mozambique	Infrastructure	\$40 million	Soft loan	EXIM
2007	Namibia	Electronics	N\$1 billion	Concessional Loan	EXIM
2007	Nigeria	Communications & Education Programme	\$100 million	Loan	EXIM
2007	Uganda	ICT Backbone	\$106 million	Loan	EXIM
2007	Zambia	Plant Infrastructure	\$206.55 million	Loan	EXIM
2007	Zimbabwe	Agriculture	\$200 million	Buyer's Credit	EXIM
2008	DRC	Fiber Optic	\$33.6 million	Preferential Loan	EXIM
2008	Ethiopia	Glass Factory	Part of a \$90 million contribution to projects in 3 African Countries		CADF
2008	Zimbabwe	Mining	Part of a \$90 million contribution to projects in 3 African Countries		CADF

## Profile of the Centre for Chinese Studies, University of Stellenbosch

The Centre for Chinese Studies (CCS) is the first institution devoted to the study of China on the African continent. The CCS promotes the exchange of knowledge, ideas and experiences between China and Africa. As Africa's interaction with China increases, the need for greater analysis and understanding between our two regions and peoples grows. The Centre seeks to fulfill this role.

Housed at Stellenbosch University in the Western Cape Province, the CCS is a joint undertaking between the Governments of South Africa and the People's Republic of China having been agreed to at the South Africa-PRC Bi-national Commission held in June 2004. The Centre conducts analysis of China-related research to stakeholders in Government, business, academia and NGO communities. We are also active delivering lectures to academic and business audiences at both locally and internationally.

The Centre is active in delivering business strategy content to academic and business audiences at the Graduate School of Business at Stellenbosch University, as well as private sector corporates.

The CCS hosts visiting academics and Government officials within the China Forum that provides a platform for discussion and debate on China-Africa related subjects. China Forum events are often hosted in collaboration with other institutions.

The CCS has co-operative linkages with key Chinese and African universities and institutions pursuing both research collaboration and exchange undertakings.

The Centre for Chinese Studies is also home to the Confucius Institute, the first of its kind in South Africa. Through the Confucius Institute, the CCS is projecting Chinese language and cultural studies in the Africa region. The CCS thus serves as the foremost knowledge bridge between China and the African continent.

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