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# Ties between business and aid programs in Africa

## A comparative analysis between the European and the Chinese cases

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## Acronyms:

ACP African, Caribbean and Pacific Group of States
AGOA US African Growth and Opportunity Act
CAR Central African Republic
CADF China-Africa Development Found
CAFTA + D: Central American Free Trade Agreement + Dominican Republic
CDB China Development Bank
CPC Communist Party of China
DAC Development Assistance Committee
DAFC Department of Aid to Foreign Countries
DFID Department for International Development
DRC Democratic Republic of Congo
EBA EU's Everything But Arms Initiative
ECA Export Credit Agency
EEC European Economic Community
EPA EU's Economic Partnership Agreement
EXIM Bank Export-Import Bank of China
FDI Foreign direct investments
FOCAC China-Africa cooperation Forum
GDP Gross Domestic Product
IMF international monetary Found
ISI Import Substitution Industrialization
LDC Least developed country
MNE Multinational Enterprise
MOFA Ministry of Foreign Affairs
MOFCOM Ministry of Commerce
NAFTA North African Free trade Agreement
NGO non Governmental Organization
ODA Official development assistance
OECD Organization for Economic Cooperation and Development
OFDI Outward Foreign Direct investment
OPEC Organization of the Petroleum Exporting Countries
PRC People Republic of Chine
SAR South African Republic
SASAC State-owned Assets Supervision and Administration Commission
SME Small medium Enterprises
SOE State Owned Enterprise
WB World Bank
WTO World Trade Organization

# Introduction

The goal of this paper is to compare ties between business and aid development programs in Africa for European and Chinese firms.
The first part of the paper will analyze the different links that have emerged between the various organizations in charge of aid and development on the African continent and the European investors and traders operating in Africa since the independence waves of the 1950s and 1960s. It will outline the different nature of the links between business and these various programs. It will show that many of these programs, but not all, aimed at maintaining pre-existent bilateral trade and investment links between former African colonies and firms from the former colonial powers. The paper will also assess which types of aid programs have been more state-driven or which ones have been more business-driven and how the system evolved from 1960s until nowadays.
The second part of the paper will look into the penetration of Chinese business in Africa and its ties with respective aid programs. It will show that Chinese commercial and investment penetration in Africa is more state-driven than business driven. The paper will outline that the Chinese government pursues active development programs which are closely linked with Chinese multinational enterprises (MNEs) expansion in Africa. Most Chinese MNEs are often indirectly state-controlled and their development is submitted to the long-term strategy of the Chinese government. This state-driven pattern is due to the relative weaknesses of Chinese MNEs in terms of intangible assets compared to global competitors from the most developed economies but also to the need of Chinese MNEs to overcome the incumbent position of European MNEs in African economies, position that has been built on special links with local and regional governance structures.
Finally, the last part of the paper offers a comparison of the Chinese and the European case and draws some final conclusions concerning the new room for maneuver that the Chinese business penetration and the Chinese tied aid programs give to African governments.

A comparison between Chinese and European Foreign Direct Investment (FDI) and aid flows to Africa is a difficult exercise. Firstly, China and the EU have different systems of official classification and statistics. This reflects the historical ideological difference between the Communist Party of China (CPC) and the EU, especially regarding development programs and their aims. As China continues to open up to the global capitalist economy and joins multilateral pro-market institutions like the World Bank, the IMF and the WTO, these divergences are progressively being eroded. Nevertheless, substantial differences remain as it will be outlined in depth in the second part of this paper.
Secondly, the creation of the European Economic Community has led to a complex system of European aid programs which are parallel to member states aid programs. The most important aid programs in terms of funds have always been those controlled by individual member states but substantial programs became organized under supranational control. The business ties between these national and supranational programs are different. Member states aid programs and their links with business have been mainly determined by the existing colonial business structure until the end of the Cold War. Over the years, the European supranational aid programs progressively pursued a more horizontal approach with less direct vertical links with specific business and industries, creating a highly complex and heterogeneous European aid system.

# Part I: The links between European aid and business in Africa

## European aid as a mean to maintain the existing colonial trade flows and investments: the part IV of the Treaty of Rome and the Yaoundé convention

European aid programs, both national and supranational, were originally designed to maintain existing trade and business links between the former European colonial powers and their colonies. At the EEC supranational level, this was a source of tension between the Members states which still had colonies, i.e. France and Belgium, and the Netherlands and Germany who opposed them.[1] France put the colonial issue at the end the negotiations of the Treaty of Rome, threatening to withdraw if the other member states did not follow its proposition regarding former colonies. A fourth part was then included in the Treaty of Rome to enable colonial powers to maintain their privileged colonial links.[2]

At the time of these negotiations, French governments were fully aware of the political necessity to disengage from Sub-Saharan Africa. The colonial war in Indochina had consumed amounts as great as the funds received by France in the framework of the Marshall Plan and resulted in the humiliating defeat of the Dien Bien Phu and in strong domestic opposition to war. Another wave of open colonial repression, as in the Algerian Constantinois in 1945 or in Madagascar in 1947, was not seen as an acceptable option. Not only because of its domestic economic and political costs, but also because of the fading US supports to colonial military interventions.[3] The US intervention in the Suez Canal war of 1956 clearly showed that open colonial military interventions were no longer an option for the colonial powers. At the same time, French colonies became economically less important. They had been a decisive outlet and a source of raw material and food for France in the aftermath of the WWII, when Europe was still facing rationing, "dollar gap" problems (France, like other European countries, faced important trade deficit and lacked hard foreign currencies) and open protectionism, which limited the French industry's access to other European markets. By the 1950s European economic growth resumed, accelerated by the US interventions which provided Western Europe with financial and technology transfers and which enabled Europe to break away from national protectionist neo-mercantilist policies. France's neighbors became increasingly important trading partners as the expense of the colonies.

By 1957, the French colonial lobby was seriously weakened and most of the France political establishment was ready to let go the colonies, apart from Algeria. Nevertheless, important economic ties still existed. For French national champions in the agribusiness, like Lesieur, or in energy and raw materials, like *Compagnie Française des Pétroles* (the future Total), the French colonies were still perceived as a key source of raw materials.[4] Furthermore, France was backed by Belgium, which at that time still considered that the gradual decolonization process would not be fully completed before the 1980s. Moreover, the largest Belgian firm, the *Société Générale de Belgique*, had substantial interests in Congolese mining industry.[5] Apart from these large companies, who had made resources-seeking investments during the colonial era, many French SMEs were also involved in the production and trade of local commodities. There were also market-seeking investors, mainly in services and utilities and, to a lesser extent, in manufactured goods (notably defense and automotive). Their presence in Africa was marginal but helped to

[1] Holland, 2002: 26
[2] Mayall, 2005: 296
[3] Fontaine, 1983
[4] Mandel, 1964
[5] Van Temsche 2007 & Renton, 2007

increase production levels in order to benefit from economies of scale *vis-à-vis* European and American competitors. The French and the Belgian therefore managed to impose a preferential trade regime for their former African colonies.
In 1963, the privileged relationship was organized in a new framework, the Yaoundé convention. The Yaoundé framework created a reciprocal free trade agreement that ensured access to raw materials and local markets for those European firms which had been traditional traders and investors in the African colonies. European aid programs, like Stabex and Sysmin, aimed at lowering the variance of the African export revenues through funds that would guarantee minimum price for mining and agricultural exports from the Lome convention. This latter is the convention that replaced the Yaoundé convention, after the UK joined the EEC and Commonwealth African states were included in the preference system. Naturally this framework, financed by the EEC member states, also generated a more predictable environment for resource-seeking European private investors.
A European Development Fund (EDF) was created in 1958, mainly in order to promote infrastructure projects in the French speaking African countries[6]. The EDF was later extended to finance Stabex and Sysmin programs. Although labeled "European", its decision process was inter-governmental. Funds were provided by member States (and not by the Commission) while unanimity was needed to organize the distribution of the funds. The EDF constituted the bulk of the funds given to African economies in the Yaoundé and then in the Lome conventions. The other funds were controlled directly by the Commission but they were mainly directed to non ACP developing countries.[7] So the bulk of supranational European aid to Africa was still very much determined by the governments of the European member states.
European funds naturally rose with the succeeding accessions of new Member states, most notably of Great Britain in 1973, which became one of the main financer of the European programs. Nevertheless, European supranational programs did not constitute the majority of aid funds from Europe directed to the newly independent African countries. Bilateral aid programs between individual member states and individual African countries were always more important in terms of budget.[8] Bilateral aid programs were mainly composed of tied aid programs, especially among the small or least developed EEC member states.[9] Bilateral aid programs were often linked to the development of infrastructure projects. In the 1960s, these projects were closely linked to the activities of European MNEs operating in the mining and agricultural sectors. These aid programs were another mean to provide the necessary funds in order to ensure a good environment for the investors of the former colonial power. Non African investors remained dominant, controlling 70% of the stock capital invested in processing industries in 1970.[10] These former European colonies in Africa often also received soft loans or export credits to acquire military equipments.

## The rise of economic nationalism in the 1970s and its effects on European aid and investment flows to Africa

By the mid 1970s, the situation changed with the improvement of the bargaining position of developing countries. The post-1973 economic slowdown and the monetary crisis caused by the collapse of the Breton Woods system generated a slowdown of investments in Western

[6] Nixson, 2007:341
[7] Matthews, 2007: 503
[8] *Ibidem*
[9] Nixson, 2007:334
[10] Hugon, 2009: 19

economies. The financial speculative flows directed to the euro-currencies market and the explosion of petrodollars generated massive excess liquidities on international financial market. International borrowing therefore became extremely cheap, with negative real interest rate at the end of the 1970s.[11] In parallel, the OPEC decision, tacitly endorsed by the Oil Majors, to triple the oil price, combined with the rise of the prices of some other raw materials, strengthened the export revenues of developing countries. Some analysts used the expression "commodity power" to describe this new situation.[12] At the same time, Western military power was directly challenged in different parts of the world, most notably in Vietnam. Several developing countries called for a "new economic order" at the United Nations meeting in 1974.[13]

Many among them began to pursue import substitution industrialization policies (ISI) and to control their own natural resources by nationalizing subsidiaries of multinational enterprises (MNE).[14] The 1970s witnessed an increasing level of state interventionism in African economies. Cocoa production was nationalized in some countries, like Ivory Coast or Ghana.[15] The assets of the *Union Minière of the Société Générale de Belgique* were nationalized by Mobutu in 1973.[16] These changes affected the links between European aid and business in Africa in different ways.

Firstly, in order to pursue ISI, African governments tried to protect their infant industries. This was reflected in the Lome convention where African countries, regrouped with Caribbean and some small Pacific island economies into the ACP group, were able to negotiate a unilateral preferential trade agreement. In the new Lome system, the EEC market was open to many ACP exports while ACP countries could maintain strong protectionist measures. ISI meant that some European MNEs were deterred to invest in Africa. Net FDI flows stagnated of fell during that decade. The level of MNEs activities varied across different African economies. In some countries which held strategic energy sources, like Gabon or Nigeria, European MNEs maintained subsidiaries, sometimes forced into joint-venture with local, mostly state-owned, companies. Many African governments, trying to develop a national infant industries and infrastructures, nationalized existing production facilities or they bought turnkey factories and utilities from OECD economies.[17] Most of these purchases were combined with bilateral tied aid programs from EU member states, often from the former colonial power.

The turnkey factories or the infrastructures build by Western companies were often highly capital intensive with a degree of technology that was not consistent with the limited pool of qualified labor force that characterized almost all African economies. This meant that long term technical assistance was necessary and this was also linked to bilateral aid programs. Given the absence of well established industrial structures and of an experienced entrepreneurial class, these projects were rarely efficient. Since aid was tied, they often became an opportunity for European MNEs to generate additional modest captive overseas markets. At the same time, local elites were allowed to strengthen their networks of cronyism through the overstaffing of state-owned infant industries. These costly projects often simply resulted in the embezzlement of more aid funds. Many European tied aid programs generated the notorious "white elephants". For example, the construction of the Zairian Inga dam and hydroelectric power plant on the Congo River in the 1970s was partly financed through aid funds (under the form of soft loans). It was built by a Western consortium composed of Belgian, French, German, Swiss, Italian and US companies.[18] It

[11] Kolko, 1987
[12] Idem
[13] Bairoch, 1997: 675
[14] Oman, 1994
[15] Laven 2008
[16] Braeckman, 1992
[17] Hugon, 2009:19 & Dubresson, 2007: 18
[18] Braeckman 1992: 225

supply capacity was enough to satisfy the electricity needs of the Zairian economy as well as of its neighbors. However, due to the absence of a regional grid system, the poor development of the national grid and the high cost of maintenance, the power plant functioned on average at one percent of its capacity, therefore generating regular losses.[19] However, many specialists of the Congo-Zaire history claim that the president for life Mobutu was able to embezzle substantial funds on this project. In Cameroon, Sylvie Brunel has outlined the case of a state of the art new hospital built by French firms within the framework of bilateral French aid programs whose operating cost was too high to be affordable for local patients. After only few years of permanent deficit, most of the medical equipment had then been sold on the black market, preventing the proper functioning of the hospital.[20] Even more shocking was the construction of the cathedral of Yamassoukro in Ivory Coast. President for life Félix Houphouët Boigny decided to build a cathedral in his hometown.[21] The sumptuary project was completed by the French construction company Bouygues using French ODA.[22] So developed was this corrupted system that a specific regulation of the French fiscal law was enacted to enable French exporters to deduce the corruption fees paid to local officials on such development projects.

## The debt crisis, the marginalization of Africa and the evolution of European aid programs in the 1990s and 2000s

The debt crisis that hit African economies after the sudden rise of interest rates between 1979 and 1981 had a profound effect on development and industrial policies. Firstly, state expenditures were drastically reduced as African economies followed structural adjustment policies to pay back their debts. The fall of commodity prices combined with the dramatic reduction of public expenditures, repetitive devaluations and the rise in interest rates, generated unstable macroeconomic conditions and a decade of low growth.[23] The deterioration of African economies of the reduction of public expenditures weakened considerably the state apparatus and their legitimacy.[24] In the worst cases, this led to a total disintegration of the state like in Somalia, Sierra Leone or Zaire. In others cases, government reinforced extreme ethnical or/and nationalist populism. The most notorious case has been the *Hutu power* movement, responsible for the Rwandan genocide and for the extension of the Rwandan conflict to Congo. Other examples include Zimbabwe sudden nationalism or the campaign on *"ivoirité"* against Burkinabe minorities supported by Gbagbo's government in Ivory Coast. Apart from the tragic human cost, the "chaos" of these two decades, combined with the lowering of government expenditures, caused an important degradation of transport and energy infrastructures. Even mining and manufacturing productions were strongly affected by looting and destruction in many African economies.
During the 1980s and 1990s, the structural adjustment programs of the IMF, in order to reduce public expenditures, requested the phasing out or privatization of many unprofitable ISI great schemes. The privatization programs rarely involved local entrepreneurs since they did not have sufficient funds to invest in these capital intensive enterprises.[25] The structural adjustment programs considered the opening of the economies to international trade and investment flows as a necessary mean to generate export revenues in order to pay back the debt. However, the high

[19] Braeckman, 1992
[20] Brunel, 1993
[21] Idem
[22] Verschave, 2000
[23] Bairoch, 1997
[24] Dubresson, 2007: 34
[25] Brunel 2004 & Fernandez Jilberto, 2007

level of macroeconomic and political instability, combined with the deterioration of the infrastructures, meant that major MNEs did not consider Africa as holding location-specific advantages. Moreover, other developing countries, with better macroeconomic fundamentals, better infrastructures and greater political stability had opened themselves to trade and investments in the 1980s.

For European MNEs, Africa therefore presented limited investment potentials. The share of EU FDI directed to Africa was continuously eroded in the 1980s and 1990s. The share of African economies in world economy continued to shrink. The share of trade with Africa in the total trade flow of the EU fell by 50% between 1970 and 2008.[26] European and OECD MNEs concentrated on other emerging economies. In 2004, Africa received only 2% of the world FDI flows, and these were mainly directed to South Africa and Northern Africa. In the 1990s and 2000s European MNEs prioritized efficiency-seeking and market-seeking investments in Eastern European transition economies, in East Asian tigers and in China (and, to a lesser extent, to Latin America, especially if considering Spanish MNEs).[27]

European ODA flows decline in terms of share of GDP in the 1980s and 1990s can be partly due to the macroeconomic budget constraints in Western European country after 1973 as well as to the growing skepticism regarding development aid and the change of the geopolitical context after the end of the cold war. In the 1990s and early 2000s Eastern Europe became the main recipient of European aids (although not always accounted as ODA) thanks to pre-accession programs. This aid was clearly enabled Western firms to improve the regionalization of their production process across Europe, taking advantage of the factorial endowments of Eastern European countries (cheap and relatively qualified labor-force).[28] Investments in transport infrastructure, in energy production and distribution, in telecommunications and in local administration (modernization in order to empower local administration to enforce the *acquis communautaire*) reduced considerably various bottlenecks that disrupted the organization of the production process at the regional level. This process is similar to that taking place in America with the creation of NAFTA and then CAFTA+D or in East Asia with the so-called "flying geese pattern" leaded by Japan.[29] Africa was not involved in the spatial reorganization of the production process of European MNEs (only Morocco and Tunisia have been involved to a marginal extent in specific industries like textile, call centers and automotive). In this context, few European MNEs were interested in EU aid development programs directly linked with foreign investment in Africa, even among former colonizing powers.

At the supranational level, aid programs experienced an evolution due not only to the waning of European MNEs interest regarding Africa, but also to the evolution of the geopolitical context and the strengthening of European supranational institutions. With the collapse of the so-called "Soviet bloc" and the end of the cold war, the support to pro-western corrupted and authoritarian regimes could not remain unconditional.[30] The white elephants scandals generated more suspicion on large infrastructural projects at the European level, especially among member states with no colonial background. OECD and EU ODA flows fell in real terms from 1990 until 2002[31] and 50% of the EU ODA continued to be directed to Africa.[32]

[26] Hugon, 2009: 46
[27] Holland, 2000; Berend, 2009 & Irela 1996
[28] Berend, 2009, Defraigne 2004, Dicken, 2007 & El Mouhoud, 2007
[29] Defraigne, 2009
[30] Moyo, 2009: 25
[31] Hugon, 2009:50 Moyo, 2009: 25 and Nixson, 2007: 332
[32] Matthews, 2007: 508

The focus of European aid became more social and even more horizontal: poverty alleviation, access to social services and education, gender equality, microcredit.[33] By 2005, EU supranational aid devoted to economic infrastructures and production activities amounted to 22% against more than the double (45%) for the social sector.[34]

The reinforcement of supranational institutions regarding external economic relations, mainly trade, also favored new approaches, which were more autonomous from the interest of the specific member states. After the completion of the Uruguay round and the creation of the WTO, DG trade was considerably reinforced *vis-à-vis* Member states.[35] A stronger priority was given to multilateral commitments made at the supranational level and DG trade influence outweighed that of the DG in charge of development.[36] When the WTO questioned the conformity of the unilateral system of preference to the ACP countries of the Lome convention, the Commission did not hesitate to take the opportunity to renegotiate with the 78 countries.

The Cotonou agreement signed in 2000 switched back to reciprocal trade with ACP countries and it adopted WTO compatible Economic Partnership Agreements (EPAs). The EU also wanted to negotiate EPAs by regions, dividing the ACP countries into six regional groups (four for the African continents).[37] The European Union insisted that these groups should achieve a certain degree of economic integration by removing intraregional barriers to trade and investment and by developing regional infrastructure networks. Despite their reluctance to give up the ACP framework, African economies had little choice given their economic situation. The debt crisis had made them more vulnerable and dependent on aid, especially in the form of debt cancellations which had come to constitute the most important source of aid.[38]

The economic rationale behind the EU support for sub-continental regional integration processes in Africa was clearly linked to the needs of European MNEs. The Commission considered the ISI as a failure and expressed the need for Africa to be inserted in the economic globalization process. To avoid economic isolation, African economies would have to attract more FDI flows. Good governance was perceived as a necessary step to improve business conditions but the main problem was the small size of African domestic markets. By the early 2000s, the combined GDP of all Sub-Sahara African countries amounted to the GDP of the Netherlands, while an average African economy had roughly the size of a 60,000 French town, which makes impossible to be operated at the minimum efficient scale in capital-intensive industries.[39] Various obstacles seriously hindered intraregional trade as well as the capacity of MNEs to regionalize their production processes across different African economies: intraregional domestic tariffs and technical barriers, national infrastructure with limited or almost non existing regional connections.[40] By supporting regional integration, the EU wanted to generate the necessary conditions to enable European MNEs to organize more efficiently their African production and distribution facilities in manufacturing but also in utilities and services.

New EU aid programs were designed to facilitate African integration processes within the framework of the new Cotonou agreement. However, after a decade, only one interregional EPA has been concluded and regional integration processes did not make significant progress. Many factors can explain these difficulties. Firstly, smaller economies fear to suffer net welfare losses in the case of a regional integration including a more advanced or larger economy, like South Africa

[33] Moyo 2009
[34] Matthews, 2007: 510
[35] Meunier & Nicolaïdis, 2005: pp250-251
[36] Elgström, 2008: 11
[37] Tennier, 2009
[38] Hugon, 2009:50
[39] Tennier, 2009
[40] Idem

or Nigeria. Even when the regional integration process is expected generate net welfare gains, protected rent-seekers strongly linked to the domestic government, lobby against the lifting of intraregional trade barriers. Officials and civil servants fear of losing control on aid funds, if these are organized at the regional level, also obstacles the devolution of power at the supranational level.[41]

Bilateral aid programs have not been not fundamentally modified but they have been reduced in scope. Since the end of the cold war, both bilateral and EU aid programs put a stronger emphasis on conditionality in terms of human rights and good governance. Nevertheless, one can remain skeptical about its application by some Member states. French support for the *Hutu power* government party MNRP did not wane from early 1990s to operation Turquoise, and until at the end of the genocide and even after.[42] French continued to support Mobutu until its removal by Rwandan backed military forces in 1997. Denis Sassou-Ngesso of Congo-Brazzaville is still supported by the French government.[43] European and Belgian aid programs have show flexibility in dealing with the DRC government in the 2000s. The succession of dictator for life Eyadema in Togo or Omar Bongo in Gabon has shown the flexibility regarding the enforcement of the governance conditionality with regard to bilateral and European aid programs. Some analysts claim that the old system of the white elephants and the *Françafrique* continues to prevail and that conditionality is mostly window dressing, aimed at improving Europe's image in the eyes of European public opinions.[44]

As one can see from the previous analysis, EU aid programs have been closely linked to European business interests in the 1960s and 1970s, especially considering bilateral aid programs of some member states, particularly (but not only) the former colonial powers in Africa. These programs were aimed at maintaining the existing economic links between the colonial powers and their former colonies. With the collapse of the African economies and state apparatus that took place in the 1980s and 1990s, Africa was marginalized and it was no longer a priority for European business. Supranational EU aid programs became less closely linked to specific industries and European MNEs. The European development policy became more horizontal, targeting the entire economy, than vertical, targeting a specific industry. EU aid and development policies still indirectly supported European MNEs development in Africa as they were partly focused on promoting regional integration, which enables EU MNEs to operate more efficiently across African regions. Nevertheless, some member states' bilateral programs maintained most of the traditional features of the 1960s and 1970s, notably privileged links benefiting MNEs originating from the donor country. These bilateral programs are much less scrutinized by supranational or multilateral institutions regarding conditionality on good governance and human rights. Many of the European aid programs have then been designed in order to maintain European business in its position of historical incumbent on African markets. After this historical survey of EU aid and FDI flows to Africa, it is necessary to turn the newcomer to Africa, China, in order to look into the links between aid and FDI flows and compare their interactions with the European case.

# Part II China's aid system as reflecting the drivers of China's increasing presence on the African continent.

[41] Interview 1, 2007
[42] Glucksmann, 2007
[43] Koula, 2006
[44] Verschaeve 2000

This chapter will investigate the drivers of Chinese aid to African countries and how they translate in several peculiar instruments and structures of Chinese aid. Before entering this discussion, some remarks are to be made with regard to obstacles encountered when researching Chinese aid system.

## Obstacles encountered when researching Chinese aid system

Our analysis of China aid and economic cooperation system is mainly base on qualitative analysis, due to the limited amount of quantitative data at our disposal. Annual and disaggregate aid data by countries and sectors are in fact not made public. Several explanations for this lack of transparency have been put forward by Chinese and Western scholars.[45] The first, far less convincing reason is that it would be rude to disclose the amount of aid, since it is a gift from the Chinese government to the African countries. However, the same reasoning often does not apply to figures concerning the amount of debt forgiven. Another explanation is that the Chinese government does not want to make public the fact that it gives sensible different amounts of aid to different recipient countries, with the tendency of refocusing economic cooperation on resource-rich countries, as Chaponnière's estimates, although still imperfect, show.[46] Besides that, the Chinese government might fear the reaction of the Chinese domestic public opinion, which might demand to rather employ these financial resources to fight poverty within China.
Moreover, it is difficult to make distinctions between Chinese aid and other economic cooperation instruments. This is for two main raisons. First of all, Chine aid, as we will see, is part of a larger system of economic cooperation with developing countries, which includes diversified instruments. Secondly, the Chinese administration has not elaborated a clear definition of aid and therefore not all Chinese aid qualify as official development aid (ODA) according to DAC-OECD[47] guidelines. This will be further analyzed in the following paragraphs. Here we only want to underline that the discrepancies between the Chinese aid accounting system and international accounting standards might be one of the reasons of the lack of clarity concerning Chinese aid structures, leading to overestimations of Chinese aid and misunderstandings regarding Chinese aid practices.
Other two elements put forward by Hubbard are specifically referred to the concessional loans of the Export-Import Bank of China (EXIM Bank).[48] The lack of transparency concerning the terms of lending might be intended to protect the commercial confidentiality of Chinese firms. Less convincingly, Hubbard also assumes that Chinese concessional loans do not technically qualify as ODA and that the Chinese government is then interested in maintaining a certain ambiguity concerning the terms of loans, in an attempt to improve its image as an aid donor. It is however true that this same ambiguity is damaging its reputation and raising suspicion among traditional donors.
The rapid development and evolution of China's aid and economic cooperation system has not been balanced by a sufficiently increased number of officials working in the numerous agencies involved. Understaffing problems, along with the growing complexity of the system, might prevent

[45] Lancaster C., "The Chinese Aid System", *Center For Global Development Essay*, 06/2007, Http://www.cgdev.org,p.2, Davies P., "China And The End Of Poverty In Africa: Towards Mutual Benefit?", *Diakonia Eurodad*, 2007, p. 49 Et Ss.
[46] Chaponniere J.R., "Chinese Aid To Africa, Origins, Forms And Issues", in Van Dijk, "The New Presence Of China In Africa", Amsterdam University Press, 2009, p. 15. Despite being an interesting attempt to shed light on major destination of Chinese economic cooperation in Africa, these estimates do not tell us where "real aid" is primarily channeled.
[47] Development Assistance Committee of the Organization for Economic Cooperation and Development
[48] cf. infra for a description of this specific instrument.

the Chinese government from providing comprehensive and reliable aid data. Communication between different administration branches is weak and aid disbursements tackling is not reliable, even more when considering aid programs of provincial governments. Even available data should therefore be treated with caution. Some values could result inflated, since they include pledges which may not have been fulfilled or projects that have been subsequently cancelled. Some projects to be realized over several years may have been counted more than once. In other cases, projects and disbursements may have been underreported or not reported at all.[49] Furthermore, Zhang states that Chinese aid figures do not include debt relief, unlike DAC donors' reported ODA.[50] Military aid would qualify as development aid in the Chinese statistics while not necessarily in the OECD-DAC nomenclature.[51] Wang also underlines how complex might be to estimate the value of in-kind aid and of technical and cooperation assistance, due to the difficulty of pricing Chinese labor in Africa.[52]

After this brief description of the numerous difficulties encountered in analyzing the Chinese aid system, we will now focus our attention on the evolution of the Chinese aid system over the last decades.

# Evolution of the Chinese aid system

The Chinese aid system, particularly during the last two decades, has undergone an incredible transformation. New instruments have been introduced, a larger number of organisms has been involved and the complexity of the whole system is constantly growing. This paragraph draws a brief history of the evolution of the Chinese aid system, and it shows that it reflects a shift of goals and drivers, as well as the renovated and expanding engagement of a rising actor at the global level. This transformation is not yet completely consolidated. As we have seen, Chinese aid system still suffers from lack of inter-agency communication and understaffing. According to Lancaster, officials for the Ministry of Commerce (MOFCOM) recognize the need to develop some sort of evaluation system and they are engaged in various dialogues with other lending institutions and actors.[53] Further reforms then cannot be excluded. On one side China, as an emerging donor and a newcomer of the global aid system, still lacks full understanding of international standardized aid practices and mechanisms. On the other side, Beijing is trying to elaborate its own original aid practices, according to its specific goals and political structures and its previous experience as a recipient country.

## Lasting principles and first transformations

Early examples of Chinese aid programs were much limited in scope and primarily responded to political imperatives. Aid was channeled towards African countries governed by politically affine socialist leaders but, most and foremost, to countries which recognized the PRC instead of Taiwan. Ghana, Congo-Brazzaville, the Central African Republic, Kenya, Somalia and Tanzania were among the first African countries to establish diplomatic ties with the PRC. The establishment of

[49] Lum T. *et al.*, "China's Foreign Aid Activities In Africa, Latin America And Southeast Asia", 02/2009, CSR Report For Congress, p.3 and OECD, "OECD Investment Policy Reviews: China" 2008, p. 36
[50] Xinghui,Z., "China's Aid to Africa: Challenge to the EU", paper presented at the Conference on "The EU and China: Pa rtners or Competitors in Africa?" organized by the College of Europe Bruges- Belgium - 4/5-02-2010, p. 9
[51] Brautigam D., "The Dragon's Gift", Oxford, 2009, P. 166
[52] Wang, J.-Y.,2007, "What Drives China's Growing Role In Africa?", *IMF Working Paper*, WP/07/211
[53] Lancaster *op.cit.*

diplomatic relations was usually followed by the signature of a zero-interest loan agreement. In 1975 China had aid programs in more African countries than the US did.[54] The African continent was the major recipient of Chinese aid, which mostly consisted of small and medium-sized projects in light industry, infrastructure and agricultural sector.[55]

The system underwent a first major transformation in 1982, when several aid offices of ministries, provinces and large municipalities, which used to be responsible for carrying out aid programs, where transformed into state-owned enterprises (SOEs). These latters were soon authorized and encouraged to autonomously bid on small infrastructures projects abroad.[56] At the same time, the Ministry of Trade and the Ministry of Foreign Economic Relations were merged in the Ministry of Foreign Economic Relations and Trade (which became the Ministry of Commerce, MOFCOM, in 2003). The Ministry of Foreign Economic Relations then became the Department of Foreign Aid within the new ministry.

The “Eight principles for China’s aid to foreign countries”, proclaimed by Zhou Enlai during its visit in Ghana in 1964, conjointly with the “Five Principles of Peaceful Coexistence” of the Bandung Conference in 1954[57], still constitute the framework of reference for Chinese aid policies and China’s discourse towards recipient countries. The Eight Principles recite as follow:

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

[54] Brautigam D., “China’s African Aid, Transatlantic Challenge”, *The German Marshall Fund Of The United States*, 2008, p. 9
[55] Rotberg R. I., “China Into Africa Trade, Aid And Influence”, Brooking Institution Press, Washington, 2008, p. 199
[56] For example the Ministry of Railway became the China Civil Engineering Construction Corporation and the Ministry of Communication became the China Road and Bridge Corporation.
[57] The Five Principles are:
1. mutual respect for sovereignty and territorial integrity;
2. mutual non-aggression;
3. non-interference in each other’s internal affairs;
4. equality and mutual benefit;
5. peaceful coexistence.

As we can notice, the principles of sovereignty, non-interference and mutual benefit, which constitute the pillars of Chinese discourse towards developing countries, are clearly stated.

## The "Great Economic and Trade Strategy" and its drivers

A new principle was added by Zhao Zyiang in 1982, namely "*diversity in forms*". Nevertheless, the conceptual shift actually arisen in the 1980s, has actually been translated in deep-rooted reforms only in mid-1990s, when the Chinese aid system was properly restructured. New aid instruments, included the well-known concessional loans, have been introduced, while the EXIM Bank, created in 1994, was in charge of administering these concessional loans. These reforms represent the launch of the "Great Economic and Trade Strategy", which aimed to combine aid, mutual cooperation and trade in Africa. A surge of Chinese aid commitments and aid-related activities followed.

As noticed in the first paragraph, we lack reliable data on Chinese aid. However, several analysts tried to calculate the global amount of China's aid to Africa. We draw here on the comprehensive panoramic of their divergent conclusions offered by Chaponnière.[58] Kurlantzick estimates Chinese aid to Africa at 2.4 billion US$ in 2004, and he assumes that most of it defines as ODA according to DAC-OECD guidelines. Qi Guoqiang's estimates rank at US$ 1 billion in 2007, but they exclude not only provincial aid but also MOFCOM subventions for concessional loans. Jian-Ye Wang estimates Chinese aid US$ 2 billion, which is about 10% of total aid to Africa, although it excludes debt relief. Brautigam recently estimated Chinese aid to Africa at around 2.5 US$ billion in 2009, adding MOFCOM aid budget, EXIM Bank's concessional loans and debt relief.[59]

Despite divergent results, it is clear that Chinese aid has sensibly increased, if compared to Brautigam's estimates of a total amount of 4.6 US$ billion of Chinese aid to African countries from 1957 to 1989. Nevertheless these figures remain far lower compared to aid provided by traditional donors[60] and to numbers often reported by media.[61]

Which are then the drivers behind the evolution of the Chinese aid system? If it is true that it existed a demand for growing efficiency in Chinese aid programs, especially seen that several projects realized during the previous decades did not prove economically sustainable and required continuous aid injections[62], the main reforms were embedded in the policy shift "*from aid donation to economic cooperation for mutual benefit*"[63], as Premier Li Peng put it during its trip to Africa in 1997.

The logic of the Chinese aid system has therefore moved from mainly political motivations to a mix of political and economic drivers, where the latters are however definitely predominant. Despite China's aid had always being tied to the purchase of Chinese goods and services[64], it is only with 1990s reforms that the economic concerns became of primary importance, in an effort to

[58] Chaponnière *op. cit.*, p. 38 et ss.

[59] Brautigam 2009 *op.cit.*, p. 170

[60] In 2005, OECD countries committed 30.7 US$ billion in grants and 11.8 US$ billion in public and private bilateral loans to African countries. Since China provides only limited amount of aid through multilateral institutions, this article will not discuss this issue.

[61] For some examples of these overestimated figures cf. Brautigam 2008 *op.cit.* China provides only limited amount of aid through multilateral institutions.

[62] For an example concerning the well-known TAZARA railway, please cf. Belligoli S., « La Chine, Nouvel Investisseur Et Bailleur De Fonds: Interactions Complexes Avec Le Processus De Développement Des Pays Africains. Le Cas De La Zambie. », *Outre Terre*, Paris, 2010 (Forthcoming)

[63] *Idem* p. 12

[64] Rotberg *op.cit.*, p. 204

institutionalize a supplier relationship and to secure additional supplies of spare parts and replacement equipments. The aim is then to secure the long term presence of Chinese enterprises on the African continent, considered as a place full of business opportunities. It is therefore no surprise that the Ministry of Commerce is the dominant authority in China's foreign aid policy.
To fully understand this picture, it is useful to briefly consider some main reforms which took place in China during the last two decades and which are strictly connected to the transformations that we have just described.

The "Going Global strategy", officially launched in 2001, reflects the Chinese will to become a global power insert in the global economy. It aims to foster the internationalization of Chinese firms and their expansion in new markets as well as to establish globally recognized Chinese brand names. It is strictly linked to another policy initiative launched in 1997, known as "Grasping the larges and letting go the smalls". This is an attempt to reduce the total number of SOEs, while increasing support to a smaller group of "national champions", which should precisely "go global". China's diversified instruments of "development finance" provide an opportunity to employ Chinese large foreign exchange reserves, previously accumulated, in a way that diminish inflationist pressure in China, benefits Chinese firms and Chinese economic development, without excluding the development of recipient countries. According to Reysen and Ndoye "*Chinese aid can be considered as an investment made by the Chinese government to promote the prosperity of the Chinese economy*."[65] As Davies clearly states, "*the Chinese Government's aid policy plays an important role in support Chinese companies (largely SOEs) in outbidding foreign companies in securing resource assets. […] 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. […] Chinese Government aid provides Chinese companies a distinct advantage in overcoming protectionism and regulatory red tape*."[66]

PRC various subsidized forms of economic engagement with African countries support the delocalization of mature domestic industries, helping them to penetrate African markets. This especially concerns sectors characterized by domestic overproduction and/or extremely high competition (textile, light industry, appliances, telecommunications...). An interesting example is ZTE Corporation, a latecomer on Chinese domestic telecommunications market, who successfully managed to enter overseas markets, exploiting its competitive advantages related to its relatively high cost-performance ratio and to the compatibility in telecommunications equipment models between China and other developing countries. Nowadays ZTE is present in several African countries, included, among others, Angola, Zambia, Nigeria, Ghana, Lesotho and Tunisia.[67] A secondary motivation pushing Chinese firms to internationalize in Africa is that manufacturing firms, when producing on the African continents, can take advantage of preferential market access granted by Western countries to products in provenance from developing countries, in the framework of several agreements such as the US African Growth and Opportunity Act (AGOA), the EU's Economic Partnership Agreements (EPAs) and the EU's Everything But Arms Initiative (EBA). Delocalization in African developing countries, therefore provides a precious opportunity to enter bigger and more developed markets. The removal of quotas imposed by Western countries on Chinese products (especially textiles) might decrease the importance of these efficiency-seeking investments.

[65] OECD *op.cit.*, p. 35
[66] Davies M. *et al.*, "How China Delivers Aid To Africa", Centre For Chinese Studies, University Of Stellenbosch, 2008, p. 4-5
[67] OECD *op.cit.*, p. 99

Another category includes Chinese MNEs trying to gain international management know-how (strategic assets-seekers). For example, Sinohydro Corporation, a Chinese state-owned giant company in water conservancy and hydropower industry, is managing infrastructure projects in over 15 African countries, often in the framework of assistance cooperation programs, without counting several other projects mainly in South-Eastern Asia.[68] This allows Sinohydro to gain international management know-how, to develop economies of scope and to acquire the necessary international experience and expertise before penetrating the larger and more developed Western markets. Sinohydro's expansion in developing countries therefore works as a testing ground in its process of internationalization.
Besides these market, efficiency and strategic assets seeking foreign direct investments, resource-seeking investments are the last (and most important) category of Chinese investments in Africa. They respond to the strategic need of securing supplies of raw materials, in order to sustain the increasing Chinese domestic consumption and, consequently, to feed the Chinese economic development, which constitutes a major concern for the Communist Party of China (CPC). The legitimacy of the CPC regime is in fact linked to its performance in the uneasy task of maintaining high rates of economic growth, while coping with the disruptive social and environmental consequences of this growth.
Nevertheless, the explosive surge of Chinese OFDI in Africa started from a really low base, which means that Chinese operators are still marginal actors compared to well-established American, Canadian, French or British giants. Chinese newcomers are therefore often forced to address niche markets and to pick up second-choice resources/investments. State-baked finance supports their expansion, providing them with easy access to credit and with the possibility to focus on long term returns and to operate "*to a much lesser extent under short-term profit pressure*"[69]. Financial and political support then leads to less-risk adverse market strategies.

## Learning from previous experiences while facing new bottom-up dynamics

As we will see, the PRC has learned from its previous experience as an aid recipient country and it retrieves some practices commonly implemented in China during the last decades, such as Western government baked soft loans and aid-packages mixing ODA with other credits for export promotion. In particular, the Chinese state designed aid programs inspired from the Japanese experience. Japan had lost its colonial empire after 1945 and the Japanese government supported actively the oversea expansion of its MNEs. As a newcomer, Japan proposed tied aid programs which helped to build infrastructure that could be used by Japanese MNEs operating in East Asian economies.[70] The Japanese government used Export-Import Bank of Japan to lend to Japanese firms investing abroad.[71] Chinese are pursuing a similar strategy using development projects on infrastructure and loans to support overseas expansion of national champions. Like the Japanese, there is no political conditionality on aid programs but only an economic "win-win" approach. At the time of the internationalisation of the Japanese MNEs from the 1960s to the 1990s, the Japanese state controlled a highly regulated financial system and could use the deposits of

[68] www.sinohydro.com
[69] Pehnelt G., "The Political Economy Of China's Aid Policy In Africa", *Jena Economic Research Papers* 2007 n.051, p. 9
[70] Yamamura, Kozo & Hatch, Walter, "Asia In Japan's Embrace: Building A Regional Production Alliance", Cambridge University Press, 1997 and Lincoln, Edward J., "Japan's Rapidly Emerging Strategy Toward Asia", OECD/GD (92) 59, Paris, 1992, p. 28
[71] Yamamura, *op.cit.,* 387

Japanese consumers to provide cheap loans to support overseas expansion. "Counter-trade" agreements and "request-based projects" are also typical of the Japanese aid system.
The architecture of Chinese foreign economic cooperation however reflects the specificity of its political and economic model. Even without denying the increasing room for maneuver for Chinese SOEs and the growing importance of Chinese private operators, the links between economic and political actors remain stronger in the PRC than anywhere else. Chinese SOEs can in fact take advantage of extremely variegated forms of economic, financial and diplomatic support, while still being subjected to strong political control. For instance, the State-owned Assets Supervision and Administration (SASAC) can ask to the PRC government to dismiss a SOE's corporate manager who does not act according to guidelines.
Nevertheless, the strategy of the Chinese government is not so straightforward. Provinces and big municipalities still have their aid programs and credit lines and they are pressured by firms headquartered in their territory to provide them with financial support. It therefore seems that the policy of the central government is challenged by local authorities promoting their "provincial champions".
Other elements complicating the picture even further, are bottom-up dynamics as that described by Brautigam.[72]In July 2006 China's top telecommunications firm Huawei negotiated and signed a preliminary agreement with the Sierra Leone's state owned telecommunications company Sierratel to extend the wireless telephone system operated by Sierratel. Huawei proposed the project for an EXIM Bank concessional loan and Sierra Leone's Ministry of Finance itself applied for the EXIM Bank's loan. In January 2007 the framework agreement with the general lending terms was signed between Sierra Leone's Ministry of Finance and China's MOFCOM. The final agreement was signed few months later. According to the MOFCOM's "Almanac of China's foreign economic relations and Trade 2001", well qualified and highly capable companies using leading edge technology, like Huawei, are eligible to propose projects for EXIM Bank concessional loans. This system is similar to the request-based Japanese aid system and it therefore entails those same risks of corruption and bribery that lead to huge aid scandals in Japan in late 1980s.[73] Big companies with well established bureaucratic networks can also play competing branches of the Chinese administration against each others in order to circumvent bothersome regulations and to increase their room for maneuver. All these dynamics, which perturb the picture of a monolithic, coherent, top-down Chinese governmental policy, definitely deserve more investigation.

The previous paragraphs showed that China's aid and aid-related practices are consistent with China's development patterns and long term strategic policies and that they can be considered part of China's comprehensive economic and political relations with other developing countries.
The following section will offer a general overview of the main institutions involved in delivering Chinese aid and economic cooperation. However, before going to the next section, we want to add few thoughts about the political drivers of China's presence in Africa. The China-Taiwan race for recognition has lately fallen behind on the Chinese agenda. Only four African countries still recognize Taipei (Sao Tomé and Principe, Gambia, Swaziland and Burkina Faso) and, although the establishment of diplomatic ties is a condition to obtain official aid, other forms of government sponsored economic cooperation for profit, even involving SOEs, can take place in these countries.[74] In early 1990s the need of preventing international isolation after the facts of Tiananmen in 1989 and to gain support in international institutions was part of China's renovated interest for African countries. However, China's expanding engagement in Africa, in our opinion,

[72] Brautigam *op.cit.*, p. 140 et ss.
[73] *Ibidem*
[74] Rotberg *op.cit.*, p. 212

still serves some broader political goals. In fact promoting China's positive image among developing countries as a responsible power and reliable partner, able to quickly delivering aid and effectively implementing agreed projects, strengthens Beijing's legitimacy as a rising global power and it appeases its "perceived" isolation in international fora, while sustaining China's effort to design a multipolar global order.

## Main institutions involved in the Chinese aid and economic cooperation system[75]

The Ministry of Commerce (MOFCOM), the Ministry of Foreign Affairs (MOFA) and the EXIM Bank constitute the central triad of the Chinese aid system. However, several other institutions come at play at different levels.
The State Council works as an oversight body, taking the main policy decisions and discussing, at the beginning of every budgetary year, which portion of the national budget will be allocated for foreign aid projects. It approves grant of cash above 1.5 million US$, aid projects above 100 million RMB and aid to "*politically sensitive countries*".[76] Cooperation agreements are often announced by the Prime Minister or other top officials during high level visits and meetings.

The Ministry of Finance draws up the annual aid budget, in consultation with the MOFCOM's Department of Foreign Aid (DFA), and it also manages debt relief initiatives and multilateral aid through the International Financial Institutions.

Within the MOFCOM, the two main units involved in aid delivery are the Department of Foreign Aid (DFA) and the Executive Bureau for International Economic Cooperation. The Department of Foreign Aid, with a staff of only around one hundred officers, is in charge of disbursing grants and zero-interest loans, drafting MOFCOM regulations and, in cooperation with the Ministry of Finance, drawing the annual budget for aid disbursements. It coordinates with the EXIM Bank on concessional loans. Since the DFA is clearly understaffed, it relies on MOFCOM branches in provinces and major municipalities and on agriculture, health or education experts from relevant ministries. It also negotiates inter-government agreements, and it reviews those requests from the MOFA which require approval. The DFA includes several divisions and among them we count as many as four regional bureaus for Africa (East, Southern, Central and West Africa), which testify of the relevance given to the African continent within the Department.
The Executive Bureau is a policy executing body, involved in the practical implementation of both aid and economic cooperation projects (bidding, monitoring, training, evaluating…).
There is also a Department of International Economic Cooperation, which manages subsidies and other initiatives supporting Chinese companies investing overseas, for example in what concerns the creation of overseas economic zones. It coordinates with the EXIM Bank on Export's Buyers Credits.

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[75] This section is mainly based on Brautigam 2009 op.cit., p. 109 et ss., Xiaoyun L., "China's Foreign Aid And Aid To Africa: Overview" , Oecd, Retrieved, October 12 2008, From Oecd Website: www.oecd.org/dataoecd/27/7/40378067.pdf, p. 8, Lancaster *op.cit*., p. 4, Gill, B. & Reilly, J., "The Tenuous Hold Of China Inc. In Africa". *The Washington Quarterly*, Vol. 30(3), 2007, p. 11-12, Jackson S. F., "Chinese Official Development Assistance In Africa: New Money, Old Themes", Presentation To International Studies Association Annual Meeting, March 2008, San Francisco, USA, p. 15, Davies 2008 *op.cit.,* p. 13 et ss., Davies 2007 *op.cit.,* p. 45
[76] Brautigham 2009 *op.cit.,* p. 107

The West Asian and African Department within the MOFCOM organizes economic cooperation and trade with these regions and it is particularly important in order to maintain economic cooperation with those African countries which did not establish official diplomatic relations with Beijing (Gambia, Burkina Faso, Sao Tomé and Principe, Swaziland).
MOFCOM Economic and Commercial Counselors (ECCs) are located within local embassies. They are subjected, on one hand, to the embassy's administrative authority and, on the other hand, to MOFCOM's operational authority. Since the DFA do not have overseas offices, the ECCs, despite not being development experts, are in charge of supervising the implementation of the projects on the ground. Nevertheless, ECCs do not have direct authority on SOEs operating in Africa, which are rather subjected to the SASAC.

The Ministry of Foreign Affairs (MOFA) guarantees that aid projects are consistent with the main lines of Chinese foreign policy. Its Department of Policy Planning monitors general policy trends on economic cooperation and aid and it formulates general guidelines, which constitute the framework of MOFCOM's and EXIM Bank's initiatives. Diplomats on the ground and officers from the Department of African Affairs advise on how much aid deliver to each African country. The MOFA is also involved in the negotiation and delivery of humanitarian assistance, which however is not considered as part of the aid budget.

The EXIM Bank manages China's concessional loans, raising funds on domestic and foreign capital markets. It also disposes of a series of different instruments of economic cooperation such as export sellers' credits and export buyers' credits, which will be further analyzed.

The China Development Bank (CDB), as well as the EXIM Bank, have been created to implement government's policies. The CDB is much larger than its sister and it has been mainly created to finance other levels of Chinese government. Therefore, only a minor share of its commercial loans goes overseas (3% in 2006 [77]). CDB raises its funds through the issue of bonds in China and overseas.

As we have seen, the actual system has been the result of several recent reforms. We cannot exclude that this picture might further evolve in the future, in order to address those challenges arising from its internal contradictions. Tensions derive from several cleavages:
- between central and local institutions, as we have seen in the previous section analyzing new top-down and bottom-up dynamics;
- between politically driven institutions (MOFA) and other institutions which are rather profit oriented (MOFCOM, EXIM Bank, SASAC). These tensions are exemplified by the fact that also the Ministry of Commerce has recently started to make its first visit of the New Year to Africa, following a well established tradition of the MOFA. Preliminary researches highlight that a shift of power towards profit oriented institutions is underway and that MOFA's officials mainly come at play in order to solve problems between Chinese operators and their local foreign partners.[78]
Tensions also arise within the MOFCOM itself. The MOFCOM in fact has a dual responsibility: it promotes the expansion of Chinese firms abroad, like the SASAC, but it is also in charge of enforcing regulations and guidelines, for example concerning environmental protection or subcontracting practices. The position of the ECCs seems particularly delicate. They are in fact under the administrative responsibility of the embassy, but under the operational responsibility of the MOFCOM. They are in charge of monitoring the implementation of the projects and the

[77] Brautigham 2008 *op.cit.*, p. 17
[78] Personal Communication with China's expert, May 2010

respect of MOFCOM's regulations, despite the fact that they have no direct authority on the SOEs, which are rather subjected to the SASAC.

The following section will provide a brief description of the main aid instruments of the Chinese aid system, as well as of other relevant forms of economic cooperation and it will highlight how this panoply of instruments supports the expansion of the Chinese firms on the African continent.

## "*Diversity in forms*"

Chinese economic assistance towards developing countries includes several and sometimes peculiar financing and cooperation instruments that, despite not being considered as ODA according to DAC-OECD guidelines, have a important development impact and can be *perceived* as aid by observers and recipient countries. It is therefore worth taking into consideration these instruments in our overview of the Chinese economic cooperation practices, which starts with the four main instruments of China's official aid.

## Main types of Chinese aid

Grants [79] are mainly made available in-kind (equipments, vehicles, material goods, etc.), which means that the money stay within the Chinese system as it happens with concessional loans (cf. infra). Grants are provided for social projects such as hospitals, schools and housing and for material and technical support, education and training and humanitarian assistance.
It is however important noticing that humanitarian aid, usually delivered in-kind, is administered by the Ministry of Social Welfare.[80] It is determined by contingent circumstances and ad-hoc requirements. Occasionally various Ministries have provided funds to Chinese non-governmental organizations (NGO) working in the field, such as the Red Cross Society of China, which in turn, deliver humanitarian aid. [81]

Technical assistance can be in the form of technical cooperation projects involving training and assistance, especially in the agriculture sector, even though it is more often in the form of turnkey joint ventures. These complete plant projects involve the construction or repair of buildings, infrastructure or other facilities and they aim to broaden cooperation between China and the recipient country to new economic areas.

Interest-free loans finance infrastructure projects and, as in the case of grants, disbursements come from MOFCOM foreign aid budget line. They represent the earliest form of Chinese aid and, according to Chinese authorities, more than 90% of these zero-interest loans are written off over time, transforming them in *de facto* grants.[82] The ratio of grants to loans is unclear.[83] Nevertheless the more rapidly expanding form of Chinese aid is clearly the third one, namely concessional loans.

[79] For a detailed description of the grant-awarding process from inception to implementation, please refer to Davies 2008 *op.cit.*, p. 15 et ss.
[80] Davies 2008 *op.cit.*, p. 2
[81] *Ibidem*
[82] OECD *op.cit.*, p. 34
[83] Davies 2008 *op.cit.*, p. 11, Davies 2007 *op.cit.*, p. 54

Concessional loans are loans with interest rates below the market level. These medium-long term loans were disbursed for the first time in 1997. They are only granted for large projects of a minimum size of RMB 20 million[84], generally in infrastructure (energy, transportation, telecommunications), social (health and housing) or industrial (manufacturing, mining) sectors. At least 50% of the contract's procurements come from China (previously the rate was up to 70%), and the projects are always realized by Chinese contractors. The aid is therefore tied.[85] Their aim is to promote economic development in recipient countries and to foster economic cooperation between the recipient country and China, which means that the project is expected to generate social benefits and economic returns. Strong emphasis is therefore put on the profitability of the projects. Unlike interest-free loans, due payments are not so easily postponed or cancelled, even though in some cases they have been restructured or rescheduled.[86]

Concessional loans are exclusively granted via and managed by the EXIM Bank, although the projects are selected in coordination with the MOFCOM. The difference between the market interest rate and the lending rate is paid by the MOFCOM to EXIM Bank funds. Only the subsidized portion of the interest rate is therefore considered as "aid" by China. OECD countries, instead, account the face value of the concessional loan as ODA. According to Davies, loans are denominated in RMB and they have 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. [87] It is difficult to know if these concessional loans actually qualify as ODA according to DAC-OECD guidelines[88], due to the limited information at our disposal concerning their interest rates. Hubbard also points out that another source of confusion derives from the fact that these agreements are often called in different ways such as "economic cooperation agreements" or "development loans agreements".[89]

When China decides to offer a concessional loan to a borrowing country, a bilateral framework agreement is first signed between the MOFCOM Department of foreign aid and the borrowing country, which grants some preferential treatments to the projects, such as tax rebates, tax-free repatriation of profits, tax-free import of inputs or a lower income tax. A loan agreement is then signed between a representative of the borrowing country's government and the EXIM Bank, which is the world largest Export Credit Agency (ECA) and is managed by the State Council. The signature of the framework agreement makes it possible to borrow under the concessional scheme, although it does not guarantee that the loan will be actually disbursed by the EXIM Bank. The framework agreement expires if the loan agreement is not finalized within a fixed period.

Funds are usually directly transferred to the Chinese company implementing the project. The recipient government, despite being invoiced as the official payee of the loan, actually never receives the funds. This measure is supposed to ensure the safe return of loans and to avoid corruptive practices in the recipient country, even though it does not prevent corruption from taking place among companies in charge of the projects. In 2007, for example, China granted Namibia a big low-interest loan to buy $55.3 million worth of Chinese-made cargo scanners to deter smugglers, but Namibia later charged the Chinese SOE selected to provide the scanners with allegations of facilitating the deal with millions of dollars in illegal kickbacks.[90] Although the Chinese government has lately been particularly concerned by the negative consequences of these

[84] Brautigam 2008 *op.cit.,* p. 201
[85] Davies 2008 *op.cit.,* p. 19
[86] Brautigam 2009 *op.cit.,* p. 129
[87] Davies 2008 *op.cit.,* p. 19
[88] According to DAC-OECD guidelines, in order to qualify as ODA, loans should contain at least a 25% grant element.
[89] Rotberg *op.cit.,* p. 220 et ss.
[90] Lafraniere S., Grobler J., "China Spreads Aid In Africa, With A Catch", New York Times, 21.09.2009, http://www.nytimes.com/2009/09/22/world/africa/22namibia.html

allegations for the reputation of the Chinese firms involved, it has not yet adopted decisive policies to fight corruption. This system also allows the Chinese government to control the tendering process, securing an entry point for Chinese companies on African markets, where they can later bid for commercial projects. The same company can therefore implement a Chinese aid project and then bid on a commercial project in the same country.
The MOFCOM Executive Bureau of International Cooperation is responsible for the approval of corporations permitted to tender bids on aid projects; it manages the bidding process and it oversees the project itself. However, according to Chaponnière, the selection of the corporations is based on "*unknown criteria*"[91]. Brautigam argues that the tender system, despite being reserved to approved Chinese firms, is in line with the criteria of the World Bank (WB). The first Chinese tender system was in fact established to meet World Bank requirements for Chinese foreign aid, after China began to take out loans as a new WB member in the early 1980s. In the 1990s China then set up its own system of tenders and bidding for its own aid projects abroad. Davies underlines that the bid is always won by two companies. The first one actually realizes the project, while the other supervises and monitors its implementation jointly with the local Chinese embassy, the Economic Counselor's Office and the visiting MOFCOM staff. Nevertheless Brautigam and Davies recognize that this system is not unknown to allegations of corruption and that problems of bribery and lack of transparency persist.[92]

Brautigam clarifies that just some concessional loans are resource-baked, while not all resource-baked agreements are concessional loans. Several are in fact commercial loans. For example, the interest rate of the famous Angola "concessional loans" ranged indeed at LIBOR + 1.5 for the first loan and LIBOR + 1.25 for the second one, which are market rather than concessional interest rates.[93] In these cases the interest rate is determined by the EXIM bank's risk analysis department in conjunction with the Economist Intelligence Unit (EIU). To the base rate (Libor) is added a percentage according to the country's sovereign credit rating, the political situation, the economic and financial stability, plus a marginal operational cost and a retaining cost. Since China EXIM Bank works on a break-even basis, which means that it does not need to make profit although it should not require subsides, the bank has been able to offer advantageous lending rates.
The picture is further complicated by the fact that China offers resource-baked packages including concessional loans and/or other financing instruments, such as preferential export buyer's credits, which do not qualify as aid. In his experience as a recipient country, China has profited from different forms of package financing, offered by Western donors, as well as from resource-baked (or counter-trade) agreements. The latters characterized Japan's aid system and they fostered the development of greater energy capacity within China. For example, in 1978 Beijing and Tokyo signed a counter-trade agreement, whereby Japan offered China a low interest yen loan to buy $10 billion in Japanese capital goods (modern plant, industrial technology and materials) from 1978 to 1985, while Chine would pay for them by exporting the equivalent value of oil and coal. By the end of 1978 seventy four contracts had been signed by China and Japan to finance turn-key projects and all of them were to be repaid in oil. This kind of resource-baked agreement is still common among Western private financing institutions, even though it is not part of the Western aid system.

This paper does not deal with other secondary forms of cooperation such as medical teams (which are managed by the Ministry of Health and help spreading Chinese medicine on the African

[91] Chaponnière *op.cit.*, p.9 p. 72
[92] Brautigam 2009 *op.cit.*, p. 110 and p. 296
[93] *Ibidem* p. 46, 145 et ss., 175 et ss.

continent), scholarships (managed by the Ministry of Education), the Overseas Youth Volunteer Program (coordinated by the MOFCOM since 2005), tariff and quota-free entry accorded to products from the least developed countries (LDCs)[94] and debt relief initiatives.[95] In the next section we will rather focus our attention on several other political and economic instruments and initiatives which help fostering Chinese firms' penetration on the continent, some of whom are often erroneously considered aid.

## Other instruments and policies initiative supporting the internationalization of Chinese firms

Apart from governmental concessional loans, the EXIM Bank also offers other products. These include:
- export sellers' / buyers' credits, borrowed by a foreign importer (project owner), a foreign financial institution, the Ministry of Finance or other authorized institutions of the importing country accepted by the EXIM Bank. They are issued at competitive commercial interest rates (ex. LIBOR plus a margin);
- commercial loans to overseas investment and construction projects of Chinese companies.

The China's Development Bank (CDB) also offers similar commercial loans, even though CDB has actually financed just few projects in Africa.

Announced at the summit of the China-Africa Cooperation Forum (FOCAC) in 2006 and established by the China Development Bank (CDB) in May 2007, the China-Africa Development Found (CADF) is a commercial financing institution, offering marked-based fund. It has a lifespan of 50 years and it can make equity investments between US$ 5 and 50 million for each project in minority shareholdings for a total of 5 US$ billion. The CADF is similar to other similar equity found created by traditional donors (British Development Fund, US Overseas Private Investment Corporation et le *Groupe Agence Française de Développement*), even though the Chinese fund distinguish itself for being much larger and for providing equity investments rather than loans or guarantees. Access to funding was initially reserved to joint ventures between Chinese state-owned or private firms and other enterprises (whether they were African or not). Nevertheless, in order to overcome criticism, it was lately extended to African entrepreneurs without any Chinese participation. The first official commitment in 2008 was for the building of a glass factory in Ethiopia, in cooperation with the Overseas Construction Co. Ltd.

Moreover, Chinese firms who implemented a Chinese aid-project in a certain African host country can retain bulldozers and heavy equipments brought over for construction and they are charged only depreciation against aid project accounts. This is a form of hidden subsidizing, which gives Chinese companies a great cost advantage when bidding for commercial contracts and an opportunity to expand their business in the host country.[96]

Since 2006 the establishment of overseas economic zone has become a feature of the "Going Global" strategy. The Chinese government would assist selected Chinese companies in establishing 50 zones around the world, making up to 25 US$ million in grants and 250 US$ million in long term

[94] The list of tariff and quota free products has been progressively extended and it includes at present 4,762 products from more than 20 African LDCs. cf. http://www.standardmedia.co.ke/InsidePage.php?id=2000009278&cid=14

[95] For further details please refer to Brautigam 2008 and 2009 *op.cit.* and Davies 2008 *op.cit.*. It is worth noticing however that debt relief is accorded on an ad-hoc and non conditional basis and it usually involves the cancellation of interest-free loans. Three pledges have been made by China at FOCAC 2000 and 2006 and in New York in 2004.

[96] Rotberg *op.cit.*, p. 206

loans. The approach is company-centered since companies propose possible locations to the MOFCOM. The MOFCOM then selects the most profitable and promising projects, supposedly according to market principles. Once the project have been selected, the MOFCOM reimburses half of the expenses for the Chinese enterprises to move into the zone, it offers further tax rebates and relaxing access to foreign exchanges, while Chinese embassies provide diplomatic support in negotiations with the host government concerning tax incentives, land and work permits. Especially welcome are projects from industries where China has excessive production capacity. The aim is to diminish pressure on Chinese domestic market in specific sectors and to sustain internationalization efforts of groups of small-medium enterprises (SME), which could find in these economic zones a safer investment climate with reduced risks and uncertainty. So far, the establishment of six special economic zones in Africa has been approved by the MOFCOM: two in Nigeria, two in Zambia, one in Ethiopia and one in Mauritius Islands. The Chambishi zone in Zambia is the only one already operative and it works as a mining industry cluster, while a more diversified sub-zone near Lusaka airport is currently under construction.

Among several other non-financial incentives, we cite the income corporate tax exemption for Chinese enterprises operating overseas. The exemption lasts 5 years from the beginning of the operation, but even longer if the enterprise operates in a country which has concluded a double taxation treaty with the PRC. If these enterprises export equipments, processed or raw materials to their overseas investment projects the value-added tax is refunded. [97] It is finally worth mentioning the political support especially enjoyed by major Chinese operators in Africa. Chinese embassies often offer diplomatic, logistic, linguistic support, while economic and technical bilateral cooperation agreements ease the business environment for Chinese firms and high profile visits and meetings, such as the China-Africa cooperation Forum (FOCAC), provide a favorable climate for the establishment of business links.

# Part III: China and EU ties between aid and business flows: the newcomer vs the historical incumbent

## The incumbent

The two preceding chapters have shown the difference between China and Europe regarding aid and business links. European businesses were already implanted in Africa since the colonization wave of the late 19th century. The colonial system created a trading preferential system in which colonial investors could have access to additional markets or sources of raw materials, protected from international competition. Colonial markets became increasingly close to foreign competition, especially after the crisis of 1929. Some European MNEs from Britain, like Unilever, still managed to be present in the French speaking colonies but this remained exceptional. When decolonization became the inevitable political option for European powers, they tried to preserve the economic links and the colonial investments. To that purpose, they set up a preferential trading regime (at the supranational level for those who were or became member states of the EEC), while aid programs (both supranational and national bilateral) aimed at maintaining the necessary infrastructure that enabled European MNEs to operate in African economies.

[97] Brautigam 2009 *op.cit.* and Reisen H., Ndoye S., "Prudent Versus Imprudent Lending To Africa: From Debt Relief To Emerging Lenders", *OECD Development Centre Working Paper,* No. 268, 02/2008

However, with the wave of ISI and nationalizations of the 1970s and the effect of the debt crisis in the 1980s and 1990s, European business presence in Africa became relatively less important as trade and investment flows between the two regions have showed. The privatization schemes pursued by African government in the framework of the IMF structural adjustment programs enabled European investors to take control (and sometimes to take control back) of former state-owned facilities. Nevertheless Africa did not offer the same opportunities compared to other emerging economies increasingly opening up to FDI inflows and located at the periphery of Western Europe, in East Asia and, to a lesser extent, in Latin America. Even in terms of raw materials, Africa's share in world trade and production shrunk during that period.[98] The economic downgrading of African countries combined with the end of the cold war explains the relative decline of aid flows until the 2000s. The supranational European aid system became less directly linked to specific industries. It evolved into a more horizontal industrial policy. It notably tried to promote regional integration within the WTO framework with the Cotonou agreement after 2000. Support to regional integration was a mean to improve the capacity of MNEs to operate more efficiently across different African economies but has met limited success so far.

## The newcomer

China's vision of ODA has experienced a dramatic evolution since the 1980s. In the 1960s and 1970s, aid was mainly conceived as a geopolitical tool to broaden the anti-imperialist front against Western powers and to help China break its isolation after breaking away from the so-called "Soviet Bloc". There were no private business operating overseas and trade was directly controlled by 12 state-owned and centrally-controlled trading companies.[99] Emblematic development projects like the construction of the Tanzania-Zambia railroad or the processing production facilities of the 1960s did not imply permanent strong economic links.

China progressively opened up to the international capitalist economy, developing industrialization at an exceptional high growth which requests evermore raw materials. The share of manufacturing activities in China's GDP has become more than twice as large as the one of the EU, where services account for more than 70% of the added value. At the same time, not only China's need of raw materials increased, but Chinese firms began to expand overseas. As it has been shown in the previous section, many reasons explain the internationalization of Chinese firms. The Chinese government has been supporting Chinese firms who are doing resource-seeking FDI to secure access to raw materials. However, market-seeking investors are also backed up by the Chinese political leadership, who realizes that, if its national champions are to resist international competition in the multilateral capitalist trading system, they have to transform into global competitors and acquire international management know-how. Penetrating African market might be a step to facilitate the acquisition of such intangible asset. At the same time, some Chinese firms also face strong competition on their domestic market since the accession of China to the WTO.[100] These evolutions are quite recent and trade and investment flows between China and Africa have only taken off in the 2000s. In that sense, China is a newcomer that has to build relations with African states that had long economic ties with Europe.

China is in a hybrid system which evolves towards a capitalist market economy but with a pre-eminence of the state and the communist party over private firms. Because of this particular situation, the Chinese government does not only use aid in order to support the overseas expansion of Chinese MNEs but it can also influence more directly Chinese national champions

[98] Brunel, 2004: 25
[99] Lardy 2002
[100] Defraigne, 2008 & UNCTAD, 2003

into following its "going global strategy" objectives. Because of this characteristic, China's is perceived to have a comprehensive economic expansion strategy in Africa, using aid in order to build stronger ties with African countries, weakening the economic position of Europe with regard to FDI, trade and aid flows directed to Africa.

## Conclusion: some common features despite different historical trajectories?

Figures related to Chinese aid and investments in Africa should be put into perspective. China FDI outflows and stocks are still smaller than those of an EU member state like the Netherlands.[101] In terms of aid flows, in 2005 EU total aid flows amounted to $ 9.2 billion and Africa remains the main recipient. As for China, total aid in 2005 was still below $ 2 billion, according to Brautigam estimates, based on OECD-DAC methodology rather than the EU one.[102] The Chinese progression is nevertheless very impressive, as Chinese total aid went up from half a billion in 1996 to 3 billion in 2007. In terms of aid flows directed to Africa, the Chinese government commitments went from $1.4 billion in 2007 to 2.5 billion in 2009.[103] In terms of aid, trade and FDI flows, Europe is still the main partner of Africa. However the European leverage on African states is weakened by the economic alternative represented by the Chinese economic flows. This last section will look at the main criticisms moved against Chinese aid and economic cooperation in Africa, trying to offer original perspectives and analysis.

A rhetoric commonly developed by traditional donors explains the Chinese penetration in Africa by the fact that the Chinese government is not imposing any conditionality on good governance, human rights and anti-corruption measures. A widespread opinion is then that the "China option" has increased the room for maneuver of African elites, and especially of authoritarian leaders, providing them with financial injections and diminishing incentives to introduce democratic reforms. It is undeniable than the Chinese government have a pragmatic and utilitarian approach, focused primarily on economic factors.[104] However, even European governments do not always practice what they preach with regard to human rights, good governance, environmental and social protection while conditionality is not always severely enforced.

Moreover, if it is true that Chinese aid in 2005 helped Angola to avoid signing a loan agreement with the International Monetary Fund (IMF), which included several anti-corruption clauses, it is however difficult to affirm that the Chinese deal allowed the Angolan government to maintain corrupted practices, since Angola transparency index has recently improved. With regard to the famous "Millennium deal" signed in 2007 between the Democratic Republic of Congo (DRC) and China, several Congolese observers[105] affirm that the DRC government had no choice but signing the deal. The Chinese were indeed the only partners able and willing to finance the building of much needed infrastructures, although the conditions of the contract might not be so favorable for the Congolese part. The South African Republic, on the contrary, successfully managed to sign a deal with China in 2006 to cut Chinese textile imports to South Africa by a third, with quotas on Chinese textiles and clothing imports to be imposed for three years. There are therefore evidences that "*China behaves differently in different African countries, depending on the way these countries meet China*"[106]. It is therefore up to African government and civil society to impose the

[101] UNCTAD, 2008
[102] Brautigam, 2009: 167
[103] Brautigam, 2009: 167
[104] Moyo D., "Dead Aid", Pinguin Books, London 2010
[105] Personal communication with Congolese observers, May-June 2010
[106] Huse M.D., Muyakwa S.L., "China In Africa: Lending Policy Space And Governance", Norvegian Campaign For Debt Cancellation And Norvegian Council For Africa, 2008, p. 27

respect of social, labor and environmental regulations to the companies operating on their territory, whatever the nationality of the foreign firm is.
It is also often argued that the Chinese huge concessional and commercial loans might provoke another debt crisis. On this last point, Reysen however notices that "*even Angola and Sudan, the two African countries where the presence of China is most strongly felt (and which have not benefited from debt relief), show big improvements in their debt indicators [and] that both countries have recently been building official foreign-exchange reserves at a rapid pace, so that their net debt exposure is even lower*."[107]
Chinese firms actually have several comparative advantages on African markets since they offer a simple but more robust technology, that suits better the need of least developed countries. Chinese firms benefit from their domestic experience of building infrastructures in the least developed Chinese provinces. Chinese expatriate labour force remains cheap and ready to experience tough local working conditions, therefore increasing the speed of the completion of the aid projects while keeping its costs down.[108]
When traditional donors point the finger against China's tied aid and its supposedly increased costs for aid recipients, they forget that their "*engagement on the continent has never been solely humanitarian*"[109], but it has been hardly influenced by economic, notwithstanding, geopolitical goals. Companies form developed countries have profited from tied aid during decades. Recent commitments from traditional donors to abandon tied aid practices in most cases have not been followed by real reforms. The most reluctant to abandon tied aid practices are exactly European donors with lower incomes and weaker multinational enterprises such as Portugal or Greece. It is therefore unlikely that the Chinese government agrees to put its companies on the same level playing field with incumbent European companies, while these firms still are in the learning phase of the "Going Global" process. The untying of the Chinese aid would be conceivable only at a much advanced stage of the catch up process in term of international management learning and market presence. More problematic is the fact that Chinese enterprises can take advantage of aid untying by traditional multilateral and bilateral donors since they can participate to their bidding process.
It is also incorrect to consider Chinese exports as the primary cause of the disruption of African industrial production. If it is true that Chinese exports are subsidized and/or fostered by an excessively weak Chinese currency, we should not forget that the structural weaknesses of African manufactures are deeply rooted in the poor business environment and the lack of adequate infrastructures in Africa. Chinese investments and aid projects in infrastructure sector might help overcoming some of these limitations, but only if technological and managerial know-how are transferred to the African counterparts, in order to ensure the adequate maintenance of the infrastructures. Joint ventures and subcontracting are commonly considered effective ways to transfer skills and knowledge. Their positive impact however depends on local governance structures and their capacity to avoid three major dangers. The first concerns the creation of simply *de jure* joint ventures with local "ghost" partners, which are not actually involved in the implementation of the project. These cases are not uncommon, for example in Zambian construction industry. Secondly, unqualified local companies might win the bids thanks to their political connections, while the third problem is related to the creation of a "chain" of subcontractors. In this last case the face value of the loan would be severely reduced, since each company involved in the subcontracting chain would retain a certain percentage of the loan before, in turn, subcontracting the work to another company. Evidences suggest that Chinese investors' will to partner with local firms mainly depends on the existence (and the degree of

[107] Reisen *op.cit.*
[108] Moyo, *op.cit.*, Brautigam 2009 *op.cit.*
[109] Pehnelt *op.cit.*, p. 13

enforcement) of local rules, requiring that projects are realized jointly with local operators, as well as on the capacity and expertise of local firms. A study commissioned by the UK Department for International development (DFID) on the construction section in several African countries comes to the conclusion that foreign [Western] firms are "*preferred partners for joint-ventures and are also attractive candidates for sub-contracts on contracts won by Chinese companies*", especially for works requiring a particularly high technological content.[110]

One of the most criticized features of Chinese aid is probably resource-baked loans. At a more attentive analysis, however, they might not result so different compared to certain Western practices. WB and IMF structural adjustment programs in fact imposed the privatization of several state-owned natural resource companies in many African countries and the opening of their economies to foreign direct investments. These privatization processes often resulted in acquisitions by European or Western MNEs which seized the opportunity to enter African markets. African governments with limited negotiation capacities, pressed by international institutions to speed up murky privatization processes, frequently signed over extremely disadvantageous deals with these Western firms. The meager and precarious revenues from the exports of natural resources, extracted by Western firms and generally shipped to the West, were used to repay debts with the creditors of the Club of Paris. The main difference with Chinese resource-baked loans therefore is that these latters directly connect loans and resource exports. Resource-baked loans, moreover, are still a common practice among Western *private* firms and banks. For instance, the French Bank *Société Générale* offered Angola an unconditional 1.5 US$ billion oil-backed loan, just after the signature of the sino-angolan "package deal".[111] The dangers connected with Chinese resource-baked loans thus rather lie in the opaque bidding and implementation processes, which are not free from allegations of corruption and bribery, and in the murky evaluation of the value of the raw materials exported. Notwithstanding these considerations, it is clear that excessive reliance on raw materials exports hardly offers African countries a way out of poverty, due to the volatility of raw materials courses and to the weak link of the extractive sector with the rest of the country economy.

The ownership principle, which means that donors are to base their overall support on partner countries' own national development plans, is part of the OECD Paris Declaration on Aid Effectiveness (2005), signed by China and European countries. The application of this principle is however problematic. Although China claims to fully respect the national ownership of aid projects, it is unclear how this principle is at work when priorities at the national level are set in the framework of undemocratic and opaque decision making processes.[112] In these cases, in fact, the ownership principle is reduced to the ownership of "African governments".

Certainly African states now have some degree of economic alternative to traditional donors in terms of development assistance. Due to the secrecy surrounding Sino-African negotiations, it is often difficult to discern in which measure African leaders have been able to take advantage of this supposed bargaining power. To what extent this new room for manoeuvre will be used efficiently by the African political and economic elites to break away from rent-seeking and corruption practices and to improve sovereignty and economic development therefore remains to be seen. What is clear is that African countries are separate cases, with their own political domestic contexts, different levels of economic development and different capacities to negotiate deals and to control their correct implementation and that, within a same African country, the increasing presence of Chinese actors might have a diverse impact on different groups and sectors.

[110] DFID China, "China's Interest And Activity In Africa's Construction And Infrastructure Sectors", Report Realized By The Stellenbosch University, 09/2006, p. 7

[111] Brautigam 2009 *op.cit.*, p. 275

[112] Brautigam 2008 *op.cit.*, p. 10

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