

# Greater Africa-China Economic Cooperation: Will This Widen 'Policy Space'?

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**Western donors** have raised a number of objections to China's expanding economic presence in Africa. They have warned about lack of transparency, the creation of new unsustainable debt, the promotion of China's commercial self-interest and the absence of conditionalities, especially with regard to governance. This Development Viewpoint suggests, in contrast, that Africa has the potential to benefit from economic cooperation with China (see Oya 2006 as background).

The activities of the Chinese Export-Import Bank (EXIM), established in 1994 and the country's biggest official lender to Africa, exemplifies China's rising investment in the region. By the end of 2007, it had approved a total of US\$ 23.9 billion in loans to Africa. This included the signing in 2007 of a massive project in the Democratic Republic of Congo (DRC) worth almost US\$ 9 billion, to be invested over a number of years. Note the rising trend of EXIM investments in Africa illustrated in the figure.

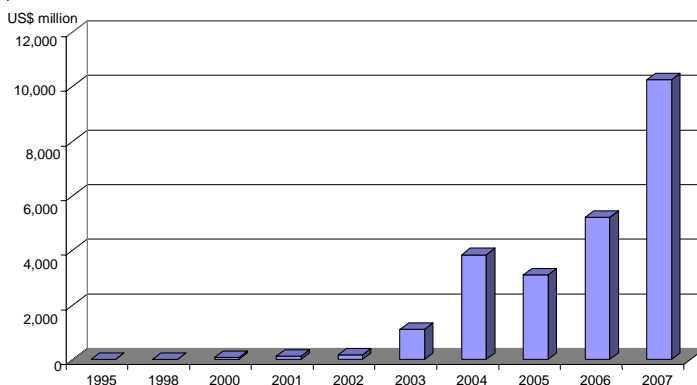
Over half of the EXIM Bank's total loans have gone to Africa, where they have been allocated mostly for large infrastructure projects, often linked to developing trade in energy, minerals, metals and other primary commodities. Some of these loans are concessional and, together with grants, constitute the growing Chinese aid programme in the region, estimated to be between US\$ 500 million and US\$ 800 million per year. China's official Africa aid target for 2009 is to reach US\$ 1 billion.

Chinese direct investment, both concessional and commercial, has gone to over 20 African countries and has increased significantly in such resource-rich countries as Angola, Chad, DRC, Gabon, Nigeria, Sudan and Zambia.

Despite the spectacular increase of Chinese investment and aid in Africa over the past eight years, its current magnitude remains limited compared to flows from OECD countries. Total aid (ODA) from all donor countries to sub-Saharan Africa was over US\$ 30 billion in 2005. Total FDI flows increased to US\$ 18 billion from just over US\$ 4 billion in the mid-1990s.

According to data from China's Ministry of Commerce, recorded Chinese FDI to sub-Saharan Africa increased from about US\$ 70

## EXIM Approved Loans for Chinese Investments in Africa (including concessional loans), 1995-2007



Source: Own calculations based on data published in Davies et al. 2008, Appendix II.

million in 2003 to over US\$ 419 million in 2006. Thus, it clearly remains a relatively small fraction of total FDI to the region. It is also a small share of China's own total outward FDI (e.g., only 3.2 per cent in 2005).

### Western Donor Practices

China tries to consistently adhere to the principle of "non-interference in other countries' internal affairs". Thus, it is often blamed for its lack of criticism of undemocratic regimes. While recognizing the basis for such criticism, this Development Viewpoint focuses on the problems created by the practices of Western donors and the potential effect of Chinese aid on the resulting constraints.

It is revealing that in December 2007, Robert Zoellick, the President of the World Bank, announced that it had agreed to work with China's EXIM Bank on development projects in Africa. Chinese loans are competing, in effect, with those from the World Bank, while having the advantage of being free of the heavy baggage of conditionalities often attached to Bank loans under the 'augmented Washington Consensus'.

Because donors such as the World Bank insist on imposing external conditionalities, African policymakers have progressively lost the 'policy space' that they need to formulate their own development strategies and experiment with a meaningful range of policy

options. Since the 1980s, aid flows from rich countries have been closely linked to requirements for market-oriented policy reforms. More recently, conditionalities have multiplied, so that they now cover the whole gamut of economic, social, institutional and political reforms.

African countries—especially those highly dependent on foreign aid—find themselves at an increasing disadvantage because there are few policy alternatives that are feasible (i.e., backed by external resources). Their policymakers, consultants and academics are increasingly being trained to embrace a pro-market ideology and encouraged to tie their careers to such an approach. Thus, donors are able to advertise that their externally imposed development ‘consensus’ is really ‘nationally owned’.

In the process, a New Aid Agenda has become hegemonic: it combines neoliberal economic and institutional reforms with poverty reduction under an overarching umbrella of ‘good governance’. But ‘good governance’ is narrowly equated, in practice, with the institutional framework of an Anglo-American laissez-faire model of capitalism.

Such uniformity of views is being justified by the 2005 Paris Declaration, which has put a premium on greater alignment and harmonization of donor efforts. Although harmonization can, no doubt, reduce the transaction costs resulting from the fragmentation of aid, the drawback is that donors often confront individual low-income countries as a ‘cartel’ that lobbies in unison for orthodox policy reforms—which are often spawned and spearheaded by the Bretton Woods institutions.

### **The Counterweight of Chinese Support**

China’s increasing support to the economic development of African countries and its focus on providing much-needed infrastructure and useful technical assistance—without dictating national forms of governance—could provide a welcome counterweight to donor cartels and restrictive conditionalities.

China’s development cooperation is motivated, of course, by economic and diplomatic self-interest—namely, by China’s drive to secure vital resources, open new markets, widen investment opportunities and forge new political alliances. But has the history of western donors been any different? It would be disingenuous to claim otherwise.

In addition to refraining from interfering in internal affairs and in African institutions, China’s cooperation appears to have several other advantages: it is more flexible, takes a longer-term perspective, is more cost-effective, and is faster in execution.

Countries in Africa have the potential to take advantage of the counterweight offered by Chinese development cooperation (as well as other South-South development cooperation from such countries as India and Brazil) to gain more ‘policy space’ and wield greater leverage in bargaining with *both* traditional and emerging donors.

One potential benefit could be the reduction of excessively constraining conditionalities, which are also ultimately ineffective. Of course, it would be incumbent on African countries to use this additional ‘policy space’ productively.

More importantly, Africans could use such latitude to learn from the variegated experience of other developing countries. Prominent among these advantages would be learning useful concrete lessons (rather than striving to mechanically incorporate entire alternative ‘models’) from the heterodox development policies of East Asia, and from China in particular.

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