CHINA’S DEVELOPMENT AID TO AFRICA AND ITS CONSEQUENCES

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Based on work with Gerda Asmus, Richard Bluhm, Axel Dreher, Roland Hodler, Angelika Müller, Brad Parks, Paul Raschky, Marina Rudyak, Austin Strange and Mike Tierney

The Past, Present and Future of African-Asian Relations

International conference, University of Neuchâtel, April 25-27, 2019
“Africa is beginning to do well economically. One of the main reasons for such turnaround in the economic fate of Africa is the emergence of the emerging nations in general and China in particular.”

Melas Zenawi (2012)
Prime Minister of Ethiopia
Rogue donors like China “represent a threat to healthy, sustainable development. [...] If they continue to succeed in pushing their alternative development model, they will succeed in underwriting a world that is more corrupt, chaotic, and authoritarian. “

Moisés Naím (2009)
**MOTIVATION**

- China and other new donors are of growing importance in development cooperation in Africa and beyond
- Rogue aid: “exploiting natural resources,” “supporting rogue states,” “threatening debt sustainability,” “violating environmental and labor standards”
- Others believe that the development cooperation of the “new” donors is more effective because it is less bureaucratic and better suited to the needs of the recipients

*What can we learn from data?*
# The Most Important Recipients of BRICS Aid

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<thead>
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<tbody>
<tr>
<td>Mozambique</td>
<td>Cuba</td>
<td>Bhutan</td>
<td>DR Congo</td>
<td>Iraq</td>
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<td>Haiti</td>
<td>Kirgizstan</td>
<td>Sri Lanka</td>
<td>Guinea</td>
<td>Afghanistan</td>
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<td>São Tomé &amp; P.</td>
<td>North Korea</td>
<td>Afghanistan</td>
<td>Zimbabwe</td>
<td>Nigeria</td>
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<td>Timor-Leste</td>
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<td>Nigeria</td>
<td>Lesotho</td>
<td>Vietnam</td>
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<td>Serbia</td>
<td>Ethiopia</td>
<td>Comoros</td>
<td>DR Congo</td>
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<td>Cape Verde</td>
<td>Tadzhikistan</td>
<td>Nepal</td>
<td>Liberia</td>
<td>Ethiopia</td>
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<tr>
<td>Angola</td>
<td>Syria</td>
<td>Côte d'Ivoire</td>
<td>Sudan</td>
<td>Tanzania</td>
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<td>Paraguay</td>
<td>Armenia</td>
<td>Mozambique</td>
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<td>Pakistan</td>
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<td>Algeria</td>
<td>Zambia</td>
<td>Sudan</td>
<td>Burundi</td>
<td>Sudan</td>
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<tr>
<td>Senegal</td>
<td>Guinea</td>
<td>Syria</td>
<td>Seychelles</td>
<td>India</td>
</tr>
</tbody>
</table>

Source: AidData, Asmus et al. (2017), OECD CRS (2013)
WHAT ABOUT CHINA?

“Chinese aid is a state secret”

China is in last place on the “Aid Transparency Index” (behind Saudi Arabia)
China does not publish project data or bilateral aggregates

Possible reasons:

(1) Low administrative performance

(2) Avoidance of peer pressure from recipient countries

(3) Criticism from Chinese population about the existing poverty and rising inequality in China

(4) Disinterest in meeting Western standards
TODAY

1. How can we measure Chinese aid?
2. In which countries is China active and why?
3. In which provinces is China active and why?
4. What are the effects of China’s development activities?
   • Economic growth
   • Side effects
5. Conclusion
1. HOW CAN WE MEASURE CHINESE AID?
Method and database based on publicly available information

1. English, Chinese and local news reports (54%)
2. Official reports and news of Chinese ministries and embassies
3. Aid and debt information management systems of the ministries of finance of the recipient countries
4. IMF reports
5. Case studies and field research by scientists and NGOs
Method and database based on publicly available information

- Systematic, transparent and replicable
- Categorization scheme for Chinese peculiarities
- Projects tracked from start to completion
- Comparisons with other data sources (3.05 sources/project)
- Accessible in China and for users worldwide
CHINA’S DEVELOPMENT FOOTPRINT

- 2000-2014
- 140 countries globally
- 4,373 projects (54% to Africa)
- US$354 billion in commitments (34% to Africa)
Construction of a children's hospital
$8,980,403.33 to Senegal in 2011 | ID: 2095

Project Details:

<table>
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<tr>
<th>Details</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Donor</td>
<td>China</td>
</tr>
<tr>
<td>Recipient Country</td>
<td>Senegal (Diamaadi town)</td>
</tr>
<tr>
<td>Commitment Year</td>
<td>2011</td>
</tr>
<tr>
<td>Total Amount</td>
<td>$8,980,403.33 (USD-2009)</td>
</tr>
<tr>
<td>CRS Sector</td>
<td>Health</td>
</tr>
<tr>
<td>Flow Type</td>
<td>Grant</td>
</tr>
<tr>
<td>Flow Class</td>
<td>ODA-like (Arbitrated)</td>
</tr>
<tr>
<td>Scope</td>
<td>Official finance</td>
</tr>
<tr>
<td>Verified</td>
<td>Checked</td>
</tr>
</tbody>
</table>

Dates:

- Start (Planned):
- Start (Actual):
- End (Planned):
- End (Actual):

Loan Details:

- Loan Type: —
- Interest Rate: —
- Maturity: —
- Grace Period: —
- Grant Element: —

Transactions:

- $8,980,403.33 USD-2009
- $70,000,000.00 CNY
- $10,833,462.66 USD in 2011

Description:

In March 28, 2010, Senegalese Health Minister Modou Diagne Fada and Chinese Ambassador to Senegal Gong Yuanxing laid the foundation stone for the construction of a children's hospital in Diamaadi town, 37 km north of Dakar. The facility has a 136 bed capacity, costing 70 million RMB. Construction started on June 28, 2010. The hospital went into operation in June 2012, and it was officially inaugurated by Senegalese President Macky Sall on January 18, 2014.

Capacity: 130 beds

Resources:


Geocodes:

- Geo Name: Diamaadi
- Location Type: populated place
- Latitude: 14.72051
- Longitude: -17.1816
- Precision Code: 1

Adm 2: Rufisque
Adm 1: Dakar
Adm 0: Senegal
**ODA vs. OOF**

**Official Development Assistance (ODA)**
- Concessional loans (\( \geq 25\% \) grant element)
- Grants
- Primarily for development and welfare
- Typically preferred by OECD-DAC donors

**Other Official Flows (OOF)**
- Non-concessional loans (with grant element < 25%)
- Export credits to buyers or suppliers
- Flows with commercial or representational intent

**Vague Official Finance (Vague OF)**
- Umbrella category for flows which are either ODA or OOF, but for which there is insufficient information to assign to either category
2. IN WHICH COUNTRIES IS CHINA ACTIVE AND WHY?
First aid project
PRC joins United Nations
Deng Xiaoping assumes power
Tiananmen Square protests
FOCAC Beijing Summit

Number of China’s aid recipients over time

Recipient countries
RECIPIENT COUNTRIES

Year of the first Chinese ODA project per decade

Source: Fuchs and Rudyak (forthcoming) with data from Lin (1996) and AidData (Dreher et al. 2017)
ALMOST ALL AFRICAN COUNTRIES RECEIVE CHINESE ODA

Source: Jacobs/Wesseler with data from AidData (Dreher et al. 2017)

2000-2014
46B US$
58% of Chinese total ODA
Almost all African countries receive Chinese ODA&OOF

Source: Jacobs/Wesseler with data from AidData (Dreher et al. 2017)

2000-2014
118B US$
34% of Chinese total ODA&OOF
FOCUS ON INFRASTRUCTURE BUT ACTIVE IN ALL SECTORS

Source: Jacobs/Wesseler with data from AidData (Dreher et al. 2017)
POSSIBLE “AID” MOTIVES

• Large literature on aid allocation (Morgenthau 1962, Alesina and Dollar 2000, Neumayer 2004,...)

• Motives for granting development aid can be grouped into four categories:
  • Neediness of recipients (humanitarian motives)
  • Political self-interests of the donor country
  • Economic self-interests of the donor country
  • Quality of institutions in recipient countries (“merit”)

➢ Aid from non-Western donors is subject to criticism that it is more strongly driven by its own interests
POSSIBLE CHINESE “AID” MOTIVES

• Mutual benefit

• Political self-interests
  • One-China Policy (Taylor 1998)
  • Build coalitions to shield itself from Western criticism (Tull 2006)
  • Improve China's image

• Commercial self-interests
  • Gain access natural resources as a central goal of Chinese foreign aid (Alden 2005; Tull 2006; Evans and Downs 2006; Davies 2007; Halper 2010)
  • China's aid is largely tied
  • Chinese Ministry of Commerce is in charge of the delivery of aid (Lammers 2007)
CHINA’S ODA IS DRIVEN BY POLITICAL MOTIVES

Number of committed Chinese ODA projects per country and year (2000-2014)

- Diplomatic recognition:
  - Beijing: 2.5
  - Switcher: 2.3
  - Taipei: 0.1

- UN voting alignment:
  - UN close: 2.7
  - UN distant: 2.2

- Oil production:
  - Not oil producer: 3.1
  - Oil producer: 2.0

- Income level:
  - Low: 2.8
  - Lower middle: 2.4
  - Upper middle: 1.6

AND CHINA’S OOF BY COMMERCIAL MOTIVES
SUMMARY

• Based on China's lending practice, the claim that China's development aid (ODA) is “rogue aid” appears unjustified
  • No evidence that the allocation decisions are driven by natural resources and that autocracies are preferred
  • No significant difference in the importance of economic and political variables to the major Western donors

• But China has other “tools”: large loans and public investment (for example from China Exim Bank and China Development Bank)
3. IN WHICH PROVINCES IS CHINA ACTIVE AND WHY?
More Chinese development projects in the birth regions of African state leaders $\rightarrow$ favoritism (Dreher et al. forthcoming)
- “Aid” money in birth regions is 270 percent higher
- No similar result for the World Bank

More Chinese development projects in Africa’s capital cities and “richer” provinces
DEMAND SIDE OF CHINA’S AID

• Chinese aid allocation follows the initiative of the recipient governments

• Context: Principle of non-interference

• Ministry of Commerce: “The initiative generally comes from the recipient side”

• Ministry of Health: “We send medical teams to the areas [. . . ] selected by the host government”

• China‘s approach to “ownership” could therefore have adverse development effects (increasing inequality)
NEPOTISM
4. WHAT ARE THE EFFECTS OF CHINA’S DEVELOPMENT ACTIVITIES?
IS CHINA’S AID EFFECTIVE?

- China’s aid could be more effective because...
  - “faster”
  - “less bureaucratic”
  - experience through own development successes
  - developing countries could be more open to advice (“partners”)
  - package solutions (aid, investment, trade)
  - donors retain more control over money and personnel
  - focus on infrastructure
Positive growth effects also at the country level for the worldwide sample.

Table 4: Aid effectiveness estimates ADM1, yearly, 2001-13

<table>
<thead>
<tr>
<th>Time Period τ</th>
<th>Panel A. OLS Estimates</th>
<th>Panel B. 2SLS Estimates 1</th>
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<tbody>
<tr>
<td></td>
<td>$\ln(Aidpc)_{ict-τ}$</td>
<td>$\ln(Aidpc)_{ict-τ}$</td>
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<tr>
<td></td>
<td>0.0044</td>
<td>0.0022</td>
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<tr>
<td></td>
<td>(0.0031)</td>
<td>(0.0018)</td>
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<tr>
<td>Observations</td>
<td>9,217</td>
<td>8,508</td>
</tr>
<tr>
<td></td>
<td>0.0593</td>
<td>0.0641</td>
</tr>
<tr>
<td></td>
<td>(0.0461)</td>
<td>(0.0433)</td>
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<tr>
<td>Observations</td>
<td>9,217</td>
<td>8,508</td>
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<tr>
<td>F-stat</td>
<td>9.25</td>
<td>15.38</td>
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</table>

Chinese aid does not have an immediate impact on local economic development, but the effect becomes statistically significant in the third year.

A 10% increase in Chinese aid leads to a 0.8% increase in per-capita light output within an ADM1 region.

Source: Dreher et al. (2016)
INCLUSIVE GROWTH?

Chinese projects (especially investments in interconnecting infrastructure such as roads, bridges, railways and ports)

• Ensure a more even distribution of economic activities *within* regions

• Also reduce economic disparities *between* regions

Many developing countries suffer from excessive concentration of economic activity in a small number of urban centres
POSSIBLE SIDE EFFECTS

• Does China's aid fuel corruption in Africa?
• Does China's aid weaken trade unions in Africa?
• Does China's aid undermine the promotion of Western-style democracy?
• Does Chinese aid fuel conflicts in recipient countries?
• Are there adverse environmental effects?
• Does increased competition between donor countries increase the recipient countries’ wiggle room in negotiations?
BAD NEWS: LOCAL CORRUPTION

Isaksson and Kotsadam (2017, *World Devel.*) show that China's development projects weaken trade union activities in their geographical environment.
Li (2017, *CPSR*): Access to Chinese development finance undermines democracy-promoting effects of Western conditionality.
Good News: Conflict

- Nielsen and co-authors (2011, *AJPS*) find that sudden substantial cuts in Western development aid increase the likelihood of civil wars.

- Strange and co-authors (2017, *JCR*) show that this effect disappears when African recipient countries have access to Chinese aid (≥1% of GDP).

- Gehring, Kaplan and Wong (2018) find no increased likelihood of demonstrations, strikes or unrest.
LOCAL CONTEXT PLAYS A ROLE: ENVIRONMENT

Deforestation in Southeast Tanzania before start of project

Deforestation in Southeast Tanzania after end of project

BenYishay et al. (2016): Little or no deforestation in forest protection areas due to nearby Chinese development projects in Tanzania (but it’s different story in Cambodia...)
IMPACT ON “TRADITIONAL” DONORS

• Humphreys and Michaelowa (forthcoming, *World Devel.*): China was not a game changer in Africa for "traditional" development finance (WB, AfDB), as public discussion might suggest
  • Level of development cooperation
  • Sectoral distribution
Hernandez (2017, *World Devel.)*: 15% less than World Bank conditions if China's aid increases by 1%
5. CONCLUSION
CONCLUSION

• China's development activities are becoming increasingly important
  ▪ Are roughly comparable in volume to those of the USA
  ▪ Non-transparency remains a problem

• Positive effects
  ▪ (Inclusive) Growth
  ▪ Conflict avoidance (or at least no promotion of it)

• Negative effects
  ▪ Local corruption on the rise
  ▪ Trade union density declines
  ▪ Democratizations less likely
CONCLUSION

- Good regulation is important in recipient countries
- Hardly any changes in the allocation behaviour of MDBs
- Less influence of the “old” donors possible
- Activities of other “new” bilateral donors must not disappear from the radar (e.g., Saudi Arabia, Iran, Russia, India)
- Developments in multilateral aid should be taken into account
THANK YOU!

mail@andreas-fuchs.net
TOTAL EU DEVELOPMENT FINANCE IS (STILL) MUCH LARGER

Source: Jacobs/Wesseler with data from AidData (Dreher et al. 2017)
CHINA STILL LAGS BEHIND IN TERMS OF POLICY INFLUENCE

Source: AidData (Custer et al. 2018)
ODA disbursements in millions of US dollars (2010-2014 average)

BRICS ODA IS STILL LOW...
...but the official financial flows of BRICS are substantial

Many “New” Donors Are Not New

- **Brazil**: Since the 1960s, foundation of ABC 1987
- **Russia**: Important tool in the Cold War
- **India / China**: 1955 (Bandung Conference)
- **South Africa**: During the apartheid (Economic Co-operation Promotion Loan Fund Act, 1968)
- For comparison, **Germany**: First Development Fund 1956, foundation of BMZ 1961