

# Understanding China's Approaches to International Development

China's impressive economic growth and increasing development activities overseas, particularly in the African continent, have spurred intense debate and criticism over its role as a rising power in international development. China is viewed in the West both as a threat, but also as a valuable potential partner in development cooperation. However, differences between Western and Chinese conceptions of foreign aid and development have complicated cooperation and understanding of China's development and aid structures. Further knowledge of these differences is needed, in order to evaluate their implications for low-income countries, and for potential trilateral cooperation.

China's growing overseas development activities have garnered international attention, as well as strong criticism due to its resource extraction activities in sub-Saharan Africa, and its non-interference in these states. China's current development cooperation in Africa and elsewhere draws upon a history of evolving aid and diplomatic relations with Southern states, and China's current discourse remains consistent with Zhou Enlai's foreign policy principles dating back to the 1950s, which emphasised sovereignty, horizontality and non-interference between developing states.

'Mutual benefit' is a core principle in China's aid and foreign policy, through which it helps build up the partner country's capacity for independent 'self-development'. This stands in contrast to principles of untied aid in the OECD-DAC model, but forms a central principle in its 2006 'China's African Policy', and in its 2014 *White Paper on Foreign Aid*, which endorsed notions of non-conditionality, equality and self-development. In practice, non-interference and non-intervention are becoming increasingly tested on the ground – most notably in the case of the Sudanese crisis in 2007, where international pressure forced China to

offer military support, and this may be a growing trend as China's economic investments in the continent grow.

While current Western development aid focuses strongly on notions of poverty reduction, social welfare, and political and institutional reform, Chinese development cooperation forms a much broader remit that emphasises economic relationships. Chinese discourse rarely refers to aid and development together, and views both as separate concepts. In fact, the White Paper and official discourse describes China as a developing country, rejecting the status of China as a donor, and arguing that it cannot provide development aid. Instead, its relationship with developing countries is framed as one of a horizontal and equal partnership for common development.

## China's development cooperation entails a broad model of economic engagement

Aid, or development assistance in the traditional sense, forms a small element of China's development cooperation, which entails a much broader model of economic engagement that includes significant trade, loans and capital investments. Official definitions and statistics around China's foreign aid

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remain vague and are often classified, and the practical and experimental nature of Chinese development assistance means there is little articulation of a model for China's development cooperation. The 2014 White Paper lists technical cooperation, debt relief and projects as major forms of aid. Of these foreign assistance projects, a majority is spent on economic infrastructure, followed by industry, energy and resource development, and agriculture. Grants, concessionary loans, and assistance for joint ventures are the primary forms of financing, which are used in concert with its investment and trade policies in order to leverage greater investment from the commercial sector.

At the same time, China has extended preferential tariffs on exports from 29 least-developed African countries, and two-way trade between China and Africa increased to over US\$166bn in 2012, making China Africa's largest trade partner. China has also become a major source of foreign direct investment (FDI) to Africa. This surge in the China–Africa relationship has generated an intense debate on what the main drivers of China's interest in Africa are and the impacts that this growing relationship is having on African countries.

### Multiple ministries and agencies support delivery and implementation of China's development cooperation

China's development cooperation involves a number of government agencies, primarily the Ministry of Commerce (MOFCOM), as well as the Ministry of Foreign Affairs (MOFA) and the Ministry of Finance (MOF), though

other central and local government agencies, the Exim Bank, as well as public and private enterprises, and institutions are also involved in delivery and implementation. MOFCOM is the lead agency in managing economic policies and foreign aid, under which two new sub-divisions, the Department of Aid to Foreign Countries (DAFC) and the Department of International Cooperation, are responsible for outward and inward flows of aid, respectively. Under the DAFC, the Executive Bureau of International Economic Cooperation (EBIEC) was established in 2009 to execute and implement DAFC policies, and manage cooperation with traditional donors, but DAFC remains relatively small, comprising no more than 100 personnel, of which 20–30 work mainly on Africa.

Major decisions on aid are determined at the central level, after which policies, funding allocation and project planning are directed primarily by MOFCOM, in consultation with MOFA and MOF. The project selection process begins by recipient governments and Chinese embassies articulating their requirements, which narrows down the needs, and they then pass project requests to MOFCOM. MOFCOM then commissions a field investigation for the project. Following consultation between MOFCOM and other relevant departments, the project request is passed through the State Council for approval. MOF then allocates funds to MOFCOM, which either opens a bidding procedure to contract the project or provides funds to the relevant department. EBIEC under MOFCOM then assumes responsibility for project oversight and implementation.

## Concessional loans in China's development assistance

While MOFCOM provides grants and interest-free loans for aid projects, policy banks, such as the Exim Bank and China Development Bank, have been set up to work with concessional loans. Provision of 'interest-subsidy' concessional loans in the late 1990s form perhaps the most fundamental change in China's development cooperation since 1978.

After the late 1970s, China dramatically reduced the scale of its foreign assistance, mainly supporting medium- or small-scale aid projects until it began using concessional loans to fund large-scale projects. The Exim Bank in particular, manages large-scale development projects and has been heavily involved in Chinese infrastructural investment in Africa.

One key feature of China–Africa engagement is the use of resource-for-equity swaps, typified in the 'Angola-model', where loans are repaid through oil and other extractive commodities. While criticised as an unequal power relationship, these government-subsidised loans offer attractive rates below market price, and have been a valuable source of funding for large-scale infrastructure in the African region, allowing countries that are capital poor but resource-rich to develop and grow their extractive sectors.

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## The role of state and businesses in development cooperation

China's business sector has become increasingly involved in development projects, fuelled in part by its 'Going Global' strategy initiated in 2000. This policy used state incentives, including preferential trade regulations, low interest loans and Exim Bank support, in order to promote the outward investment and global expansion of China's leading firms and state-owned enterprises (SOEs).

The engagement of SOEs in development projects is driven both by China's need for raw materials to fuel its domestic growth, and by the quest to build up China's own multinational firms in new markets. SOEs have been involved in both labour-intensive manufacturing and infrastructure construction in developing countries, often through joint ventures with local private and state-owned enterprises, and have become highly influential in developing

countries. However, beyond multinational SOEs, a growing wave of Chinese private firms and small and medium-sized enterprises (SMEs) are moving abroad. These SMEs are driven by growing domestic competition to seek new market opportunities overseas, but they do so with little coordination and direction from the state, and are often underprepared in operating in foreign and new environments.

The increasing role of market-driven businesses and SOEs in Chinese aid project implementation indicates an important transition away from state-dominated foreign aid. Business and economic interests have featured prominently at the Forum on China-Africa Cooperation (FOCAC) summits. However, motivations of the business sector may not always align with the Chinese government's foreign policy goals motivating aid allocation, indicating potential gaps between Chinese aid policy and practice.

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## Growing wave of Chinese SMEs in Africa

A new dynamic presence is spreading rapidly and widely across Africa: that of Chinese private enterprises. For these firms, Africa is 'the last golden land' of economic opportunity. Why are these enterprises investing in Africa? What are their perspectives on Africa's investment climate? A growing number of firms are contradicting the stereotype of Chinese firms in Africa. Pushed by intense competition within China's domestic marketplace and pulled by the glint of new opportunities, many small, private manufacturing firms are heading to Africa quite independently of the Chinese government. They grasp this opportunity in a 'three jump' pattern. The first two of these 'three jumps' are better known, from doing business within China to exporting to Africa; and then from exporting to Africa to investing in production in Africa. The third jump is less familiar: to investing in industry parks in Africa. Chinese firms cluster in new business parks, collaborating in coordinated production. Yet simultaneously, and contrary to popular perceptions, they are most concerned about the competition they face from other Chinese firms and not by competition from African or other expatriate firms in Africa.

Estimates of the number of Chinese enterprises in Africa vary considerably. In 2006, the Chinese Exim Bank estimated that there were about 800 Chinese companies operating in Africa. According to this data, approximately 85 per cent were privately owned. However, evidence from Chinese embassies and the Chinese business communities in Africa indicates that China now has over 3,000 enterprises in Africa. According to one senior Chinese official: 'To be honest, we don't know how many firms, especially private firms, invest overseas. There are only limited number of companies registered with us [in our Province]. In fact, I believe that there are more firms. I hope they come to register with us'.

The Chinese business sector in Africa thus has growing 'enclave' characteristics: enterprises are located together in business parks, and simultaneously both competing with one another and cooperating and largely doing business with one another in the supply chain. They are relatively optimistic about the investment climate in Africa, especially those obstacles created by governments and public policy. However, Africa's prospects for successfully harnessing the Chinese private firms to its development goals lies in the way each is adapting to their growing understanding of each other.

## Policy implications

- **China is now frequently referred to as the emerging superpower of the twenty-first century.** On the basis of sustained and substantial economic growth over quarter of a century, China's national power and regional and global standing has been transformed. As an increasingly significant global player, the second largest economy with burgeoning foreign exchange reserves, and possibly the largest contributor to global warming, increasingly scholars are focused on the implications of what its 'peaceful rise' means for the international competitiveness of other countries' manufactures; for financial and exchange rate stability; for military security; and for global public goods and international development cooperation.
- **China's approach to aid significantly differs from that of Western donors** and is still evolving, and awareness of differences in ideologies behind aid and development remains key to future successful aid cooperation. China does not wish to be regarded as a donor; its conceptions of its development cooperation and rejection of a donor identity must be respected when building engagement and cooperation bilaterally or in global forums.
- Though **non-interference is a central principle of China's foreign aid policies**, its growing involvement and investments in high-risk parts of sub-Saharan Africa mean this may be increasingly difficult to sustain. Increased political engagement and investment in security may be a necessary spillover in China's engagement in Africa.
- The **institutional context of China's development cooperation is complex**, and Western donors and external partners must take these differentiated political roles into consideration in order to effectively pursue trilateral development cooperation. The Chinese state and the DAFC in particular still has very limited capacity in coordinating between the multitude of actors operating in this environment. As China's development assistance commitments grow, the institutional capacity and responsibility of this nascent agency will also need to be developed.
- **Prospects for trilateral cooperation remain viable**, particularly in forums like the G20 which has adopted shared growth and development as a part of its core agenda. China has also taken steps toward avenues for cooperation, and the creation of EBIEC, a division under the DAFC to manage international cooperation, shows it is willing to learn from, and amenable to cooperation with, traditional donors. However, in initiating trilateral cooperation, recipient countries must be central in leading and participating in discussions around trilateral cooperation between Western countries and China.
- The **business sector and state-owned enterprises (SOEs) are an increasingly salient presence in China's development cooperation, in Africa and elsewhere.** The growing diversity and multitude of Chinese firms now operating in Africa presents a challenge for state coordination, and in mediating China's sometimes controversial public image abroad. Though incentivised by the state, business actors also act autonomously from state directives, and this must be recognised when liaising with Chinese business or state actors. Conflicts between state aims and business goals may be an emerging tension as China's development activities evolve, leading to a potential gap between policy and practice.

## Further reading

Wolf, C.; Wang, X. and Warner, E. (2013) *China's Foreign Aid and Government-Sponsored Investment Activities Scale, Content, Destinations, and Implications*, Santa Monica, CA: RAND Corporation

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