

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

AID

“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 AID

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

Brazil 2005-2010	Russia 2010-2015	India 2006-2010	South Africa 2005-2010	For comparison: Germany 2005-2012
1. Mozambique	1. Cuba	1. Bhutan	1. DR Congo	1. Iraq
2. Haiti	2. Kirgizstan	2. Sri Lanka	2. Guinea	2. Afghanistan
3. São Tomé & P.	3. North Korea	3. Afghanistan	3. Zimbabwe	3. Nigeria
4. Timor-Leste	4. Nicaragua	4. Nigeria	4. Lesotho	4. Vietnam
5. Guinea-Bissau	5. Serbia	5. Ethiopia	5. Comoros	5. DR Congo
6. Cape Verde	6. Tadzjikistan	6. Nepal	6. Liberia	6. Ethiopia
7. Angola	7. Syria	7. Côte d'Ivoire	7. Sudan	7. Tanzania
8. Paraguay	8. Armenia	8. Mozambique	8. Uganda	8. Pakistan
9. Algeria	9. Zambia	9. Sudan	9. Burundi	9. Sudan
10. Senegal	10. Guinea	10. Syria	10. Seychelles	10. India

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)



NO COMPARABLE DATA...

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?

TRACKING UNDERREPORTED FINANCIAL FLOWS (TUFF)

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

TRACKING UNDERREPORTED FINANCIAL FLOWS (TUFF)

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



AIDDATA
A Research Lab at William & Mary

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:

Donor: [China](#)
Recipient Countries:
[Senegal](#) (Diamniadio town)
Commitment Year: 2011
Total Amount (USD-2009):
\$8,980,403.33
CRS Sector: [Health](#)
Flow Type: [Grant](#)
Flow Class: [ODA-like](#) (Arbitrated)
Scope: [Official finance](#)
Verified: [Checked](#)

Intent: [Development](#)
Status: [Completion](#)
Sector Comment: —
Debt Uncertain: —
Commercial: —
Line of Credit: —
Is Cofinanced: —
Ground Truthed: —

Dates:	Loan Details:	Transactions:
Start (Planned): —	Loan Type: —	\$8,980,403.33 USD-
Start (Actual): —	Interest Rate: —	2009 (70,000,000.00
End (Planned): —	Maturity: —	CNY, \$10,833,462.66
End (Actual): —	Grace Period: —	USD in 2011)
	Grant Element: —	



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Description:

In March 26, 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 Diamniadio town, 37 km north of Dakar. The facility has a 136 bed capacity, costing 70 million RMB. Construction started on June 26, 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:

Xinhua News Agency. "Roundup: Senegal reaping benefits in all sectors after resumption of ties with China." *Xinhua News Agency*. 2011-08-17. Accessed: 2013-06-27 14:26:49 -0400. <http://vlex.cn/vid/roundup-ties-with-china-323725607>.

Geocodes:

Geo Name: Diamniadio	Adm 2: Rufisque
Location Type: populated place	Adm 1: Dakar
Latitude: 14.72051	Adm 0: Senegal
Longitude: -17.1816	
Precision Code: 1	

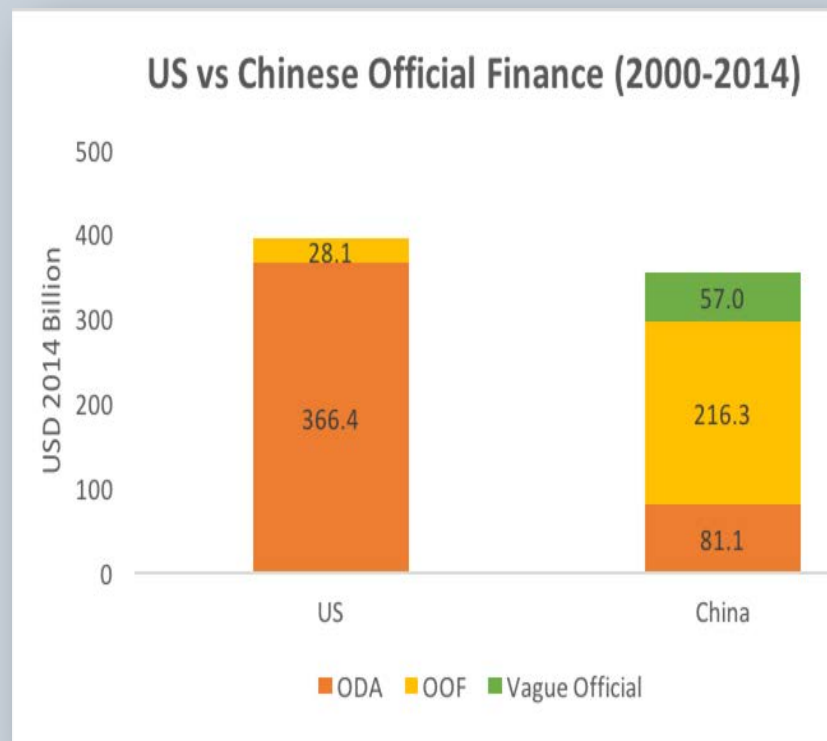
ODA vs. OOF

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

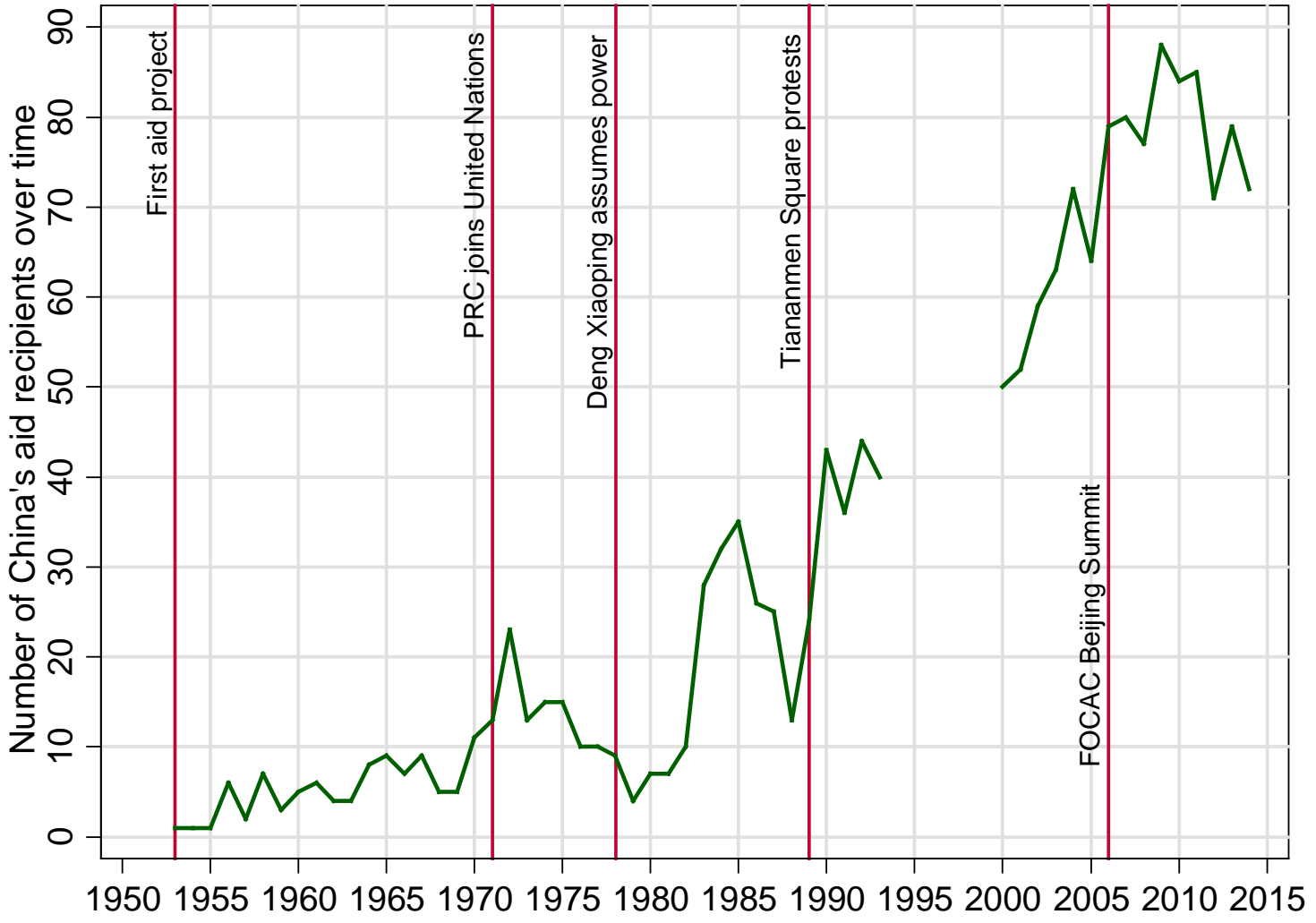


Vague Official Finance (Vague OF)

- Umbrella category for flows which are either ODA or OOF, but for which there is insufficient information to assign to either category

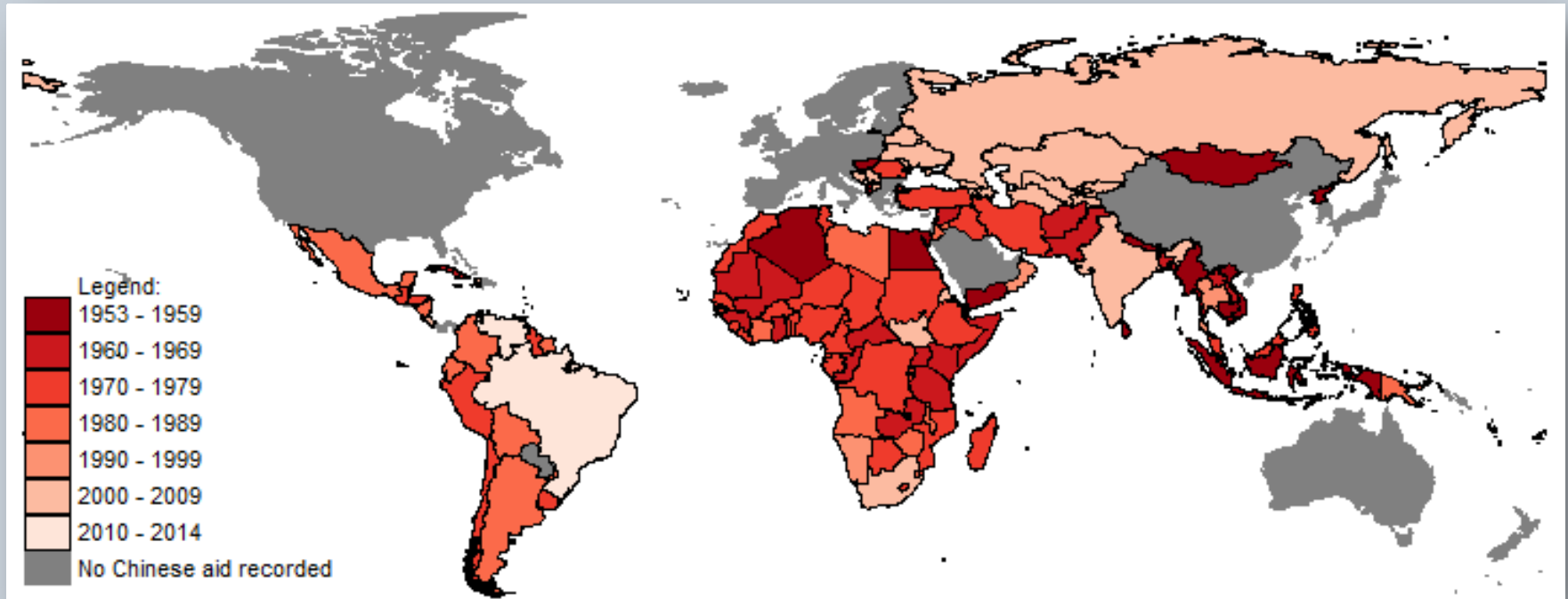
2. IN WHICH COUNTRIES IS CHINA ACTIVE AND WHY?

RECIPIENT COUNTRIES



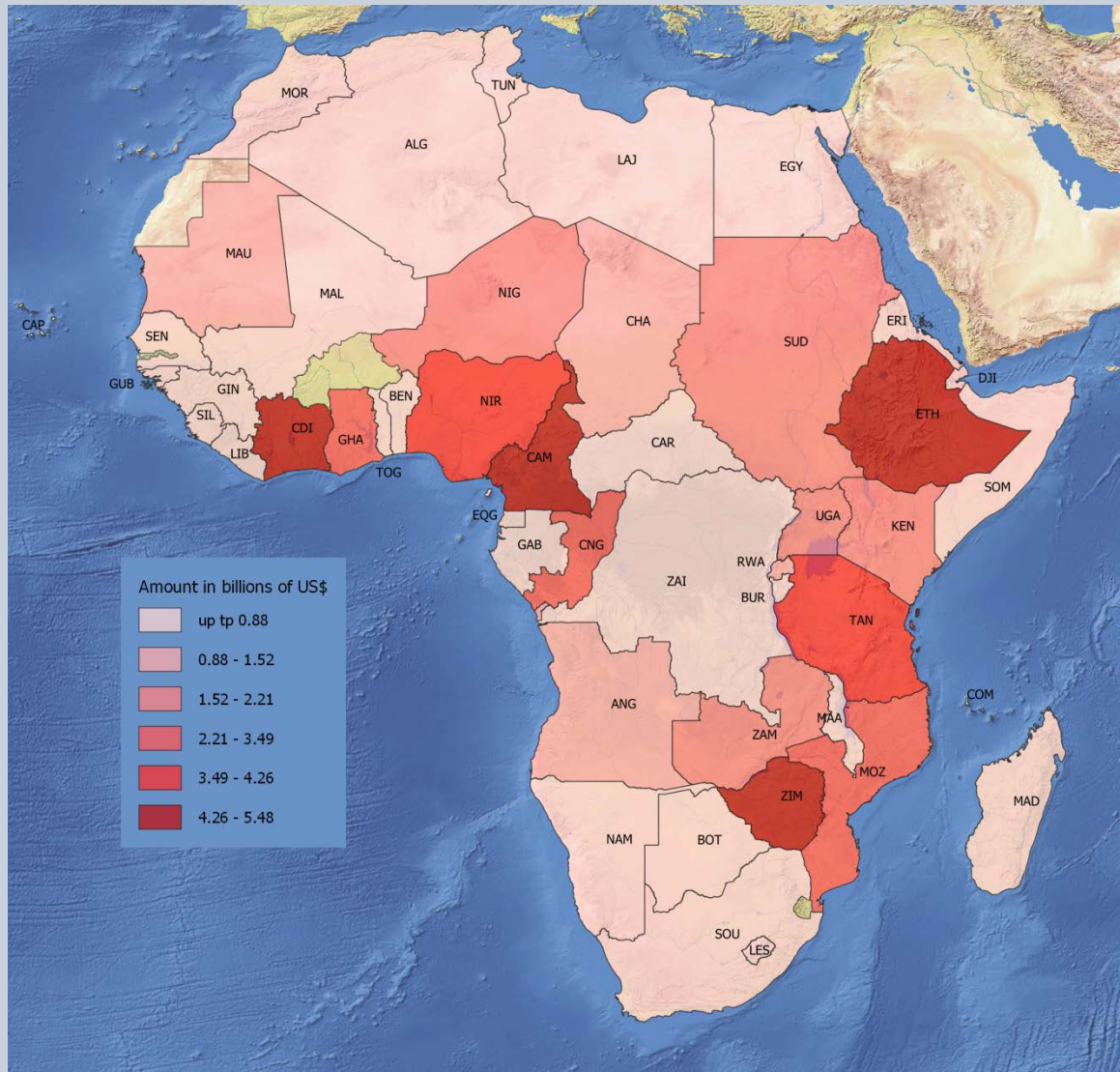
RECIPIENT COUNTRIES

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

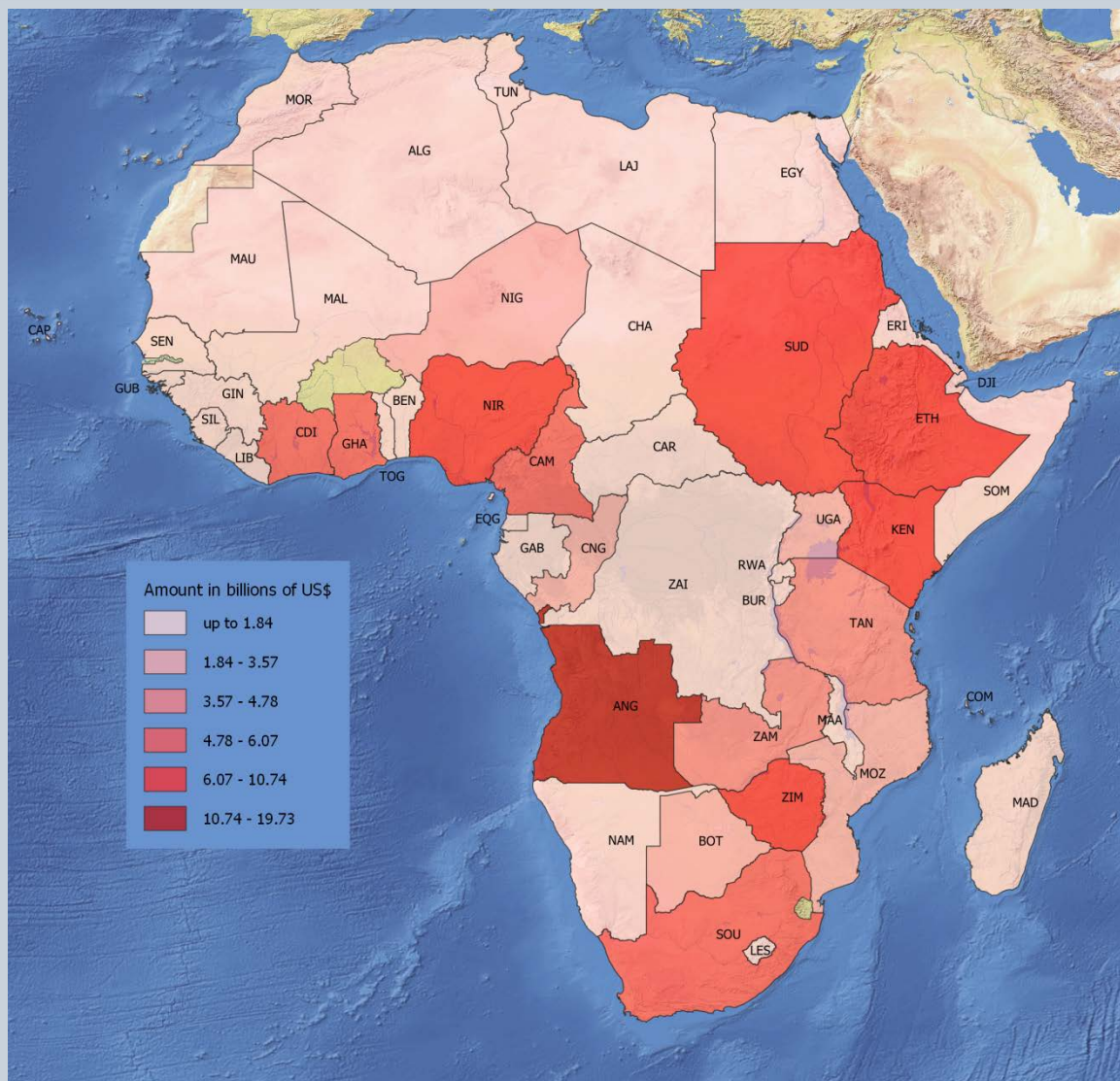


2000-2014

46B US\$

58% of
Chinese total
ODA

ALMOST ALL AFRICAN COUNTRIES RECEIVE CHINESE ODA&OOF

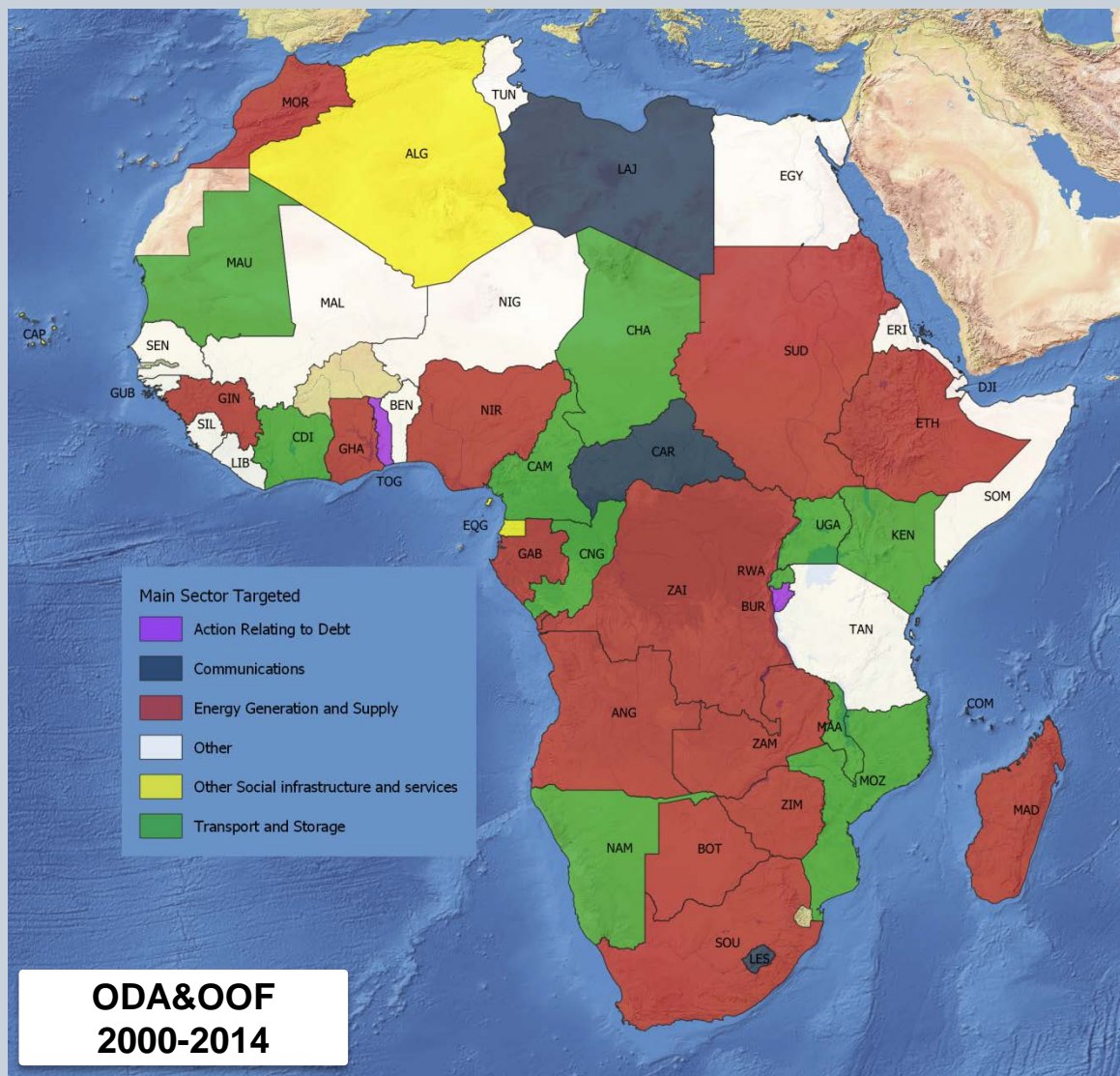


2000-2014

118B US\$

34% of
Chinese total
ODA&OOF

FOCUS ON INFRASTRUCTURE BUT ACTIVE IN ALL SECTORS



**ODA&OOF
2000-2014**

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

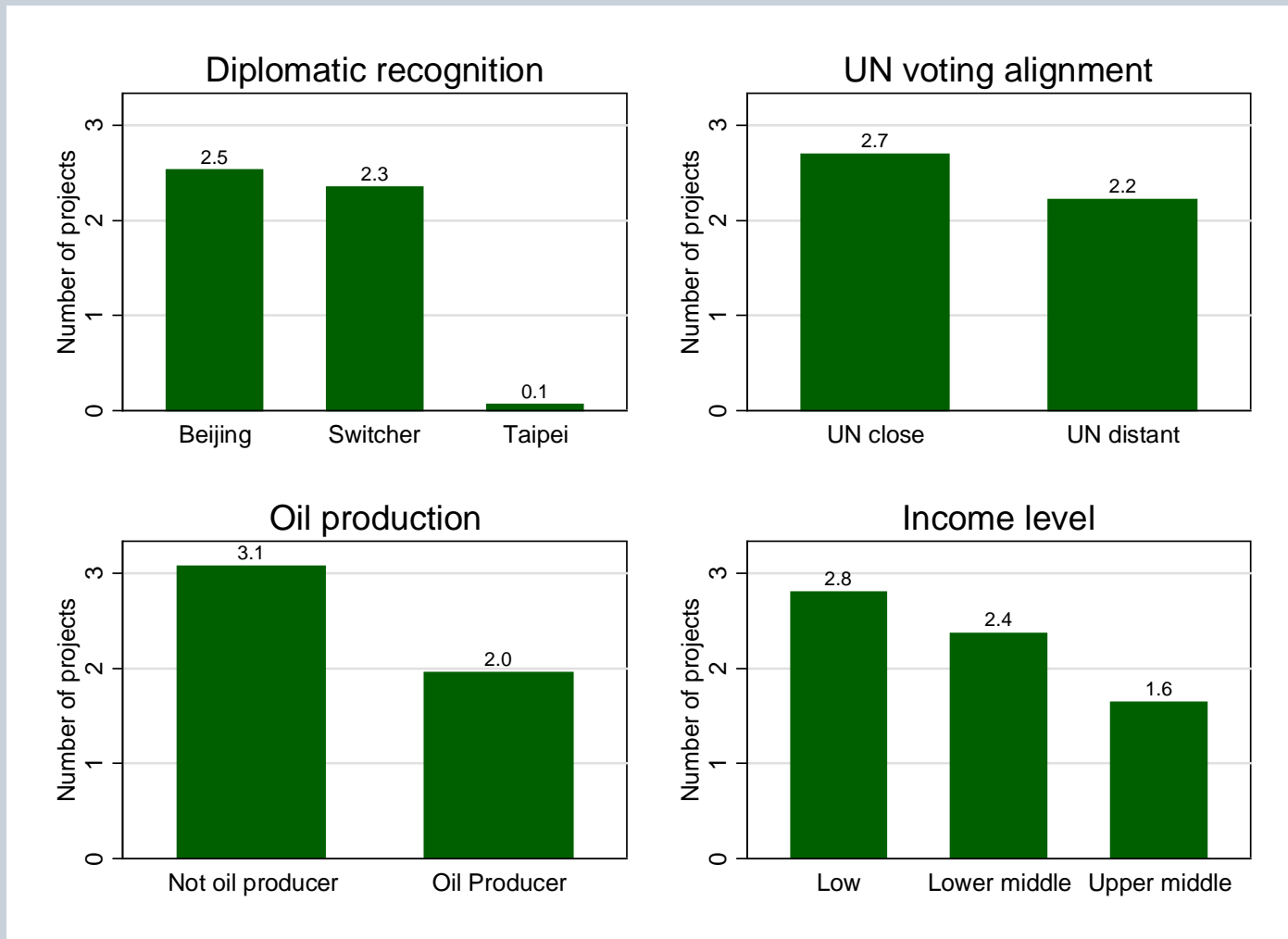
POSSIBLE “AID” MOTIVES

- 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)

... AND CHINA'S ODA IS DRIVEN BY COMMERCIAL MOTIVES

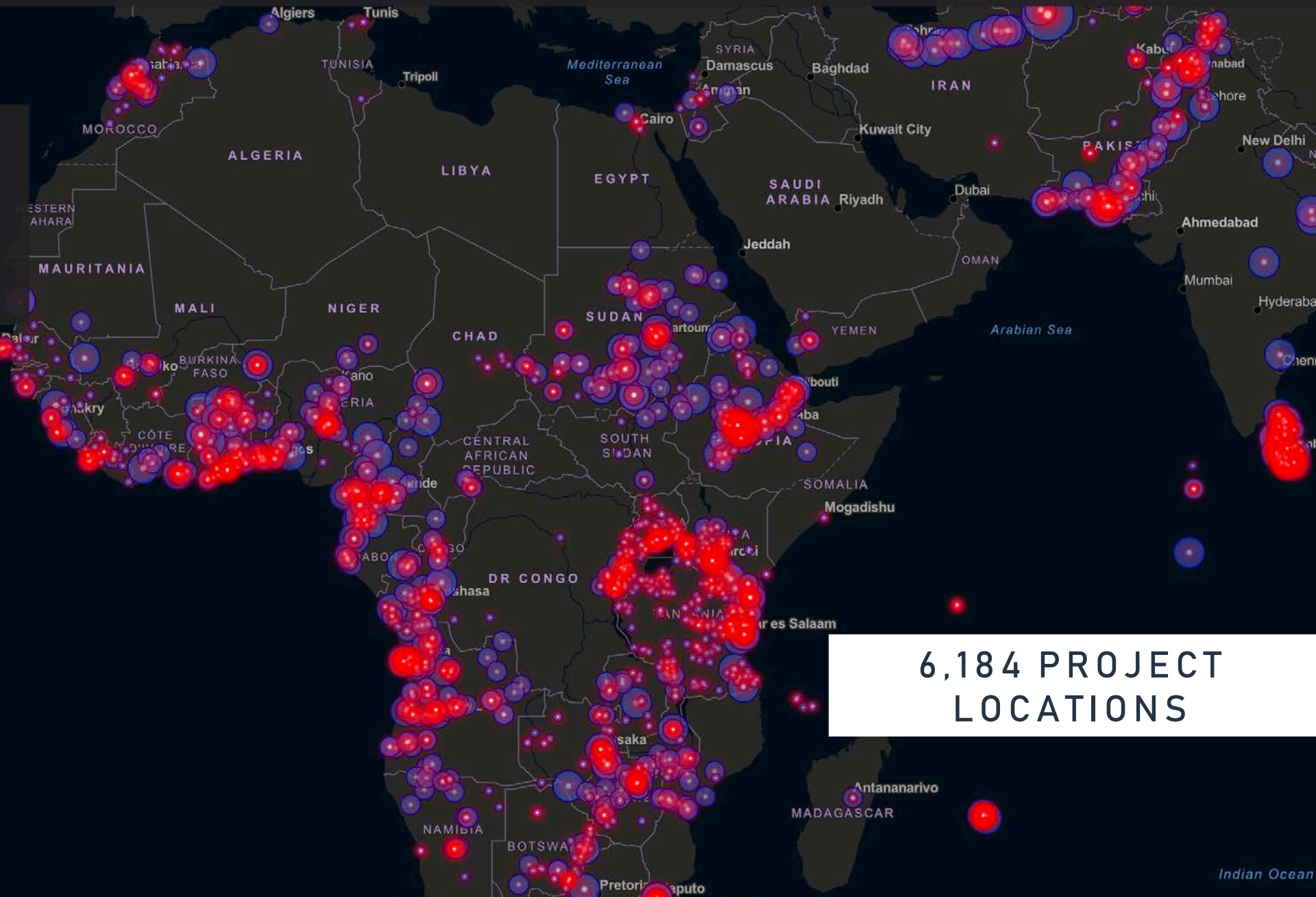
S U M M A R Y

- 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?**

Mapping China's Global Development Footprint

's Geocoded Global Chinese Official Finance Dataset



SUBNATIONAL PROJECT LOCATIONS



- More Chinese development projects in the birth regions of African state leaders → 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

GROWTH EFFECTS

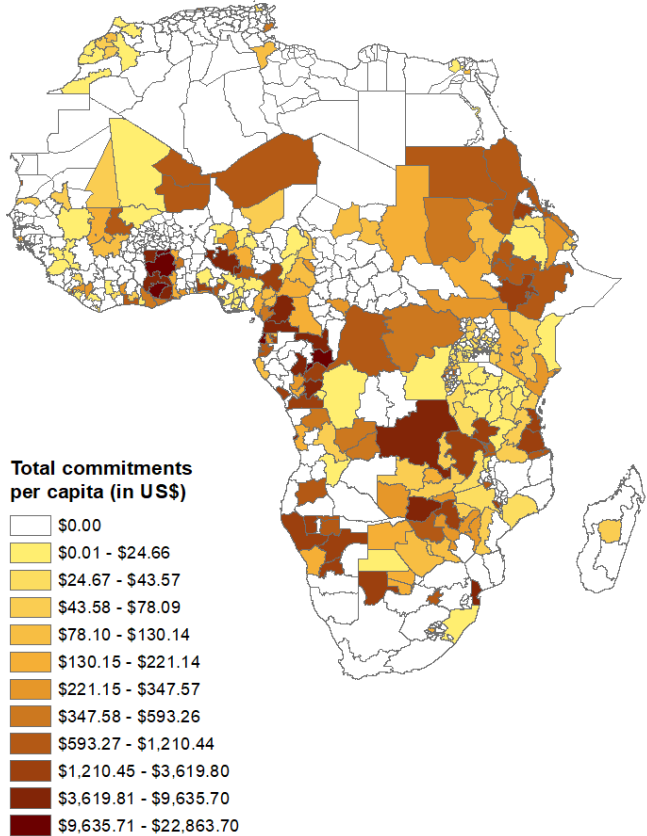


Table 4: Aid effectiveness estimates ADM1, yearly, 2001-13

<i>Time Period</i> τ	1	2	3
<i>Panel A. OLS Estimates</i>			
$\ln(\text{Aidpc})_{ict-\tau}$	0.0044 (0.0031)	0.0022 (0.0018)	0.0050** (0.0023)
Observations	9,217	8,508	7,799
<i>Panel B. 2SLS Estimates 1</i>			
$\ln(\text{Aidpc})_{ict-\tau}$	0.0593 (0.0461)	0.0641 (0.0433)	0.0937** (0.0402)
Observations	9,217	8,508	7,799
F-stat	9.25	15.38	10.45

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)

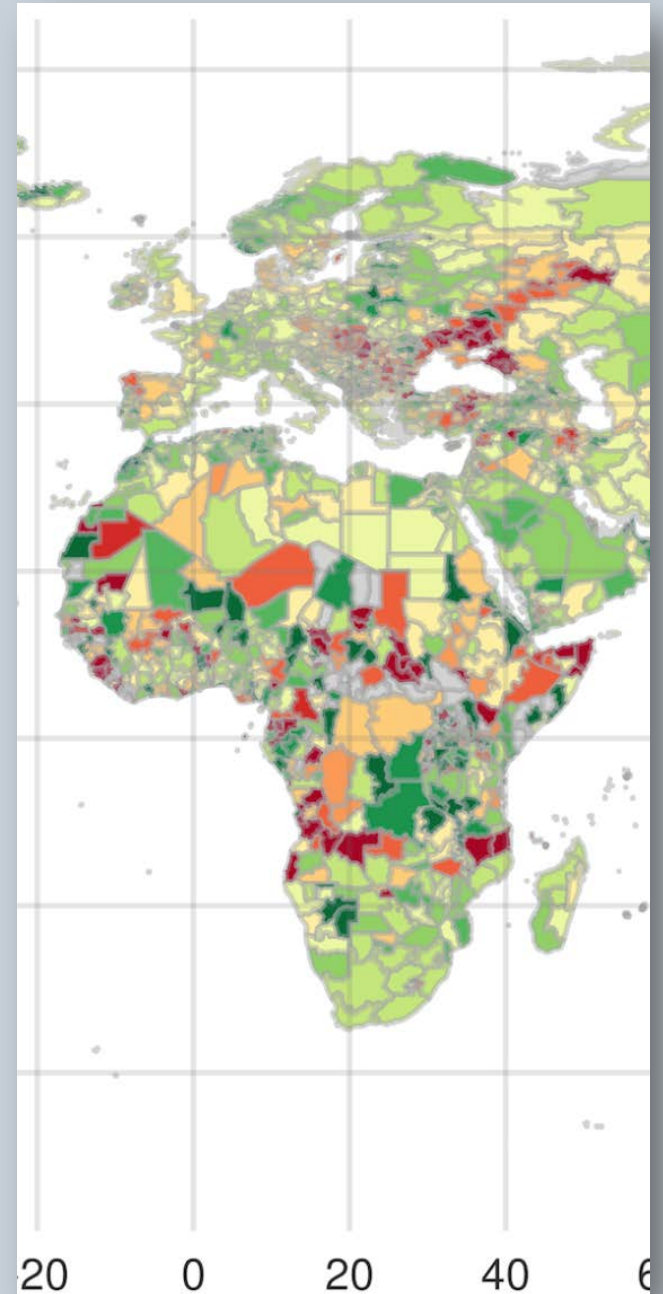
- ✓ Positive growth effects also at the country level for the worldwide sample

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

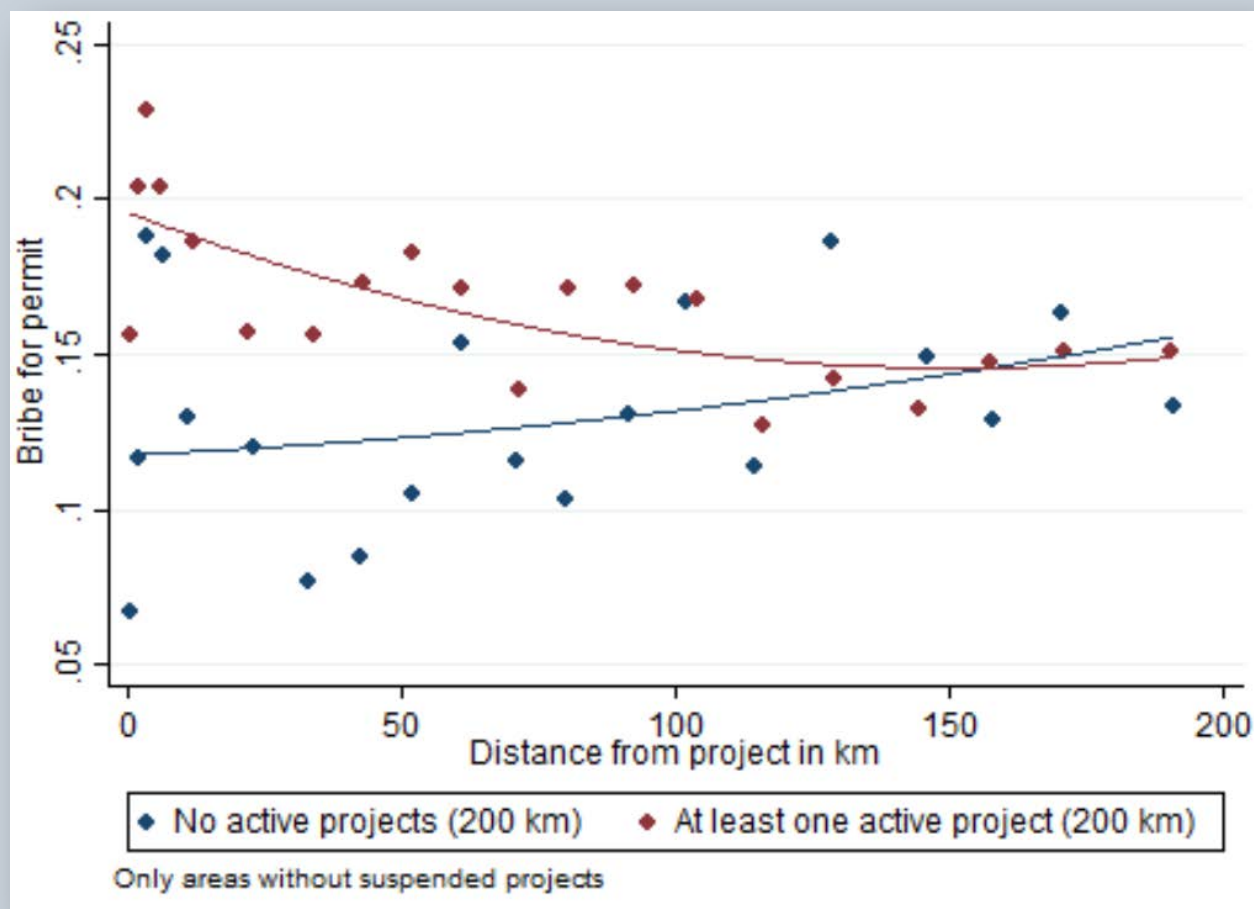


POSSIBLE SIDE EFFECTS

- 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?

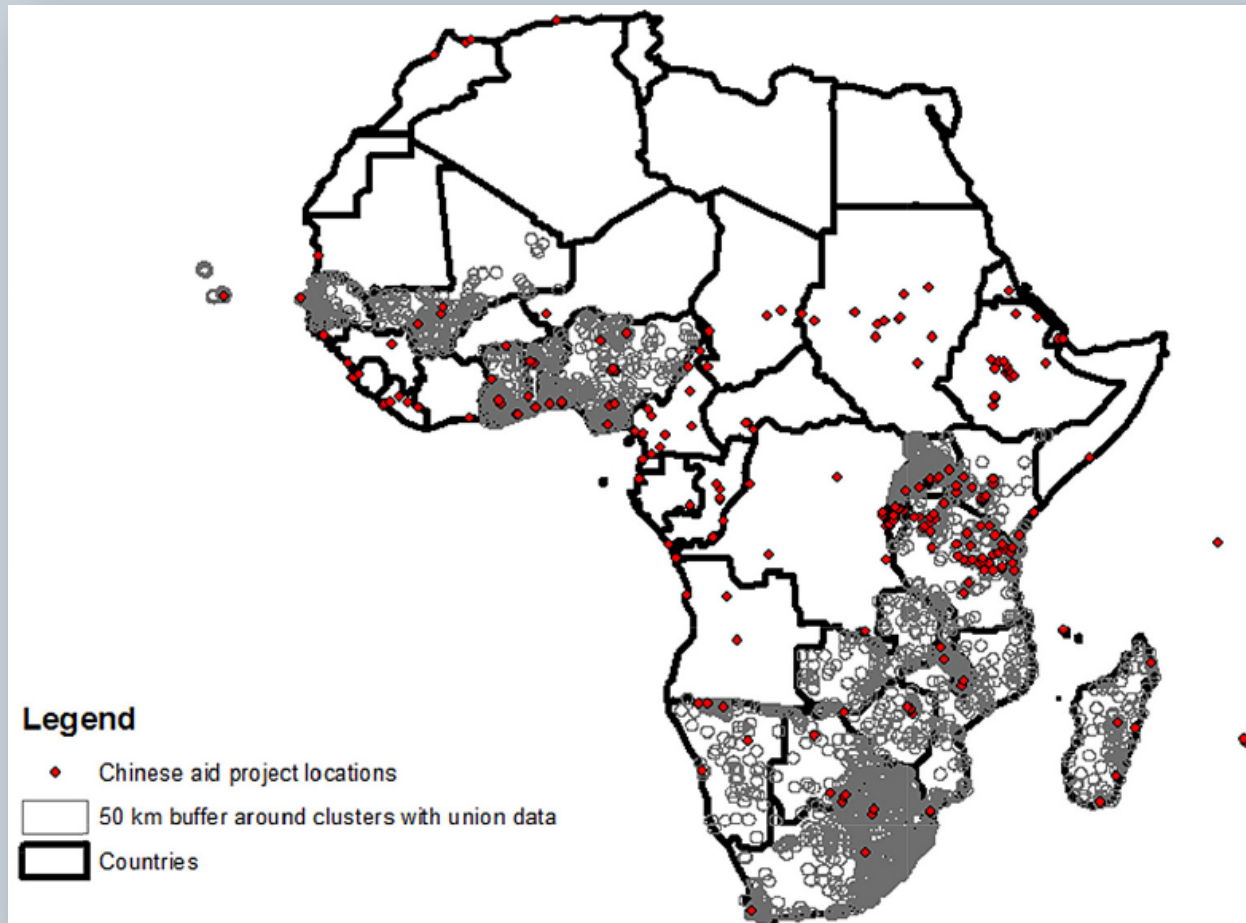
BAD NEWS: LOCAL CORRUPTION

Isaksson and Kotsadam (2018, *JPubE*): Chinese development projects promote local corruption in Africa in areas close to Chinese project sites (as opposed to World Bank projects)



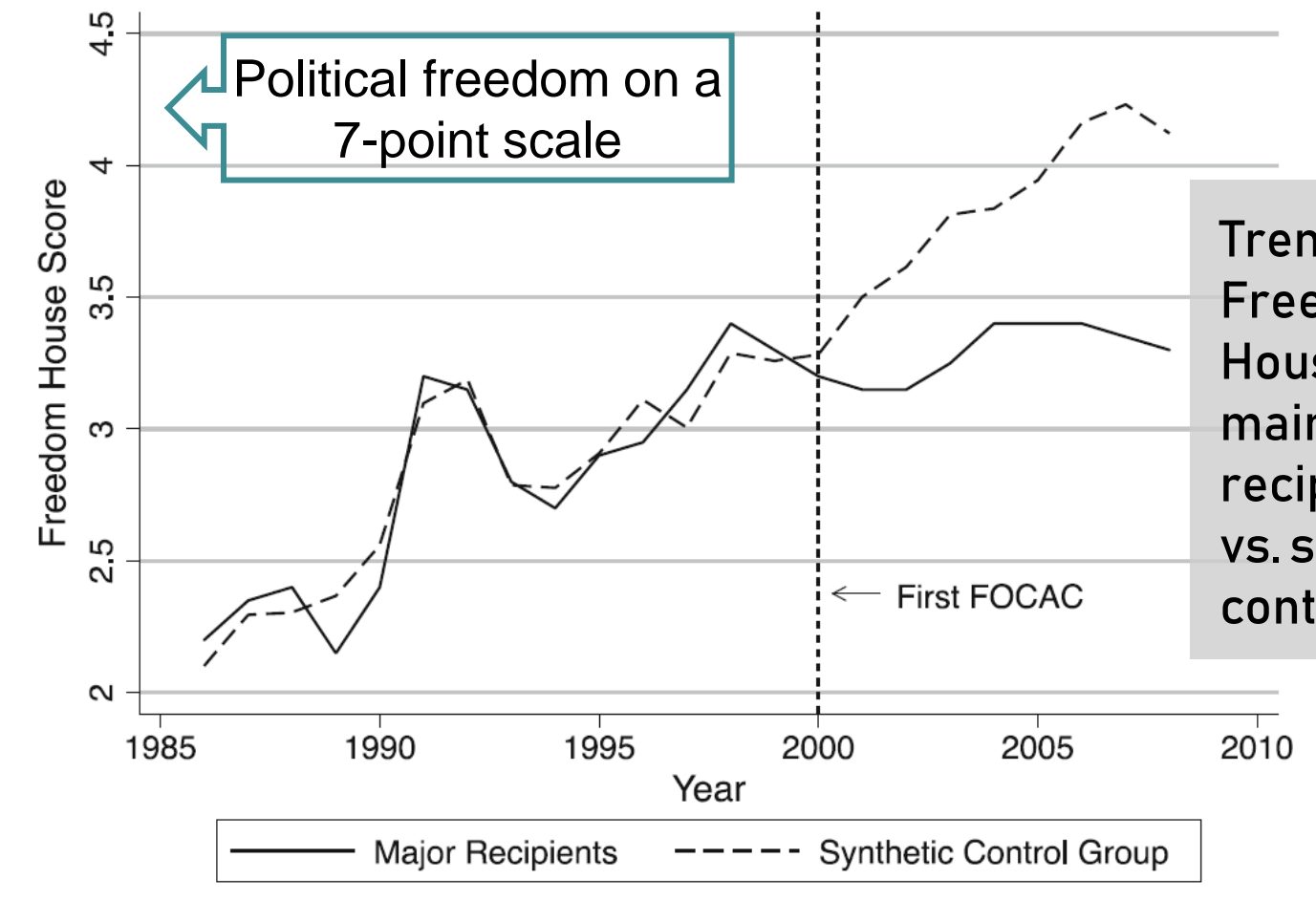
BAD NEWS: WORK CONDITIONS

Isaksson and Kotsadam (2017, *World Devel.*) show that China's development projects weaken trade union activities in their geographical environment



BAD NEWS: DEMOCRACY

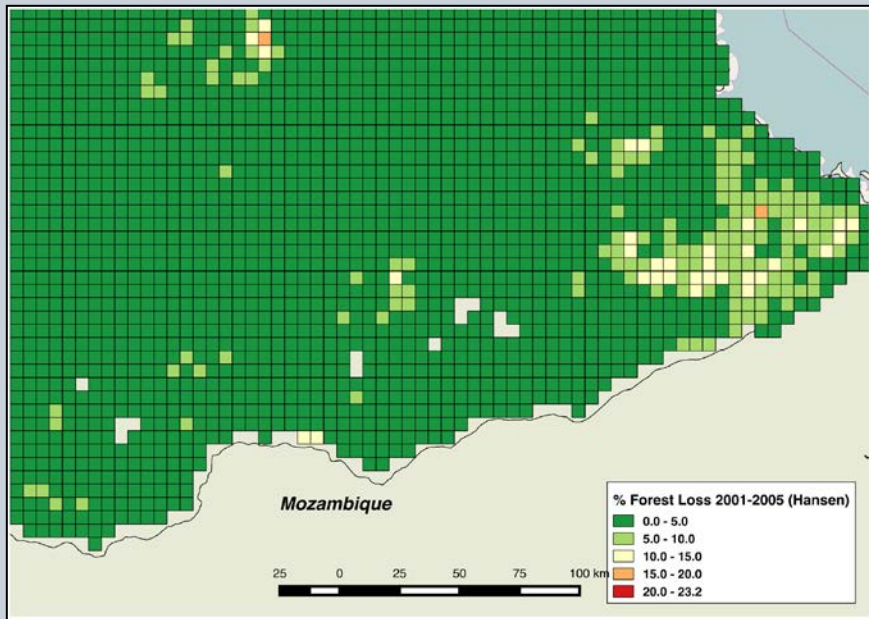
Li (2017, *CPSR*): Access to Chinese development finance undermines democracy-promoting effects of Western conditionality



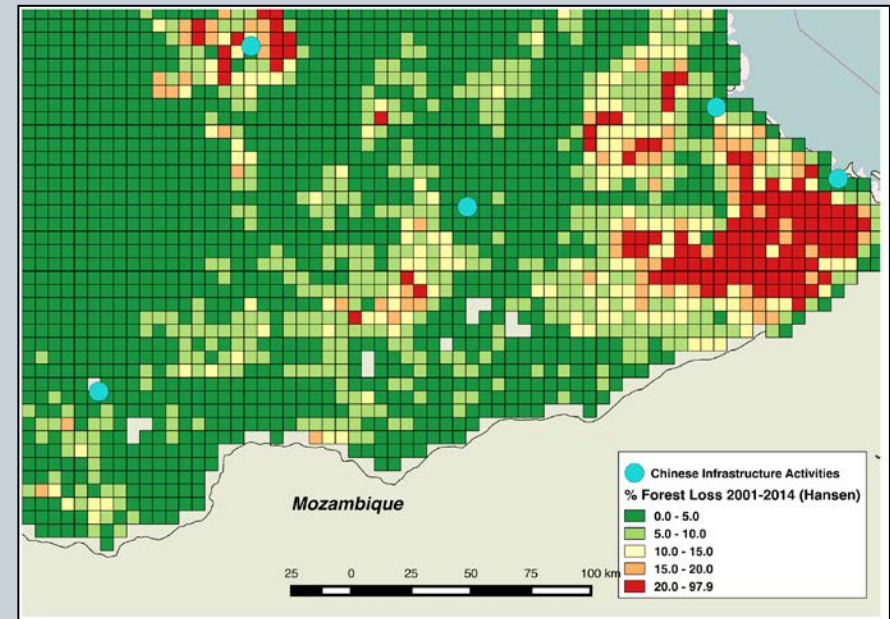
GOOD NEWS: CONFLICT

- 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 ($\geq 1\%$ 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

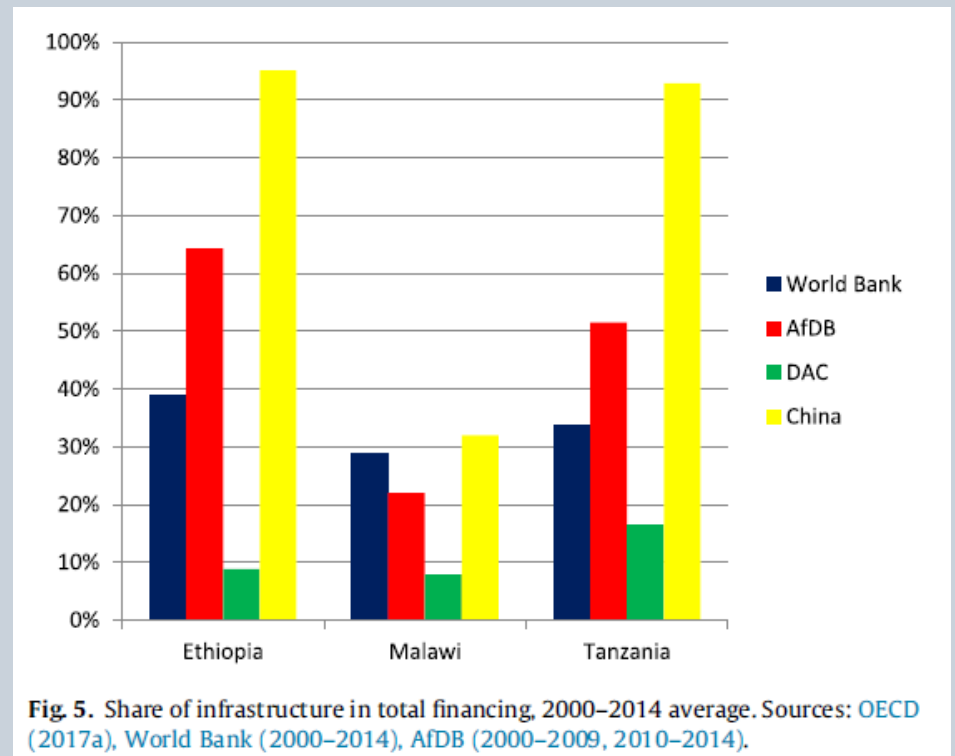


Deforestation in Southeast Tanzania
after end of project

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...)

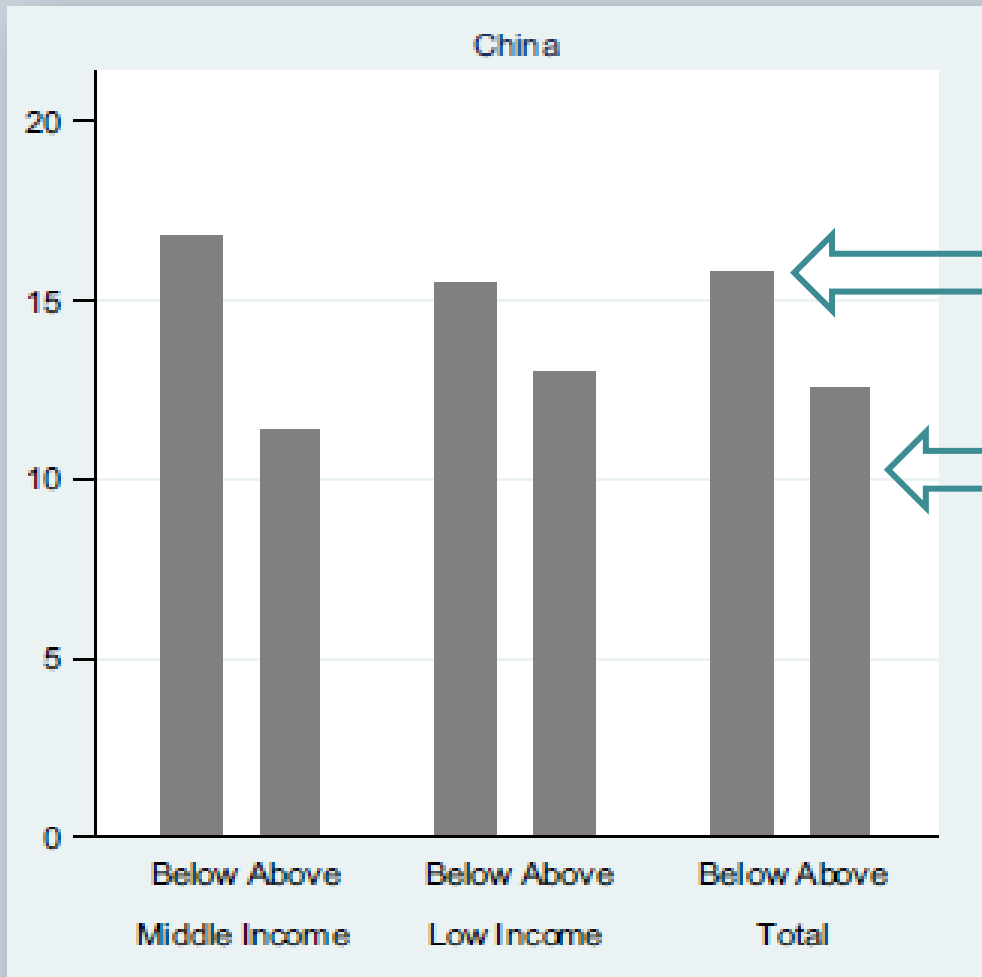
IMPACT ON "TRADITIONAL" DONORS

- 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



IMPACT ON "TRADITIONAL" DONORS

Hernandez (2017, *World Devel.*): 15% less than World Bank conditions if China's aid increases by 1%



Below average aid from China

Above-average aid from China

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!

管理保质量 以质量保进度 以进度求效益

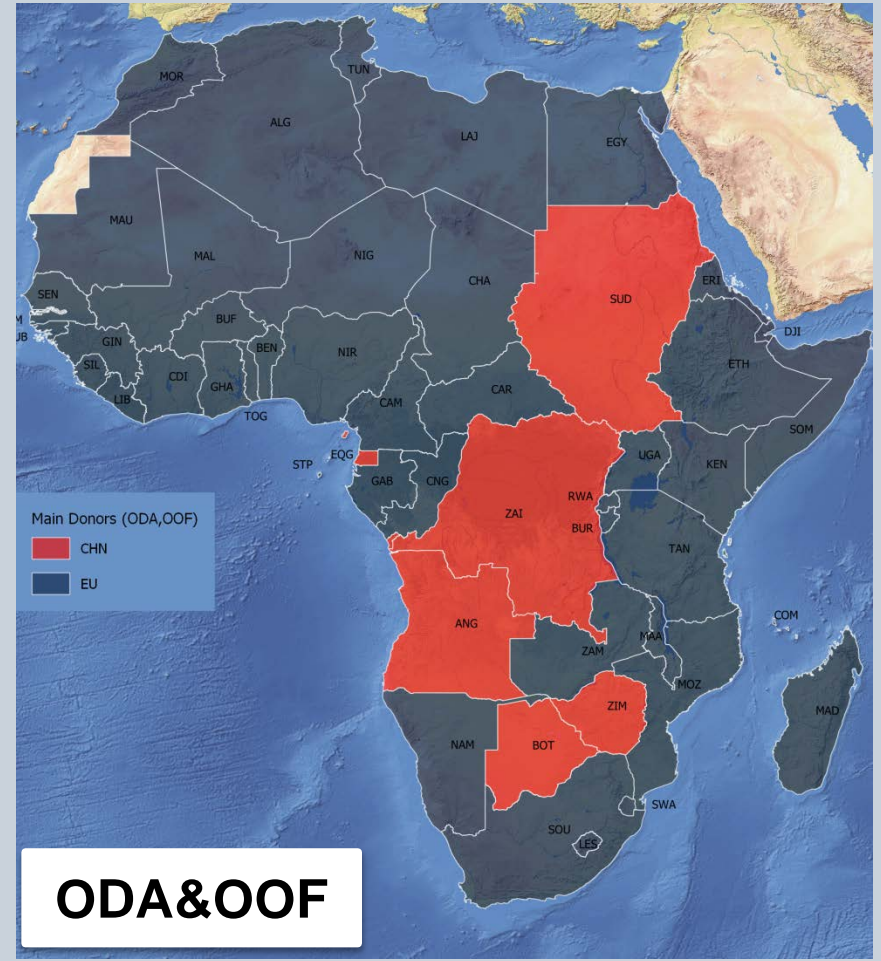
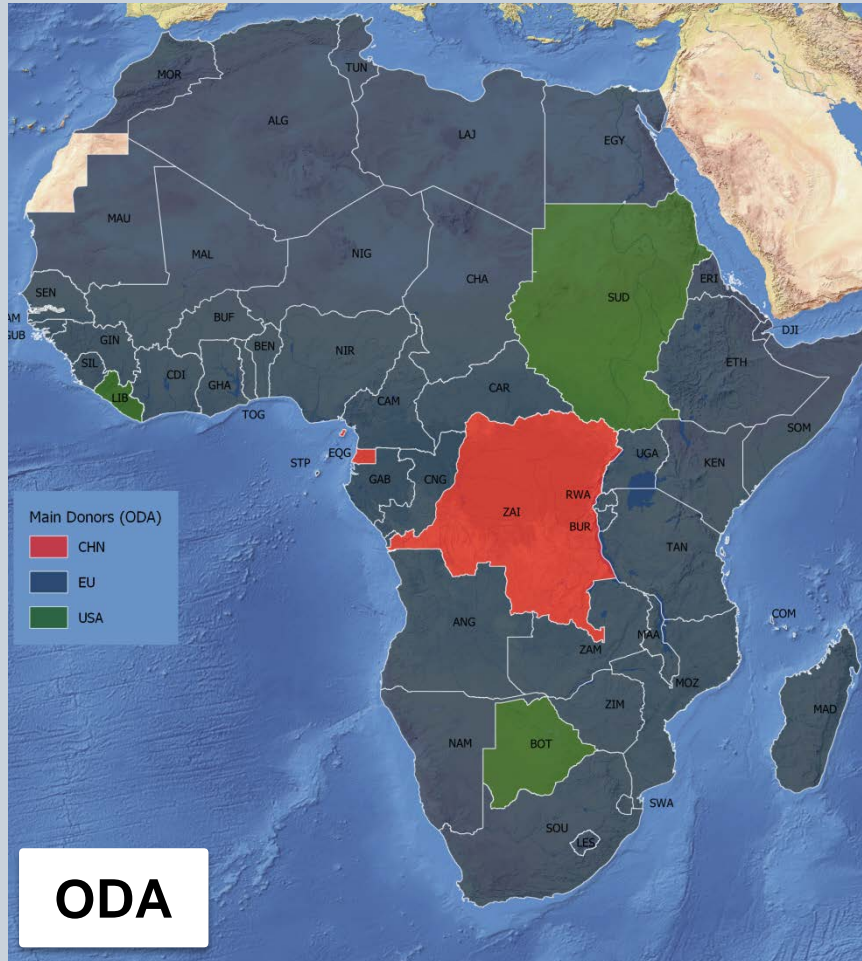
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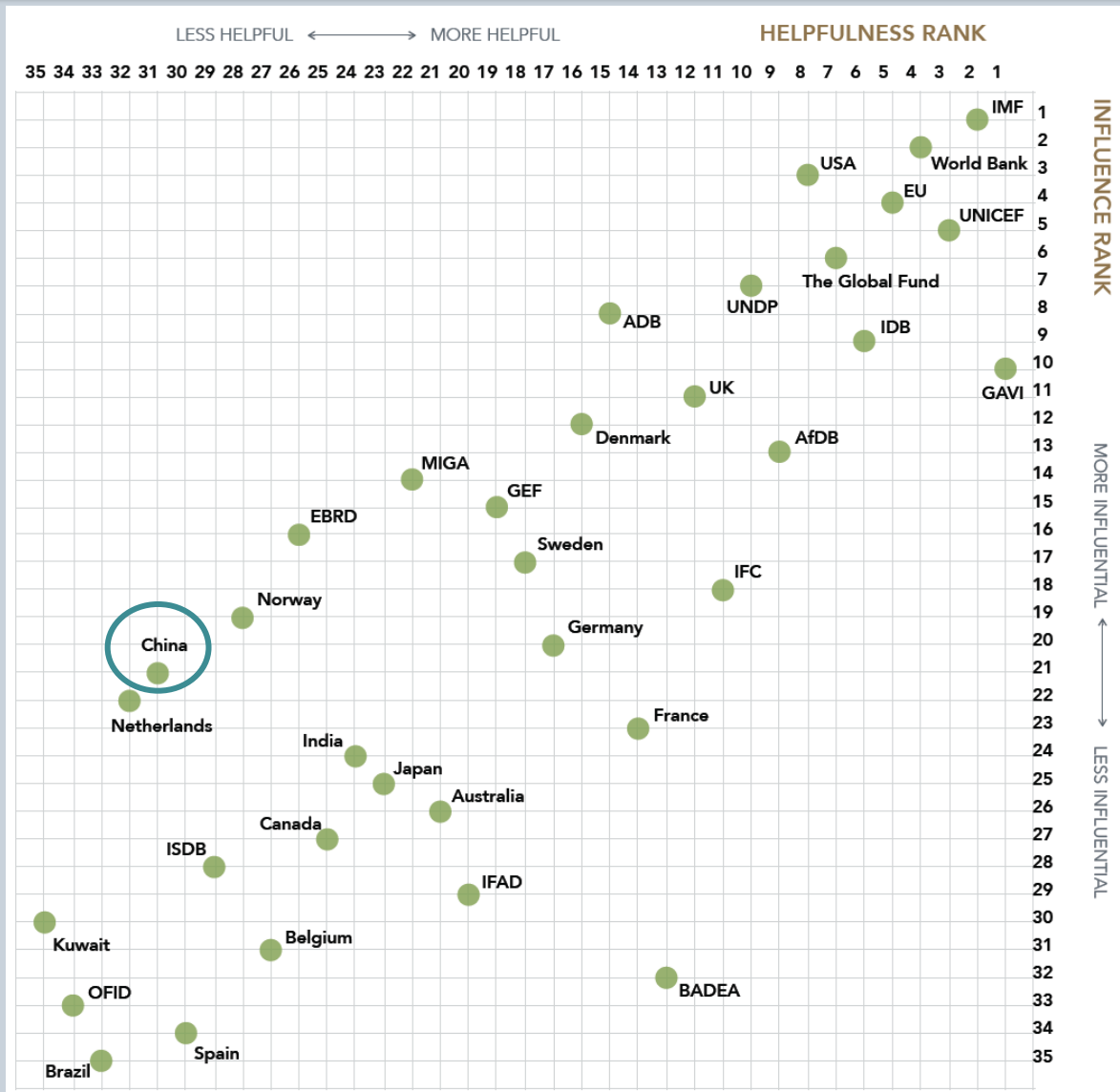
APPENDIX

TOTAL EU DEVELOPMENT FINANCE IS (STILL) MUCH LARGER



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

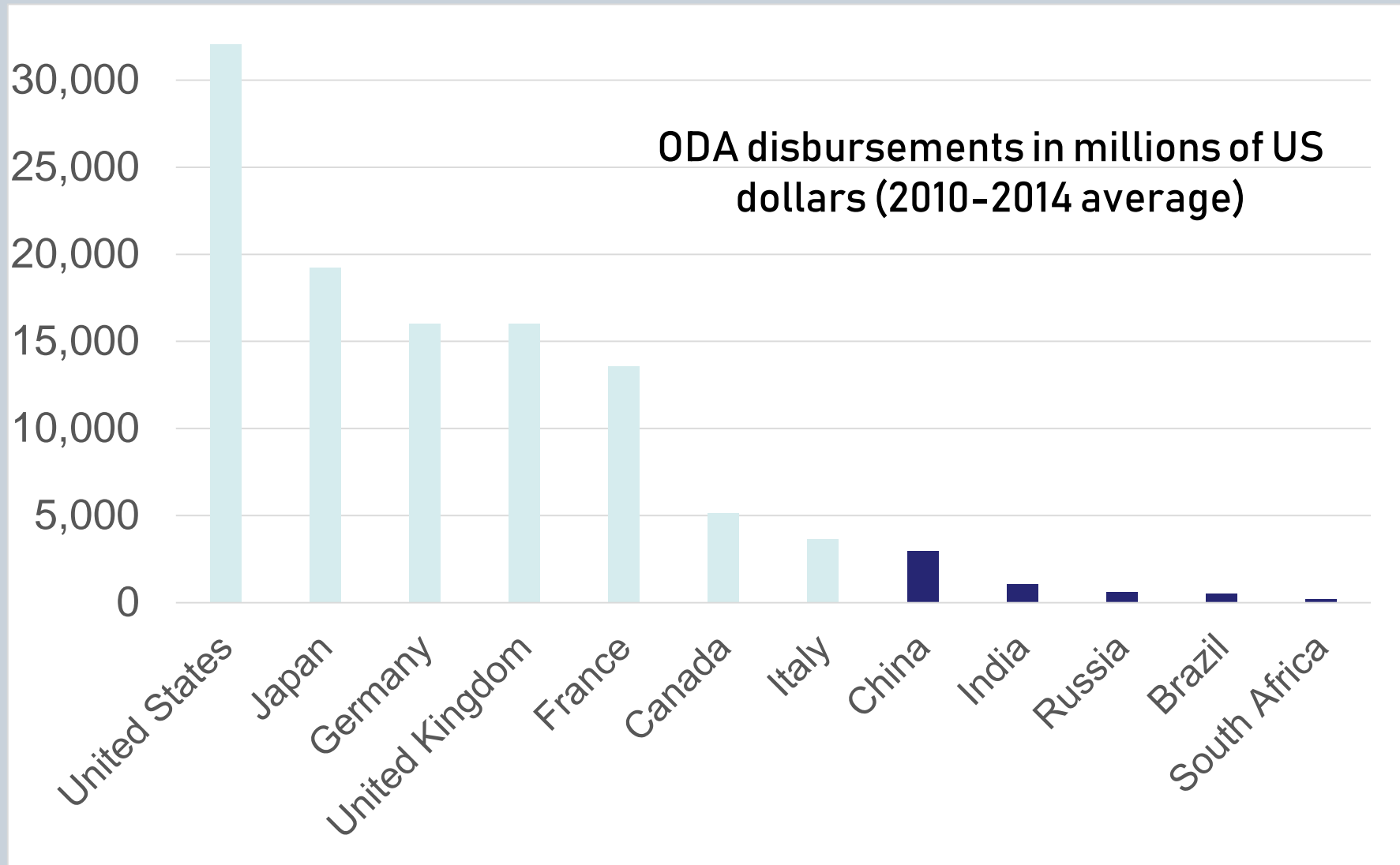
CHINA STILL LAGS BEHIND IN TERMS OF POLICY INFLUENCE



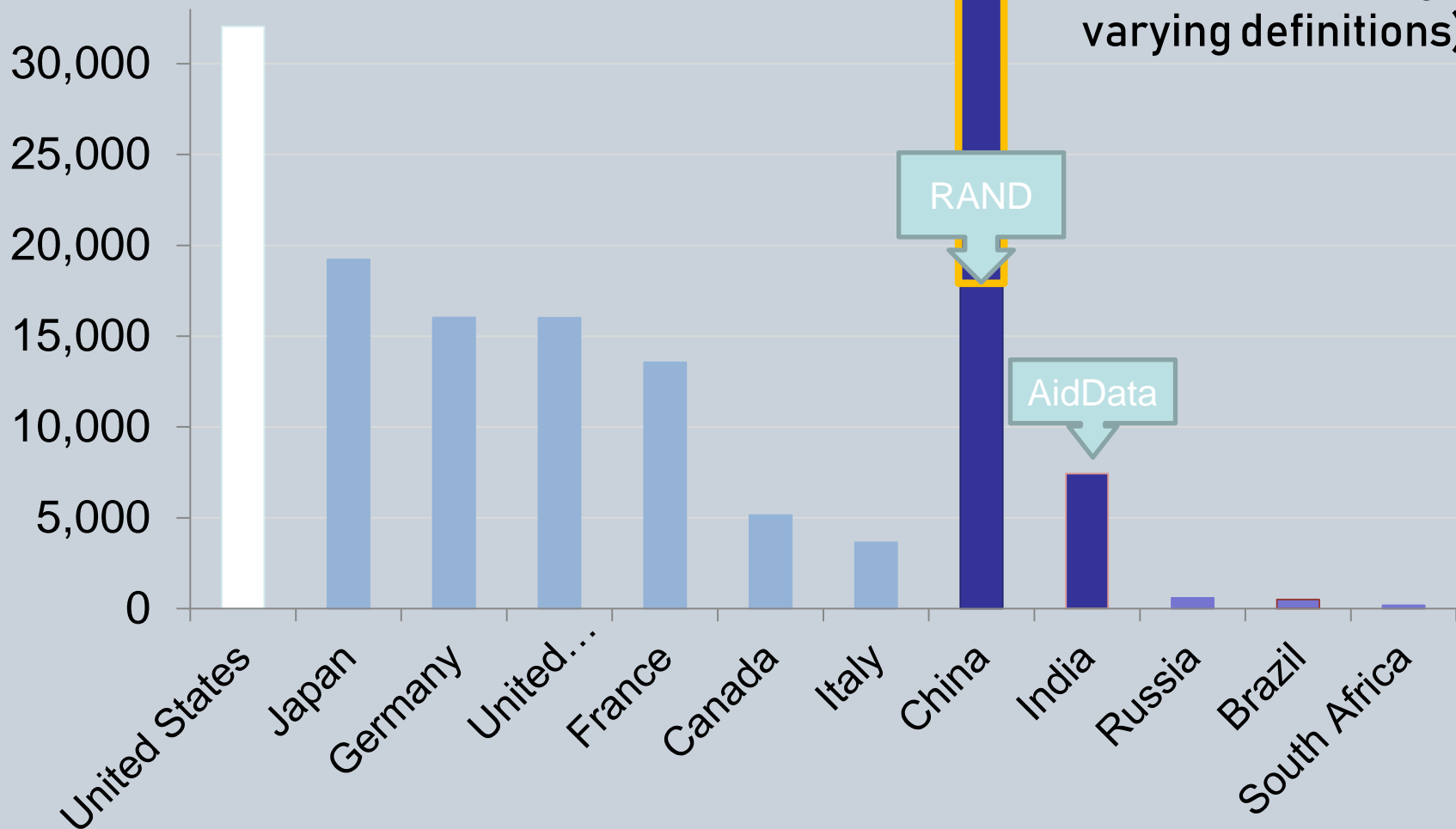
2017

Source: AidData (Custer et al. 2018)

BRICS ODA IS STILL LOW...



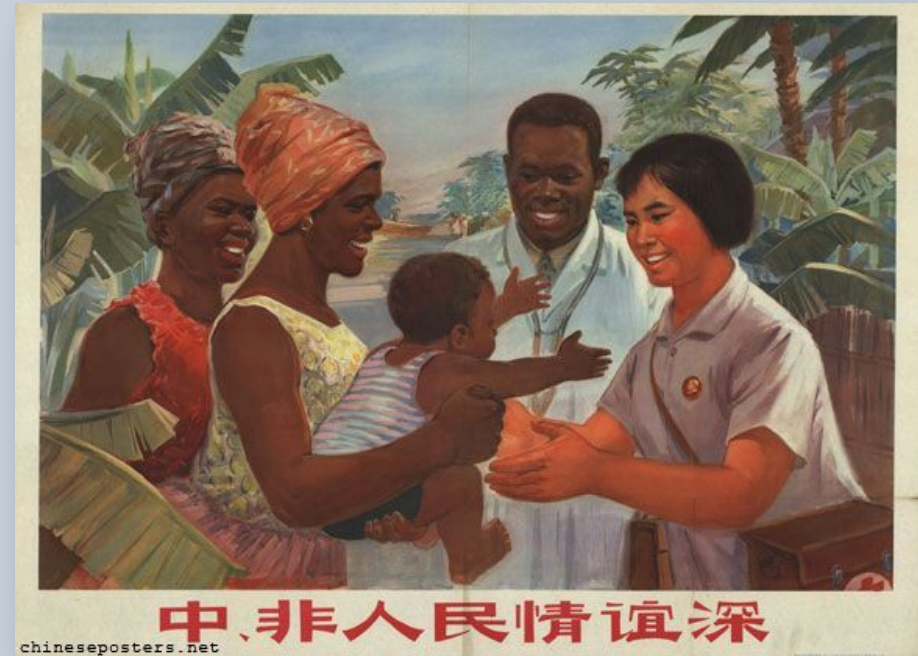
... BUT THE OFFICIAL
FINANCIAL FLOWS OF
BRICS ARE
SUBSTANTIAL



"Aid"/Official finance in
billions of US dollars
(2010-2014 average,
varying definitions)

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