

# Having, Giving, Taking



## Understanding China's Development Cooperation in Africa

Ward Warmerdam

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Africa**

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**Having, Giving, Taking**  
**Understanding China's Development Cooperation in**  
**Africa**

**Hebben, geven, nemen**

**Het hoe en waarom van Chinese ontwikkelingssamenwerking**  
**in Afrika**

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## Abstract

In the last decade or so China has re-emerged as an important actor in the international development cooperation arena at a time when development cooperation was undergoing reflection and critical revaluations in many traditional donor countries. The academic and policy debate on China's re-emergence as a donor has been divided between proponents who saw a new hope for the developing world, where lessons for the developing world could be drawn. Opponents or critics, on the other hand, posed a critical stand against China's non-adherence to the common standards, principles and practices of traditional donors considered fruits of decades long international development experience.

However, despite a myriad of publications on China international development policy and practice, much is still needed to fully grasp its architecture. How is it developed? What motivates it? How's does China conceptualize foreign aid? Does it draw from its own experience as an aid recipient and as a developing country? What are some of the practical implications of Chinese foreign aid? This thesis seeks to answer these questions by drawing heavily on Chinese sources, bringing together various complementary literatures supported by field research in Uganda, a developing country and recipient of Chinese foreign aid and investment and a trade partner.

Although, various complementary analytical frameworks were used, the binding concept revolves around the role interaction of the domestic and international forces in shaping China's foreign aid policy and practices. This contributes to the literature on Chinese foreign aid by filling the gap in the literature on how domestic political forces and their interaction with the international context shape Chinese foreign aid policy and practices. This will be useful when analyzing future trends as the composition and interaction of domestic political forces change, and situations in international context develop.

# **Hebben, geven, nemen: Het hoe en waarom van Chinese ontwikkelingssamenwerking in Afrika**



## **Samenvatting**

De afgelopen tien jaar heeft China opnieuw zijn intrede gedaan als belangrijke speler op het gebied van internationale ontwikkelingssamenwerking, terwijl ontwikkelingssamenwerking in vele traditionele donorlanden aan een kritische herwaardering werd onderworpen. Het wetenschappelijke en beleidsdebat over de opkomst van China als donor is verdeeld in twee kampen. Voor de voorstanders betekende het nieuwe hoop voor de derde wereld, waaruit lessen voor de derde wereld getrokken konden worden. Tegenstanders of critici maakten daarentegen bezwaar tegen het feit dat China zich niet hield aan de gebruikelijke normen, principes en praktijken van traditionele donoren, die zij beschouwden als de vruchten van een decennialange ervaring met internationale ontwikkeling.

Ondanks talloze publicaties over China's beleid en aanpak op het terrein van internationale ontwikkeling, valt er op dit vlak nog veel te ontdekken. Hoe wordt het beleid ontwikkeld? Wat is de achterliggende motivatie? Wat is China's opvatting van ontwikkelingshulp? Baseert het land zich op zijn eigen ervaringen als ontvanger van hulp en ontwikkelingsland? Wat zijn de praktische implicaties van de Chinese ontwikkelingshulp? In dit proefschrift wordt geprobeerd deze vragen te beantwoorden door uitgebreide raadpleging van Chinese bronnen waarbij literatuur uit verschillende elkaar aanvullende bronnen bijeengebracht is, ondersteund door veldonderzoek in Uganda. Dit is een ontwikkelingsland dat Chinese ontwikkelingshulp ontvangt en waarin China investeert, en een handelspartner.

Hoewel er gebruikgemaakt is van verschillende complementaire analytische kaders, staat de rol en interactie van de binnenlandse en internationale krachten bij het vormgeven van China's beleid en aanpak op het terrein van ontwikkelingshulp centraal. In de literatuur was nog weinig bekend over de wijze waarop binnenlandse politieke krachten en de interactie tussen deze krachten en de internationale context China's beleid en aanpak op het terrein van ontwikkelingshulp vormgeven. Het onderzoek levert een bijdrage aan de literatuur over Chinese ontwikkelingshulp door deze lacune op te vullen. Dit is nuttig bij het analyseren van toekomstige trends als de samenstelling en interactie van binnenlandse politieke krachten verandert en situaties in een internationale context zich ontwikkelen.

## 1.1 Background

In recent years there has been a crisis in the international foreign aid system. Some have argued that there has been a re-emergence of aid fatigue. Others, like Dambissa Moyo (2009), have concluded that the aid system itself is inherently unsuited to achieving the goal of fostering socio-economic development in developing countries. China's rapid economic development, achieved with a low degree of donor involvement, and its re-emergence as a donor itself have driven many to view China as a model of development, and potentially a better partner<sup>1</sup> than traditional donors to stimulate growth in developing countries (ibid.).

Indeed, the international context is changing. China and other emerging economies now play an increasing role in the global political economy, and in the international aid system. Traditional donors, meanwhile, have been driven to re-evaluate their foreign policy and foreign aid strategies (Broadman 2007).

The re-emergence of Chinese development cooperation in the international aid system has recently drawn considerable attention.<sup>2</sup> Since the Maoist period ended in 1978, China's domestic economy has enjoyed sustained, stable, and rapid growth, the nature of Chinese aid has evolved from ideological to more economically motivated. As such, the re-emergence of China as a donor, alongside its increasing global economic reach, has been met with suspicion by some (noted by, e.g., Bräutigam & Tang 2009, Bräutigam 2009).

It should not be forgotten that foreign aid is inherently political. While it might seem humanitarian, driven by a deep concern for the welfare of those less fortunate, decisions regarding the selection of recipients, aid levels, modalities, and conditionalities, are all political decisions made by governments and political constituents. Cold War Chinese aid, similar to other donors' aid, was motivated by global ideological and geostrategic battles (Black 1968, Li 2007, Mushkat 1972). In the post-Cold War and post-Economic Reform and Opening Up era, Chinese foreign aid policy has undergone notable changes, although maintaining many of the same core principles (Li 2007).

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<sup>1</sup> The Chinese government never uses terms 'donor' or recipient, opting instead for the term 'partner'. It should be noted that this choice of terminology does not alter the dynamics of the donor-recipient relationship. A number of traditional donors have similarly employed the term 'partner'. However, the dynamic remained the same. Country A donates goods and services, and Country B receives these. Country B can, sometimes, make certain requests. However, Country A controls the flow of goods and services, and therefore stipulates the rules of the game.

<sup>2</sup> The term 're-emergence' is used because, as will become clear later, China has been providing foreign aid since the early 1950s. The aid programme was scaled back after the 1978 reforms. However, since the turn of the millennium Chinese foreign aid has been reinvigorated as part of a larger overall programme, and is becoming increasingly comparable in scale and scope to other aid donors. It is in this sense that Chinese foreign aid has 're-emerged' after a period in which its scope was relatively insignificant in comparison to other donors.

A review of the literature on China's engagement in Africa reveals a number of gaps, some of which are addressed in this thesis. Among the primary gaps are what domestic political forces have shaped China's development cooperation, how has China conceptualized development cooperation, and what might the practical implications of this conceptualization be. The core question addressed in this thesis is as follows:

How can we understand Chinese development cooperation, and what are some of the implications of China's conceptualization of development cooperation in developing countries?

The study presented here seeks to answer this question through a number of chapters using different but complementary research methods. The main research methods are three: archival research, narrative inquiry, and a case study. The archival research methodology seeks to draw together different literatures, particularly those from the fields of international relations, history, and Chinese politics, to shed new light on China-Africa relations. The narrative inquiry methodology uses Chinese sources, including archives of Chinese journals and newspapers, Chinese government reports and statements, and other primary Chinese sources, to develop an understanding of the Chinese discourse on development cooperation, with a particular focus on China's development cooperation in Africa. Finally, the case study tests the principles of China's engagement with Africa in a single case-study country, also to gain a deeper understanding of China's engagement in Africa.

One of the main gaps identified in the literature is how China's domestic context and China's interaction on the international stage has shaped the design of its development cooperation policies, principles, and modalities. The analytical framework chosen for this study allows us a better understanding of how China's domestic political forces and interactions with the international context have shaped its development cooperation policies, principles, and modalities. A reference point for this study is the analytical framework developed by Lancaster (2007), stating that the domestic and international context affect, in addition to domestic and foreign policies, foreign aid policies as well. Lancaster (*ibid.*) proposes four categories of domestic political forces that shape the principles and modalities of development cooperation policies: ideas, institutions, interests, and the organization of the agencies responsible for development cooperation. Lancaster (*ibid.*) emphasizes the dynamism of development cooperation policies. Domestic political forces change, as does the international context, and the interactions between domestic political forces also changes, resulting in changes in the principles and modalities of development cooperation policies. A number of chapters in this thesis utilize Lancaster's framework explicitly. In other chapters, the overall analyses use complementary analytical frameworks, but these are implicitly informed by Lancaster (*ibid.*).

This thesis addresses the following unanswered questions in the China-Africa literature:

1. Can we understand Chinese development cooperation using the same categories that are applied to other foreign aid ideologies?
2. How do domestic political forces shape China's foreign aid policy? What effect do industrial nations' foreign aid norms and practices have on Chinese foreign aid; and what effect does Chinese foreign aid have on these norms and practices?
3. How does China conceptualize South-South Cooperation (SSC)?
4. Are Chinese and Western aid complementary?
5. What are the practical implications of China's principle of 'mutual benefit'?
6. How does Chinese development cooperation contribute to recipients taking ownership of their own development processes?

This thesis aims to answer these questions. The thesis is structured around six chapters, each of which proposes to fill a gap in the China-Africa literature. Three chapters were co-authored with other experts in the field of China-Africa research. The chapters are bound together by aim to improve understanding of China's engagement with Africa, focusing specifically on aspects of development cooperation and economic engagement.

## **1.2 Categories of foreign aid**

Chapter 2 addresses the question of whether and how we can understand Chinese foreign aid using the same categories typically applied to the traditional donors' foreign aid ideologies. In the recent two decades, little has been written on foreign aid ideologies as such. Though descriptions do exist of foreign policy ideologies, they have not been adjusted to accommodate the emergence of the potentially new foreign policy ideologies of emerging powers. These, however, could have a very different dynamic than those of established traditional powers. A number of authors have started to explore the foreign policy ideologies of individual emerging powers. Still lacking, however, is a contemporary categorization of foreign policy ideologies beyond the traditional concepts of liberalism, neoliberalism, and international realism, and following from this an analysis and description of the foreign aid ideologies that fall within these foreign policy ideologies.

In light of this, an analytical framework developed in 1989 is used. Stokke's (1989) categorization of foreign aid ideologies provides a useful framework for analysing Chinese foreign aid policy and comparing it with the foreign aid policies of traditional donors, although the definition of neoliberalism in fact emerged only in the 1990s. The framework includes elements of foreign aid policy ideologies, such as aid channel preferences and motivations for providing foreign aid, which can be compared. Archival research drawing on historical literature is used to answer the question of whether Chinese development cooperation can be understood using the same categories that are applied to other foreign aid ideologies.

### **1.2.1 Domestic political forces and international socialization**

Chapter 3 zooms in on the domestic political forces that have shaped the development of China's foreign aid policy and the interactions between these domestic forces and with the international context. To do so, two complementary analytical frameworks are used. The first is Lancaster's (2007) framework of the domestic political forces that shape foreign aid, in particular, ideas, institutions, interests, and organizations. It also considers how changes in one of these domestic political forces affect the others and how changes in the international context affect domestic political forces. The chapter is structured along the lines of a number of key events which mark different time periods in China's recent history. Archival research and narrative inquiry are used, drawing on the historical and international relations literatures, as well as archives of Chinese newspapers and journals, and Chinese government reports and statements.

The second analytical framework used in Chapter 3 is Johnston's (2008) framework of the processes of socialization in international relations. 'Socialization' here refers to means by which to influence the behaviour and values of a nation to conform to internationally dominant behaviours and values. Johnston's (ibid.) framework complements Lancaster's in that it develops an analysis of a country's domestic political forces' interaction with the international context. Johnston (ibid.) argues that three microprocesses of socialization are at work in international relations: mimicking, being persuaded, and being socially influenced. He argues that as countries interact they will, in any given realm, such as nuclear weapons policy, adjust their policies and practices as

a result of the three microprocesses. The second part of Chapter 3 thus addresses the question of what effect the norms and practices of traditional foreign aid donors have on the norms and practices of Chinese foreign aid. Archival research and narrative inquiry are used, drawing on the international relations and development studies literatures, as well as statements, reports, and publications by Western academics, experts, and government officials.

### 1.2.2 South-South Cooperation

Chapter 4 develops an analysis of one category of domestic political forces, namely the ideas category. It focuses on the notion and practices of SSC. The governments of many developing countries, as well as United Nations (UN) agencies, have promoted SSC with increasing vigour. Among the many proponents of SSC is China. Chapter 4 analyses China's conceptualization of SSC. The research uses narrative inquiry, drawing on a variety of Chinese publications, including articles written by Chinese academics and reports and media statements by Chinese government officials.

### 1.2.3 Complementarity

Chapter 5 draws together some of the findings on the nature of Chinese foreign aid and analyses the potential complementarity of Chinese and Western foreign aid. It does this by investigating the determinants of Chinese foreign aid, its modalities, and the sectoral distribution of China's foreign assistance, highlighting a number of preferred aid mechanisms. The chapter then compares these to a general picture of traditional donor aid. A number of lessons are described from China's own development, and we examine whether these lessons are currently being used, or could be used, in China's foreign aid programme.

### 1.2.4 Practical implications of 'mutual benefit'

One of the principles by which China sets itself apart from traditional powers, and which finds frequent expression in China's notion of SSC, as described in Chapter 4, is that of 'mutual benefit'. Recently, the emphasis has been particularly on mutual economic benefit. A growing body of literature analyses the mutuality of the benefits of relationships between China and countries in Africa. Some authors focus on a specific group of potential beneficiaries. For example, Holder and Jackson (2008) look at children. Others (e.g., Li 2007c, Davies 2007, Wang & Bio-Tchané 2008) focus on the implications of mutual benefit at the macro (economic) level. The current study contributes to this literature by analysing the practical implications of mutual benefit through an on-the-ground survey in a single case study country.

Uganda was chosen as the case study country for a number of reasons. Firstly, until very recently, no natural resources of great interest to China had been discovered in Uganda. But in 2011, the China National Offshore Oil Corporation (CNOOC) entered an agreement with Western oil companies, approved by the Ugandan government in 2012, to explore for oil and gas in Lake Albert. As natural resources did not, before this time, dominate bilateral relations between China and Uganda, a view relatively undistorted by natural resources can be obtained by analysing here the question of mutual benefit in terms of economic factors. Secondly, Uganda was chosen for study due to its relative political and economic stability, and therefore its potential attractiveness to Chinese investors. Thirdly, Uganda was chosen due to its central location, including its ability to serve regional markets and export to China through transport networks connecting it to the ports in Kenya and Tanzania and infrastructural links with Rwanda, South Sudan,

and the volatile and poorly accessible eastern Democratic Republic of Congo (DRC). Finally, China's relations with Uganda, and particularly Chinese migration to Uganda, only really started in the 1980s. Therefore, there are no significant Chinese expatriate communities in Uganda pre-dating Communist rule in China. Mutual benefit can thus be tested in the context of its definition in the early 1960s.

The Chinese Economic and Commercial Counsellor's Office in Uganda (ECCO) provided a list of 31 Chinese companies in the country. However, an article in the Ugandan *New Vision* newspaper cites the Chinese ambassador to Uganda as saying that 265 Chinese companies were active in Uganda in 2012. This indicates a degree of selection bias in the list provided by ECCO. As that list was incomplete, we made every effort to also identify and interview other Chinese economic actors. This included approaching Chinese wholesalers on William Street (Kampala) and using a snowballing process to identify Chinese companies through interview respondents. Though our study was limited to Kampala, we were aware of numerous Chinese companies located in other towns and cities in Uganda, particularly Jinja. Given the variance in company ownership type, size, and sector activity we nonetheless argue that our sample of 42 companies is indicative of the Chinese economic actors at least in Kampala and to a certain degree in Uganda as a whole, as Kampala is the nation's commercial hub.

### 1.2.5 Contributions to ownership of development

One of the main lessons from China's domestic development identified in Chapter 5, namely the necessity for a government to take responsible ownership of its own socio-economic development, inspired the research for Chapter 7. This chapter examines one of the main successes of China's domestic development, namely, its ability to assume ownership of its development. The chapter seeks to answer the question of if and how Chinese development cooperation has helped recipients take ownership of their own development processes.

To understand factors that can lead a country to successfully negotiate ownership of its own development, Chapter 7 uses Whitfield and Fraser's (2009a) 'negotiating capital' framework. Whitfield and Fraser (ibid.) argue that negotiating capital is comprised of four types of conditions: political, economic, institutional, and ideological. If, for example, a country has strong economic conditions, either due to high levels of trade or inward foreign direct investment (FDI), then this element of negotiating capital is favourable. If, however, the country has a high level of debt, then that diminishes its negotiating capital. Whitfield and Fraser (ibid.) provide no indicators by which to measure this. Chapter 7 introduces indicators for measuring various elements of negotiating capital. For example, political legitimacy and political effectiveness are introduced as proxies for a country's political negotiating capital. Similarly, gross domestic product (GDP) growth, net overseas development assistance received as percentage of GDP, and net FDI inflows are among the indicators used to measure the economic conditions within a country. Ohno and Niiya's (2004) framework is used to measure the role played by the institutional conditions within a country, allowing it to take ownership of its own development processes, or hindering it in doing so.

Chapter 7 thus serves two main purposes. Firstly, the chapter compares China's negotiating capital to that of the countries in Whitfield and Fraser's (2009a) analysis. Second, Chapter 7 analyses whether China in the design and implementation of its foreign aid programme has contributed to or hampered the ability of recipients to take ownership of their own development processes.

The title of this thesis, *Having, Giving, Taking*, both encapsulates many of the questions that surround China's engagement with Africa and reflects many characteristics of this

engagement. China is seen as 'having' experienced development success and as 'taking' resources from Africa in order to maintain this development success. China is furthermore perceived as 'having' development experience and as 'having' the potential to 'give' the lessons of this experience to countries in Africa. China is seen as 'having' capital and 'giving' this to other countries in the form of investment, trade, and foreign aid, in exchange for 'taking' the natural resources it needs to fuel its manufacturing sector, which then translates again to trade. Finally, though not exhaustively, China is seen as 'having' political and economic weight, which it 'gives' to African nations in the form of support in international forums while 'taking' their support in return.

## 2.1 Introduction

China has been accused of many things concerning its engagement with the developing world, especially with sub-Saharan Africa. For example, it is said to be driven by a thirst for oil and natural resources (Chan-Fishel 2007, Kragelund 2008a, 2008b), to neglect human rights offences in recipient nations (AFRODAD 2008, Asche & Schüller 2008, Cornelissen & Taylor 2000, Dalhe Huse & Muyakwa 2008, Konings 2007), to support directly or indirectly corrupt authoritarian regimes and dictators (Melber 2007), and to undermine Western efforts to promote good governance (ibid.), maintain debt sustainability,<sup>5</sup> and improve public administration and social welfare in developing countries (Kaplinsky et al. 2007). China, however, argues that its engagement with the developing world is based on mutual benefit and respect for national sovereignty (IOSCPRC 2005, 2006), which it, and its partners, deem an alternative to dominant Western models of development (Liu 2006). Furthermore, many of the accusations made against China, such as that it supports corrupt authoritarian regimes, can equally be made against Western countries (Alesina & Weder 2002). Berthélemy (2005), Hook (1995), and Maizels and Nissanke (1984) all find that donor interest is a more important determinant of foreign aid provision than recipient need, at least in bilateral aid relations. This finding puts into perspective accusations that China only pursues its own self-interest in its foreign aid relations.

Missing from this debate is a classification or categorization of China's foreign assistance strategy, beyond the implied essentially nationalist and international realist labels. Such a categorization might nuance any comparison of the drivers of Chinese aid with those of other countries' aid. Such a comparison would help us to answer the question of whether China's foreign aid ideology can be categorized along the same lines as the ideologies of traditional donors. Given the prominence in the literature of the realist label for the Chinese foreign aid ideology, an obvious analytical framework would be one based on international realism. However, given China's socialist ideology, another analytical framework might also be informative, namely that of humane internationalism. Humane internationalism, as described by Pratt (1989) and Stokke (1989), has its roots in socialist and social democratic ideologies, which makes it potentially more relevant to the study of Chinese foreign aid.

Pratt (1989) analysed *humane internationalism* in four Western middle powers through a compilation of country case studies.<sup>6</sup> He identified three reasons why these middle powers were sensitive to the development needs and aspirations of least developed countries (LDCs), even though none, except for the Netherlands,<sup>7</sup> had any direct ties to them. The reasons were the following: (i) the internationalist orientation of the policies

<sup>3</sup> The phrasing of this title was intended to challenge the preconceptions that China is different. Omitted, though implicit in the title, is the second part of the sentence 'like most other traditional donors.'

<sup>4</sup> This chapter is based on Warmerdam, Ward (2012), "Is China a liberal internationalist?" *Chinese Journal of International Politics*, 5(3): 201-243.

<sup>5</sup> For an in-depth discussion on China's impact on debt sustainability in Africa see Davies (2007). For analyses arguing the negative impact of Chinese foreign aid on maintaining debt sustainability see Beattie and Callan (2006) and Kaplinsky, McCormick and Morris (2007).

<sup>6</sup> Canada, the Netherlands, Norway and Sweden.

<sup>7</sup> The Netherlands has direct ties to a number of developing nations due to its colonial heritage.

of these Western middle powers; (ii) their responsiveness to cosmopolitan values, stemming according to Pratt from an extension of their dominant political cultures of domestic social welfare systems, based in Christian and Social Democratic ideologies, and the influence, to greater or lesser degrees, of reform internationalists in their political arenas; (iii) political considerations that caused these Western middle powers to attach greater importance to relations with the Global South, such as domestic political gains and the favourable consideration of recipients concerning other international political issues (ibid.). Pratt concludes, however, that the efforts of these middle powers to create a more equitable world ebbed slightly over the 1980s, in the face of an unfavourable international political and economic climate, a stronger influence of national loyalties compared to global responsibilities, and a lack of cohesiveness, coordination, and consistency of efforts. Pratt's conclusions provide part of an explanation as to why the current international order can still not be described as an equitable world order. Nevertheless, his descriptions of why certain countries are more sensitive to the needs of the developing world provide a useful basis for examining the engagement of China and other emerging donors with the developing world.

Stokke (1989) analysed the determinants of the aid policies of five Western middle powers, providing a useful framework with which to categorize these. He defined different forms of humane internationalism and their foreign aid policy determinants and characteristics based on various ideologies. Stokke's (ibid.) analysis drew on contributions of various authors to classify the practices of the five Western powers he studied and observe trends. His classification and categorization of the spectrum of humane internationalism remains a useful framework for objectively analysing China's foreign assistance programme, because though devised more than 20 years ago, the aspects and categories of analysis used in the framework, such as motivation, aid channels, and approach to state and inter-state intervention, remain relevant to present-day foreign assistance programmes. Stokke (ibid.) and Pratt (1989) developed their research within the same project. Stokke focused specifically on foreign aid, and Pratt on international relations and politics. As a result, one element of Pratt's definition of humane internationalism, namely, responsiveness to cosmopolitan values, lacks attention in Stokke's definitions.

At first glance, the notion of analysing Chinese aid practices according to *humane internationalism* may seem odd, due to the prevalence of the realist conception in the literature on Chinese engagement with the developing world. This framework, however, is objective to the extent that it allows an investigation of whether China fits into any of the humane internationalist categorizations, or indeed whether a categorization such as international realist is more appropriate.

China has a long history of engagement with the developing world. It has undergone shifts in policies and motivations, which merit analysis under a comprehensive lens instead of being written off as realist solely based on China's perceived need for natural resources to feed its rapidly developing economy. Nonetheless, many past analyses have centred on a limited number of economic aspects, such as import and export figures for natural resources. They have disregarded, for example, China's UN peacekeeping operations, scholarships for African students, malaria control and prevention efforts in the developing world, and debt cancellations for LDCs and heavily indebted poor countries (HIPC). Analyses have also often neglected the fact that China was providing aid beyond its means until the reform and readjustment of its foreign aid policy between 1978 and 1983. Accusations that China has utilized foreign aid to gain access to natural resources neglect two other key aspects as well. Firstly, such a strategy would not be unique to China. Other donors, such as India, Japan, and even a number of traditional donors, have employed similar methods in order to meet the needs of their domestic economies. Secondly, such utilization could not have been on a very large scale. Only 8.9

per cent of Chinese concessional loans have been directed towards energy and resource development, with 61 per cent being directed towards economic infrastructure, which includes transportation, communications, and electricity (IOSCPRC 2011). This shows that use of foreign aid to access resources could represent only a small part of China's foreign aid utilization, though it does not rule out an element of economic self-interest in the form of gaining access to markets through the development of economic infrastructure.

The first section of this chapter presents Stokke's (1989) definitions of the different forms of humane internationalism. The second section describes the development of China's foreign assistance programme from the 1950s until the present day. The third section considers which form of humane internationalism, if any, best describes China's engagement with the developing world based on the definitions of Stokke (ibid.). The fourth section discusses the findings of section three in relation to a realist internationalist perspective on China's foreign aid programme.

This chapter divides Chinese foreign assistance into two periods: pre-1978 reform and opening up and post-1978 (see, e.g., Li Anshan 2007a), adding to this periodization the categorizations of aid ideologies described by Stokke (1989). While China's overseas assistance prior to its reform and readjustment in 1978 might be characterized as radical internationalism with elements of political self-interest found also in realist internationalism, after reform and readjustment it came to more closely resemble the characteristics that typify liberal internationalism. Based on this conclusion, the chapter argues that China's current engagement with the developing world could be regarded as at least similar to the engagements of many traditional donors, including not only the five Western middle powers analysed by Stokke (ibid.), but also France and Japan, for example.

## 2.2 Categorization of humane internationalism

### 2.2.1 Introduction

Stokke (1989: 9) demonstrated that foreign aid policies are formulated through the interaction of a country's domestic environment, interests, norms, and traditions with the international context.<sup>8</sup> His analysis covered Canada, Denmark, the Netherlands, Norway, and Sweden, as middle powers with similar basic values and ideologies, which he argued to be varieties of *humane internationalism*. According to Stokke (ibid.: 12), during the 1980s, due to shifts in international discourse on how developing countries should design their domestic political and economic policies, three separate and distinct clusters of attitudes and ideas previously contained under the umbrella of *humane internationalism* became prominent: (i) reform internationalism, (ii) radical internationalism, and (iii) liberal internationalism. These stand in contrast to '*realist internationalism*', which perceives the international environment as a forum for anarchic international relations not governed by strict rules and regulations, such as those found in domestic political environments (ibid.: 11). Realist internationalism fosters the belief that states pursue, and should pursue, only their own national interests, as other states are believed to be doing likewise, with complete disregard for the welfare of others in an essentially 'dog eat dog' world. It should be noted here that the term Stokke used, '*realist internationalism*', might be considered a misnomer, as the realist worldview does not entail an international orientation. The realist perspective is directed purely towards domestic self-interest, with the international context providing an arena in which to conquer what is needed while fighting for one's own preservation.

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<sup>8</sup> This section is based on the definitions provided by Stokke (1989).

However, I continue to use the term 'realist internationalism' here for consistency with Stokke's analytical framework.

Beyond differentiating between realist internationalism and humane internationalism, and the perceptions and motivations underlying these concepts, it helps us to understand that humane internationalism has variations. These can be located along a spectrum ranging from selfish realist internationalism at one extreme to selfless humane internationalism at the other extreme (Figure 2.1). Where the varieties of humane internationalism are located along this spectrum will be detailed later.

**Figure 2.1**  
*Spectrum of ideological determinants of foreign aid*



Every variety of *humane internationalism*, Stokke (1989: 11) argued, contains at its *core* acceptance of the principle that developed nations have an *obligation* to assist developing nations. However, the extent to which this responsibility has been pursued, and the preferred means of pursuing it, have varied. In order to understand both the obvious and the subtle differences between the variations of humane internationalism (including reform, radical, and liberal internationalism), each will first be described separately followed by a comparison.

### 2.2.2 Humane internationalism

Humane internationalism recognizes the obligation of rich countries to promote social and economic development in developing countries<sup>9</sup> and to reduce global poverty (Stokke 1989: 11). It is driven by compassion for the poor and suffering in developing countries (ibid.). Its goals are to promote social, economic, and political rights, to foster social and economic development, and to alleviate human suffering (ibid.). Humane internationalism conveys the belief that a more equitable world is in the best interests of not only the poor, but also the rich developed countries. It supports the concept of mutual benefit across borders, and the interests of increasing employment, trade, and investment opportunities (ibid.).

### 2.2.3 Reform internationalism

Reform internationalism acknowledges that rich countries have an obligation to help reduce global poverty and stimulate social and economic development in developing countries. It is motivated by compassion, viewing the existing global distribution of resources and incomes as morally indefensible (Stokke 1989: 12). Reform internationalism, moreover, encompasses the belief that the prevalent international economic system is unfair towards the world's poor. Its objectives include promotion of socio-economic and political rights in developing countries, advancement of social and economic development, and alleviation of human suffering. It further aims to improve equity and social and economic justice, both within and between nations. Reform

<sup>9</sup> Stokke used the term 'Third World', however, this term is now outdated.

internationalism postulates that a more equitable and just world is in the best interests not only of poor countries but also the rich. It supports the transfer of resources in order to foster development in the developing world (ibid.). It does not assert the market as the most appropriate or efficient mechanism to manage income distribution issues or to determine production priorities (ibid.).

Reform internationalism demands reforms in developing countries for the benefit of poor social groups and reforms within the international economic system for the benefit of the Global South (ibid.). It works through those multilateral and bilateral aid channels that it deems to be useful instruments for the correction of global inequalities; nevertheless, these agencies are argued to be in need of improvement in order to achieve the desired goals (ibid.: 12-13).

Reform internationalism favours the use of nongovernmental organizations (NGOs), which it considers to hold a purer motivational grounding, as opposed to bilateral government aid provision. It supports the use of state and 'inter-state intervention' (i.e., the intervention of one state in the affairs of another) in order to promote socio-economic and political rights in developing countries, to advance social and economic development, and to alleviate of human suffering, and it favours a gradualist approach to achieving these objectives (ibid.: 12).

Stokke (ibid.: 13) associated the reform internationalism strain of the humane internationalist ideology with Social Democrats, and to a large extent with Scandinavian Christian Democrats and Liberals, as he characterized the Western middle powers. He was also quick to note that the proponents of reform internationalism, and also of all the other variations of humane internationalism, were situated differently in each of the five countries under analysis, and more broadly, in different countries in general (ibid.). As such, the prevalence of a particular variation of humane internationalism in a given country was said to depend on the prevalence of that variation of humane internationalism within the ideology of the governing party. This is why shifts in the variation of humane internationalism dominant in a given country occur with changes of government and with shifts in party ideology.

#### 2.2.4 Radical internationalism

Radical internationalism accepts the obligation of rich countries to show solidarity with the poor and oppressed in the world, even to the extent that this sacrifices "narrower interests in one's own country" (Stokke 1989: 13). This ideology has its roots in views promoting equity among humanity and solidarity across national boundaries and also stems from ideologies confronting the exploitative and oppressive economic and political structures existing within and between states (ibid.: 13-14). Among the objectives of radical internationalism is realization of full economic, political, and social equity (ibid.: 13). Ecological concerns also play a role, as radical internationalism is sceptical of both the civilian and the military bourgeois elites that have been in power in many countries of the developing world (ibid.). It is, furthermore, reluctant about, if not opposed to, the provision of state-to-state aid to countries ruled by such groups (ibid.: 14).

Radical internationalism proposes that the dire needs of the developing world should be given predominance over narrower domestic self-interest due to the vast differences in economic and socio-economic levels (ibid.). This is premised on the requirement that aid be directed towards the establishment of and support for structures of self-reliant, sustainable, social and economic growth (ibid.). These requirements and radical internationalism's objectives play a prominent role in the selection of aid recipients (by both state aid-givers and NGOs), with only those recipients holding similar beliefs being

eligible for aid. In light of these considerations, this ideology prefers to channel aid through non-governmental solidarity groups. It is sceptical of both bilateral aid and multilateral aid agencies, while differentiating among these based on their policies and their performance in relation to the objectives of radical internationalism (ibid.). It opposes provision of aid to international development finance institutions, especially the International Monetary Fund (IMF) and World Bank, which are deemed to be instruments of donor interests rather than venues for securing genuine advantages for the developing world (ibid.). As such, radical internationalism favours agencies in the UN system, believing the governments of developing countries to have a greater influence within these (ibid.).

Radical internationalism's attitude towards state and inter-state intervention is very clear-cut. It strongly favours the use of such interventions when these are aimed at achieving full economic, political, and social equity. However, it strongly opposes state and inter-state interventions when these are performed by exploitative or repressive structures, whether these be developing-country governments or international institutions, including the international development finance institutions.

Stokke (ibid.) identified proponents of radical internationalism as being located generally on the political left. These include left-wing Social Democrats and parties to the left of Social Democrats. Other proponents are environmental activists and movements for an alternative future (ibid.). Stokke (ibid.) further noted that in some countries proponents of radical internationalism are also found within organizations of the political centre, especially their youth wings, and in a number of Christian NGOs.

### 2.2.5 Liberal internationalism

Liberal internationalism recognizes the responsibility of wealthier nations for development in the South (Stokke 1989: 13). It combines the main concept of humane internationalism with a strong commitment to an open, multilateral trading system (ibid.). Liberal internationalism is motivated by a humanitarian tradition, adding to this 'enlightened self-interest' emerging from the increased interdependence of North and South and the new opportunities arising from the (re-)integration of developing countries into the Western-dominated market economy in the post-colonial era (ibid.). Its objectives include the pursuit of economic growth in the South by seeking the promotion of genuine common interests between rich and poor countries (ibid.). In light of this, liberal internationalism favours the use of the private sector for development efforts, advocating the utilization of official development assistance (ODA) funds to mobilize enterprises in the North to engage in the pursuit of their genuine common interests with counterparts in developing countries (ibid.).

Liberal internationalism asserts that states should pursue both short-term and long-term economic and political self-interest (ibid.). This is similar to the basis of realist internationalism. Attitudes towards aid agencies vary according to their degrees of interference and discrimination. Liberal internationalism is suspicious of extensive procurement tying (ibid.). Furthermore, it prefers international development finance institutions and agencies in the UN system that practise open bidding (ibid.). Liberal internationalism is sceptical of agencies that give predominance to welfare strategies at the cost of strategies for economic growth (ibid.). Although it is generally against state and inter-state intervention, it supports the institutionalization of rules and regulations that create equal opportunities and reduce discriminatory practices and protectionism (ibid.).

Stokke (ibid.) found the proponents of liberal internationalism to be situated differently in different countries; however, he argued that they were more prevalent where competitive transnational corporations and their interests figure prominently.

### 2.2.6 Comparison

From the above descriptions of humane internationalism and its varieties as put forward by Stokke (1989), it is clear that although they are inherently similar, based on their motivations, objectives, and levels of self-interest, they can be categorized along a spectrum with the more self-interested forms of humane internationalism located closer to realist internationalism and altruism at the other extreme (Figure 2.2). Each form of humane internationalism recognizes, acknowledges, and accepts responsibility towards the poor and oppressed in developing countries. For radical internationalists, this concern even reaches a point where the own country's narrower interests are justifiably and legitimately sacrificed. Both reform internationalism and radical internationalism hold the existing international economic order and distribution of resources and wealth to be unjust, morally indefensible, and in dire need of reform. Both also, in line with general humane internationalism, seek to promote the political, economic, and social rights of those in developing countries; to promote political, economic, and social development; and to alleviate human suffering. Additionally, they seek to improve equity and advance social and economic justice, both between and within countries.

The greatest difference between the varieties of humane internationalism is their belief in and support for the market mechanism as the most efficient means to achieve economic, political, and social development in developing countries. Liberal internationalism is a clear proponent of the market mechanism. It supports mobilization of the private sector in order to achieve development. It does not support state or inter-state intervention intended to address inequities and foster development, though it does assert that certain rules and regulations need to be institutionalized in order to create equal opportunities and to reduce discriminatory practices and protectionism. Both reform internationalism and radical internationalism (the latter with the above-noted caveats) favour the use of state and inter-state intervention. All of these ideologies support the use of agencies in the UN system, though radical internationalism and liberal internationalism hold opposite views on the use of the international development finance institutions.

**Figure 2.2**  
*Expanded spectrum of ideological determinants of foreign aid*



Source: Based on Stokke (1989)

Stokke's (1989) classification and categorization of the varieties of humane internationalism, and realist internationalism, provide a useful framework for the

analysis of China's foreign aid programme. The differences are sufficiently great that, with slight overlaps, the various forms of internationalism can be placed along a spectrum. It is along this spectrum that China's foreign aid programme will be located. The next section details the development of China's foreign aid programme in order to provide the context for the systematic analysis carried out in the remainder of the chapter.

## **2.3 Historical development of Chinese foreign aid**

### **2.3.1 Six decades of engagement**

China's engagement with other developing countries in the form of foreign assistance dates back to approximately the same time as many traditional donors started providing aid in its modern form, that is, not in the form of colonial responsibilities and relationships. According to Lancaster (2007), this modern incarnation of foreign aid originated, for Western industrialized nations, in the period of post-World War Two reconstruction and the Marshall Plan, though foreign aid also had colonial roots in a number of nations. China initiated its foreign assistance programme in July 1950, less than a year after 'liberation', when the Premier of Mongolia requested the help of the newly founded Communist China, stating that his country urgently required labour assistance (Shu 2010).

The development of China's foreign assistance programme can be divided into four periods: (i) the initial period from 1950 to 1963, (ii) the developmental period from 1964 to 1970, (iii) the fast expansion period from 1971 to 1978, and (iv) the new stage of development initiated in 1978 through reform and readjustment (Ping 1999). For the purposes of our analysis of the evolution of China's foreign aid programme, this four-period framework will be used as it highlights the progression and development as well as key turning points.

Chinese foreign aid policy was, and is, shaped to a large extent by its own historical experiences and the resulting perspectives and values, coupled with China's dominant ideology and culturally specific worldview and principles. In order to better understand a number of aspects of China's foreign aid it is thus necessary to look first at the history of China and China's experience within the international world order.

### **2.3.2 Historical context**

Many centuries ago China was also an economic and political powerhouse, trading with nations along the Silk Road, even sending trade ships as far away as Africa under the leadership of Zheng He in the 14th and 15th centuries (IOSCPRC 2005, Lee & Shalmon 2008). The Chinese empire was at that time already providing aid to other nations in the form of financial support, and representatives of recipient nations visited the Chinese emperor seeking his support. However, the last Dynasty (Qing Dynasty 1644-1911), and especially the last emperor, was weak. The imperial court was defeated in many wars, and unfair treaties were imposed on China (Ping 1999), notably after the two opium wars and the Boxer Rebellion. China became semi-colonial with a large number of foreign concessions in, for example, Shanghai, Tianjin, Guangdong, and Fujian. After the fall of the Qing Empire in 1911, the country was afflicted successively by warlordism, civil war, Japanese occupation, and, again, civil war.

Regardless of the social, political, and economic turmoil that followed the 1911 Xinhai Revolution, the civil wars, and Japanese occupation, Western powers insisted that the unfair treaties imposed upon China had to be honoured (*ibid.*). It was only Lenin and the

Communist Soviet Union that annulled the unfair treaties imposed on feudal China by imperial Russia (*ibid.*). This negative experience of imperialism, coupled with the lack of support from Western powers after the Communists came to power in 1949 and the dominant Marxist ideology, shaped a number of the principles and practices of Chinese foreign aid (*ibid.*). These evolved with the experience of China's own foreign aid provision and with developments in the domestic and international economic and political environments.

### 2.3.3 Initial period (1950-1963)

In the initial period after the Communist Party came to power in China, the government set about developing its own form of international relations separate from and independent of the governments that preceded it. Ping (1999: 161) describes six items decided on by the government of the People's Republic in its "foreign policy for peace". The first of these was entitled 'to set up a separate kitchen', referring to the new government's aim to establish diplomatic relations with other countries through negotiations, rather than recognizing the earlier diplomatic relations and treaties established by the Guomindang (Kuomintang)<sup>10</sup> and the imperial courts. The second item was China's entitlement 'to lean to one side'. This was indicative of New China's decision to align itself with the socialist camp led by the Soviet Union. Another item asserted by the government of the People's Republic in its foreign policy for peace was called 'inviting guests only after cleaning up the house first'. This meant first getting rid of the Western influence that was the result of decades of economic, cultural, and political 'invasion' by Western governments. This further meant that the new government would first examine and evaluate treaties and agreements entered into by the Guomindang government, and then recognize, abolish, change, or renegotiate these treaties as it saw fit (*ibid.*: 161-162). The fourth item, referred to as 'to treat others as they would do you', was primarily directed towards Western powers. This entailed that China would establish diplomatic relations with those nations which recognized the new Communist Chinese government in Beijing, and that it would not seek diplomatic relations with those countries that did not recognize it. Another item was characterized by the phrase 'to exchange for what each other needs', which framed the fledgling country's desire to enter commercial relationships on the basis of equality and mutual benefit, regardless of whether state-to-state relations had been or could be normalized in the near future (*ibid.*: 162). The final item decided on by the new government of China in its foreign policy for peace was known by the phrase 'to unite with the people the world over'. This referred to the Communist Party of China's practice of adopting friendly attitudes towards people even in situations where their governments were opposed to the new government of China (*ibid.*). Rooted within its own experience of foreign plunder and domestic and international oppression, and its political ideology, Chinese leaders strongly believed that once people were able to determine their own fate, economic development would follow (*ibid.*). These six key decisions regarding foreign policy taken by the government in the initial stages of its foreign policy strategy development provide essential insights into the core principles informing the Chinese government foreign policy and foreign aid policy. These principles and considerations remain influential to the present day.

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<sup>10</sup> In English literature emanating from mainland China the Republican Party is referred to using the pinyin transliteration Guomindang. In earlier Western literature the Republican Party used the Wades-Giles transliteration Kuomintang. More recently, the pinyin transliteration has become more commonly used in Western literature as well.

During this initial period China provided foreign assistance to a number of countries, neighbours in particular. In 1954, China dispatched 8,200 workers to Mongolia to assist in the construction of schools, hospitals, homes for the elderly, hotels, factories, and thermal power stations, even helping in the restoration of temples (Shu 2010). Two years later, China and Mongolia signed an economic and technical cooperation agreement, and China provided Mongolia a grant worth 160 million rubles or 40 million USD (Central Bank of the Russian Federation 2014, Shu 2010.). China also started its aid to Vietnam during this period. An agreement signed with Vietnam in 1955 led to the provision of, among other things, 30,000 tonnes of rice, a variety of other foodstuffs, cigarettes, traditional Chinese medicine, medical equipment, light bulbs, tyres, stoves, and farming products, as well as the construction of factories and silos (ibid.). In 1956 and 1957, China provided Cambodia goods and materials worth 8 million GBP, equivalent to approximately 23 million USD (Shu 2010, UBC 2013).<sup>11</sup> It was also during this period that China provided personnel, materials, and military support to North Korea in its war against South Korea and its allies (Ping 1999).<sup>12</sup> In 1954, China first provided both military and economic assistance to Albania worth 10 billion RMB, approximately 2.7 billion USD (Jia & Yang 2006: 6, Shu 2009). On a per capita basis this meant that Albania, in 1954 alone, received 4,000 RMB, approximately 1,080 USD, per person, while the average annual income in China was less than 100 RMB, approximately 27 USD (Jia & Yang 2006: 6, Shu 2009). Towards the end of this initial period, following the 1955 Bandung Conference, attended by representatives of 29 African and Asian nations, China started to provide foreign assistance to other countries in Asia, such as Pakistan and Nepal, as well as to countries in Africa (IOSCPRC 2011a, Zhang 2008, Zhou 2008). Egypt became the first African country to receive Chinese aid when it received a grant of 20 million Swiss francs, equivalent to approximately 4.6 million USD, in 1956 (Ping 1999, UBC 2013). During this period the government launched the Great Leap Forward, which had disastrous effects on the Chinese economy and society. Most notable among these negative impacts was the Great Famine, which was the direct result of the Great Leap Forward. The effects of these domestic events on China's foreign aid policy are analysed in Chapter 3.

#### 2.3.4 Developmental period (1964-1970)

Based on the maturation of the Chinese government's concept of foreign relations and foreign assistance, and a little over a decade of experience, Zhou Enlai, during a tour of Africa in 1963-1964, announced the eight principles that would govern future economic relations between China and African countries, and more generally, with other developing countries. This marked the beginning of the second phase in China's foreign assistance policy development. These eight principles are still referred to in official rhetoric today, and they still play a prominent role in the formulation of foreign policy

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<sup>11</sup> Assistance provided to Vietnam during its initial war of independence against France is referred to as “援越抗法” (*yuan yue kang fa*), or “Assist Vietnam, Resist France”. Assistance provided by China during Vietnam's later war against the US is referred to as “援越抗美” (*yuan yue kang mei*), or “Assist Vietnam, Resist the US”.

<sup>12</sup> Chinese assistance to North Korea during its war against the US and its allies is referred to as “抗美援朝” (*kang mei yuan chao*), or “Resist the US, Assist (North) Korea”.

and foreign assistance policies (Davies 2007, Huang 2007, Huang & Hu 2010, Li 2006, Li 2007, Ping 1999, Zhou 2008). In brief, these eight principles are the following:<sup>13</sup>

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. The Chinese Government provides economic aid in the form of interest-free or low-interest loans and extends the time limit for the 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 giving any particular 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 the Chinese Government to help in construction in the recipient countries will have the same standard of living as the experts of those countries. The Chinese experts are not allowed to make any special demands or enjoy any special amenities (Nan 1965: 25).

In this second phase the number of recipient countries was increased to 31 (Ping 1999). Aid expenditures greatly increased between 1964 and 1970, to 144 per cent more than the total of the previous 14 years (*ibid.*). Although the use of turnkey projects, a form of aid provision based on China's experience of Soviet aid, was initiated in 1954, its importance increased during this second period, to become the main form of Chinese foreign assistance provision (Huang & Hu 2010, Shu 2009, Zhou 2008). This was marked by establishment, in 1959, of the specialized turnkey project coordination and implementation institution known as the China Complete Plant Import and Export Corporation (COMPLANT).<sup>14</sup> COMPLANT implemented more than 1,400 large- and medium-scale projects in developing countries in Africa, Asia, and Latin America over 34 years, after which it was supplanted by newer institutions and private sector involvement in foreign assistance, (Huang & Hu 2010). Turnkey projects were focused on local people's lives and productivity, consisting of railway construction, power

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<sup>13</sup> Zhou (2008) states that some Chinese 'patriots' have even suggested presenting the 'Eight Principles' to the United Nations as the standard on which all country-to-country economic and technological cooperation should be based. Others would argue that there are many shortcomings to these principles. Firstly, the principles would likely be exploited both by foreign powers to win friends and allies and to eschew international moral responsibilities. Secondly, they would be used by ruthless authoritarian leaders to excuse themselves from their international humanitarian responsibilities of protecting the universal human rights of their citizens.

<sup>14</sup> China Complete Plant Import and Export Corporation Ltd is part of the China Complete Plant Import and Export Corporation Group. The COMPLANT Group was originally subordinate to the Ministry of Foreign Trade and Economic Cooperation. It is currently under the administration of the State Property Supervision Administrative Committee. COMPLANT Ltd is now listed on the Shenzhen stock exchange. For more information see [www.complant-ltd.com.cn/](http://www.complant-ltd.com.cn/) (Accessed 21 December 2012).

plants, irrigation works, water projects, schools, farms, hospitals, and stadiums (Zhou 2008). In 1963, China first sent medical teams to Algeria (De Haan 2010, Qi 2009). By the end of 2009, the number of Chinese medical workers dispatched to Africa totalled more than 20,000 (IOSCPRC 2011a, Qi 2009). This second phase in the development of China's foreign assistance programme was marked not only an expansion of recipients but also a broadening of foreign aid modalities.

### 2.3.5 Rapid expansion (1971-1978)

In 1971, the People's Republic of China was given a seat in the UN General Assembly and Security Council, replacing the Republic of China (Taiwan), which then no longer held a UN seat. This was also the year that Henry Kissinger, US Secretary of State at the time, travelled to China to revive relations between the China and the US. Moreover, 1971 saw a rapid development and increase of China's foreign aid, marking the beginning of the third phase in China's foreign assistance development. China added an additional 36 countries to the 31 countries to which it was providing aid, including countries in Latin America and the South Pacific (Ping 1999). Additionally, the Chinese government was providing foreign aid to Vietnam, Laos, and Cambodia, which were at the time afflicted by the ongoing Vietnam War against the US and the anti-Communist southern Vietnamese forces. Some 43 per cent of China's aid expenditures between 1971 and 1975 were to these three countries, 93 per cent of which was provided to Vietnam alone (ibid.). The average expenditure on foreign assistance during this period was 5.88 per cent of China's total government expenditures, while in 1973 it peaked at nearly 7 per cent of total government expenditures (ibid.). During this period, China continued to suffer from the Cultural Revolution; it experienced leadership struggles, with the death of Premier Zhou Enlai and Chairman Mao bringing the country to the brink of civil war as the 'Gang of Four' led by Mao's wife usurped power; in addition to widespread and deepening poverty. After Chairman Hua Guofeng, Mao's successor, had the 'Gang of Four' arrested and Deng Xiaoping regained political influence, the political and economic climate in China drastically changed. China could ill afford to continue providing foreign aid at its previous levels. Increasing awareness of this fact among China's leadership motivated the greatest shift in China's foreign assistance programme to date: a shift from one form of humane internationalism to another form of humane internationalism, discussed further below.

### 2.3.6 Post reform and readjustment (1978 to present)

The year 1978 marked a major turning point in China's foreign aid programme. Relations between two important aid recipients, namely Vietnam and Albania, with China rapidly deteriorated (Ping 1999, Shu 2010). Chinese officials came to realize that Albania had no intention of repaying interest-free and concessional loans and clearly took Chinese aid for granted. Relations between China and Vietnam deteriorated for other reasons (Burton 1979). China had revoked its allegiance to the Soviet Union, however, Vietnam was still an important Moscow ally. China also opposed Vietnam's invasion of Cambodia, which removed the Chinese-supported Khmer regime (ibid.). China, contrary to its declared principles of non-interference, respect for state sovereignty, and territorial integrity, invaded Vietnam in 1979 (ibid.). This short war was intended to punish Vietnam for its invasion in what then was called Kampuchea, to press Vietnam to withdraw its troops, and to counter what the Chinese government saw as Vietnam's increasing regional hegemony (ibid.; Zhang 2005).

These breaks in relations combined with the pressure of aid expenditures beyond China's abilities and recognition of the waste and malpractice of some of the aid

provided, led to a debate within China on how to evaluate its foreign aid efforts and whether it should continue to provide aid (Zhou 2008). Moreover, 1978 saw the initiation of domestic social and economic reforms, marking the start of the fourth phase of China's foreign aid development leading up to the present day.<sup>15</sup>

The period 1979-1982 saw a reduction in foreign aid expenditures while the economy as whole grew due to the success of the economic reforms (Li 2007, Ping 1999). However, as the economic and financial situation in China improved, there were again rapid expansions in China's foreign aid efforts. During these years, the debate on Chinese foreign aid efforts culminated in the Central Committee of the Communist Party and State Council document entitled *Opinions on Conscientiously Doing a Good Job in Foreign Aid*, issued in November 1980 (Ping 1999: 168). This document acknowledged the important role that Chinese foreign aid had played in gaining support from friendly countries and its significance to China's role in the international community. Nevertheless, it also enumerated some of the problems and shortcomings of the foreign aid model China had utilized to date, and announced that appropriate measures had been taken to address these issues. Furthermore, the document repeated China's desire for a peaceful and stable international environment, restating its principle of "opposing hegemonism", referring to the geopolitical dominance of one or two superpowers, and of safeguarding world peace (Ping 1999: 168). The document declared that China's foreign aid must serve these general principles.

In this period, Chinese aid was reformed and adjustments were made to render its scale, organization, sectors, and structures more in line with China's economic conditions and capabilities (IOSCPRC 2011a).<sup>16</sup> In this reform and readjustment period, China started to pay more attention to the long-term and economic effects of its aid projects (ibid.). It also diversified its aid provision and increased the flexibility of its instruments (ibid.). China sought to build on the successes and failures of existing projects, engaging in technical and managerial cooperation, initiating lease management (e.g., where the Chinese party manages the project and reimburses the recipient for the use of land or other resources), and setting up joint venture mechanisms for development assistance provision (IOSCPRC 2011a, Ping 1999). These reforms and adjustments signalled a move away from the political, ideological, and international solidarity motivations of the past towards more economic and commercial motives in line with China's own developmental needs and financial capacity. The use of management cooperation operations, lease management, and joint ventures demonstrated not only an ideological shift in the government's consideration of economic mechanisms, but also a re-evaluation of the principle of non-interference (Ping 1999). This principle had partly driven the use of turnkey projects, but it had left Chinese contractors feeling helpless as they saw numerous turnkey projects gradually fail without their assistance after they

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<sup>15</sup> A number of Chinese sources further separate this final period into two periods, namely 1978-94 and from 1995 onwards (Li 1998, National Bureau of Statistics of China 1999, Xiao & Zhang 2002). According to this reasoning, the period 1978-94 was the period of 'national reunification' (祖国统一, *zuguo tongyi*), the 'Four Modernizations', and promotion of world peace (Xiao & Zhang 2002). Although foreign aid maintained a dual purpose, political and economic, the economic purpose became more dominant (ibid.). The forms and content of foreign assistance were reformed, the proportions of turnkey projects and technical assistance increased, and the subjects of foreign assistance were diversified (ibid.). This period also saw the development of bilateral and multilateral mutually beneficial cooperative economic relations for the benefit of both the recipients and China (Li 1998). The second period, 1995 onwards, is said to be characterized by adaptation of foreign aid to fit the requirements of the 'socialist market economy', a deepening of the foreign aid reforms initiated in 1978, a further diversification of foreign aid, and the introduction of tendering processes to increase participation in foreign assistance (IOSCPRC 2011a, Xiao & Zhang 2002).

<sup>16</sup> The Chinese government recently reiterated its policy of regularly and flexibly reforming and adjusting its foreign aid policy to keep up with the times and remain in accordance with its current circumstances and capabilities (IOSCPRC 2011a).

had been handed over. Prior to 1978, non-interference and respect for sovereignty were perceived by Chinese actors as meaning that after turnkey projects were handed over to recipients, the Chinese no longer held or could no longer hold any responsibility for them.

During a tour of Africa in the winter of 1982-83, Premier Zhao Ziyang announced four principles which were to guide China's economic and technical cooperation with Africa and other developing countries in this new stage of foreign policy and foreign assistance. In brief, these four principles were as follows:

1. The principles of unity and friendship, equality and mutual benefit shall be followed. The sovereignty of the other side shall be respected without any interference in its internal affairs, any political conditions attached or any privilege demanded.
2. Proceeding from the actual needs and available conditions, efforts shall be made to bring the advantages and potential of both sides into full play to minimize the investment, shorten the construction period and produce quicker results so that sound economic returns may be attained.
3. Forms of cooperation and operation may, depending on the actual conditions of individual cases, vary from providing technical service, technical and management personnel training, scientific and technological exchange, and project construction to cooperative production and joint venture operation. The Chinese side assumes responsibility, abides by the agreement, guarantees quality, and stresses the sense of obligation to the project it undertakes. The experts and technical personnel sent by the Chinese side do not ask for any special treatment.
4. The purpose of the above-mentioned cooperation and operation lies in learning from each other to make up deficiencies so as to promote the ability of self-reliance and development of the national economy on both sides (Ping 1999: 169).

Comparing Zhao's Four Principles with the Eight Principles announced by Premier Zhou on his African tour in the winter of 1963-64, there are obvious continuities, affirming Li's (2007) claim that although the policies and emphasis of China's foreign aid programme changed, its core principles did not. The most obvious continuity is the respect for state sovereignty (Zhao's first principle and Zhou's second). This strong emphasis on state sovereignty is grounded in China's own experiences at the hands of Western powers during the approximately hundred years prior to what is referred to as 'liberation' in 1949, when the Communist Party took power. Zhao's first principle reiterates Zhou's first one, namely that relations between China and foreign aid recipients are to be based on equity and mutual benefit, and on unity and friendship.<sup>17</sup> Another evident and significant continuity is the emphasis on fostering the recipient nation's self-reliance and ability to support its own national economic development. Another important aspect of this new stage of foreign assistance was the introduction of tripartite projects coordinated with UN agencies and organizations (Bräutigam & Tang 2009), discussed in more detail below.

One notable difference between Zhou and Zhao's principles is the emphasis on common development, as is evidenced by Zhao's second principle. This emphasis has permeated China's rhetoric regarding its engagement with developing countries since 1982. This difference is explained by the state of China's national development at the time. In 1982, China was still a comparatively underdeveloped country. It had only just embarked on a new journey of socio-economic development and initiated cooperation with the international community. As such 'common development' reflects the time period, and national ambitions to be achieved through development cooperation.

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<sup>17</sup> For a closer comparison of Zhou Enlai's and Zhao Ziyang's principles see Appendix 1.

The number of recipients of Chinese foreign aid increased between 1979 and 1985, adding 19 new partners to the original 64, and the emphasis on technical and project aid increased from 37 to 78 per cent of total aid expenditures (Ping 1999). In the period up to 1985 turnkey projects accounted for a cumulative average of 38.5 per cent of total foreign assistance provision, while goods and materials accounted for 54.8 per cent, and financial assistance accounted for 6.6 per cent (Shu 2009).

In 1993, administrative rules and regulations were developed to govern foreign aid. A general contractor system was adopted for the implementation of aid projects, and a project supervision system was introduced for the assignment of projects (Huang & Hu 2010). These new measures effectively brought in a competitive market system for general contractor selection while distancing the government from the contracted enterprises and fostering establishment of prices in accordance with the international market, thereby bringing China's aid system closer to prevalent international norms (Huang 2008, Huang & Hu 2010, Ping 1999, Zhou 2008). These new measures were also a means of mobilizing private sector engagement in foreign aid provision, but they have also made it more difficult to distinguish China's aid policy from its commercial efforts, though this is a difficulty that has also plagued other donors, notably France and Japan.

An important characteristic of Chinese foreign aid is that projects are, ostensibly, initiated at the recipient's request, rather than at the initiative of the Chinese government. This is in line with the a belief that recipient nations have a much clearer understanding of their own needs, abilities, and domestic realities in their processes of social and economic development.

China engages in a large number of agricultural projects, as this is an area in which China's strengths lie (MFAPRC 2006, IOSCPRC 2011a, Bräutigam & Tang 2009, Huang 2008, Zhou 2008). Through many centuries of experience in high intensity farming with few resources and poor technology, Chinese farmers and experts have developed an extensive knowledge base and techniques uniquely appropriate for implementation in many African countries (Ping 1999). Furthermore, China's focus on basic infrastructure projects reflects its own development experience, and the belief that as long as the basic necessities of the economy are met, a country will be able to rely on its own local expertise and resources for economic development.<sup>18</sup>

In recent years, China has increasingly engaged in cooperative activities with third parties, particularly with international organizations, in its economic assistance efforts in recipient countries. China's shift towards tripartite efforts with the UN initiated in the early 1980s was mentioned above. The Chinese government has continued to attach great importance to its cooperation with the UN World Food Programme, and has expressed a desire to expand and strengthen this cooperation (Huang 2008). It further has strong relations with the United Nations Development Programme (UNDP), the United Nations Food and Agriculture Organization (FAO), the United Nations Conference on Trade and Development (UNCTAD), and the United Nations Industrial Development Organization (UNIDO) (IOSCPRC 2011a).

In December 2004, the Chinese government, UNDP, and other international organizations, at the request of the Chinese government, established the International Poverty Reduction Center China (IPRCC). The IPRCC's work focuses not only on China's domestic poverty reduction processes but also on research and collaboration with other developing countries such as those in Africa and Central Asia, partly through the facilitating role played by UNDP and other partner organizations. The Chinese government and UNDP also jointly established the China-Africa Business Council (CABC)

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<sup>18</sup> For further discussion on Chinese agricultural cooperation see Bräutigam & Tang (2009).

in November in 2004. This is a public-private partnership to support China's private sector investment activities in sub-Saharan Africa (World Bank 2007). China, since it resumed its seat in the UN General Assembly and UN Security Council, has over the last four decades, particularly more recently, become one of the largest contributors of troops to UN peacekeeping operations (De Haan 2010, IOSCPRC 2005, Taylor 2009, International Crisis Group 2009).

In 2007, China's contribution to the IMF was said to exceed Japan's contribution, making China's contribution second only to that of the US after the new quotas were implemented (Huo & Li 2009). China is also working with the Organisation for Economic Cooperation and Development (OECD) on matters of corporate social responsibility, and has asked the OECD to explain its *Guidelines for the Multinational Enterprises* to Chinese firms with the goal of encouraging Chinese firms to start adopting these best practices (Bosshard 2007a). Furthermore, the IPRCC hosts a China-DAC (Development Assistance Committee) study group intended as a platform for knowledge exchange (De Haan 2010).

China's cooperation with the World Bank is well documented (Bosshard 2007a, De Haan 2010, Chaponnière 2009, Edinger et al. 2008, Davies 2007, World Bank 2007). The Chinese government is said to be interested in learning from and engaging in joint projects with the World Bank (Bosshard 2007a). In 2007 the World Bank published a detailed report on its cooperation with the Chinese government entitled *China and the World Bank: A Partnership for Innovation*, which details the past and future cooperative innovations that the partnership had been and planned to become engaged in. It further devoted a chapter to the support of this partnership and China's increasing role in SSC and knowledge exchange (World Bank 2007). According to the report, the Chinese government had requested the World Bank to support an increased international role for China through a variety of instruments, including the Bank's facilitating China's participation in global development partnerships, cross border learning and knowledge exchanges, and the building up of tools for the Chinese government to assess policy options and trade-offs (ibid.). In May 2007, the World Bank and the Export-Import Bank of China (China Exim Bank) signed a memorandum of understanding (Davies et al. 2008, Davies 2007). This stated that the World Bank and the China Exim Bank would improve their cooperation in development assistance, especially in Africa, with a special focus on roads, infrastructure, and energy investment projects (Davies 2007). It was also in 2007 that China became, for the first time, a contributor to the World Bank's International Development Association (*Radio68.com* 2007, World Bank 2011). This significant step gave China a greater say in decisions made by the institution, and meant that Chinese staff would be recruited by the Bank (*Radio68.com* 2007), further diversifying the country's participation in foreign development cooperation. Justin Yifu Lin, a well-known Chinese scholar, became China's first World Bank vice president in 2008.

Outside existing intergovernmental multilateral platforms, the Chinese government has also made efforts to coordinate its aid to Africa, for example, by establishing the Forum on China-Africa Cooperation (FOCAC) in 2000. This forum organizes ministerial-level conferences every three years, alternately held in China and different African countries, with the aim of strengthening political consultation and cooperation between China and Africa (MFAPRC 2006). The Chinese government has also expressed its desire to find the best way to further cooperation between the FOCAC and the New Economic Partnership for Africa's Development (NEPAD) in recognition of NEPAD's role in the socio-economic development of the continent (ibid.).

Aside from China's efforts to consult on and coordinate aid outside of traditional multilateral platforms and its cooperation with the international financial institutions and UN agencies, China has, since, 2005, also carried out exchanges in development assistance with international multilateral organizations (IOSCPRC 2011a). It has sent

delegations to conferences and dialogues on international development cooperation such as the World Trade Organization (WTO) Global Review of Aid for Trade, the Heiligendam Process Dialogue between the G8 and the five most important emerging economies, the High-Level Forum on Aid Effectiveness, the UN High-Level Meeting on Financing for Development, the UN High-Level Meeting on the Millennium Development Goals, and the UN Development Cooperation Forum (ibid.). The government's objective in participating in such meetings and forums is to promote SSC and to strengthen exchanges and communication with other aid providers (ibid.). Of course, as with any government's involvement in international affairs, there is a degree of self-interest. China is not immune to this. In fact, China's stepped up engagement with developing countries since the turn of the millennium has been described by some as determined purely by resource-seeking, and later market-seeking motivations, as discussed in more detail later in this thesis.

The paragraphs above indicate that not only has China actively cooperated with third parties in development assistance and rapidly increased its activities carried out through multilateral and intergovernmental institutions, but additionally China has preferred these types of partners instead of cooperating with other nation states, such as the US or Germany, in its development assistance provision. This will be of particular relevance for our analysis later in this chapter, especially regarding China's suspicion and ideological opposition towards such institutions prior to the 1978 reforms. This change of attitude is also important to note because it indicates that China is not engaging in the developing world fully outside of the international development system. Rather, it is working, to a large extent, within and through that system. Therefore, placing it within the spectrum of the whole donor community would seem only appropriate.

One sign of the new Chinese forms of aid provision is the rapid increase in trade between China and Africa, as furtherance of economic interests through pursuit of mutual benefit became increasingly important after the reform and readjustment of China's foreign assistance programme. The increase in trade was most rapid following the implementation of China's 'outward bound' or 'Go Out' policy for Chinese companies at the turn of the century. The figures also show that although there is a degree of trade imbalance in African nations' relations with China, this imbalance is not too great, with only a brief period of greater imbalance, which was most pronounced around the time of the global financial crisis.

Another sign of the new form of Chinese aid provision has been the increasingly prominent role played by the China Exim Bank, one of China's three 'policy banks'. These three banks (the China Exim Bank, the China Development Bank, and the Agricultural Development Bank of China) were established in 1994 to take over the state-directed financing role that had been played by the big four Chinese commercial banks (the Bank of China, the Agricultural Bank of China, the Industrial and Commercial Bank of China, and the China Construction Bank). Policy banks in China support government policy objectives by providing various forms of financing to sectors within their remit. The China Exim Bank's main objective is to promote foreign trade and economic cooperation. It does this through, among other mechanisms, export and import credits, concessional loans, and standard loans for, among others, overseas construction contracts, overseas investment projects, and foreign governments.<sup>19</sup> The listing of the China National Complete Plant Import and Export Corporation Ltd on the

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<sup>19</sup> See <http://english.eximbank.gov.cn/> for more details.

Shenzhen stock exchange is another sign of the privatization of Chinese foreign assistance implementation and participation.<sup>20</sup>

In this more recent period, China has increasingly forgiven debts of some of the poorest countries (Tjønneland et al. 2006, Davies et al. 2008, Davies 2007). Debt relief announcements have occurred on such occasions as the FOCAC meetings of 2000, 2006, and 2009, as well as the UN High-Level Meeting on Financing for Development in 2005, and the UN high-level meetings on the millennium development goals (MDGs) in 2008 and 2010 (IOSCPRC 2011a). By 2006, China had forgiven 156 debts totalling 1.4 billion USD from 31 LDCs and HIPC countries in Africa (He 2007, Li 2007).<sup>21</sup> This stands in contrast to the 2005 G8 promise to forgive 50 billion USD in African debt, which had still not been achieved in 2007 (He 2007). The Chinese government reports that by the end of 2009 it had provided 106.2 billion RMB in grants, 76.54 billion RMB in interest-free loans, and 73.55 billion RMB in concessional loans (IOSCPRC 2011a). These data, coupled with the debt cancellations, indicate China's increasing use of financial mechanisms in foreign aid provision as it gained financial strength, as opposed to the dominance of labour and materials provision and turnkey project construction in previous, financially weaker times. By the end of 2009, China had forgiven 380 mature debts, totalling 25.58 billion RMB (ibid.). Figures A-9 and A-10 in Appendix 10 show that most beneficiaries of these debt cancellations were in Africa and Asia. The focus of Chinese foreign aid on Africa and Asia is also reflected in the geographical distribution of its foreign aid funds, as Figure A-11 in Appendix 10 shows, and its emphasis on low-income countries, as Figure A-12 in Appendix 10 shows.

## 2.4 Framework analysis

### 2.4.1 Categorizing China's foreign aid

The core principles of China's foreign assistance programme have remained steady since their explicit inception in 1964, but the policies based on these principles have changed. Furthermore the core principle of the different forms of humane internationalism have remained essentially the same: the idea that developed nations have an *obligation* to assist developing nations (Stokke 1989: 11). The differences lie in the nuances of this sense of obligation, the broader related beliefs, and the methods deemed appropriate for fulfilling this obligation. Therefore, rather than comparing each of the different forms of humane internationalism to the Chinese foreign aid provision model, this analysis compares China's foreign aid programme with the different forms of humane internationalism simultaneously.

### 2.4.2 Obligation

The core principle of all forms of humane internationalism is the acknowledgement of the obligation of richer countries to help alleviate global poverty and promote social and economic development in poor countries. China, as we read above, clearly acknowledges this principle (Bin 2008, IOSCPRC 2005, Shi 1989, Ye 2010, Zhou 2008), although it is and was itself a developing country, and at times has actually provided aid to countries

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<sup>20</sup> See [www.complant.com/ejituan5.htm](http://www.complant.com/ejituan5.htm) for more details.

<sup>21</sup> Chinese government sources state that it had forgiven 198 debts totalling 16.6 billion RMB from 44 developing countries by 2005.

that were better off than itself (e.g., Albania and other Eastern European countries).<sup>22</sup> Stokke (1989) defined the radical and reform internationalist concept of obligation as the sense that rich countries have an obligation to assist poor countries. However, under liberal internationalism it was defined as a “responsibility for development in the South” (ibid.: 13). As such, this broader liberal internationalist definition of obligation is also suited to China, particularly after 1978. Prior to 1978, China’s concept of obligation was framed in anti-imperialist, anti-colonial, and anti-hegemonic international solidarity terms, and as such would not qualify for any category of humane internationalism as defined by Stokke (ibid.). Stokke delimited the notion of obligation to one based on comparative wealth. We would argue that any concept of obligation, be it on the basis of solidarity, of rich helping poor, or of developing a less developed region, should qualify as humane internationalism. This is because concepts of helping those in need are so central to the welfare state ideologies on which Stokke based his analysis. As such, concepts of obligation based on solidarity, especially solidarity in the face of oppressive and exploitative economic and political structures, should be ascribed to the radical internationalist category, as this has a similar ideological basis and roots in ideologies that promote equity amongst humanity and solidarity across national boundaries. The notion of obligation is also what sets humane internationalism apart from realist internationalism, as the latter does not maintain a notion of obligation, being motivated solely by self-interest instead.

An example of the expression of obligation is found in Chairman Mao’s statement to visiting Zambian President Kaunda in 1967: “Countries which have achieved independence first have the responsibility to help those countries which gain independence later” (cited in Zhang 2007: 30). In another statement, Mao said, “China should make a comparatively great contribution to humanity” (cited in Zhou 2008: 1). However, these expressions of obligation to assist developing countries and new independent countries are not limited to the time of Mao Zedong. On 10 July 1978, Deng Xiaoping expressed the notion of China’s obligation to the visiting Rwandan president in the following terms:

Being a true socialist country, we will not only think of ourselves. To measure if we are a true socialist country or not, is not only to develop ourselves and realize the four modernizations, but to be able to, as we develop ourselves, make a greater contribution to humanity. We believe that through a period of increased effort, after we have developed ourselves, we will be even more able to fulfill our internationalist obligations (cited in Zhang 2006: 49).

In 1979, Deng Xiaoping said that after a number of years, “a wealthier China will, in accordance with its [socialist] identity be able to more fully fulfill its internationalist obligations to humanity, in particular towards the Third World” (cited in ibid.). In September 1983,

[The] State Council stated that China is a poor country, and although it is very poor, it is a great nation, therefore China has the responsibility, the duty to provide assistance to developing countries to the best of its ability, this is determined by the nature of the Chinese

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<sup>22</sup> The exact nature of the motivation that drives this notion of obligation is debated among Chinese scholars. There are those, like Shi (1989), who argue that the success of China’s revolution and subsequent foundation is inseparable from support for the peoples of the world. It is for this reason that China feels that it has the responsibility and the obligation to help the oppressed and developing countries achieve and protect national independence and promote national development (ibid.). Others, such as Chen (2006), argue that China’s sense of obligation is based on its triple identity, namely that of (i) being a developing country, (ii) being a peacefully arising superpower, and (iii) being a socialist country. As such it must make all effort to care for and assist the three quarters of the world population that reside in the developing world, not only to help free them from poverty, but to contribute to world peace and prosperity (ibid.). The questions of whether China is (i) still a developing country, (ii) truly a peacefully arising superpower, and (iii) really still a socialist power, are best answered by other studies addressing these debated issues.

nation, and is agreed upon by the whole Party (Zhou 2008: 37).

These statements made by China's leadership express a notion of obligation both in the broader sense of international solidarity and the need to assist others. This, as argued above, can be considered a core element of humane internationalism and, in the specific sense of wealthier nations assisting poorer ones, is prescribed by Stokke's (1989) definition of liberal internationalism.

Until 1978, China was actually providing aid beyond its means, with aid expenditures averaging 5.88 per cent of total government expenditure between 1971 and 1975, and exceeding 7 per cent of total governmental expenditure in 1973 (Shu 2009, Shu 2010, Wang 2010, Zhou 2008). In the decade 1965-75, China's aid expenditures as a percentage of gross domestic product (GDP) consistently exceeded 1 per cent, reaching as high as 2.05 per cent in 1973 (Zhang 2006). In this sense, Chinese foreign aid prior to 1978 would actually fall under the category of radical internationalism, which accepts the obligation to show solidarity with the poor and oppressed in other countries, even to the extent of sacrificing its own narrower interests. As far as aid expenditures as a percentage of GDP are concerned, China's figures prior to 1980 place it at levels similar to and higher than Scandinavian countries and the Netherlands, which are known for their humane internationalist ideology (Stokke 1989) and have consistently provided between 0.7 and 1.0 per cent of GDP in development assistance.

### 2.4.3 Motivation

The second aspect to be addressed is that of the motivation underlying China's perception of obligation. Generally speaking for humane internationalism this motivation is based on compassion for the poor and suffering in developing countries. Reform internationalism builds on this by arguing that the existing international economic system is unfair towards the poor and that the distribution of resources and wealth is indefensible. Radical internationalism goes further still by confronting the exploitative and oppressive political and economic structures both within and among states. Radical internationalism, as mentioned above, has its roots in ideologies that advocate equity amongst humanity and solidarity across national borders.

Chinese foreign aid, based upon Marxist, communist, and socialist ideologies, can be said, particularly before its reform and adjustment, to have aspects of radical internationalism, especially given its opposition to Western capitalism and its aim to counter the oppressive and exploitive structures said to have been created by imperialism and colonialism. However, recent developments in Chinese policy towards the developing world have brought its foreign assistance programme more into line with the motivations of liberal internationalism, which adds an element of enlightened self-interest to the humanitarian motivation of aid provision. This is particularly associated with the increasing interdependence between North and South that has accompanied the integration of developing countries into the Western/global market economy. Stokke (1989) referred to the increased interdependence between North and South. However, China is not considered a country of the North, and certainly was not at the time of Stokke's writing. As such, Stokke's definition could be adapted to mean an enlightened self-interest stemming from the increased interdependence between nations. This adjustment to the definition can be made without affecting the essence of its meaning, namely that of enlightened self-interest motivating foreign aid provision. It might be argued that Stokke (*ibid.*) included the specification of North and South to emphasize the economically and politically imbalanced relationship between the stronger and wealthier North and the weaker and poorer South. If this is the case, China's position within this definition could still be defended, as it is obviously a

politically and economically more powerful nation at present than most other developing countries, and as such the imbalanced relationship between donor and recipient is maintained within the boundaries of Stokke's definition. In fact, a number of authors have argued that it is precisely this understanding of the increased interdependence resulting from globalization that has greatly influenced China's foreign aid programme since 1978 (Li 2007b, Zhang 2006).

#### 2.4.4 Objectives

As far as the objectives of the different forms of humane internationalism are concerned, both general humane internationalism and reform internationalism promote economic, political, and social rights in developing countries, while aiming to advance social and economic development and reduce human suffering. Radical internationalism goes further, aiming for full economic, political, and social equity. Although inclusion of the promotion of human rights might be a reason to immediately disqualify China from these categories, it is important to note that concepts of human rights in Western countries differ from those in the developing world. Chinese policy statements frequently mention the promotion of human rights (MFAPRF 2006, IOSCPRC 2005). Additionally, the Chinese government has been giving respect for human rights an increasing role in its official rhetoric, marking a shift at least in the principles it promotes, if not a genuine shift in practice, as evidenced by the periodic government reports on human rights (see IOSCPRC 1991, 1995, 2001, 2005, 2010). The government argues that the rights of subsistence and development are the foremost human rights pursued by China (IOSCPRC 1991), and it explicitly prioritizes these rights as embodied in the International Covenant on Economic, Social and Cultural Rights, signed by China in 1997 and ratified in 2001, over the rights embodied in the International Covenant on Civil and Political Rights, which it signed in 1998 but has yet to ratify (HRW 2011). Pursuit of the rights of subsistence and development is rooted in China's own experience at the hands of aggressive imperial and colonial powers, and its experience of feudalism (IOSCPRC 1991). Prominence of the respect for the rights of subsistence and development, and the experience that has motivated this respect, is also evident in China's foreign aid programme. Much of China's foreign aid has been directed to nations that had recently removed the shackles of colonialism and were working towards securing their rights of subsistence and development. Furthermore, China's forms of aid have sought to assist recipients in securing their rights to subsistence and development through the provision of goods, materials, and productive projects, and promotion of self-reliance and independent economic development.<sup>23</sup> Of course, China is hindered by its principles of non-interference, respect for state sovereignty, and non-conditionality in promoting human rights in recipient nations, though its rhetoric on the international stage does promote these.

A further important note is the record of traditional donors in their consideration of human rights in bilateral aid allocation. Although in their political rhetoric most

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<sup>23</sup> With regard to political rights, while admitting gross violations of democracy and the law during the Cultural Revolution, the government argues that progress has been made (IOSCPRC 1991). The equality of men and women in China is now firmly established, as is universal suffrage (*ibid.*). The Chinese constitution guarantees the right to vote and be elected, as well as freedom of press, speech, assembly, association, and demonstration (*ibid.*), although understandings of what these entail, and the extent to which these rights have been implemented differ from Western nations. However, as China is a vast country with a large population, and suffers from inadequate and unbalanced development, it still has much room for improvement in human rights (IOSCPRC 2010). Initiatives such as the National Human Rights Action Plan of China (2009-10), the first national level human rights action plan, indicate the government's intention to improve the human rights situation in China.

traditional donors emphasize the necessity for recipients to perform well with regard to human rights, a number of studies (Alesina & Weder 2002, Apodaca & Stohl 1999, Breuning 1995, Cingranelli & Pasquarello 1985, Lebovic & Voeten 2009, Neumayer 2003) indicate that the importance attached to human rights considerations relative to other considerations, such as security and strategy, is mixed among donors and dependent upon the relative strategic importance of recipients. The importance attached to human rights considerations relative to security and strategic considerations was less during the Cold War, but human rights has become more prominent since then, though new security and strategic considerations related to the global war on terror have again shifted the relative emphases somewhat.<sup>24</sup>

China has, at least in rhetoric, stated that it seeks to actively promote and guarantee human rights, by implication also in other countries, in order to build a 'harmonious world' (IOSCPRC 2005), although its principles of foreign cooperation prevent it from employing direct mechanisms to achieve this.<sup>25</sup> As such China could, again at least in rhetoric, qualify for this characteristic of humane internationalism.

As mentioned earlier, the stated objective of liberal internationalism is to achieve economic growth in the South through the pursuit of genuine common interests between rich and poor countries (Stokke 1989). The term 'genuine common interests' is very similar to the term 'mutual benefit' used in both Zhou and Zhao's principles of foreign economic relations, as well as subsequent Chinese government discourse. With China's recent position of wealth in comparison to recipients of Chinese aid, and its pursuit of common interests in the form of mutual benefit and the further socio-economic development of both the recipients and China itself, again, qualifies it for the category of liberal internationalism.

#### 2.4.5 International political and economic order

All forms of humane internationalism hold that a more equitable world is in the best interests not only of the developing countries but also of the richer developed countries. China holds a similar belief, enshrined in its determination to promote development and justify its foreign aid efforts on the basis of creating a harmonious world and a peaceful and stable world (MFAPRC 2006, IOSCPRC 2005). A more equitable world, as well as more equitable domestic environments, would reduce causes of conflict within and between nations, according to these ideologies. Furthermore, wealthier developing countries represent economic opportunities and markets for developed countries.

Reform internationalism argues that the market cannot viably bring about a more equitable world, since market forces only exacerbate inequalities. Proponents of reform internationalism, therefore, support resource transfers. However, they also demand that systemic inequalities be addressed through reform of both the international and recipient political and economic systems. The Chinese government now sees the market as a mechanism for socio-economic development. However, prior to the 1978 reforms the government sought to achieve more equitable socio-economic development through government intervention. The market mechanism was then not seen as the most appropriate choice, as it was viewed as only exacerbating inequalities. China's

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<sup>24</sup> See annotated bibliography prepared by Ward Warmerdam with Arjan de Haan (2011), <http://www.iss.nl/News/The-Roles-of-Politics-in-Aid-Putting-China-in-Perspective> (Accessed 22 April 2012).

<sup>25</sup> Although China has shown itself to be relatively pragmatic regarding some of its principles, and there are no principles governing aid allocation selectivity which would prevent China from not giving aid to human rights abusers or only giving aid to human rights champions, there are clearly advantages for China in only promoting human rights internationally in discourse and not through aid allocation selectivity.

government, at that time, similar to proponents of reform internationalism, supported public resource transfers. Nevertheless, in deference to its stated principle of non-interference in domestic affairs and respect for national sovereignty, China has not demanded reforms of domestic political and economic systems for the benefit of poor social groups in recipient countries. However, it has, and still does, called for reform of the international political and economic systems for the benefit of developing countries, to give them more voice in international forums and to provide for more equitable economic relations (Cheng 2003, Huang, C. 2008, Zhou 2008). This is evidenced by China's efforts within the International Bank for Reconstruction and Development (IBRD) to gain more voting power for developing nations, its support of the New International Economic Order, and its promotion of the 'Harmonious World' concept.

Liberal internationalism favours the use of the private sector for development efforts. This includes business enterprises. It further asserts that ODA funds should be used to encourage and incentivize commercial institutions to enter into development efforts in developing countries. The recent use of domestic tendering processes for foreign aid project selection in China, as well as the use of import and export credits, has encouraged the private sector in China to engage in development initiatives. Whereas prior to 1978 many businesses were state-owned enterprises (SOEs) and there was also a large number of Township and Village Enterprises (TVEs), there is now an increasingly large and dynamic array of private enterprises, and China's import and export corporation COMPLANT is now even listed on the stock exchange. Furthermore, the Chinese government is addressing trade imbalances with developing countries by, for example, lifting the tariffs on 440 (up from 190) items exported from the LDCs in Africa that have diplomatic relations with China (IOSCPRC 2011a, Li 2007a). It has further promoted trade and economic liberalization, the removal of trade barriers, and facilitation of market access to establish a fair, open, and non-discriminatory multilateral trading system (IOSCPRC 2005). These practices and the accompanying rhetoric further qualify China for the liberal international variation of humane internationalism, which presses for measures that create more equal opportunities and remove protectionist barriers.

In this sense, Chinese foreign aid prior to 1978 could be said to adhere to elements of reform internationalism. However, through the use of import and export credits and domestic foreign aid tendering processes to mobilize the private sector, and due to its emphasis on common economic and commercial interests, Chinese foreign aid currently is more in line with liberal internationalism. As the Chinese government is not openly sceptical concerning the provision of aid to the civilian and military bourgeois elites in control of some developing countries, in this respect it is dissimilar from radical internationalism.

#### 2.4.6 Self-interest

A determining aspect of humane internationalism, mentioned above, is the degree of self-interest within the varieties of this ideology. As far as realist internationalists are concerned, only the national interests of one's own country are and should be pursued. Both general humane internationalists and reform internationalists would argue that a more equitable world is in the best interests not only of the poor developing world, but also of the rich countries. Humane internationalism, on the one hand, adds a dimension that seems a little more slanted towards national self-interest by advocating mutual benefit across borders, with an eye on the interests of increased employment and the expansion of trade and investment opportunities resulting from this mutuality. Liberal internationalism, on the other hand, expresses its consideration of self-interest more

explicitly. It proposes that states *should* pursue short-term and long-term economic and political self-interest, as a form of 'enlightened self-interest'.

China, especially recently, has exhibited more obvious and explicit pursuit of economic self-interest in relation to raw materials in Africa and its perception of Africa as a potential market for its products. It clearly had, and still has, a political interest in the developing world. Prior to the reforms in 1978, its self-interest was of a more political nature, building friendships and coalitions useful for its goals in the UN and in opposition, primarily to Taiwan, but also to the USSR and the US. It could be said that providing foreign assistance was then actually in China's economic *disinterest*, given its own poor economic situation and widespread poverty. After the economic and social reforms of 1978, economic self-interest became explicitly tied to China's foreign aid efforts (Li 2007a, Zhang 2008). Although official rhetoric maintained the age-old notion of mutuality, the requirement that foreign assistance projects *also* benefit China was clearly stipulated. This is not all too different from the tied aid pursued by France and to a lesser extent by Japan, as well as the US, and the current rhetoric in the Netherlands which demands that Dutch aid disbursements also benefit the Netherlands. For China, this meant in practice that aid projects became, or aimed to become, joint ventures or jointly managed operations (Huang 2008, Wang 2010, Zhou 2008). Additionally, the China Exim Bank required that Chinese contractors be selected for implementation of projects funded by concessional loans granted by that institution, and that no less than 50 per cent of the requisite goods, materials, technologies, and services be procured from China (Davies et al. 2008). This qualifies China's foreign aid policy, after the 1978 reforms, for the liberal internationalist categorization.

China's foreign aid policy prior to the 1978 reforms fits the category of radical internationalism better. Radical internationalists believe that the dire needs of those in developing countries should be given predominance over the narrow self-interest of donor nations. This position is motivated by a perception of the extreme differences in economic and socio-economic circumstances. Radical internationalism states that the interests of developing countries should have predominance over narrow domestic self-interest as long as foreign aid is directed towards the creation of and support for structures that lead to self-reliant and sustainable social and economic growth. Chinese aid prior to 1978 clearly reflects a number of the features of radical internationalism. As mentioned above, Chinese foreign aid extended beyond its own economic ability, indicating a degree of sacrifice of its own national self-interest. Furthermore, from the outset China's foreign aid policy contained the objective of promoting self-reliant and sustainable social and economic growth, which is another facet of radical internationalism.

Clearly then, during the period prior to 1978, China's foreign aid provision demonstrated characteristics similar to those of radical internationalism. However, more recently, since the 1978 socio-economic reforms, its foreign assistance programme has moved more in line with the liberal internationalist ideology, qualifying it, again, for this category.

#### 2.4.7 Aid channels

Another aspect on which the three ideologies differ slightly is in their preferred aid channels. Reform internationalism prefers existing bilateral and multilateral aid agencies, as these are considered useful instruments for the correction of global inequalities. Nevertheless, reform internationalism believes these agencies to be in need of improvement in order to achieve their stated objectives. Reform internationalism supports the use of NGOs as well.

As read above, China has increasingly used existing multilateral channels. However, it has been hesitant in doing so, as it believes these to be the domain of traditional Western donors and tools of Western political and economic interests, in opposition to China's own way of doing things (Davies 2007, Gu et al. 2008). For this reason it has, at its own initiative, both independently and with the help of the World Bank and the UNDP, established multilateral platforms for consultation on and coordination of foreign assistance with developing countries separate from similar platforms dominated by traditional donors. Furthermore, China does not use either domestic or international NGOs in its foreign aid efforts. It, thus, does not qualify in this regard for the category of reform internationalism.

Radical internationalism, as mentioned above, prefers non-governmental solidarity groups and is sceptical of bilateral and multilateral aid channels (Stokke 1989). Only those bilateral and multilateral aid agencies that have performed well with regard to radical internationalism's objective of creating full political, economic, and social equity are provided with aid. Radical internationalists have opposed the provision of aid to international development finance institutions, especially the Bretton Woods institutions, and particularly the conditions under which such aid has been given (ibid.). They consider these to be the instruments of Western donor interests and believe their functioning to be a detriment of the interests of developing countries. Radical internationalists prefer UN agencies, as these are thought to allow greater influence for developing country governments.

It is true that China used to be highly sceptical of bilateral and multilateral agencies, and of the international financial institutions. Prior to its reinstatement in the UN, it did not provide funds to UN agencies. In this sense there are elements of radical internationalism in China's foreign aid policy, both prior to and after the adjustment and reform of Chinese foreign aid starting in 1978. China's funding to the UN, as well as its work within and through UN agencies, increased rapidly after its reinstatement in the 1971. China has supported the UN as a place where the voices of the developing world have a greater influence, and it is one of the largest contributors to UN peacekeeping operations. China has a close working relationship with UNDP, and with the UN China has jointly set up both the IPRCC and the China-Africa Business Council. China has also worked increasingly with the international financial institutions, taking up its role in the World Bank International Development Association (IDA) and managing to gain greater voting power for developing countries within both the IMF and the World Bank. In this sense it is slowly moving away from these elements of radical internationalism. Furthermore, China has requested World Bank support for its increasing global role through a variety of instruments, such as by facilitating China's participation in global development partnerships, building up policy assessment tools, and participating in cross-border learning and knowledge exchanges (World Bank 2007).

Liberal internationalism similarly prefers the use of UN agencies; however, it also favours use of international financial institutions, as these and UN agencies employ open bidding for contracts. Liberal internationalism is suspicious of procurement tying. Furthermore, its attitude towards bilateral and multilateral aid agencies varies depending on the degrees to which these agencies interfere with and discriminate among aid recipients. China then also has demonstrated elements of liberal internationalism through its preference for the UN, its growing cooperation with international financial institutions, its opposition to agency intervention, and its increasing use of tendering processes for foreign aid project contracting. However, as mentioned above, Chinese loans to developing countries currently contain high percentages of procurement tying, thereby disqualifying it from the liberal internationalism categorization. In this respect, China's categorization is not so clear-

cut. It is evident that China has demonstrated pragmatism about who it works with and how it does so.

#### 2.4.8 State and inter-state intervention

The final differentiating aspect in Stokke's (1989) definitions of humane internationalism concerns attitudes towards state and inter-state intervention. Both reform internationalism and radical internationalism advocate state and inter-state intervention in the interest of social, political, and economic equity in developing countries and the alleviation of human suffering. Reform internationalism takes a more gradualist approach to intervention. Radical internationalism on the other hand, does not support state or inter-state intervention if it is carried out by repressive or exploitative structures, regardless of whether these are governments of developing countries or international institutions.

China, as described above, has consistently opposed inter-state intervention. It places great emphasis on state sovereignty and belief in recipients' ability to manage their own development processes, while opposing conditionality. Given its ideological heritage, and its own domestic political governance, it is clear that China does support a certain level of state intervention. However, its economic and social reforms have reduced central-government control of the economy. Nevertheless, substantial government control of the domestic economy and society remains. From this it can be concluded that it would not oppose another nation's state intervention in its own domestic economy, given that China fully supports and promotes countries' own entitlement to govern in the best interests of economic development.

Like liberal internationalism, China has supported the institutionalization of rules and regulations to create more equal opportunity for all nations in the international economy and to reduce protectionism and discriminatory practices, although both the Chinese government and proponents of liberal internationalism oppose inter-state intervention. On this element of the categorization, thus, Chinese foreign aid policy contains facets of all forms of humane internationalism, through its support for state intervention in the domestic sphere and its opposition to inter-state intervention.

### 2.5 Realism

So far, this chapter has analysed China's foreign aid programme according to the varieties of humane internationalism defined by Stokke (1989). It has shown that Chinese aid fits within the radical internationalist category prior to 1978, and the liberal internationalist category after 1978. However, a counterargument might be made that Chinese aid, especially after 1978, but also to a certain extent before 1978, fits the international realist category better. This assumption can be easily made, taking at face value various incarnations of national self-interest, such as geostrategic imperatives, national security, access to markets and natural resources, and China's assertion of its global role. Indeed, the similarities between realist internationalism and liberal internationalism are substantial. This is why liberal internationalism is positioned closest to realist internationalism on the spectrum of aid ideologies presented in Figure 2.2. Nevertheless, there are a number of key differences, which place China's foreign aid programme more firmly in the liberal internationalist camp.

The first of these distinctions is the concept of obligation to assist others, be it wealthier nations helping poorer ones or assistance on the basis of international solidarity. Realist internationalism does not maintain any notion of obligation towards others, as it is motivated solely by national self-interest. One might argue that China's concept of

obligation, especially after the 1978 reforms is in rhetoric only, and a lack of aid data, especially time-specific, country-specific, and sector-specific aid data, makes analyses to prove or disprove this point quite difficult. However, it must be noted that China provides aid fairly evenly to all countries with which it has diplomatic relations, not only countries of strategic importance or resource-rich countries, though FDI inflows (not aid) are more concentrated in the latter (Bräutigam 2011). This goes counter to the traditional realist strategy of focusing aid in strategically or commercially important countries. As noted above, China has provided zero tariff treatments and implemented numerous debt cancellations for LDCs and HIPCs, particularly in Africa. Again, these were not limited to strategically important countries, but rather encompassed the broad spectrum of LDCs and HIPCs in Africa. This goes some way towards showing that China's expression of obligation towards the developing world is more than mere rhetoric.

A second distinction is that of enlightened self-interest. It is in this sense that liberal internationalism is closest to realist internationalism. Yet the latter's focus is purely on national self-interest. Liberal internationalists seek to promote genuine common interests, as emerging from intensified global interdependence. This resonates well with China's pursuit of mutual interest. Beyond rhetoric, pursuit of common interests is evident in practice. China's concessional loan to Angola to rebuild its infrastructure is backed by oil guarantees. In this way China accesses the oil it needs, and Angola is able to rebuild its infrastructure. The requirements of the loan stipulate that more than 60 per cent of the funds provided be used to purchase goods and services from China. Chinese companies are thus involved in infrastructure projects, in which they provide employment opportunities for the local population, as well as transferring skills and technologies to the host country. This points to a fulfilment of mutual interests, and there are numerous such examples. China's aid programme can thus be considered to more closely resemble liberal internationalism than realist internationalism.

A final distinction for the purposes of this analysis concerns approaches to state and inter-state intervention and the international economic and political order. Realist internationalism, paying heed only to national self-interest, supports state and particularly inter-state intervention to the extent that such intervention benefits the nation's own self-interest. Liberal internationalism, however, generally opposes state and inter-state intervention. While China does support state intervention, as described above, it is against inter-state intervention. Realist internationalism views the international order as a factor that can be utilized to serve one's own national purposes. As such, it would advocate rules and regulations that benefit national self-interest, whilst opposing rules and regulations in discord with its own self-interest. Liberal internationalism, on the other hand, supports the institutionalization of rules and regulations that create equal opportunity and reduce discriminatory practices and protectionism. China has been a strong advocate for the developing world and, as stated above, has helped developing countries, for example, to gain greater voting power within the IBRD. China has also promoted its concept of 'Harmonious World,' which is based on peace, interdependence, and equity. This again indicates that the liberal internationalist label is more fitting for China than the realist internationalist.

The points above underline the similarities between realist internationalism and liberal internationalism. Nonetheless, there are distinctions. Focusing on these, Chinese foreign aid appears to contain more elements of liberal internationalism than realist internationalism.

## 2.6 Conclusion

Stokke's model and definitions might be considered outdated, as they were published in 1989, and new and different forms of internationalism may have emerged since then.

Nevertheless, returning to these has provided a new perspective on China's economic relations with developing countries, demonstrating that these are not necessarily very different in nature from the economic relations of Western developed nations with the developing world. In the two distinct periods of Chinese foreign assistance identified by Li (2007a), namely, pre-1978 reforms and post-1978 reforms, China has variably demonstrated elements of both radical internationalism and liberal internationalism. In many respects, China's current foreign aid policy exhibits elements of liberal internationalism (Table 2.1). At the time of Stokke's writing (1989), he identified a general trend in all of the countries he studied towards liberal internationalism. Whether this trend has continued, and others, like China, have followed suit, is a topic for further research, though the recent calls of, for example, the Dutch government for foreign aid provision to also benefit the aid-providers' own interests (and that aid and trade should merge) do indicate a continuation of this general trend. (In fact, this Dutch call reversed a trend set by earlier governments in the Netherlands towards untying all Dutch foreign aid.)

There are a number of limitations to the study presented in this chapter. Firstly, it is limited by the bounds of the dated framework, as mentioned above. Developing Stokke's framework to include such aspects as commitment to the Paris Declaration on Aid Effectiveness and whether a country is a signatory to and has ratified a variety of UN and UN agency covenants, declarations, and treaties, could make it more applicable to the contemporary foreign aid architecture. Another, and likely more important, limitation is that this study has relied to a large extent on official documentation. While this has the advantage of depicting a donor ideology, it does not investigate whether policy rhetoric is carried through in policy behaviour. For a number of aspects of Stokke's framework, such as aid channels and, to a lesser extent, state and inter-state intervention, it is relatively easy to assess conformity of policy behaviour with policy rhetoric. However, for such aspects as motivation, obligation, and self-interest, this is harder to do, requiring a broader scope of comparative field studies. A further limitation is that this study has shown only changes in the ideas category of the domestic political forces shaping foreign aid policy. It has not shown what caused these ideas to change, or how interaction with other categories of domestic political forces, such as interests, institutions, and the organization of foreign aid processes, have affected the development of China's foreign aid policy. Chapter 3 treats more explicitly the way domestic political forces have interacted, both with one another and with the international context, to shape Chinese foreign aid policy. A final limitation is the omission of an element of Pratt's (1989) definition of humane internationalism, namely, responsiveness to cosmopolitan values, from the analysis in this chapter. We focused instead on the categories of Stokke's definitions rather than analysing domestic political forces. The domestic political forces that shape foreign aid ideology are examined in Chapter 3.

**Table 2.1**  
*Comparison of Chinese foreign aid with liberal internationalism*

	<b>Liberal Internationalism</b>	<b>Chinese Foreign Aid Post-1978</b>
<b>Obligation</b>	Recognizes responsibility for the development of the South.	In 1979, Deng Xiaoping said that after a number of years “a wealthier China will, in accordance with its [socialist] identity will be able to more fully fulfil its internationalist obligations to humanity, in particular towards the Third World” (cited in Zhang 2006: 49). In September 1983, the State Council stated that although China was a poor country, it was nonetheless a great nation. Therefore China had the responsibility, a duty, to provide assistance to developing countries to the best of its ability. This was agreed upon by the whole Communist Party (Zhou 2008).
<b>Motivations</b>	Combines main concept of humane internationalism with a strong commitment to an open, multilateral trading system. It is motivated by a humanitarian tradition, adding to it an enlightened self-interest coming out of the increased interdependence between North and South, and the new opportunities that have come about as a result of the integration of the developing world into the Western market economy.	Recent developments in Chinese policy towards the developing world bring it more in line with the motivations of liberal internationalism, which adds to the humanitarian motivation of aid provision an enlightened self-interest emerging from the increased interdependence between North and South resulting from the integration of developing countries in to the Western/global market economy.
<b>Objectives</b>	Seeks economic growth in the South through pursuit of genuine common interests between rich and poor countries.	The use of the term ‘genuine common interests’ is similar to the term ‘mutual benefit’ used in both Zhou and Zhao’s principles of foreign economic relations, as well as subsequent Chinese government rhetoric. China’s position in relation to its aid recipients is of relative wealth. It pursues common interests in the form of mutual benefit and the further socio-economic development of both the recipients and China itself.
<b>Other Beliefs</b>	In development efforts favours an active private sector, including industrial and business enterprises in the North, and believes that overseas development assistance funds should be used for private sector mobilization.	The recent use of domestic tendering processes for foreign aid project selection in China, as well as the use of import and export credits, has encouraged the Chinese private sector to engage in development efforts. Chapter 6 describes an example of engagement of a Chinese private enterprise in foreign aid provision in the form of an agricultural demonstration centre.
<b>Self-Interest</b>	Holds that states should pursue short-term and long-term economic and	China, especially recently, has more obviously and explicitly pursued its

	political self-interest, similar in concept to realist internationalism.	economic self-interest in seeking access to raw materials in Africa and its perception of Africa as a potential market for its products. The Chinese use of tied aid is another indication of self-interest in China's foreign aid programme.
<b>Aid Channels</b>	Attitudes towards aid agencies vary depending on the degrees of interference and discrimination of these agencies. Suspicious of extensive procurement tying. Prefers international development finance agencies and UN agencies that practice open bidding. Also sceptical of agencies which give priority to welfare strategies at the cost of economic growth strategies.	China reflects elements of liberal internationalism through its preference for the UN, increasing preference for international financial institutions, its opposition to agency intervention, and its increasing use of tendering processes for foreign aid project contracting. However, Chinese loans to developing countries currently contain high percentages of procurement tying, thereby disqualifying it from the liberal internationalism categorization. On this issue, China's categorization is not so clear-cut.
<b>State/Inter-State Intervention</b>	Although it is against state and inter-state intervention, supports the institutionalization of rules to create equal opportunities and reduce discriminatory practices and protectionism.	Like liberal internationalism China supports the institutionalization of rules and regulations which create more equal opportunities for all nations in the international economy, and reduce protectionism and discriminatory practices, although both the Chinese government and proponents of liberal internationalism oppose inter-state intervention. For this element of the categorization of the different forms of humane internationalism it could be said that Chinese foreign aid policy contains facets of all forms of humane internationalism, through its support for state intervention and its opposition to inter-state intervention.

Source: Author

## The Dialectics of China's Foreign Aid: Interactions Shaping China's Aid Policy<sup>26</sup>

### 3.1 Introduction

The recent rise of Chinese foreign aid has received considerable attention. China's foreign aid pre-1978 is often described as 'ideological', with that post-1978 labelled as 'mercantile' (Li 2007, Rotberg 2008). Much less studied is how domestic political developments in China have impacted its foreign aid policy. Nonetheless, domestic political forces are a key determinant of a country's foreign policy and thereby its foreign aid policy as well (Lancaster 2007, Milner & Tingley 2010, Noël & Thérien 1995, O'Leary 1967, Pratt 1989, Stokke 1989, Thérien & Noël 2000, Thérien 2002). The way domestic political forces interact with the international context is another key factor shaping a country's foreign aid policy.

As China is becoming increasingly prominent in the international development arena, it is also becoming subject to many expectations from within the development community. Pressure is being exerted on China to adopt its long-held principles and practices. However, many traditional donors are, at the same time, reflecting on their own principles and practices, in light of the re-emergence of China as a donor and the successes it seems to have achieved.

This chapter presents a historical analysis to shed light on the domestic political forces that have shaped China's foreign aid policy. It further describes how the international context has influenced domestic political forces, and subsequently foreign aid policy. The chapter then analyses the impact of China's re-emergence as a foreign aid donor on traditional donors, and the influence of traditional donors on Chinese foreign aid.

This chapter begins by offering an analytical framework for the study of domestic political forces and presenting China's definition of foreign aid (Section 3.2). It then examines the role of different domestic political forces and their influence on China's foreign aid programme, and the influence of the international context on these domestic political forces (Section 3.3). Lancaster's (2007) framework of the domestic political forces that shape the functions of aid programmes is drawn on to examine how changes in the content or composition of one domestic political force necessitate or result in changes in another domestic political force. For example, as the ideology of a country changes, the way that its aid is organized also changes. Additionally, domestic political forces are affected by the international context. The chapter then goes on to investigate the influence of the international aid system on China's aid programme, and whether China's re-emergence as a donor has also influenced the norms and practices within the international aid system (Section 3.4). It utilizes Johnston's (2008) conceptual framework to investigate whether China's aid programme shows signs of the three

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microprocesses of socialization: mimicking, being persuaded, and being socially influenced. Or, perhaps Chinese foreign aid in fact shows signs of innovation and of having a socializing influence on others in the international aid system. While Lancaster's (2007) framework focuses primarily on domestic political forces shaping foreign aid policy, Johnston's (2008) framework complements this by looking at the external political forces.

The conclusion (Section 3.5) draws together findings showing that while at first glance Chinese aid might be perceived as unique, closer analysis reveals not only complementarities, but also similarities with traditional donors. The similarities and differences can be explained in part by the three microprocesses of socialization – mimicking, persuasion, and social influence. However, a fourth microprocess – innovation – also proves necessary to complete the picture. China is not just a passive receiver; it is an active player. China is not only being influenced by other donors, it is also exerting an influence itself.

## 3.2 Background

### 3.2.1 Domestic political forces: An analytical framework

Chapter 2 utilized Stokke's (1989) framework to investigate Chinese foreign aid policy development. The chapter found that before the reforms of 1978 China's foreign aid policy exhibited elements of radical internationalism, for example, in its opposition to multilateral aid institutions and disregard for economic self-interest. Chapter 2 concluded that after the reforms Chinese aid became more liberal internationalist, promoting enlightened self-interest and demonstrating a sense of obligation to help other developing countries. However, Chapter 2 did not provide detailed insight into the domestic political forces that have shaped China's foreign aid policy, how external forces have interacted with and affected these domestic political forces, and how these interactions, in turn, have influenced foreign aid policy.

Stokke's framework provides a useful taxonomy for categorizing foreign aid policy ideologies. However, his descriptions lack a clear analysis of the domestic political forces that shape foreign policy and how interactions between external forces and domestic political forces in turn affect foreign policy. A number of authors have looked more specifically at certain aspects of domestic politics that influence foreign aid policy. Thérien and Noël (2000), for example, look at the influence of *political parties* on foreign aid. Their findings suggest that the impact of political ideologies on foreign aid goes beyond the mere support for or opposition to foreign aid policies, and that a political party that remains in power for a longer period of time is able to make its own particular concepts of social justice central to national political debates (ibid.). The centrality of these conceptions of social justice in political debates, the authors argue, shapes the formulation of foreign aid policies and priorities. The influence of the governing party's prolonged rule on the nation's conceptions of social justice, and therewith on foreign aid policies, is thus a vital consideration in our analysis of the foreign aid policies of China. Thérien and Noël (ibid.) overly focus on two particular domestic political forces that shape foreign aid policy, namely, ideology and institutions. They thereby neglect other domestic political forces, such as interest groups and the organization of the foreign aid institutions within a country. Additionally, they pay inadequate attention to the influence of external forces on the domestic political drivers that shape foreign aid policy.

Putnam (1988) applied a 'two-level game' approach that recognizes the efforts of central decision-makers to simultaneously reconcile both domestic and international imperatives in order to analyse the linkages between domestic politics and diplomacy.

His findings highlight a number of significant features of these linkages, among which are the effects of international pressures on the domestic political arena, the fact that domestic political cleavages may cultivate international cooperation, and the potential divergence of interests between a national leader and the people for whom such a leader is negotiating. Putnam's (ibid.) analysis is the most holistic of the three analyses described above. His takes into consideration both domestic and external forces. Understandings garnered from Putnam's 'two-level game' inform this chapter, though it goes on to conduct a deeper examination of the domestic political forces that shape aid policy formulation and of how such domestic forces interact both with one another and with the international context.

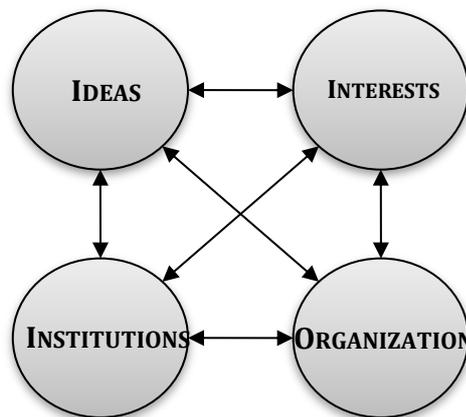
Lancaster (2007) takes into account many aspects of the ways domestic and external forces shape foreign aid policy as described by Stokke (1989), Putnam (1988), and Thérien and Noël (2000), as well as the interaction between internal and external forces. She argues that a number of factors within domestic political contexts can influence the formulation of foreign aid policies. Lancaster (2007: 18) calls these "domestic political forces", which she defines as falling into four interactive categories: ideas, political institutions, interests, and the aid organization (Figure 3.1). First, in the ideas category, 'worldviews' are the most fundamental factor shaping aid. Worldviews are values shared by a given society based on their culture, religion, and/or ideology. Worldviews, according to Lancaster (ibid.) are the origins of the norms and principled beliefs of a society. Second, political institutions determine the "rules of the political game" (ibid.: 19). These include electoral rules, the role of legislatures, roles of local governments and semi-public entities, the political system (parliamentary and presidential), and the effects these have on shaping the purposes of foreign aid. The third factor, interests, is broadly made up of three groups, namely, (i) commercial interest groups, (ii) NGOs and public interest groups, and (iii) groups that have religious, ethnic, or another type of association with specific foreign countries. Finally, the aid organization refers to the way that aid is managed within the government structure, particularly whether there is a dedicated development ministry, or whether it is a department within another ministry or ministries. Lancaster (ibid.: 22) argues that the organization of aid has a strong influence on the purposes for which aid is given. As the international situation changes, and domestic political forces react, purposes of aid change, according to Lancaster (ibid.). For example, traditional purposes of foreign aid have included diplomatic, developmental, commercial, cultural, and humanitarian aims. More recent purposes of foreign aid include promoting economic and social transitions, promoting democracy, addressing global issues (such as the environment and HIV/AIDS), and mitigating and managing post-conflict transitions (ibid.).

Lancaster analysed the US, Japanese, French, German, and Danish models of foreign aid policy determination. She found that although foreign aid was initially a realist response to the Cold War, by the end of the century the notion that more affluent states had an obligation to provide aid to less-well-off states had become a widely accepted norm. She attributes this in part to the establishment of a political constituency for development aid in most donor countries, both within and outside of government. Outside government, NGOs grew in number, size, and influence, while within many governments, aid agencies were created with increasing budgets and staff sizes along with a progressive strengthening of professional capacities and programmes to inform the general public about development issues. Lancaster (ibid.) suggests that domestic constituencies have increasingly taken on the role of monitoring government aid for development rather than for diplomatic or commercial purposes, complementing international pressures from multilateral organizations such as the OECD-DAC, the World Bank, and UN agencies. However, Lancaster (ibid.) finds that domestic constituencies pressuring government to utilize aid for development purposes have been weak in some countries, such as Japan and France. The development purpose of

aid allocation is therefore much weaker in these countries in comparison to the political, cultural, and commercial motivations.

Interestingly, Lancaster (ibid.) notes that acceptance of the aid-for-development norm is dependent on whether the aid-giving nation's socio-economic situation is sufficiently healthy that foreign aid allocations are not seen to be sacrificing the needs of the poor at home. Furthermore, she adds that its acceptance also depends on the perceived effectiveness of government aid allocated for development purposes. In her compilation of cases studies she observes a number of differences in the domestic political forces affecting aid, most notably, varying influences of the different ideas and institutions that shape the purposes of aid.

**Figure 3.1**  
*Interaction of domestic political forces*



Source: Based on Lancaster (2007a)

While Lancaster investigated Western industrialized democracies, we attempt here to show that her analytical framework can be applied to any country providing foreign aid, including China. In every country, domestic political forces shape foreign policy and foreign aid policy. It is the differences in the composition and interactions of these domestic political forces that determine aid policies. Lancaster found substantial ideological differences between the five countries she studied. For example, Denmark was known for its social-democratic ideology, while the US was characterized by neoliberalism. The focal point of our analysis here is the effect of the Chinese communist ideology on its foreign aid programme. Similarly, Lancaster's five study countries differed in their political institutions. The organization of these institutions also determined the level of access that interest groups had, the level of accountability of the executive for aid expenditures, and the legislation enacted on foreign aid. Germany and Denmark, for example, had proportional representation within a parliamentary system, and topics such as the organization and volume of foreign aid were often a subject in coalition-forming negotiations. In the US, restrictions on aid expenditures have been enacted by strict congressional legislation. China is a one party state. The Communist Party dominates the administrative, executive, and legislative branches. Such a political construct has likely affected the extent to which interest groups have been able to gain access to aid policy formulation processes, the extent to which the executive can be held accountable for aid policy, and the content of aid policy legislation.

Interest groups exist in every country, China included, in addition to state interests. The characteristics of the different interest groups and their levels of access to aid policy

formulation processes have a strong influence on such policy. In Japan, NGOs' lack of access, combined with a high level of access for commercial interest groups, has produced a commercially-motivated aid policy instead of a developmentally-oriented one. In China, similarly, NGOs have lacked access to aid policy formulation processes. Yet in China, commercial interest groups also lacked access, until recently. Chinese SOEs have had greater access, given that, again until recently, many of their leadership positions were government functions. Furthermore, private commercial interests are gaining increasing access to the high-level government officials involved in formulating foreign policy and foreign aid policy, due to the growing economic importance of these interests and the prominent role of relationship networks in China.

Finally, the organization of aid is different in the five countries of Lancaster's study, and it may change over time. In the US, the US Agency for International Development is an independent government agency. In Germany, the Federal Ministry for Economic Cooperation and Development is a ministry with cabinet-level representation. In Denmark, the Danish International Development Agency is an organization within the Ministry of Foreign Affairs. The level of independence of aid agencies and the degree to which interest groups influence these agencies through political institutions are other determinants of the aid policy formulated. In China, aid used to be administered by an organization that fell directly under the State Council, and could therefore be described as a ministry-level organization. Later the International Economic Cooperation Affairs Department within the Ministry of Commerce became the organization with primary responsibility for aid.

In China, as in every donor country, domestic political forces shape aid policy. The following sections analyse the domestic political forces that shape foreign aid in China, while also looking at the interaction between China's domestic political forces and the international context and the effect of these interactions on Chinese foreign policy and foreign aid policy. The discussions below are structured along the lines of key events in China's history. Though these events mark different historical periods in China, the events themselves are not the focus of this study.

### 3.2.2 Chinese definition of foreign aid

The Chinese government had until recently never clearly articulated what it defined as foreign aid. The lack of legislation on Chinese foreign aid is an issue currently being widely debated within China (Huang 2007, Yang & Chen 2010). The government has nonetheless proclaimed a number of 'principles' of foreign economic engagement, which will be discussed below. The 2011 White Paper *China's Foreign Aid* (IOSCPRC 2011) provides a clearer description of what China considers to be foreign aid. Components of China's foreign aid programme, according to that document, include the following:

- complete plant projects/turnkey projects – productive or civil projects such as infrastructure construction, agriculture projects, and public buildings;
- goods and materials – specifically for production and living, technical products and equipment, and complementary technical services;
- technical cooperation – guidance on the production, operation, or maintenance of turnkey projects, in addition to training local people;
- human resource development – training and education programmes for management, technical, and government personnel;
- Chinese medical teams;
- emergency humanitarian aid;

- overseas volunteer programmes – volunteers working in education, medical treatment and health care, and other social sectors;
- debt relief (IOSPCRC 2011).

While recent descriptions of Chinese foreign aid focus on economic and humanitarian aid (e.g., *ibid.*, He 2010), China also provides military aid (Zhang 2006), which is not covered either by the White Paper or by Chinese academic analyses. Prior to the 1978 reforms, military aid was provided in support of independence movements. The volume of military aid was greatly reduced after the reforms, and the composition of military aid was altered (*ibid.*).<sup>27</sup> Military aid given in the form of grants was reduced. The main institutions responsible for Chinese aid have always been trade and commerce related rather than military.

Domestic political forces, and their interactions with the international context, influence the composition of foreign aid and foreign policies. However, the influence of different domestic political forces has varied over time, both because of changes in the characteristics of domestic politics and of the international context and due to variations in the levels of dominance of each. Prior to the 1978 reforms, ideology was dominant in China. The organization of foreign aid directly under the State Council allowed aid to be utilized in the service of China's ideological agenda. After 1978, national economic development and commercial interests came to dominate the design of foreign policy and foreign aid policy. The aid programme today is located in a small department called International Economic Cooperation Affairs within the Ministry of Commerce, with links to the Ministry of Foreign Affairs and the Ministry of Finance. This positioning allows it to be influenced by and utilized for commercial interests. We now describe this evolution in more detail.

### 3.3 Key events in China since 1949 and domestic political forces shaping China's foreign aid

#### 3.3.1 The founding of New China

Upon the founding of New China in 1949, the government was at first preoccupied with establishing control over its territory as it was fighting the remaining Guomindang forces and various small pockets of resistance. Its initial policies focused not on aid but on tackling hyperinflation, restoring the war-damaged economy, and laying the institutional groundwork for the transformations China intended to make during its first Five-Year Plan (Lardy 1987a). The government did provide limited foreign aid, even at this early stage, in response to a request by the president of Mongolia in July 1950 for workers to assist in Mongolian construction projects (Shu 2010). Of greater importance at this time, however, were national concerns, such as the land reform law. Land reform had been promised throughout the Chinese Communist Party's rise to power and drawn the support of vast numbers of China's peasant population (Nakajima 1987). The government reduced military expenditures in order to channel funds to this project and to rebuilding the economy (Nakajima 1987).

The importance of ideas, in the sense of Lancaster's (2007) framework, is seen in, for example, the land reform law, which provided an indication of the government's communist ideology. China's decision to ally itself with the Soviet bloc and the Third World were further indications of its socialist and international solidarity ideology. The central government at this time repressed the extent to which publicly voiced opinions and ideologies could differ from state views, as demonstrated by the *Zhenfan* campaign.

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<sup>27</sup> Zhang (2006) does not give details of these changes.

Government agencies, such as for tax collection, the People's Bank, and commerce and trade ministries, were being built or rebuilt. The organizational structure governing foreign aid was still in its infancy, limited to the role of coordinating inflows from the Soviet Union rather than outflows. Finally, private and state-owned commercial interests were preoccupied with managing their position in the changing economy and were therefore of little influence overall among domestic political forces or on the international stage.

China itself was receiving national reconstruction aid from the Soviet Union at the time. This was certainly a determining factor underlying interactions between China's domestic political forces and the international context. In the 1950s, the Soviet Union provided 166 complete industrial plants, dispatched approximately 12,000 technicians from the Soviet Union and Eastern Europe, and gave more than 1.3 billion USD in aid to China (Zhu 2001). China's status as an aid recipient, and its concern with maintaining that status at this crucial stage of national development and in behaving in a manner concordant with such a status, likely constrained the government's ability to respond to Mongolia's early request for assistance.

### 3.3.2 The Korean War

The Korean War shocked the government of China into a more active foreign policy and foreign aid stance. North Korea, under Soviet mandate after Korea had been split in two at the end of World War Two, invaded South Korea, which was under US mandate, on 25 June 1950. The US responded, mobilizing the UN and UN forces on 15 September (although there was opposition by the Communist bloc) and pushing the North Korean People's Army back. This posed a great security risk to China, as did President Truman's decision to send the US Seventh Fleet to the Taiwan Strait (Nakajima 1987).

Within China, the Korean peninsula crisis was framed in the context of a threat to Chinese national security (ibid.). An army body known as the Chinese People's Volunteers under the leadership of General Peng Dehuai was dispatched to 'assist' the North Koreans. The rhetoric used was one of solidarity and duty to help North Korea, but the threat to national security was likely the overriding consideration in China's provision of large-scale military support to North Korea. The Soviet Union, ostensibly neutral, had not come to North Korea's aid, and had not indicated a willingness to do so. China, therefore, felt threatened, especially due to the close proximity of North Korea to Northeast China, which was one of China's more developed industrial centres.

The experience of this security threat and the effect of these external circumstances on the domestic polity likely stimulated China to reconsider the utility of its foreign aid. Though it was still receiving large amounts of Soviet aid for its own national reconstruction (Zhu 2001), the Chinese government nonetheless decided in 1954 to provide foreign aid itself. China's early success in breaking hyperinflation in 1950 and in restoring production capacity (Lardy 1987a), and its disenchantment with the Soviet Union's role in the crisis on the Korean peninsula and in guaranteeing China's security, probably played some part in the changes in China's foreign policy and foreign aid policy. In August 1952 the Central People's Government Commission had established the Ministry of Foreign Trade, which became responsible for coordinating and distributing all goods and services provided as foreign aid. The Ministry of Finance was made responsible for financing the goods and services supplied as aid and for providing financial aid to recipients. Foreign aid at this time also consisted of military assistance (Zhang 2006).

### 3.3.3 First Five-Year Plan (1953-1957)

As part of reconstruction efforts, the government launched its first Five-Year plan in 1953. Building on land reform, which had helped the Party garner support from the peasantry, and the gradual nationalization of private industry, the first Five-Year Plan aimed to increase national income, accelerate domestic economic growth, and complete institutional transformations in line with its Marxist-Leninist ideology (Lardy 1987a). With the assistance of the Soviet Union in developing China's industrial base, the first Five-Year Plan was quite successful (Bo 1958), and the Chinese economy grew. By 1956 approximately 95 per cent of peasant households had been organized into agricultural producers' cooperatives, and thanks to investments in agriculture and adjustments of ownership structures, agricultural output had risen.

In 1954, China provided aid to four countries: Mongolia, North Korea, Hanoi-governed Vietnam, and Albania. Chinese aid to Mongolia was mainly in the form of labour assistance, though later it also included loans and goods and equipment. Economic aid to North Korea was initially given to support war reconstruction efforts, though it was later maintained as a broader assistance strategy. Establishing and maintaining stability on China's periphery was a dominant motivation for providing aid to neighbouring states (Saez & Chang 2010), while aid to Albania was more readily explained by common ideology. In 1954, New China formulated its first foreign policy principles, called the Five Principles of Peaceful Coexistence (UN 1958: 70). These are still referred to in Chinese government rhetoric today:

1. mutual respect for each other's territorial integrity and sovereignty,
2. mutual non-aggression,
3. mutual non-interference in each other's internal affairs,
4. equality and mutual benefit,
5. peaceful co-existence.

These principles would later become the basis on which China would conduct its foreign policy with countries in other regions. These principles at this early stage certainly contained elements of the concept, or the seeming imperative, of maintaining stability in bordering countries and regions and of retaining friendly relations with neighbours. The principles also convey the ideology of the communist leadership, although the principles themselves have their roots in Confucianism. The principles demonstrate a move away from the aggressive policy of 'whoever is not with us is against us' in support of the socialist camp that had characterized China's policy before 1954, towards more accommodative and open stance (Dreyer 2007).

In 1955, 29 Asian and African nations gathered for the Bandung Conference. The Five Principles were incorporated into the conference declaration and later adopted by the Non-Aligned Movement that emerged from this meeting. Following the conference, China expanded its aid further into Asia – especially into peripheral states such as Nepal and Pakistan – and into Africa (IOSCPRC 2011, Zhang 2008, Zhou 2008). By the end of the 1950s, China was providing aid to 20 countries (Ping 1999). Aid was no longer limited to socialist states, but had by now come to include other developing countries (IOSCPRC 2011), indicating that recipient ideology was no longer a determinant of Chinese foreign aid provision. Rather, the notion of international 'proletarian solidarity' became a chief determinant of Chinese foreign aid.

This again points to the dominance of 'ideas' in China's foreign aid formulation. The importance of strategic and security interests is evident too, especially in aid provision to Nepal and Pakistan, and in continued aid to North Korea and Mongolia, given the potential threat from the US and its allies and the threat posed by the Soviet Union.

In 1954, the Ministry of Foreign Trade was given responsibility for negotiating and signing turnkey project contracts, and the State Planning Commission was given responsibility for delegating the various tasks associated with assistance projects to the appropriate ministries under the State Council (Huang & Hu 2010). Figure 3.2 depicts the organization of Chinese foreign aid in 1952.

**Figure 3.2**  
*Organization of Chinese foreign aid in 1952*



Source: Based on Huang and Hu (2010)

Thus, the institutional framework and organization of China's foreign aid became more developed during the period of the first Five-Year Plan. A number of ministries were made responsible for aid implementation, depending on their role, and two institutions (Ministry of Foreign Trade and the State Council) were given responsibility for foreign aid administration (Huang & Hu 2010). Commercial interests did not, as yet, play a prominent role. The government announced its five foreign policy principles and, somewhat by extension, foreign aid policy principles. These principles were in fact first devised and formulated in a 1954 treaty with India. Additionally, recipient ideology was no longer a determinant of Chinese aid. International solidarity became the ideological driver of China's foreign aid. This was still framed as opposition to the imperialism and colonialism labels that China applied to Western countries, and in this sense reflected the Chinese leadership's determination to garner political support.

### 3.3.4 The Great Leap Forward and Great Famine (1958-1961)

Mao believed that scaled-up collectivization and the mobilization of existing resources, most importantly labour mobilization, would result in rapid agricultural growth. State funds were to be directed into capital-intensive heavy industry development in order to 'overtake' England and to 'catch up' with the US (Pan 2006). However, the mass mobilization techniques that were applied, developed during the anti-Japanese War, and

the decentralization of power to local governments, essentially caused the Great Leap Forward to be a disaster (Lardy 1987b). The Soviet leadership did not agree with the path China had chosen. Within the Chinese leadership, criticism of the Great Leap Forward, especially by Peng Dehuai, who had recently returned from the Soviet Union, was immediately attacked as being instigated and supported by the Soviets, further increasing tensions between China and the Soviet Union (Lieberthal 1987). The Party's reaction to Peng's criticism also revealed a sensitive nationalism that was emerging within the Chinese leadership, especially among the hardliners.

Dreadful leadership and inadequate agricultural planning, coupled with severe misjudgements of the effects of irrigation efforts on agricultural output, resulted in the Great Famine (Lardy 1987b). In 1961 the national mortality rate reached 25.4 deaths per thousand, more than two and a half times the rates of 10.8 and 10.0 in 1957 and 1962, respectively (ibid.). Moreover, due to the growing friction between China and the Soviet Union, Moscow withdrew all of its assistance from China in 1960 (Chen 2005, Lieberthal 1987). This was sorely felt in the Chinese economy, as the industrial sector especially was still heavily reliant on Soviet assistance (Lieberthal 1987). In response to this multitude of circumstances, efforts were made to adjust the imbalances in the national economy and to address the welfare needs of rural residents (Lardy 1987b, Pan 2006). The third Five-Year Plan was postponed by two years in order to allow the economy to recover before embarking on the next phase of national development.

A hardline ideological stance dominated Chinese foreign aid policy at this time, even at the expense of China's domestic interests. Unperturbed by domestic shortages, China continued to provide large amounts of goods, materials, turnkey projects, and military assistance (Zhang 2006) to "help Asian and African countries win national independence and develop their economies" (IOSCPRC 2011: 7). Articles such as *US-Led Imperialism, Get Out of Congo and Africa!* appeared in the English-language Party weekly, the *Peking Review*, and in other publications such as *Hongqi* and *Renmin Ribao*. These were indicative of China's uncompromising ideological stance.

In 1961, foreign aid expenditures approached debt repayment expenditures, exceeding them after 1962 (Shu 2010). The departmental head of the Administration of Foreign Economic Relations (AFER), Wang Jiexiang, mentioned to Mao Zedong at a number of small gatherings in 1962 that China's aid commitments exceeded its capabilities (Shu 2010). Mao rejected these warnings. Wang stated that China of course should support countries in their fight against imperialism and aid national independence movements. However, according to Wang, this support should be given in line with China's domestic realities, "seeking truth from facts, to the best of its abilities" (Xu 2002: 10). He encouraged caution in aid expenditures, given the difficult circumstances China was in (ibid.). However, Wang's thoughts were not readily accepted at the time (ibid.). Later, especially during the Cultural Revolution, Wang would be labelled a supporter and promoter of Soviet 'revisionism' and persecuted (Shu 2010). This was due mainly to the time he spent in the Soviet Union in the 1920s. Many of the 'Russian returned students' faced difficulties after the Sino-Soviet split (Kampen 1989). The case of Wang Jiexiang was particularly problematic, as by some accounts, Wang was responsible for Mao's rise to power (ibid.). However, this was not widely known among the general population and lower level cadres (ibid.), and Mao did not come to Wang's assistance during his persecution.

The reorganization of China's foreign aid programme, coupled with the expansion of a hardliner ideology in the late 1950 and early 1960s, demonstrate the increasing tendency and ability of the Chinese central leadership to utilize foreign aid as an ideological tool and to control foreign aid policy and implementation more directly. The Administration of Foreign Economic Relations, established directly under the State Council in 1960 by the Standing Committee of the National People's Congress (Ping

1999), was given the task of administering all aspects of China's foreign aid programme: turnkey projects, provision of goods and materials, and cash transfers (ibid.). These various tasks had previously been administered by the State Planning Commission, the Ministry of Foreign Trade, and the Ministry of Finance, respectively.

While the rift between China and the Soviet Union grew, China's aid continued to expand. By 1963, China was providing aid to 31 countries (Ping 1999). In the winter of 1963-64, on a trip to Africa, Premier Zhou Enlai announced the eight principles of cooperation that were to govern China's foreign economic relations. These built on the Five Principles of Peaceful Coexistence established in 1954, and a number of new principles emerged (see also Chapter 2).

Equality, mutual benefit, and respect of state sovereignty remained core values. The principle of non-conditionality was brought in, complementing the principle of respect for state sovereignty and non-interference. The new principles declared by Premier Zhou also included practical aspects, such as the use of interest-free or low interest loans; minimum investment, quick returns projects; and technical capacity transfer programmes. They also described characteristics that China's aid was to have, namely, that equipment and materials were to be of the highest quality that the Chinese government could provide and that the Chinese experts dispatched by the government would enjoy the same living conditions as their local counterparts and would not be allowed to make special demands. Possibly most importantly, Zhou Enlai stated that the purpose of Chinese foreign aid would be to promote self-reliance and independent economic development. This reflected China's own domestic development ideology.

These principles were formulated to garner support among newly independent nations in Africa and Asia. Of note is that the Chinese leadership had started accusing the Soviet Union of 'social imperialism', as discussed in an article in the *Peking Review* claiming that the Soviet Union acted in an "out-and-out imperialist way" (1970a: 9). The following two extracts taken from the article, are illustrative of the ideology at the time:

The historical lesson is: Once its political power is usurped by a revisionist clique, a socialist will either turn into social imperialism, as in the case of the Soviet Union, or be reduced to a dependency or a colony, as in the case of Czechoslovakia and the Mongolia People's Republic. Now one can see clearly that the essence of the Krushchov-Brezhnev renegade clique's rise to power lies in the transformation of the socialist state created by Lenin and Stalin into a hegemonic social-imperialist power.

The Soviet revisionist clique talks glibly about its "aid" to countries in Asia, Africa and Latin America, but in fact, under the guise of "aid", it is trying hard to bring a number of these countries into its sphere of influence in contending with US imperialism for the intermediate zone. Through the export of war material and capital and through unequal trade, Soviet revisionism is plundering their natural resources, interfering in their internal affairs and looking for chances to grab military bases (*Peking Review* 1970a: 9).

Although this article was written after Zhou Enlai announced his Eight Principles, the ideological rhetoric expressed was already present at that time. In the formulation of Zhou's Eight Principles, China wanted to present itself as different from the two superpowers in that it did not place conditions on its aid, as the Soviet Union and the US did by requiring political allegiance. Extending from this principle of non-conditionality were the principles of respect for state sovereignty and non-interference.

According to the Chinese leadership, the Soviet Union and US aimed to make their aid recipients dependent on their assistance. China, on the other hand, stated its aim as to foster self-reliance and independent economic development rather than dependent relations. Equality and mutual benefit can be seen as extensions of this principle, as Chinese experts were required to receive the same treatment as their local counterparts. In fact, while the Soviet Union and China had maintained fraternal relations based on a

rhetoric of solidarity and equality prior to the split, the Chinese did not feel that they had an equal relationship with the Soviets. On a visit to Moscow in 1957 Mao commented, "Despite all the talk about 'Fraternal Parties' there was really no equality" (cited in Schram 1991: 62).

While China had felt comfortable with the Soviet Union's role as leader of the socialist world, it became increasingly disenchanted with Moscow's new policies (Ahmad 1967). Moscow had started to follow policies of détente with the US. It became less willing to support violent revolutionary struggles and preferred a parliamentary road to socialism. The Soviet Union promoted coexistence with the imperialist/colonialist world (ibid.). These new policy developments drove the more hardline leftist leadership in China towards a foreign policy strategy of supporting the struggling nations of the developing world (ibid.). This in turn caused China to emerge as one of the leaders of the developing world (ibid.). The 'Three Worlds Theory' was devised by Mao Zedong and expounded later by the then vice premier Deng Xiaoping at the UN in 1974. This was an expression of China's leftist international solidarity ideology and part of its strategy to gain support among developing countries and resist US and Soviet hegemony. Mao's concept of a tripartite world system placed both the US and the Soviet Union in the first world, while China and Asian, African, and Latin American post-colonial countries were situated in the 'Third World' (Chen 2005). Developed capitalist states and other Eastern European countries were said to be the 'Second World' (ibid.).

Following the Sino-Soviet split, China stepped up its foreign aid programme (Shu 2010). A number of important changes happened during this period. Regarding the ideas category a number of changes came about, both due to the Sino-Soviet split and in part responsible for causing it. The Chinese leadership had adopted a more hardline leftist policy towards the economy, promoting increased central control and planning, while the Soviet Union had started to loosen its central control. The impact of China's increased centralization is apparent in its concentration of foreign aid directly under the control of the State Council. The Sino-Soviet split also affected China's foreign policy position. The Chinese leadership devised the Three Worlds Theory in which China located itself firmly in the Third World, promoting Third World solidarity in opposition to the US and the Soviet Union and their allies. This was simultaneously also an expression of China's domestic ideology with its emphasis on proletarian solidarity. Zhou Enlai's Eight Principles were an extension of the changes in the ideas category brought about by the Sino-Soviet split. His principles, too, were framed in contrast to the US and the Soviet Union and contained elements of China's domestic ideology.

The organization of aid became more centralized. The various foreign aid remits of the State Planning Commission, the Ministry of Foreign Trade, and the Ministry of Finance were brought under administration of a single institution, the Administration of Foreign Economic Relations. That Administration was located directly under the State Council, highlighting China's nationalist desire to accelerate economic development. This was all framed with reference to the international context by stating China's intention to overtake Britain and catch up with the US. There was also a narrowing in the ideas category; that is, there was less room for tolerance of dissent from the dominant line. At the same time, the ideas of the dominant leaders became increasingly removed from domestic realities. This was evident in the Great Leap Forward, when investment was channelled to capital-intensive heavy industrial development. This investment strategy ignored the advice of leaders such as Chen Yun and Zhou Enlai. Chen and Zhou argued that the agricultural sector should receive more investment to promote balanced economic growth, as agriculture still employed some 80 per cent of the population. The disconnect between the ideas of dominant leaders and domestic realities was also evident in the aid programme, as the head of the Administration of Foreign Economic

Relations, Wang Jiayang, warned that China's aid commitments had begun to exceed its domestic capabilities. Figure 3.3 depicts the organization of Chinese foreign aid in 1960.

**Figure 3.3**  
*Organization of Chinese foreign aid in 1960*



Source: Based on Huang and Hu (2010)

Thus, the interaction between domestic political forces and the international context played an important role in the design of China's foreign policy and foreign aid policy. The interaction between the ideas category and the organization of China's aid effected an increased centralization of the aid programme, and the interaction of the ideas category with the international context influenced the shaping of both domestic and foreign policies, including China's foreign aid policy.

### 3.3.5 The Great Proletarian Cultural Revolution

The economy was recovering from the Great Leap Forward and the Great Famine, particularly with the 'agriculture first' policy promoted by Zhou Enlai in the early 1960s. China was about to embark on its third Five-Year Plan (1966-70). By this time, the Sino-Soviet split had become entrenched and tensions had started to appear in the form of ideological differences among China's leaders. The ideological struggle had a great influence on debates in China. The hardline left became more dominant. This Marxist-Leninist group claimed that the Soviet policies of pragmatism, gradualism, coexistence, 'economism', and material incentives were revisionist and opposed to proletarian revolution (Ahmad 1967). Mao believed that the overthrown bourgeoisie and other reactionary classes in the Soviet Union had not been completely 'ideologically remoulded', and had 'sneaked' into organs of power such as government offices and educational institutions, proceeding to undermine socialism and restore capitalism (ibid.). Mao reasoned that as the Soviet Union was the oldest Communist country in the

world, the seeds of revisionism there had already had time to grow and reveal themselves, causing the country to regress back into capitalism (Robinson 1991).

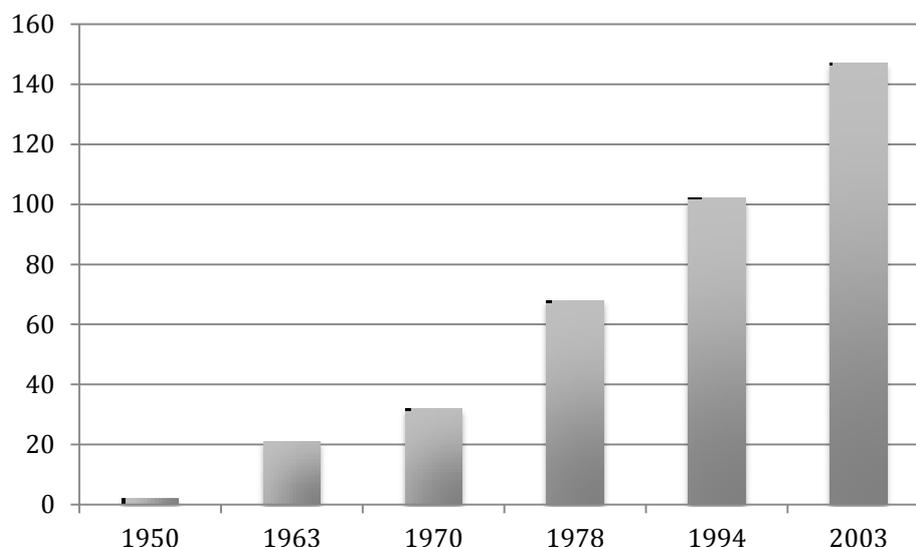
Intent on preventing China from 'regressing' back into capitalism, and suspicious of those around him, Mao launched the so-called Great Proletarian Cultural Revolution in order to ideologically remould bourgeois revisionists (*Peking Review* 1967), to promote the resolution of class contradictions through class struggle, and to combat dissension in his own ranks (Robinson 1991). The Cultural Revolution not only attacked those who were considered landlords, managers of factories, teachers, and intellectuals, Mao also turned attention towards the central leadership (Schram 1991). An extract from a *Hongqi* editorial published in the *Peking Review* (1966c: 8) indicates how interaction between international circumstances and domestic political forces shaped the dominant ideology in China:

International historical experience of the dictatorship of the proletariat shows that this dictatorship cannot be consolidated, nor can the socialist system be consolidated, unless a proletarian Cultural Revolution is carried out and persistent efforts are made to eradicate bourgeois ideology. Bourgeois ideas spreading unchecked inevitably lead to the subversion of the dictatorship of the proletariat and the emergence of such representatives of the bourgeoisie as Khrushchov [sic], who will seize political power through a "palace" coup or a military coup, or a combination of both.

A fifteen-point programme was devised to safeguard China from a regression of socialism such as ostensibly being witnessed in Soviet Union. One of the points was that "the principle of 'proletarian internationalism' must be strictly followed" in Chinese foreign policy (Ahmad 1967: 22). A communiqué from the Eleventh Plenary Session of the Eighth Central Committee of the Communist Party of China stated that proletarian internationalism was "the supreme principle guiding China's foreign policy" (*Peking Review* 1966b: 7).

Foreshadowing commentaries less than half a century later, Western aid was presented as not living up to its promises (see, e.g., Nan 1965). Western and Soviet aid were depicted as highly self-interested. Their aid was considered a neocolonialist tool to exploit Africa and Asia for their natural resources. The Chinese government claimed that the recipients of Soviet and US aid were simply being courted for their support in the battle of the hegemonic superpowers. Chinese aid, on the other hand, was presented as being unconditional and provided on the basis of equality and mutual benefit, with respect for state sovereignty (see the Eight Principles mentioned earlier). China's aid programme expanded rapidly, especially in the 1970s, reaching as high as 7 per cent of total government expenditures in 1973 (Shu 2009). The number of aid recipients tripled between 1963 and 1978 (Zhang 2006) (Figure 3.4).

**Figure 3.4**  
*Number of Chinese aid recipient countries*



Source: Compiled from Zhang (2006)

Mao stressed the need to combat self-interest as part of the struggle against revisionism (*Peking Review* 1967). Those who urged caution on rising aid expenditures and tried to bring foreign aid expenditures more in line with national conditions were criticized, labelled as revisionists, and purged from the party leadership, often suffering both physical and psychological abuse at the hands of those who were determined to ‘re-educate’ them and to ‘remould their souls’. China’s foreign aid during the Cultural Revolution thus became a manifestation of domestic political forces, especially those in service of the hardline leftist concepts of combating self-interest and promoting international proletarian solidarity.

Prominent leaders such as Geng Biao, Chinese Ambassador to Myanmar and Albania, and Li Xiannian, like Wang Jiexiang, suffered at the hands of the Red Guards during the Cultural Revolution. When Geng Biao arrived back from Myanmar in 1967, he faced condemnation by the Red Guards (Xia 2009). It was only after Mao Zedong and Zhou Enlai intervened on his behalf that the Red Guards reduced their criticism of him (ibid.). In 1969, Geng became ambassador to Albania. Here he noticed the wastefulness of Chinese aid to the country and the disparity between China’s own domestic situation and the aid it was providing (ibid.). Along the side of the road he saw piles of fertilizer provided as Chinese aid. The fertilizer, not properly covered, had been ruined by a heavy rainfall (ibid.). Geng further pointed out that the Albanian government had asked China to help Albania realize its goal of one television per household, at a time when televisions were a rarity even in major cities such as Beijing and Shanghai (ibid.). In response, Geng Biao suggested that aid should be provided in accordance with China’s own abilities, to the best of its ability. Aid should be appropriate to the actual situation, he argued (ibid.). Continuing in the manner that China was providing aid to Albania would only breed dependence and laziness on the part of the recipient, Geng pointed out (ibid.). Having seen the fate of Wang Jiexiang, and being acutely aware that these observations would likely lead to further criticism by the Red Guards, and potentially persecution, Geng was cautious. However, he was praised for his candidness and his courage (ibid.). Li Xiannian in particular praised him (ibid.). Geng was supported and protected by Zhou Enlai, as was Li Xiannian (Xia 2008, 2009). In fact, Geng was promoted by Zhou in 1971, in spite of protests from the far left.

'Ideas' remained dominant in China's foreign aid, as well as the shaping of these ideas through interaction with international circumstances – particularly the Soviet Union, but also the US. The difficulties Geng faced in presenting his observations were an indication of this. However, as Figure 3.5 shows, the re-evaluation of aid provision did have a marked effect on aid expenditures as a percentage of gross national product.

The organizational restructuring of the foreign aid programme, with the Administration of Foreign Economic Relations positioned directly under the State Council, allowed for tighter control of foreign aid policy design and implementation. Indeed, this organization was the reason that aid could be utilized so explicitly as an ideological and political tool.

The economy stayed on a steady, though sluggish, course of development. There were no major changes of direction, likely due to a lack of strong leadership (Perkins 1991). China regained its seat in the UN, and it improved its relations with the US in order to counter-balance the threat of the Soviet Union. Nevertheless, the country was in domestic disorder. The death of Mao in September 1976 cleared the way for the arrest of the 'Gang of Four' by Premier Hua Guofeng, who had replaced Zhou Enlai. Hua Guofeng became Chairman of the Chinese Communist Party in October of that year. Hua's influence, however, was quickly curbed at the Third Plenary of the Eleventh Central Committee of the Communist Party of China in 1978, which marked the beginning of a change in direction of communist China's national development.

The organization of aid remained under the State Council. Ideas in Chinese aid were now dominated by hardline leftist ideologies, though aid was still provided to recipients irrespective of their ideologies. Notions of promoting international proletarian solidarity and combating self-interest remained central. During the Cultural Revolution there had been a further narrowing in the ideas category with dissension from the dominant line often resulting in persecution. Ideas continued to become increasingly divorced from domestic economic realities, as evidenced by the provision of aid beyond China's domestic capabilities. The organization of Chinese aid directly under the State Council freed the aid programme of checks and balances that might have limited its expenditures. China's foreign aid policy during this period was mainly shaped by interactions between the idea's category and the international context. These interactions in turn necessitated and were facilitated by interactions between the ideas category and the organization of aid category. The category of interests, particularly commercial interests, played no visible role as yet, though it would do so later.

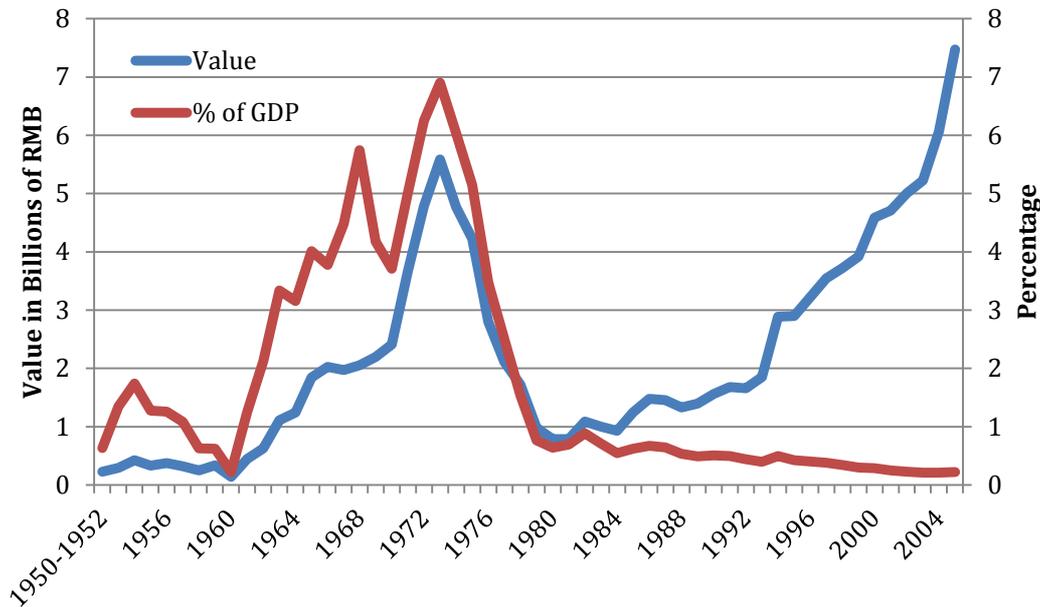
### 3.3.6 Reform and opening up

A 1978 communiqué from the Third Plenary of the Eleventh Central Committee of the Communist Party of China formulated principles and policies that allowed for broader ideological debates, intended to prevent a recurrence of the purges of the Cultural Revolution. Among these policies was the development of a 'socialist democratic legal system' to limit the autonomy of authority (*Beijing Review* 1978). This communiqué guaranteed the right of party members to voice criticisms within the Communist Party (ibid.).

Arguably the most important outcome of the Third Plenary was the decision to shift the Party's efforts towards "socialist modernization" (ibid.: 7). Major new economic measures were announced. Economic management systems were transformed, and economic cooperation with foreign countries was promoted. Advanced technologies and equipment were adopted from abroad. Domestic scientific and educational work was developed in order to meet the requirements of socialist modernization (ibid.: 11). Reliance on the market to guide production, and use of the law of value, seen as

revisionist heresy during the Cultural Revolution (*Peking Review* 1970b), now became central components of China's socialist modernization economic development strategy (*Beijing Review* 1978). Deng, cited in Whiting (1995), characterized this new ideological position by stating, "Rightism can ruin socialism and Leftism can do the same" (Whiting 1995: 307). This implied that China had chosen the 'Middle Way' within communist ideology.

**Figure 3.5**  
Value of aid expenditures (in billions of renminbi) and aid expenditures as percentage of gross national product



Source: Compiled from Zhang (2006)

Foreign aid was the subject of heated debates during the early years of the reform period (Shu 2009). There were those who argued that China, given its own poor economic state, should not be providing any foreign aid (Ping 1999, Zhang 2008). Others argued the political necessity of China's aid programme. In the end it was decided to continue China's foreign aid, though a number of shortcomings of the programme were to be addressed. Figure 3.5 shows the tremendous drop in the value of aid expenditures towards the end of the Cultural Revolution and the start of the reform period. Additionally, as GDP grew the share of aid expenditures as a percentage of GDP continued to decline.

To maintain aid in line with China's current conditions and capabilities, the arrangements, scale, structures, and sectors of foreign aid were reformed and adjustment methods were made more flexible, while provision was diversified. China also started to pay greater attention to the long-term and economic effects of its aid projects (IOSCPRC 2011). Structurally, the organization of China's aid programme also underwent reforms. In 1982, the Administration of Foreign Economic Relations, the Ministry of Foreign Trade, the State Commission for the Control of Import and Export Affairs, and the State Commission for the Control of Foreign Investment were merged to establish the Ministry of Foreign Economics and Trade under the State Council (Huang & Hu 2010). This merger prepared the way for a more prominent role of economic considerations in China's foreign aid programme. The Ministry of Foreign Economics

and Trade was made responsible for a wide range of tasks, including concessional loans; foreign aid funds; project funds and project supervision; designing and implementing foreign aid policies, rules, institutions, and practices; signing cooperation agreements; and designing and implementing annual foreign aid plans (Huang & Hu 2010). Figure 3.6 depicts the organization of Chinese foreign aid in 1982.

**Figure 3.6**  
*Organization of Chinese foreign aid in 1982*



Source: Based on Huang and Hu (2010)

As noted earlier, Premier Zhao Ziyang announced the new principles of China's foreign aid during a tour of Africa in the winter of 1982-83. The new principles continued some of the earlier ones, for example, equality and mutual benefit, non-interference and non-conditionality, and promotion of self-reliance, but they also introduced new economic mechanisms, such as cooperative production and joint ventures. The aid programme expanded, and 19 new partners were added to the original 64 (Ping 1999). Technical and project aid, rather than the provision of goods and materials, increased in importance, from 37 per cent to 78 per cent of total government aid expenditures (ibid.). Military assistance was dramatically reduced (Zhang 2006). Thus, while the political purpose of aid had not disappeared, the economic purpose clearly became more dominant.

The economy developed at a rapid pace, in part due to the decollectivization of agriculture, introduction of the Household Responsibility System (HRS), utilization of TVEs as transition institutions in the absence of political space for private enterprise, and fiscal decentralization (Fu & Balasubramanian 2003, Lin & Liu 2000, Oi 1992, Zhan 2009). However, by 1989 the economy had become overheated (Zhao 1993). Moreover, the change of track to economic reform had allowed some of those in authority to exploit their positions for rent-seeking (Tian 2005b, Wang 2005). Inequality became more apparent, and unemployment became a growing issue (Yu 1996). The combination

of these problems would manifest in the next key event in China's domestic development: the Tiananmen Square student protests.

More different and opposing views were tolerated, following a declaration that Party members had the right to criticize policies. The broader debate on the utility, forms, and roles of aid were yet further evidence of an expansion in the category of ideas, and different ideas came to influence aid policy formulation. The economic and commercial interests in play, at this stage of China's economic development, were those of the state rather than the private sector. This is characteristic of developmental states, in which government leads the industrialization drive and fosters private sector development. These state-driven commercial interests played an increasingly large role in the formulation of China's foreign aid policy through the new Ministry of Foreign Economics and Trade. The new ministry represented domestic trade and investment interests. As the content of the ideas and interest categories changed, a reorganization of China's foreign aid programme became necessary. The influence of interactions amongst domestic political forces became more prominent in China's foreign aid policy formulation, as it became more grounded in domestic realities. Interaction with the international context remained important, but was no longer predominant in China's foreign aid policy design. Nevertheless, the weight given to the international context in foreign aid policy continued to vary.

### 3.3.7 Tiananmen Square student protests and the Southern Tour

In 1989, the death of a much-liked leader Hu Yaobang precipitated mass mourning and provided an opportunity for expressions of discontent with the government. Student demonstrations, particular those at Tiananmen Square, called for political reforms to address growing corruption and safeguards to provide for more just economic development. These demonstrations were notoriously suppressed.

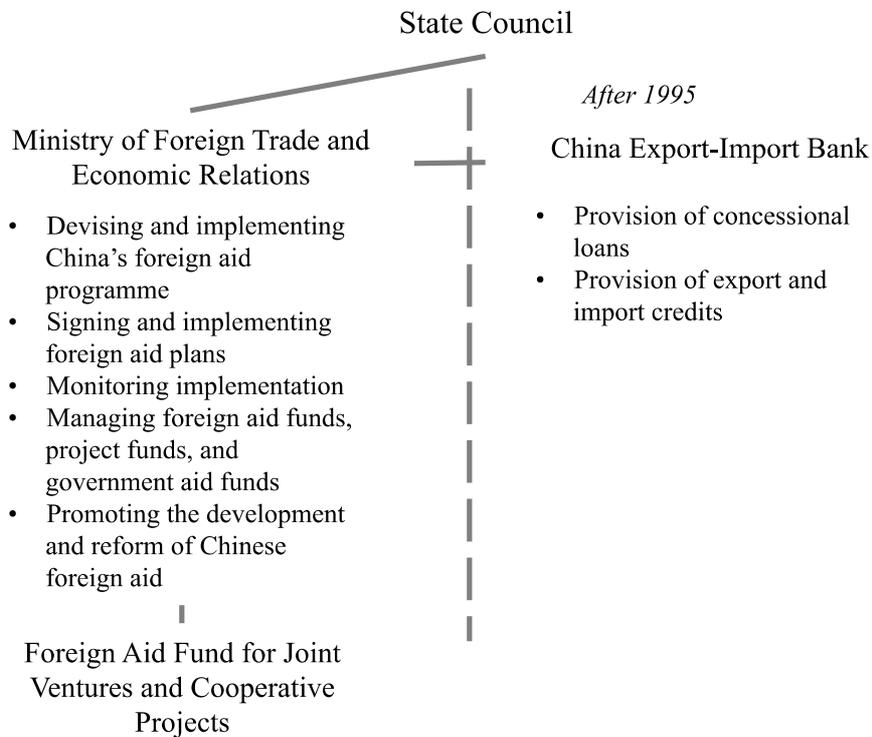
What is often neglected about the period surrounding these events is the crisis of ideology that the Party was undergoing. Some of the more conservative Party members feared that opening the doors to the outside world had allowed capitalist ideas to permeate Chinese society, and that such ideas should be tackled with Chinese Communist ideology (Whiting 1995). Chen Yun was among these more conservative leaders who, while understanding the need for socialist modernization, urged gradualism and caution (Zhao 1993). Deng, on the other hand, continued to promote intensified economic development, stating that China should adopt the useful aspects of capitalism, in direct conflict with Chen Yun (ibid.).

In an effort to push the economic reforms still further, Deng embarked on what has become known as his Southern Tour in 1992. His speeches were not immediately reported by the central news agencies as these were under the control of Chen Yun's supporters who were publishing criticisms of Deng's reform efforts (ibid.). In his speeches Deng stated that further reforms were necessary and that *economic* construction should be at the core of the Party's efforts (ibid.). By the end of February 1992 *Renmin Ribao* published an editorial in support of further reform and opening up, and the use of capitalism to develop China's national economy, signalling the success of Deng's political manoeuvres (ibid.). Deng's speeches were also well received among the general population (Yu 2005a). His speeches led to further reforms, such as the gradual privatization of TVEs, the expansion in number and economic productivity of private enterprises, and a reduction in the number of SOEs (Xia et al. 2009), although a number of key sectors, such as oil, remained under government control.

Reforms to the organization of China's foreign aid were in line with these new priorities. In 1992 the 'joint venture' model of development cooperation was initiated (Huang

2007). In this model, both the Chinese government as well as Chinese enterprises invested capital in development projects (ibid.). This allowed the aid programme to expand. The 'joint venture' model, which also required recipient country partner enterprises, created conditions for skills and technology transfer and capacity building (ibid.). The model was mutually beneficial, Chinese enterprises gained the opportunity to operate abroad and were able to enter new markets (ibid.). Concessional loans were introduced as an aid financing modality (NBSPRCC 1999). This further promoted joint venture cooperation between Chinese and recipient country enterprises and Chinese exports (ibid.). Concessional loans allowed for larger projects, provided a stronger basis of success, and improved 'aid effectiveness' (ibid.). It has been observed that while in other countries the beneficiaries of this form of tied aid have often been domestic private enterprises, in the Chinese case, these tended to be SOEs (Wang 2003). This should not be surprising given the dominance, particularly still in the 1990s, of SOEs in the Chinese economy. Figure 3.7 depicts the organization of Chinese foreign aid in 1993-95.

**Figure 3.7**  
*Organization of Chinese foreign aid in 1993-95*



Source: Based on Huang and Hu (2010)

In March 1993, the Ministry of Foreign Trade and Economic Cooperation was established, responsible for, among other things, China's foreign aid programme (Huang & Hu 2010, Ping 1999). Specific tasks included devising and implementing China's foreign aid policy and programme; signing and implementing foreign aid plans; monitoring implementation; managing foreign aid funds, concessional loans, projects funds, and governmental aid funds; as well as promoting the development and reform of Chinese foreign aid (Huang & Hu 2010). Later that year the Foreign Aid Fund for Joint Ventures and Cooperative Projects was established to support Chinese small-scale and medium-scale enterprises in creating joint ventures and cooperative production in

recipient countries (IOSCPRC 2011). In 1995, the China Exim Bank was established, taking over responsibility for concessional loans and providing export and import credits to stimulate trade between China and other developing countries (ibid.). Interest-free loans and grants remained the mandate of the government (ibid.).

Chinese foreign aid was, to some extent, being decentralized. Simultaneously, the private sector was mobilized in aid efforts. This indicated an increasing dominance of economic interests, supported by shifts in domestic political forces. During this time, the government furthered its fiscal decentralization as a means of stimulating local government revenue-generating strategies. This ideological shift from central control to decentralization was thus also apparent in its reorganization of the foreign aid structure.

The intention of revenue generation is evident in the utilization of the private sector for aid implementation, as expended funds returned in the form of taxes collected from these domestic contractor enterprises. It has also been argued that the experience these contractors gained allowed them to compete better in international tendering processes and enter new markets (Bräutigam 2009, Zhang 2007). This, again, improved these companies' domestic taxable income.

Following the 1989 crackdown on student protests, economic sanctions were imposed on China by Western countries and it became diplomatically isolated (Zhu 2010). The fall of the Soviet Union meant that the US no longer needed China to counterbalance Soviet influence. The fall of communism in Europe and Central Asia also fed into a crisis of legitimacy faced by the Chinese government in the lead up to and the immediate aftermath of the Tiananmen Square protests. Despite this situation, or perhaps because of it, the government continued to "put economic development at the top of its agenda" (Zhu 2001: 19).

In order to continue along its development path, China turned its attention, once again, to Africa and to its Asian neighbours (Luo & Zhang 2009, Rupp 2008, Taylor 2007, Zhu 2001, Zhu 2010). African nations stood firmly by China. Nine African leaders visited China in 1989 (Luo & Zhang 2009). China's East Asian neighbours were vital in providing both markets and investments. African and Southeast Asian nations provided China with diplomatic and political support (Cheng 2003). This helped to break China out of isolation and continue its process of economic development.

These relationships, however, were not without difficulties. For example, many countries in Southeast Asia subscribed to the 'China Threat' theory (Glosny 2006). They believed that China's economic growth was occurring at the expense of economies in Southeast Asia. These countries were losing their market shares in the US and Japan to Chinese exports. When the Asian financial crisis hit Thailand and spread rapidly through Southeast Asia in 1997, the potential threat that China posed to these ailing economies increased greatly. However, China responded by not devaluing its currency, thus preventing another round of competitive devaluations that would have deepened the crisis (ibid.). Glosny (ibid.) argues that this policy decision prevented the financial crisis in neighbouring countries from spreading to China. However, Wang (1999) insists that refusal to devalue the RMB in fact caused tremendous difficulties for Chinese companies engaged in export, as they faced stiffer competition from their peers in neighbouring countries where the currencies had been devalued. Either way, the government presented the policy decision as an example of China's position as a responsible and unselfish international stakeholder (Glosny 2006). China's support during the Asian financial crisis also included financial support through the IMF and bilateral loans (ibid.). Since the crisis China has been actively involved in long-term financial and monitoring programmes, indicating a long-term commitment to preventing a repetition of the Asian financial crisis (ibid.). The refusal to devalue the RMB also had a long-term

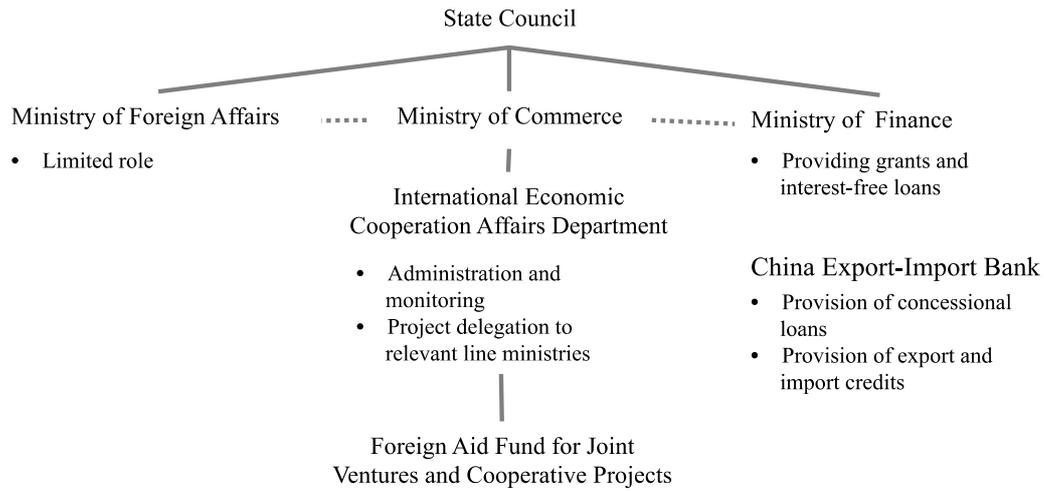
strategic interest motivation: The Chinese government at the time sought to improve its relations with the key regional stakeholders.

Analysing these developments through Lancaster's (2007) framework shows further changes in the composition and interaction of domestic political forces. In the ideas category, the economic reformist ideology became increasingly prominent. The need to reform the economy in order to foster socio-economic development was promoted by Deng Xiaoping on his Southern Tour. The prominence of this economic orientation, and the desire to develop China's economy, also became evident in foreign aid, as banks and funds were established and given responsibility over aid to further this goal. China's response to the Asian financial crisis is an example of domestic political forces, both interests and ideas, interacting with the international context. The organization of China's aid programme was further decentralized, and the degree of private sector involvement greatly increased, partly as a result of interaction with the ideas category. While the national leadership's commercial interests in fostering domestic economic development through engagement with developing countries is apparent, what is less clear to analysts is the extent that commercial interest groups were pressuring the government to provide foreign aid in order to gain access to natural resources and markets abroad.

### 3.3.8 The World Trade Organization

China's entry into the WTO in 2001 had widespread domestic repercussions. It confirmed China's reform and development process, initiated in 1978, and China's position as a world power. It also legitimated its current leadership and ideology. Some 3,000 laws and regulations were revised, trade policies were made more transparent, and customs tariffs were cut in order to join the WTO (IOSCPRC 2005). The legal system was also reorganized according to WTO regulations (Wang 2005). In 2003 the Ministry of Commerce was established, taking over some of the responsibilities previously under the Ministry of Foreign Trade and Economic Relations (Huang & Hu 2010). With regard to foreign aid, the Ministry of Commerce continuing the reforms under the Ministry of Foreign Trade and Economic Relations delegated many practical aspects to line ministries and the private sector, remaining mainly responsible for administrative procedures and monitoring rather than implementation (*ibid.*). The small department responsible for foreign aid became the International Economic Cooperation Affairs Department within the Ministry of Commerce. Corkin (2011) argues that of the three ministries involved in foreign aid policy design – the Ministry of Commerce, the Ministry of Foreign Affairs, and the Ministry of Finance – the Ministry of Commerce has been the more influential, even usurping some of the Ministry of Finance's traditional responsibilities (*ibid.*: 67-8). In consequence, there is a degree of frustration within Ministry of Finance bodies regarding their lack of ability to utilize aid for political purposes, as the body responsible for foreign aid is located within another more influential ministry (according to an interview with a Chinese embassy worker in Uganda 2012). Figure 3.8 depicts the organization of Chinese foreign aid in 2003.

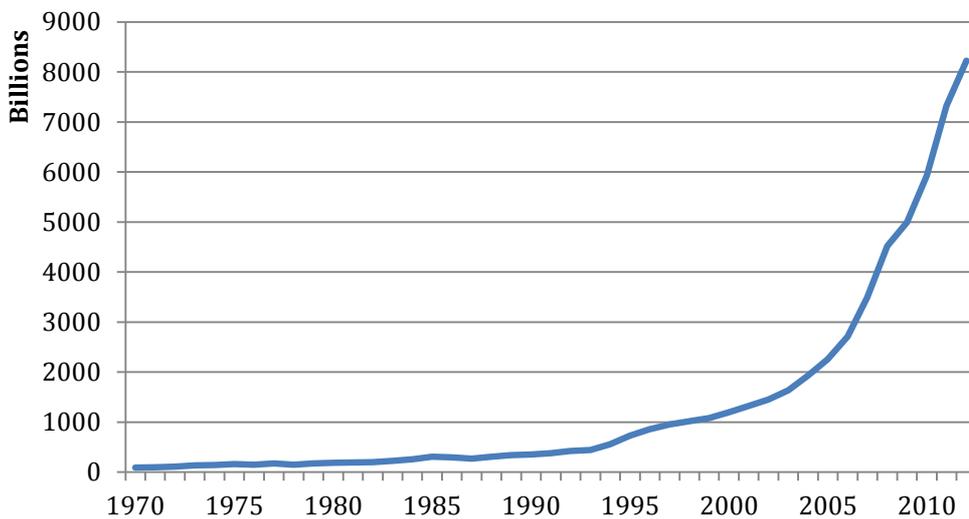
**Figure 3.8**  
*Organization of Chinese foreign aid in 2003*



Source: Based on Corkin (2011), Huang & Hu (2010), IOSCPRC (2011), and interview with Chinese embassy worker in Uganda in 2012

China's economic development accelerated during the next decades. Figure 3.9 shows the development of China's GDP from 1970 to 2012. The economy developed gradually from 1978 to 1992, with a slight dip before the Tiananmen Square protests and picked up pace after Deng's Southern Tour. Trade increased rapidly after China's WTO entry (Figure 3.10). This further integration of China into the international community signified a shift in China's ideology, away from the old 'Three Worlds' ideology. In fact, by 2008 the slogan of the Beijing Olympics was 'One World, One Dream'.

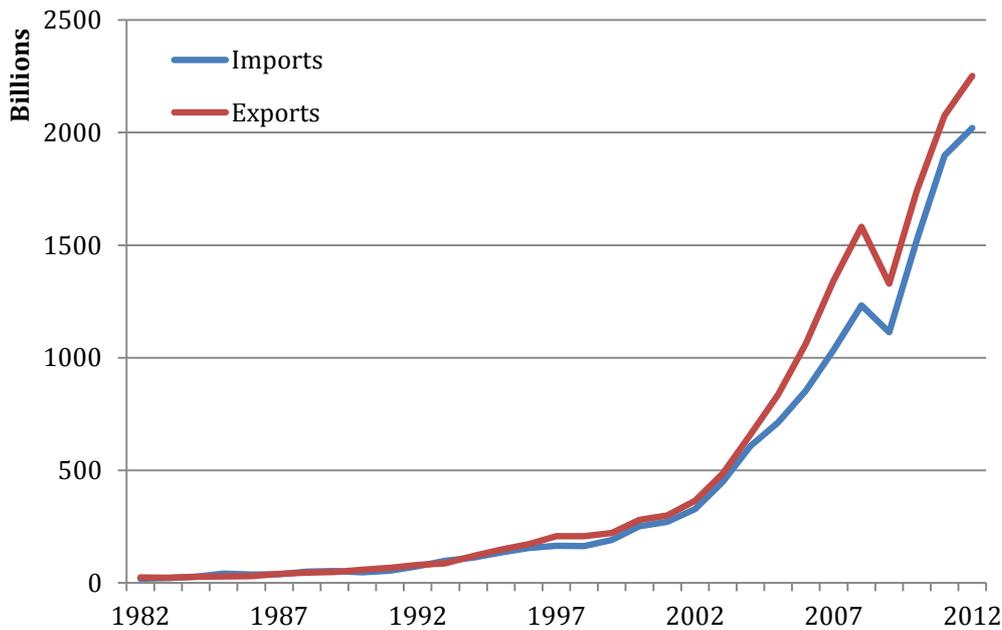
**Figure 3.9**  
*China's gross domestic product (in current US dollars) from 1970 to 2012*



Source: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (accessed March 2014)

**Figure 3.10**

*Chinese exports and imports in goods and services (in millions of US dollars at current prices and current exchange rates) from 1982 to 2012*



Source: <http://unctadstat.unctad.org/> (accessed March 2014)

Though China had regained its seat in the UN in 1972 and joined the IMF and the World Bank in 1980 (Yong 1998), its multilateral engagement increased most rapidly after the turn of the millennium (De Haan & Warmerdam 2011). Having once regarded international organizations as the tools of imperialism, and the Bretton Woods institutions as “political banks” with US imperialism as their nerve center for carrying out activities of aggression’ (Nan 1965), China was now an active participant in them.

In the early 2000s, China’s model of ‘joint venture’ development cooperation continued to advance. The government, banks, and enterprises continued to cooperate and find ways to accommodate their interests (Bin 2008). Aid projects became an increasingly important route to promoting Chinese FDI and trade (Huang 2007). As trade with recipient nations increased, so too did aid, and Chinese companies were increasingly active in international markets and contracting tenders (ibid.). The International Economic Cooperation Affairs Department in the Ministry of Commerce was responsible not only for aid projects but also for stimulating Chinese companies to venture abroad in accordance with the ‘Go Out’ policy (ibid.). The Ministry of Commerce published management papers and guidelines outlining this policy (ibid.). As the scope of these activities increased, the Ministry of Commerce was compelled to strengthen its evaluation procedures for Chinese enterprises engaging in ‘joint venture’ development cooperation projects in 2004, particularly with regard to projects financed through concessional loans (ibid.). Concessional loans were now predominantly used for the joint venture aid modality, which greatly improved the quality, efficiency, and effectiveness of Chinese foreign aid (Huang & Hu 2010). Gradually, private Chinese enterprises began to play a role in Chinese foreign aid in addition to joint venture development cooperation projects. For example, at the time of this writing a private enterprise was operating a Chinese agricultural demonstration centre in Uganda, which was a Chinese government funded aid project (Warmerdam & Van Dijk 2013b). Huawei

and ZTE, in another example, were contracted for e-government and information and communications technology (ICT) development cooperation projects.

Increased engagement of Chinese enterprises in China's foreign aid was also seen in these enterprises' role in providing humanitarian assistance to countries affected by the 2004 tsunami (Huang 2007). Numerous Chinese enterprises worked together with Chinese NGOs to assist the affected countries (ibid.). A further example was in response to the earthquake in Pakistan in 2005, when more than 10 Chinese companies provided financial assistance to the Pakistani government (ibid.). Among these companies, one donated more than 10 million USD (ibid.).

China has aligned itself in international organizations, such as the international financial institutions and UN bodies, with developing countries. China often stands up for the interests of other developing countries (Tjønneland et al. 2006). This shows the remnants of China's international solidarity. It could also be argued that it reflects remnants of China's ideological suspicion of international organizations. In fact, China has initiated a number of multilateral platforms independent of the established ones, such as the Shanghai Cooperation Organization and the Forum on China-Africa Cooperation (FOCAC). FOCAC, in particular, has attracted considerable attention (see, e.g., Taylor 2012). It is through FOCAC that China has often announced its foreign aid promises to Africa. However, FOCAC also serves as a platform for China and African countries to engage on broader economic and political issues.

China's increased economic and political integration coincides with the worldwide process of globalization. President Jiang Zemin has referred to this process to justify the further deepening of China's economic reforms and privatization of SOEs (Yong 1998). He has argued that globalization is a contemporary reality that China must adapt to (ibid.). However, there is a nationalist tension here between preserving what is Chinese and resisting what is foreign, and interacting with the international community in order to develop the domestic economy. China's resistance to globalization, especially as this process blurs traditional concepts of territorial integrity and nation state sovereignty, is seen in its continuing to uphold the principles of respect for state sovereignty and territorial integrity and non-interference. However, acquiescence to the process of globalization is seen not only in the domestic implementation of rules and regulations in accordance with international standards, but also in more recent actions with regard to Libya and the Sudan, and anti-piracy efforts in the Gulf of Aden. To a certain extent, China's principles of non-interference and respect for state sovereignty have here been subordinated to protecting and promoting the global public good and Chinese interests. Additionally, due to the increased interactions on the international stage and the socio-political effects of globalization (which accompany globalization's economic effects), there has been a further opening up of space in the ideas category. This is evident in the civic and political transformation that is moving China's civic politics and culture gradually closer to universal political values, such as democracy, freedom, peace, human rights, and rule of law (Yu 2005b).

During the period since China's entry into the WTO, we observe a further consolidation of the market economy ideology within China's Communist Party system. In 2001, Jiang Zemin announced that Chinese businesspeople could become members of the Communist Party. This indicates a further interweaving of the private and public sectors through the Party-State relationship structures. The result may be increased private sector influence on the government to pursue foreign policy and foreign aid policy strategies that are in the interest of the rapidly growing Chinese private sector. Indeed, commercial and business interests are playing an increasingly prominent role in foreign aid and foreign engagement in general. In part this has been facilitated by reforms of the organization of Chinese aid, establishment of joint venture cooperation, and tied concessional loans. However, China's entry into the WTO, the creation of the FOCAC, and

the establishment of the China-Africa Business Council, for example, have also played a part in giving prominence to the commercial and business subcategory of interests and the category of interests in general. Chinese state-owned enterprises are engaged in both Chinese and international foreign aid projects, often winning World Bank, African Development Bank, and UN agency tenders. The Chinese government has encouraged SOEs to identify possible aid projects in recipient countries (Warmerdam & Van Dijk 2013a).<sup>28</sup> This again indicates the importance of interaction between domestic political forces and the international context in shaping China's foreign policy and foreign aid policy. By embedding the organization of China's aid programme deeper within the larger Ministry of Commerce, reforms have served to increase the mobilization of the private sector, including SOEs, in China's aid implementation. The intensified interaction between China and the international context is having a marked effect in China as well. The revision of laws and regulations to gain entry into the WTO and China's scaled-up multilateral engagement are two notable examples of this. These effects within China are also reflected in changes in the nature of China's foreign engagement.

### **3.4 Socialization and Chinese foreign aid**

#### **3.4.1 Johnston's three microprocesses of socialization**

This section investigates whether China's aid programme shows signs of the three microprocesses of socialization put forward by Johnston (2008): mimicking, persuasion, and social influence; or whether in fact Chinese foreign aid shows signs of innovation and of having a socializing influence on others in the international aid system.

According to Johnston (*ibid.*), the non-coercive diplomatic efforts of nations are often intended to change the minds or behaviours of other nations. Using social influences, such as praise for desired behaviour and punishment for undesired behaviour (e.g., sanctions), nations attempt to influence other nations. The Clinton administration's engagement with China was characterized by this intention "of teaching Beijing about allegedly predominant norms and rules of international relations (free trade; nonuse of force in resolution of disputes; nonproliferation; multilateralism, etc.)" (*ibid.*: 2).

Johnston bases his analytical framework on socialization processes in social identity theory. He identifies a number of common themes in the socialization literature. Firstly, he argues that socialization is directed at novices and newcomers (*ibid.*: 21). Secondly, the values, roles, and understandings to be internalized are those held by a group that can be considered a society of which the newcomer is to become a member (*ibid.*: 22). Johnston summarizes all of the socialization processes that the group can employ as essentially falling into the three categories mentioned earlier: mimicking, persuasion, and social influence (*ibid.*: 23). Johnston defines mimicking as "a microprocess whereby a novice initially copies the behavioral norms of the group in order to navigate through an uncertain environment" (*ibid.*: 23). He defines social influence as "a microprocess whereby a novice's behavior is judged by the in-group and rewarded with backpatting or status markers or punished by opprobrium and status devaluation" (*ibid.*: 24). Finally, Johnston defines persuasion as "a microprocess whereby novices are convinced through a process of cognition that particular norms, values, and causal understandings are correct and ought to be operative in their own behaviour" (*ibid.*: 25).

Our analysis here examines China's foreign aid modalities from a historical perspective to identify characteristics of these three microprocesses of socialization. It further

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<sup>28</sup> An official later at the Chinese Economic and Commercial Counsellor's Office in Uganda refuted the statement made by the manager of the Chinese SOE.

utilizes a form of narrative inquiry whereby academic writings on the topic of Chinese foreign aid are scrutinized. The aim is to identify whether academic arguments suggest that Chinese foreign aid shows signs of the three microprocesses of socialization, and whether, potentially, China's re-emergence as a foreign aid actor is having an impact on traditional donors.

The international aid system has long been dominated by the principles and practices of traditional donors. Thus any new entrant will likely meet attempts at persuasion or social influence, encouraging it to conform to the group; or, due to its aspirations of joining the group, it might mimic group principles and practices (Johnston 2008). However, we argue here that successfully challenging these processes should be considered a fourth microprocess of socialization, called innovation, which leads to changes in principles and practices in the group later through the other three microprocesses.

### 3.4.2 Different from the West?

In order to analyse the impact of socialization processes on China's foreign aid programme, its similarities with and differences from the West need to be established. Similarities are potentially the result of the three microprocesses of socialization described by Johnston (2008). Where there are differences, the question arises as to why these exist and whether differences are being challenged by the three microprocesses of socialization. Or, are the differences themselves challenging existing norms and behaviours? One example of this debate and investigation regards the so-called 'Beijing Consensus' (as opposed to the Washington Consensus). Ramo (2004) first coined the term. Views on the Beijing Consensus among both Western and Chinese academics essentially fall into two camps. Those such as Thompson (2005), Rupp (2008), He (2011), and Zhu (2010) agree that there is such a thing as the Beijing Consensus. He (2011) argues that there are two major differences between the Beijing Consensus and the Washington Consensus. Firstly, the former is more development-oriented and the latter is more liberalization-oriented. Secondly, He (ibid.) argues that there is a difference of attitudes, with Western donors taking a more paternalistic, prescriptive approach and China taking an approach of equality and mutually beneficial cooperation.<sup>29</sup> Rupp (2008) emphasizes the difference in principles, most notably non-interference, non-conditionality, and respect for state sovereignty. Although she does not state this explicitly, her analysis shows that while the principles and rhetoric might be different, in fact Chinese and European engagement in Africa show practical similarities in the exploitation of African resources and unequal benefits of the relationship. Thompson (2005) argues that the Beijing Consensus refutes Western notions of political liberalization and economic reforms. He states that China, on the basis of its own experience of development as a result of stimulating trade and investment in infrastructure and social institutions, is effectively promoting African countries to adopt the same model (ibid.). Zhu (2010), in line with Thompson, argues that the Beijing Consensus refutes Western notions of liberalization as essential for development and encourages African nations to develop themselves through trade and investment in infrastructure and social institutions, while not dictating political or economic reforms. However, as Zhu (ibid.) observes, China has never officially promoted this, either as a model or as an example.

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<sup>29</sup> She adds that one of the biggest failures of the Western model is the Western attitude. Anshan Li (2007b) makes a similar argument regarding the failure of Western aid and the success of Chinese aid.

Other scholars such as King (2006), Kennedy (2010), and Xia (cited in Qin et al. 2011) argue that there is no Beijing Consensus, and that no such model or consensus is being promoted. According to Xia (ibid.), what is special about China's development is the government's level of involvement in guiding and promoting market economics, although China is not the only country that has followed such a state-led development path. He concludes that the only thing special about the case of China is its geographical size, population size, the scale of its development, and the low starting point. Sun (cited in Qin et al. 2011), however, argues that there is a China model and that it is near completion. The case of China is also said to be special because while the system did not change, the institutions within it did. Sun (ibid.) furthermore asserts that the China model cannot be emulated because it is uniquely suited to China's own socio-economic and political conditions.

Yi (cited in Qin et al. 2011) argues that it is too soon to speak of a successful China model, as China's development and integration into the global system is still at a premature stage for measuring its success and providing an adequate description of its characteristics. According to Mao (cited in Qin et al. 2011), the China model should be considered an example, one of many models that can be studied. While a number of experiences from China's development and economic transition can be copied, there are also some that cannot be copied. One experience that can be emulated is China's point-to-surface mechanism (Heilmann 2008), described below. Another is its gradualist approach to policy changes, rather than instituting radical reforms (Qian 2003). An experience that cannot be mimicked with similarly, relatively, egalitarian impacts is the Household Responsibility System (HRS). This is because the Chinese land reform of the 1950s collectivized land, which was then governed by rural cooperatives that granted access to land through a work point system. During the reform period, households received land use rights contracts. Thus, the starting point of the HRS was a more equal distribution of land among peasants than would be the case in countries without such a history.

Moving beyond the debate on the Beijing Consensus and whether there is a China model, the differences between China's engagement with the developing world and that of traditional donors can still be emphasized. Berger et al. (2011) state that there is a difference between the Chinese form of engagement and that of Western donors, as each views developing countries from a different perspective. The Chinese see Africa, for example, as a continent of investment opportunities, while Western donors see Africa as a continent of poverty and instability, one that should be treated as an object of charity (ibid.). According to Eisenman and Kurlantzick (2006), the Chinese government tries to present itself as being different from the West, using a range of mechanisms – from debt relief to supporting African countries in the UN Security Council and sending peacekeepers – to show that it listens to Africa, implying that countries such as the US do not.

In fact, the Chinese government in its publications *China's Peaceful Development Road* (IOSCPRC 2005) and *China's Foreign Aid* (IOSCPRC 2011a) does present itself as being different. In *China's Peaceful Development* the government asserts, "China's road of peaceful development is a brand-new one for mankind in pursuit of civilization and progress" (IOSCPRC 2005). In *China's Foreign Aid* the government first uses the term 'model', stating that "China's foreign aid has emerged as a model with its own characteristics" (IOSCPRC 2011a). This asserts both its uniqueness and that the government felt sufficiently confident in the development of its foreign aid programme to give it the label 'model'. Li (2006) argues that the 'Harmonious World' concept<sup>30</sup> was

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<sup>30</sup> Introduced by Hu Jintao in 2005 at the summit for UN's 60th anniversary.

devised to promote China's new perspective on the world order, security, development, and civilization, amongst others, presenting China's new concept for international relations. Li (ibid.) identifies three main elements on the path to realizing the 'Harmonious World': (i) multilateral engagement towards achieving 'common security', (ii) development through mutually beneficial cooperation towards achieving 'common prosperity', and (iii) harmonious relations and a harmonious world through mutual tolerance. Implicit in Li's (ibid.) article is that the current world order is on the opposite of these paths, and as such, China presents a new direction.

De Haan and Warmerdam (forthcoming), Kennedy (2010), and Warmerdam (2012) demonstrate that the case of China, including the Beijing Consensus, is not particularly unique in foreign development cooperation and that practices, principles, and perceptions differ. Although a number of authors, and the Chinese government, have tried to present China as different, the question arises as to whether China really is unique (see Warmerdam 2012 for an in-depth discussion). A look first at the motivations for providing aid shows little difference between China and traditional donors. Prior to 1978, Chinese aid was provided firstly for security reasons in response to the war on the Korean peninsula and in Vietnam. Soon afterwards, aid was given to neighbouring socialist countries. Later, after the Bandung Conference in 1955, China started to provide aid to other countries in Asia and Africa. This was partly in support of the newly independent countries and liberation movements, but also a challenge to Taiwan and the US and its allies. After the Sino-Soviet split, aid was provided as part of the geopolitical struggle against the USSR. Thus, aid at this time was motivated by a combination of security, ideological, and geopolitical considerations similar to those driving the other major powers at the time, the US and the USSR, both of which pursued similar ideological, security, and geopolitical foreign aid strategies (Black 1968, Goldman 1967, Lebovic 2005, Schraeder et al. 1998). After the reforms of 1978, China coupled its foreign aid programme to its domestic economic development and commercial interests. Again this determinant of domestic aid, and related practices such as the tying of aid, is also found among major donors, such as Japan and France, and even smaller donors such as Canada, which have sought to link their foreign aid to their own commercial interests and domestic economic development (Schraeder et al. 1998).

Yet, the principles, such as non-interference, respect for state sovereignty, equality, and mutual benefit, upheld by the Chinese government since 1954 did not change. These principles are different from those of other traditional donors, as described below. Nonetheless, the Chinese government's motivations and practices are not very different. This leads naturally into the debate on socialization. If China is not unique, at least not particularly unique, and its aid determinants and practices are not particularly unusual, can China's aid programme be explained by the three microprocesses of socialization?

### 3.4.3 The development of China's aid programme

This sub-section outlines the evolution and characteristics of China's development cooperation. In doing so, it highlights aspects that are similar to other donors, and a number of practices that traditional donors have inspired China to adopt, indicating a degree of the 'mimicking' microprocess of socialization. However, it will also be argued that a number of aspects of China's aid programme are innovative, understood here as doing old things in new ways and thinking in new ways. The aim is to capture China's innovative principles and attitude towards development cooperation, which at times have exerted an influence on the international aid system.

### *Policy innovation mechanisms*

The Chinese Communist Party has a long history of experimentation and innovation. Experimentation is so central in Chinese government policy design that it was written into the 1992 constitution of the Chinese Communist Party (Heilmann 2008: 26). In the point-to-surface approach, a national policy objective is set and local experimentation is encouraged in order to identify the best policy mechanism, which is then scaled up to the national level, hence its name: point (local pilot) to surface (national level). Two notable outcomes of the point-to-surface mechanism are the Household Responsibility System (HRS) and the more recent New Cooperative Medical Scheme (NCMS).

This same policy experimentation process has been used in China's development cooperation. Although China learned many of its pre-1978 foreign aid practices from its experience of receiving aid from the Soviet Union prior to the Sino-Soviet split, and many of China's post-1978 aid practices were based on its experience of receiving Japanese and Western aid during the 1970s (Bräutigam 2009, Bräutigam & Tang 2009), it did not simply imitate those practices. Instead, experimentation to identify the most appropriate mechanisms played a vital role. While experimentation played a lesser role in foreign aid during the 1960s and early 1970s, reflecting also a decline in experimentation domestically (Heilmann 2008), it was re-launched by Zhao Ziyang in the 1980s. Ramo (2004) identifies experimentation and innovation as two elements of the Beijing Consensus. Bräutigam (2009: 308) goes so far as to argue that the Beijing Consensus might be summarized simply as "embracing experimentation" and avoiding easy certainties.

Experimentation is not only important in China's agricultural development cooperation (Bräutigam & Tang 2009, IOSCPRC 2011a, MFAPRC 2006); it also plays a key role in China's development cooperation in general, as the government seeks to identify mechanisms that will make aid projects more sustainable. This is particularly important in reflection on the failures of many Chinese aid projects before 1978, such as the TAZARA (Tanzania-Zambia) Railway, which suffered, and still does, from low profitability, and the Mbarali State Farm (Tanzania), which failed due in large part to mismanagement (Ping 1999). The principle of non-interference was actually re-interpreted by the Chinese leadership in order to allow Chinese management and technical service teams to be employed after turnkey projects were handed over to recipients (ibid.). China's experimentation with mixed financing and build-operate-transfer (BOT) projects was the result of learning from foreign donor's use of these forms of development assistance in China, and the Chinese government's desire to diversify its sources of aid financing (Wang 2003). The introduction of profit incentives was thought to increase the probability that projects would become sustainable (Bräutigam 2009). This indicates a degree of mimicking, as China copied the practices of traditional donors in China, but it also shows a degree of innovation. For example, these practices improved the sustainability of China's aid projects and allowed the Chinese government to engage in more aid projects than using only government financing would have allowed. Mixed financing and BOT projects enabled China to utilize this foreign policy and commercial relations tool while it was still a developing country, something that most other developing countries had not yet started to do.

### *China's pre-1978 foreign aid programme*

The innovative aspect of China's foreign aid programme before 1978 was not so much the practices, which were based on those of the Soviet Union, but the fact that China provided foreign aid while itself still being a very poor country. Moreover, China's principles by which it provided aid set it apart from other donors, even now, in the eyes of recipients.

The Eight Principles of Foreign Economic Cooperation, described in Chapter, 2 could be considered innovative at the time of their announcement, and a number of them could still be considered innovative today. Other donors did not practise the concept of non-conditionality explicitly at that time, as foreign aid disbursed during the Cold War was part of the geopolitical struggle between the Soviet Union and the US, each of which sought to align recipients to their own camps. Conditionality is now common practice among traditional donors. Additionally, the principle that Chinese experts enjoy the same living conditions as local workers was, and still is, a foreign concept to most donors.

During this first period, turnkey projects gradually emerged as the main form of China's foreign assistance (Huang & Hu 2010, Shu 2009, Zhou 2008). China had learned this practice from the Soviet Union, when the Soviets had assisted it in the industrialization of China's north-eastern region, again indicative of the microprocess mimicking.

Figure 3.5 showed the values of China's aid expenditures and aid expenditures as a percentage of GDP. Arguably the provision of such a high percentage of GDP as aid – from 1965 to 1975 China provided aid at more than 1 per cent of its GDP (Zhang 2006a) – could also be considered innovative, as no developed country did so. The UN-suggested norm was 0.7 per cent of GDP. However, China's aid as a percentage of GDP rapidly dropped after 1973, to below 1 per cent after 1976 (Zhang 2006a). China's aid expenditures (in both value and share of GDP) dropped rapidly after 1973 as the government realized that it was spending beyond its capabilities.

#### *China's post-1978 foreign aid programme*

In the post-1978 foreign aid programme innovation is apparent in China's ability to make full use of the opportunities present in developing countries to the advantage of both China and recipient economies. Mimicking is seen in the use of tied aid and concessional lending, although traditional donors were moving away from these practices. Extended training and working relationships with closer supervision were intended to improve China's aid provision, joint ventures, and lease management, for example, though also clearly indicating an increased prominence of China's economic and commercial interests (Warmerdam 2012). This was a means of combining foreign aid provision with economic and commercial interests, and ensuring that China's foreign aid remained within its domestic capabilities.

China benefited from providing aid, not only politically and economically, but also technically (Zhang 2007). By providing aid, especially in the form of turnkey projects, the technical capacities of, for example, engineers, manufacturing plants, and other enterprises were increased. This benefited them domestically, but also increasingly on the world stage. An example of this is documented regarding the construction of the TAZARA Railway. According to the in-depth case study by Zhang (ibid.), use of mechanical equipment in construction processes reached 70 per cent of the total construction process, and Chinese producers supplying the project improved their metallurgy capacities. Domestically, new production lines were designed to meet the project's demands (ibid.). Companies, such as COMPLANT, that participated in construction of the TAZARA Railway went on to become important actors in China's efforts to open up international markets (ibid.).

Chinese concessional lending started in 1995 following the establishment of the China Exim Bank (Davies 2007). Concessional loans were found to be the main form of aid to all four countries in an African Forum and Network on Debt and Development (AFRODAD) (2008) study of Chinese aid to Africa. Chinese concessional loans were strongly tied to China's domestic economic and commercial interests, as concessional loan agreements stipulated that no less than 50 per cent of all goods and services procured by the loans must come from China (AFRODAD 2008, Davies et al. 2008). Both

concessional lending and the tying of aid are practices that other donors also utilize, again indicating a degree of mimicking. Traditional donors have been moving away from tied aid, however, the re-emergence of China as a donor and the onset of the global economic crisis have recently caused donors to reconsider this practice (see, e.g., De Haan & Warmerdam 2013, Xu 2011).

A number of Chinese scholars (e.g., Xing 2006) and officials, including Deng Xiaoping, have noted the opportunities of trade and investment in developing countries garnered by the liberalization of their economies. These processes of liberalization were the result of traditional donors' activities, especially those of the international financial institutions, involving conditionalities and development of macro- and micro-economic policies through structural adjustment programmes. China's commercialization of its engagement in developing countries is actually taking full advantage of the liberalized developing country economies (Xing 2006, Zhang 2006a). The innovation here is in making full use of the opportunities present in developing countries to the advantage of both China and the recipient economies, while mimicking is seen in the use of tied aid and concessional lending – though traditional donors had been moving away from these practices.

China's readiness to experiment and adjust its development cooperation practices put it in a good position to be an innovator. The analysis of the evolution of China's foreign aid programme presented above demonstrates that many of China's practices were based on experiences with other donors, pointing towards the socialization microprocess of mimicking. The use of turnkey projects was learned from the Soviet Union, the use of concessional loans and export-import credits was learned from Japan and Western donors, as was the use of the general contractor system for mobilizing private enterprises. However, China's willingness to engage in foreign aid while it was itself still a poor developing country, for both political and economic reasons, can be considered innovative, as very few other developing countries have done so. Additionally, while its practices are similar to those of traditional donors, its principles are not. Its innovative principles are attractive to recipients who view China as more of a peer than Western donors, with which relationships are often considered more paternalistic.

#### 3.4.4 China and the international aid system

The re-emergence of China as a foreign aid actor has had a very visible impact on the development debate, particularly posing the question of how traditional donors should respond. In relation to this topic, we present a more thorough investigation of the processes of socialization identifiable in China's foreign aid programme, and whether the three microprocesses suggested by Johnston (2008) – mimicking, persuasion, and social influence – provide a sufficient explanation to the debates and policy options; or whether a fourth process needs to be evoked to gain a comprehensive understanding.

Richard Manning (2006) writing on the impact of emerging donors, including China, on the international aid architecture argued that non-DAC donors should be engaged with, and discussions should explore the possibility of maintaining, DAC standards. Manning (ibid.) states that recipients should encourage the non-DAC donors to adhere to DAC policies regarding tied aid and to the Paris Declaration on Aid Effectiveness. While recognizing that space is needed to allow non-DAC donors to contribute their own thinking and experience, he nonetheless argues that 'qualitative' standards should be maintained through the OECD-based rules (ibid.). Looking at Manning's depiction of how the aid community should respond to the emergence of non-OECD donors through the microprocesses described by Johnston (2008), it is evident that his description would fit the 'persuasion' process, especially as he argues that recipients should also play a role in promoting emerging donors' conformity to OECD norms.

A slightly different perspective is taken by De Haan (2010), former social development adviser for the China programme of the UK Department for International Development (DFID). De Haan argues that China will soon no longer be seen as a special case. He states that collaboration with China is increasing both within multilaterals, such as the World Bank and the UNDP, and with bilateral organizations such as DFID (De Haan & Warmerdam forthcoming). He adds that as its role in the international community increases, China will modify and adapt its processes, bringing them more in line with those of traditional donors. De Haan's view fits the 'social influence' microprocess of socialization as China adapts its processes to those of the other members of the social group it aims to become a member of.

Kurlantzick (2006) investigated the impact of China's entry into Africa on aid, development, and governance. He argues that China is exporting its own 'brand of capitalism' and has caused the World Bank to again start investing in infrastructure after a period of being hesitant to do so. Kurlantzick (*ibid.*) proposes that the appropriate response to the potential impact of China on the international aid architecture is to work with China to create a permanent Chinese aid organization that would be less influenced by the Ministry of Commerce, which has tended to provide tied aid. He adds that this would empower those Chinese officials who want to make aid more transparent.<sup>31</sup> Through the lens of the three microprocesses of socialization, Kurlantzick's (*ibid.*) description seems to fit the 'persuasion' and 'social influence' processes. However, he also notes that China is having an impact on the practices of the World Bank, indicating that a fourth process might be needed to complete the picture.

Paulo and Reisen (2010) investigated the possibility of a DAC donor peer review of China and India. They state that while it has become clear that integrating China and other emerging donors into the governance of global development cooperation is necessary, it has often been assumed that the existing structures, such as DAC and other Western institutions, are the most appropriate place to realize this. This is driven by the nature of the DAC system itself, which does not have hard laws and regulations, but relies instead on the power of soft law to maintain standards (*ibid.*). In order to uphold the power of soft law, and to ensure that standards have global reach, it is necessary to include as many members as possible (*ibid.*). These authors, however, question the attractiveness for emerging donors of becoming a DAC donor, especially countries like China and India. These do have increased dialogue with DAC. There is a growing membership of non-DAC donors in OECD committees and subsidiary bodies, and China engages the DAC through the China-DAC study group, which also carries out a joint review of China's development cooperation in Africa.<sup>32</sup> Nonetheless, significant trade-offs would be involved for them to become part of institutions such as the DAC, instead of standing apart from them (*ibid.*). Paulo and Reisen argue that a more appropriate arena for cooperation and coordination between DAC and non-DAC donors would be the UN Development Co-Operation Forum (UNCF), as this would place both sets of donors on more equal ground than DAC, which is dominated by the Western developed nations.

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<sup>31</sup> Kurlantzick (2006) misreads or neglects a number of important points. Firstly, within the foreign aid department of the Ministry of Commerce there seems to be no political will to create an independent permanent aid agency. Officials have looked at other models, but the current model is most conducive to the current policy framework and national goals of coupling foreign aid to China's domestic development. He also neglects the fact that China's foreign aid department once existed independently at the ministerial level reporting directly to the State Council and that reforms would have to be carefully evaluated, especially the extent to which they would be beneficial to China. While data and figures are useful to academics and policy analysts, aid transparency is not in China's best political interests. If China's domestic population, many of whom are still living in poverty, became aware of aid levels, domestic political unrest might arise. Internationally, countries might start considering their political allegiance to China on the basis of their comparable levels of aid inflows.

<sup>32</sup> The other remit is joint review of poverty reduction in China.

Viewing Paulo and Reisen's description through the three microprocesses suggests that, while the authors observe the necessity of 'social influence' for DAC standards, the use of UNCF as an arena for exchange would create room for non-DAC donors to also influence DAC donors, something that Johnston's three microprocess does not allow for. This is a possibility for which our suggested fourth process 'innovation' could compensate.

In a policy brief for the Extractive Industries Transparency Initiative (EITI), Collier (2008) puts forward a novel response to the impact of China's emergence on EITI efforts. Collier argues that there are many positive aspects of China's resource-backed financing in Africa (i.e., where a country secures financing from China and provides resources in return). Resource-backed financing allows African finance ministers to use resource-derived revenues for investments, which reduces the risk of their capture (ibid.). These deals also bypass the civil service; that is, nobody in the state apparatus is involved, which avoids possible implementation bottlenecks and corruption (ibid.: 8). One of the shortcomings, however, is the lack of transparency, which makes it difficult to compare components (ibid.). Collier argues that rather than simply integrating China into the international aid architecture, the future international aid architecture could become a synthesis of the two approaches. He proposes that by embracing the Chinese package deal practice, competition could be created among package providers (ibid.). This in turn could lead to greater transparency in the packages, as recipients would seek to choose the most attractive deals, and providers would seek the best ways of satisfying their potential clients. Collier's description of the influence of China's development cooperation on the international system again cannot be described by any of Johnston's three microprocesses of socialization. By urging that China's package deal process be adopted by others, Collier (ibid.) is ascribing an influencing factor to China. Rather than China conforming to existing norms and practices, it exerts an influence on others.

Chinese authors also present a variety of different readings on the impact of the re-emergence of China's development cooperation on the international aid architecture. Xu (2011) argues that China is having an unintentional impact on the international aid system. She states that as competition from China increases, other donors feel an increasing need to coordinate with China in order to increase burden sharing and reduce the effects of competition – such as undermining traditional donors' efforts and providing an alternative to recipients. Xu (ibid.) suggests that China's re-emergence has caused a reconsideration of the norms and rules of the international aid regime, most notably on the tying of aid, on the balance between national interests and development purposes, and on the role of aid in attracting investment. She observes that Japan is reconsidering the use of package approaches that it used in the 1980s in China and Southeast Asia, and the Obama administration has been piloting projects combining USAID and US Exim Bank financing in order to promote economic development in recipient economies. Using the three microprocess framework, the effect of the re-emergence of China's development cooperation again cannot wholly be explained by the processes of mimicking, persuasion, and social influence. Rather, China is also exerting a socializing influence on other members of the international aid community. This influence is the result of its innovation.

Other authors, however, argue that there is much that can be learned from Western donors. Qi (2009), for example, states that while China's foreign aid programme should remain in the service of 'China's peaceful rise', more attention needs to be paid to improving aid institutions, improving aid effectiveness, and establishing independent aid research institutions to study, monitor, evaluate, and coordinate the specifics of aid implementation. He adds that the West's use of NGOs and civil society organizations (CSOs) in aid implementation is particularly informative. Seen through the lens of the

three microprocesses, Qi's (ibid.) description suggests the processes of 'mimicking' and 'social influence'.

Yang and Chen (2010) argue that while aiming to keep development cooperation strategy up with the times<sup>33</sup> and keeping it in the service of China's diplomatic strategy, lessons need to be drawn from Western development cooperation. Zhang (2007) similarly argues the necessity of drawing lessons from Western donors in order to improve China's development cooperation. Ding (2006) even investigates the possibility of China introducing conditionalities into development cooperation, especially as related to securing the repayment of debts. These three authors, again, point to the need for a degree of 'mimicking' to further China's development cooperation programme.

Huang (2007) states that while traditional donors have clear rules, regulations, and laws in place to govern their aid systems, China does not. Moreover, the systems of traditional donors are transparent, not only in their figures but also in their decision-making processes. So far, China lacks transparency on both these counts, which has made Chinese aid rather whimsical (ibid.). Huang argues that if China is to become a modern responsible big/great country<sup>34</sup> then China's foreign policy and diplomacy needs to become more professional, scientific, comprehensive, and coherent. She states that China should seek to increase its cooperation with and contributions to international and intergovernmental organizations, especially as these organizations have an important position in the increasingly globalized world. Doing so, according to Huang (ibid.), would also improve China's international position. She adds that these organizations have no special national self-interests in recipient countries. Therefore, their poverty-reduction motives are pure and their aid effectiveness will be better.<sup>35</sup> She further proposes that China fully develop tendering and transparent marketized processes for financial aid distributions. Huang (ibid.), finally, suggests that NGOs' domestic involvement in poverty reduction within China could be expanded into international development cooperation with the assistance of the government. Huang's recommendations fit the socialization process of 'mimicking'.

Liu and Huang (2011) note that the number and influence of the non-DAC donors are increasing, and their emergence is strengthening calls for reform of the international development cooperation architecture. Emerging donors, including China, have different standards, practices, management styles, and financing sources (ibid.). They substitute for what traditional donors do not do, or no longer do. Emerging donors have markedly weakened the position of traditional donors. However, developed countries are still in control of the international development architecture (ibid.). These authors argue that there are two possibilities for the impact of the emerging donors on the international aid system: (i) increased cooperation between emerging donors and DAC donors, where emerging donors influence reform of the international aid system or (ii) establishment by non-DAC donors of their own system in opposition to DAC. However, they add that there is great potential and value in DAC and non-DAC donors learning from each other. Using the lens of the three microprocesses of socialization, it is again apparent that these cannot fully describe China's foreign aid programme and that influence in the international aid system is not mono-directional. Therefore, a fourth microprocess that accounts for the influence of new members of the group on existing members is required. We call this innovation.

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<sup>33</sup> A point first emphasized by Zhao Ziyang and repeated by successive leaders.

<sup>34</sup> The Chinese version of responsible stakeholder is 'responsible big/great country' (负责人的大国 *fuzeren de daquo*).

<sup>35</sup> This view seems rather naïve as the decisions of these organizations are often also influenced by their largest creditors and more influential members. See, for example, Barro and Lee (2005), Fleck and Kilby (2006), Kang (2007), Kilby (2009), Vreeland (2004), and Wade (2002).

In their reflections on China's foreign aid programme, Xi and He (2008) argue that there are many similarities with traditional donors. They state that approximately 80 per cent of US ODA is tied to US goods and services, creating export markets and domestic employment opportunities. France, similarly, requires that aid projects such as hospitals, schools, and agricultural irrigation be constructed by French firms, stimulating French investment in recipient countries and helping these firms become established in recipient countries (Xi & He 2008). Xi and He (ibid.) argue that Japanese investments in China were first made possible through the provision of foreign aid, which improved relations between the two countries and allowed Japanese firms access to the Chinese market. The difference between China and traditional donors is China's new concept of the 'Harmonious World', described earlier. Xi and He (ibid.) suggest that in providing foreign aid, China should have as one of its goals the active promotion of its concepts of development and values. The authors further argue that China has learned lessons from the experiences of traditional donors, such as country-specific aid policies and the specialization of programmes. These authors go on to propose that the Chinese aid system be restructured, following from the lessons of traditional donors, separating the management and implementation arms and either creating a separate foreign aid department or a foreign aid committee (ibid.). Viewing this description of China's foreign aid programme and its interaction with the international aid architecture through the lens of the three microprocesses, elements of the processes of 'social influence' and 'mimicking' are apparent, as China seems to be learning from other donors, especially with regard to reforms of the aid system.

However, there is also an element of China exerting an influence on the world in promoting its concepts of development and its values. This cannot be explained by the three microprocesses described by Johnston (2008), but is more readily characterized as our suggested fourth microprocess 'innovation'. While Johnston (ibid.) presents literature that argues that new entrants can also alter the behaviour of a group, he does not find this relevant to the case of China's cooperation with major security institutions in the 1990s.

This chapter has found that, in regard to China's role in the foreign aid system, some scholars have argued that China should adapt and other scholars have argued that traditional donors should adapt. It has shown that China is adapting its behaviour in conformity with the group, as well as that China's increasing prominence is changing the group's behaviour. This can be explained in part by changes in the cost-benefit balance and in part by changes in the domestic policies of traditional donors. In this sense, the contractual institutionalists mentioned by Johnston (2008) could expand their socialization process categories, because changes in the cooperative behaviour of actors would also change cost-benefit balances.

### **3.5 Conclusion**

Drawing on the framework developed by Lancaster (2007), this chapter has shown how the changes in domestic environment have impacted China's foreign aid policy. As in other countries, China's foreign aid policy is formed by an interaction between domestic political forces and international circumstances. The weights within this interaction have varied over time. Prior to the 1978 reform, the category of ideas predominated. More recently, the category of commercial and state-led economic development interests has started to play a much more prominent role. During the period that political ideas dominated, the organization of aid was such that its management was located directly under the central leadership. Such an organization facilitated the utilization of aid for political purposes. Moreover, the dominance of political ideas drove the central leadership to locate the aid programme more directly within its sphere of

influence, in order to maintain control of it and prevent it from being influenced by other factors.

During the Korean War, the interaction of domestic political forces with the international environment led the government to dispatch 'volunteers', and later to provide North Korea with large amounts of military goods and other materials, as well as turnkey projects. The war also prompted development of the notion of peripheral stability as an aid determinant. The Great Leap Forward and the Great Famine did not have a large impact on aid expenditures, which continued to grow despite China's dire domestic circumstances. The launch of the Cultural Revolution was accompanied by a restructuring of foreign aid as a tool of foreign policy opposition to the Soviet Union and the US. The organization of China's aid programme at this time was closely monitored by the central authority and dominated by the government's ideas and ideology.

The aid programme's proximity to the central leadership was maintained, in a slightly modified form, until 1993. This proximity and the shift in domestic ideas prompted a shift of focus of the aid programme towards the economic and commercial motivations of government. Reorganizations in 1993 and 2003 reduced the government's more direct influence, while mobilizing the country's growing private sector, partly through government support. Chinese businesspeople became eligible for Communist Party membership, further weaving the private and public sectors and potentially increasing the private sector's influence on government foreign policy. A little-researched area that deserves future attention is the extent to which the state policy banks, such as the China Exim Bank and the China Development Bank, as well as the Ministry of Commerce itself, then and now, have been influenced by private enterprises and the State Council. While the State Council is likely able to exert a relatively high level of influence, due to its authority over the Ministry, the extent to which private interests can do so and have been involved is unclear.

Lancaster's (2007) model has effectively discerned the different forms that aid can take as a result of changes in and interactions between domestic political forces. The model has shown that when the organization of Chinese aid was firmly located close to the central leadership, it was utilized primarily for political and ideological motives. Interaction with the international context, particularly the geopolitical rivalry with the Soviet Union and the US, and China's position versus Taiwan, only exacerbated this. Recently, the organization of Chinese aid has placed it much further from the central leadership. Moreover, it is now located within the Ministry of Commerce. Commercial domestic interests are therefore now much more able to influence its modes and destinations. Though this is being challenged by another domestic political interest group, the Ministry of Foreign Affairs, the organization of aid within the Ministry of Commerce makes any outside challenge ineffective until the organization of aid is changed. All of these elements also interact with the ideas category of Lancaster's model. Ideas, too, have been shown to influence the organization of aid. When the dominant national ideas were revolutionary (i.e., political), aid was structured in such a way as to effectively fulfil a political role. Later, when the dominant national ideas were centred on economic development, aid was organized in such a way as to effectively promote the economic role within the Ministry of Commerce. Lancaster's (2007) model has also shown the importance of the institutions category. Such changes to the organization of aid would likely have been accomplished less smoothly in parliamentary democracies. China's one party state meant that once there was consensus among China's leaders regarding the direction China should go, all else adapted to suit these goals. Additionally, given the lack of access to aid policy by civil society, or society in general, aid has served only as a tool for policymakers. Added to this is the fact that many Chinese citizens are not as yet particularly interested in, if they are even aware of, China's aid programme. Lancaster's model has thus proved useful for analysing and understanding the

determinants of aid policy, not just of industrialized democracies but also developing country autocracies.

When analysing the interaction of China's foreign aid programme with traditional donors, the three microprocesses – mimicking, persuasion, and social influence – were found to be limited in their ability to explain the dynamics of interaction. All three processes were exerted either consciously or unconsciously to cause a new member or potential member to adapt its behaviour towards that of the existing group. Adding a fourth microprocess, representing the independent development of behaviour, broadened the spectrum of socialization processes. It enabled inclusion of changes in the norms and behaviours of the group due to the influence of a new or aspirant member. Innovation challenges the group's existing norms, values, and behaviours. Not all innovations succeed. However, when innovators successfully resist pressure to conform, the new practice may be incorporated as normal procedure through the other microprocesses, after which the group again utilizes these microprocesses to maintain cohesion and conformity, until other innovators again challenge its norms successfully.

China's use of aid, and its successful choice of modalities when it was itself still a developing country, is innovative, and many countries, such as India and Brazil, followed suit. China is not just a passive receiver it is also an active player. However, analysis of the evolution of China's aid programme also shows elements of mimicking, as Beijing has mimicked and learned from practices adopted by other donors. Nevertheless, in addition to being influenced by other donors China is also exerting its own influence on them. This chapter has shown that China's principles of foreign economic relations are innovative as is its non-paternalistic attitude. These set it apart from traditional donors. The original three microprocesses assume that China itself adapts. However, academics, practitioners, and policymakers have perceived China to also exert its own influence on others. It is also innovating, and others have adjusted their practices to China's example through the microprocesses of social influence and mimicking.

Understanding that China is also exerting an influence on others in the international aid community is important. It dispels the expectation that China will one day be like other Western donors, while opening space for critical reflection on the principles and practices of traditional donors. As a former aid recipient, China is now shaping contemporary foreign aid standards, with the potential to benefit recipients in a variety of ways. Realization that a fourth microprocess – innovation – is at work in the international aid system, not only from China but also other donors, might allow members to view these challenges to existing principles and practices with a more open mind.

## South-South Cooperation with Chinese characteristics<sup>36</sup>

*The Chinese government attaches great importance to South-South Cooperation. In fact, SSC is seen as the cornerstone of Chinese international relations. The Chinese government believes that on the basis of reciprocity and mutual benefit, developing countries can learn from each other's experiences and lessons, and develop together. It is under the guidance of this policy that the Chinese government launched the 'Go Out' strategy at the turn of the millennium as well as the Forum on China-Africa Cooperation (Speech by Deputy Minister of Commerce Gui Jianguo at the signing ceremony for the UNDP-China 'Promoting South-South Cooperation in the 21st Century' Project, cited in Wang (2005: 138); author's translation).*

### 4.1 Concepts of South-South Cooperation

The notion and practices of SSC have been reinvigorated recently as emerging economies have started to take up roles as emerging (or re-emerging) donors. Chapter 2 and Chapter 3 showed that the Chinese government has been both adamant and consistent in identifying China with other developing countries, rather than with the developed nations. According to Chinese Prime Minister Wen Jiabao, "As a permanent member of the UN Security Council, China will always stand side by side with developing countries in Africa and other parts of the world" (cited in Eisenman & Kurlantzick 2006: 224). Given China's position, an investigation into China's conceptualization of and practices in SSC is important to understand its role as a re-emerging donor.

The quote at the beginning of this chapter neatly summarizes China's view on SSC. Not only the words, but also the time, place, speaker, and occasion are revealing. This becomes clear as we unpack the elements of China's approach to SSC using predominantly Chinese-language sources. The use of Chinese-language academic literature and reports provides insights into the Chinese perspective on the origins, development, concepts, and practices of Chinese SSC. Looking to Chinese sources adds depth to Lancaster's (2007) ideas category of domestic political forces, drawn upon in 0. The use of Chinese-language sources also sheds light on the experiences of Chinese practitioners and policymakers, and the problems *they* perceive around the development of SSC.

In recent years SSC has been reinvigorated and expanded. As developing nations, especially the BRICS (Brazil, Russia, India, China, and South Africa) and the Next 11 (Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey, and Vietnam) assume new roles in the global economy, they are also providing greater contributions to global development by sharing resources and ideas across the South (Derviş 2008). There are many examples of SSC projects between more-developed and less-developed countries of the South. One such example is Brazil's contribution to the International Labour Organization's (ILO) SSC strategy, which was initiated in 2007 (Amormin et al. 2011). ILO's cooperation was based on a definition of SSC that hinged on the UN's principles of Technical Cooperation Among Developing Countries (TCDC) with an added geopolitical dimension. Brazil and ILO, for example, have cooperated to combat child labour and promote social protection in developing

<sup>36</sup> This chapter is based on Warmerdam, W. and A. de Haan (2013), "South-South Cooperation with Chinese Characteristics", *submitted* for North-South Institute publication on South-South Cooperation.

countries; and India has contributed to skills and technology transfer (*Modern Ghana News*, cited in Media Global 2009).

The UNDP's main focus has been the technical cooperation aspect of SSC. UNCTAD and UNIDO, on the other hand, have been more concerned with the economic and commercial cooperation aspects of SSC. The 2012 UNCTAD *Technology and Innovation Report* notes three recent changes in SSC: (i) the major partners of developing countries are no longer developed countries but other developing countries; (ii) developing countries are participating more in global production networks; and (iii) FDI among countries in the South has been rising (UNCTAD 2012). The report argues that the potential of SSC for technological learning has yet to be fully harnessed. UNCTAD's 2011 *Least Developed Countries Report* similarly explores the economic, commercial, and financial potential of SSC for the benefit of LDCs (ibid.). Bartels and Vinancharachi (2009) of UNIDO examine the catalytic potential of SSC in trade. They argue that SSC in trade can promote commercialization of innovations developed by other countries of the South suitable for promoting rural growth. Rural growth, in turn, spurs the development of the rest of the economy.

Zahran et al. (2011) of the UN Joint Inspection Unit argue that a clear understanding of the definition and remit of SSC is currently missing within the UN system. More broadly, there is a lack of a clear universal definition of SSC, as well as a lack of understanding of the definitions and concepts of SSC that individual countries utilize. In response to this, and to wider calls for an operational definition of SSC for use within the UN, the UN Secretary General wrote a note on operational guidelines for UN support to SSC and triangular cooperation (UNSG 2012). The definition provided of SSC for development is as follows:

[SSC is] a process whereby two or more developing countries pursue their individual and/or shared national capacity development objectives through exchanges of knowledge, skills, resources and technical know-how, and through regional and interregional collective actions, including partnerships involving Governments, regional organizations, civil society, academia and the private sector, for their individual and/or mutual benefit within and across regions. South-South cooperation is not a substitute for, but rather a complement to, North-South cooperation (ibid.: 5).

The same note provides the following guiding principles:

(a) Normative principles

- Respect for national sovereignty and ownership
- Partnership among equals
- Non-conditionality
- Non-interference in domestic affairs
- Mutual benefit

(b) Operational principles

- Mutual accountability and transparency
- Development effectiveness
- Coordination of evidence- and results-based initiatives
- Multi-stakeholder approach (ibid.: 7).

The UN Secretary General's definition focuses more on technical and capacity development aspects, though earlier incarnations of the UN concept of SSC have included more emphasis on economics. Economic aspects play a far greater role in Chinese definitions of SSC. The UN's guiding normative principles are very similar to China's principles of foreign economic relations.

This chapter presents the definitions and concepts of SSC prevalent in Chinese debates and government rhetoric. Its aim is to shed light on the Chinese concept of SSC, to inform the global debate. While reference is made to a number of issues facing China's participation in SSC, this chapter is not intended as an analysis of the effectiveness of Chinese SSC. Its intention, rather, is to contribute to the literature from which an effectiveness/performance analysis of Chinese SSC might draw. The chapter presents the Chinese definitions and concepts of SSC as derived from Chinese debates and government rhetoric. As such, they are tinged by the ideology prevalent in China. The chapter does not evaluate the extent to which rhetoric is being implemented in practice. Its aim is merely to distil a clear definition of Chinese SSC from the discourse within China.

The rest of this chapter is organized as follows. First, Section 4.2 and 4.3 present Chinese definitions of SSC and its historical context, respectively. Sections 4.4, 4.5, and 4.6 discuss, respectively, the role of the UN system in China's SSC programmes, how China views the North-South dialogue, and the Forum on China-Africa Cooperation. The chapter then goes on to examine the role of China's 'Go Out' policy in its SSC in Section 4.7. Section 4.8 provides three examples of experiences of SSC projects by Chinese practitioners. Section 4.9 discusses some of the problems associated with SSC, as discussed by Chinese scholars and practitioners, and Section 4.10 draws conclusions.

## **4.2 Defining Chinese SSC: Mutual benefits?**

Before we begin to unpack the different aspects of Chinese SSC, we must first understand what is meant by SSC in China. While there are differing definitions, a number of general themes can be identified. A government official in the China International Center for Economic and Technical Exchanges, under the Chinese Ministry of Commerce, placed strong emphasis on the potential of SSC to change the global economic order and its role in stimulating economic development. He stated that SSC is the route that unites developing countries, joining forces to become self-reliant and seeking common development (cited in Zhao 2009). A scholar in the Chinese Meat Food Research Center has highlighted some of the more technical cooperation aspects, stating that the Chinese government highly regards SSC, seeing it as a means to strengthen international economic and technological communication, in support of the development of the economies of developing countries (Wang 2005). Wang (*ibid.*) adds that Chinese SSC started as TCDC, and technical cooperation gradually became economic cooperation among developing countries.

Definitions of SSC also differ greatly among the Chinese academic community. Ding (2007) states that the concept of SSC is inherited and evolved from Mao Zedong's Three Worlds Theory. This theory is said to encapsulate the general Chinese understanding that the world is divided and the divided parties are struggling for their own interests. As noted in Chapter 3, Mao's Three Worlds Theory, devised in the 1960s, separated the world into three camps: (i) the US and the Soviet Union, (ii) developed capitalist states and Eastern Europe, and (iii) China and other post-colonial countries in Asia, Africa, and Latin America. Ding (*ibid.*) asserts that the world is now split between North and South, developed and developing. During the 1980s the term 'Third World' was still used in China to identify the South (see, e.g., Zhang & Xu 1986, Deng Xiaoping cited in Zou 2006) however, in the new millennium the term 'developing countries' has come into more frequent use. A similar lexical and perspective change also occurred in the West. Politically and ideologically the world is no longer perceived as divided according to Mao's categorization. However, economically the realities of poor and prosperous nations have remained. The terms 'developed/industrialized nations' and 'developing nations', while based more on levels of economic and, to a certain extent, institutional

development, are, however, still readily used in political rhetoric. The Chinese leadership has been very adept at using this new terminology for political motives, aligning itself with developing nations.

Zhang and Xu (1986) state that SSC is *economic cooperation* between 'Third World countries', founded on the spirit of 'the poor helping the poor' to develop out of poverty together, seeking mutual benefit, compensating for each other's deficiencies, and creating a new order of international economic relations. Mutual benefit is one of the core concepts of China's international and economic relations. China believes that in a relationship both parties are givers and takers. For example, China invests in infrastructure construction in Africa and gains access to the natural resources vital for China's own further economic development. Another example is that China invests in port construction, in Mauritius, Pakistan, and Greece, for example, and gets improved trade routes.

Zou (2006), a Chinese scholar and Deng Xiaoping and Mao Zedong ideologist, similarly states that SSC is economic cooperation between developing countries. Another Chinese scholar, Zhao (2010), states that SSC is an important international policy geared towards poverty reduction in the world's least developed countries. Zhao's view reflects that held by the UN Under-Secretary General and High Representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States, Cheick Sidi Diara (Diara 2008). Xu (2002) and Zhu (2009) provide a slightly different definition, stating that SSC is cooperation between developing countries, an important tool for strengthening the economic independence of developing countries, and a means to guarantee that developing countries can fairly and efficiently participate in the newly emerging global economy. Zhu (*ibid.*) adds that SSC can help change the global economic order, implement skills specialization for work distribution, and reduce over-reliance on developed countries.

A number of Chinese authors have discussed China's 'comparative advantage' in SSC. According to Zhu (*ibid.*), China has a comparative advantage in four areas: politics, economics, science and technology, and the socio-cultural realm. In the field of politics, Zhu (*ibid.*) argues that China's principles of foreign relations, alongside its status as the largest developing country and the only developing country with a permanent seat on the UN Security Council, constitute its comparative advantage in SSC, especially since China is recognized by other developing countries as seeking to promote their interests. Zhu (*ibid.*) also argues that the Beijing Consensus is more appropriate for and accepted by developing countries than the Washington Consensus.<sup>37</sup> Zhu's description, however, seems to neglect the lack of consensus within China on the existence or characterization of a Beijing Consensus. Moreover, the political principles asserted by Zhu have attracted criticism, as well as recognition internationally. The concept of mutual benefit has been questioned in the sense that mutuality has been disputed, and while some find non-political conditionality laudable, there are those who question whether China truly practices this principle. For example, during the 2006 elections in Zambia the Chinese government threatened to withdraw from the country if the opposition, which was very anti-China, won; this threat itself can be regarded as a form of political conditionality and interference in the domestic affairs of another country. In following elections a few years later, the opposition party, campaigning on anti-Chinese sentiment, won. However, shortly after taking office, the leadership changed its tone and expressed a much warmer attitude towards the Chinese. This rapid about-face can only have been the result of lobbying of and negotiations with Chinese government officials and representatives of the Chinese business community in Zambia. This would suggest that

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<sup>37</sup> For informative commentaries on the characteristics and existence of a Beijing Consensus see Breslin (2011), Kennedy (2010), and Rebol (2010).

there is a degree of interference in the domestic affairs of other countries in support of China's national interests. This seems contradictory, to say the least, to the Chinese policy rhetoric of 'non-interference', although the practice is little different from most other international players.

According to Zhu (ibid.), China's comparative economic advantage has developed rapidly since 1978. His argument is based on China's fast GDP growth, its status as the second-largest economy and largest manufacturer in the world, and its possession of the highest level of foreign reserves. China's outward FDI to and trade with developing countries have also increased rapidly. China's products are said to be affordable, offer great variety, and be suited to the needs of citizens in developing countries (ibid.). Nonetheless, Chinese products are often considered of poor quality, and Chinese traders and manufacturers have been accused of displacing local traders and manufacturers (Mthembu-Salter 2009). With regard to China's technological comparative advantage, Zhu (2009) argues that since reform and opening up, China has developed expertise in rapid technological development, in particular in labour-intensive and capital-intensive production and production for export. The last area in which Zhu (ibid.) believes China has a comparative advantage in participating in SSC is the social and cultural realm. He argues that cultural diplomacy is one of the three pillars of Chinese diplomacy, the other two being political and economic diplomacy. Zhu's analysis seems to contradict the very principles of China's foreign economic relations and SSC. His use of the term comparative advantage appears to imply comparative strength in relation to other developing countries. However, aside from the nationalistic undertones, Zhu essentially describes China's ability to contribute to SSC and the attractiveness for developing countries to engage in SSC projects with China.

The variations in definitions of SSC by Chinese academics and policymakers are partly related to the authors' different backgrounds and to the different opinions present in any debate. While the specifics, the general themes of the definitions are that cooperation (i) is primarily economic (Zhao 2010 is an exception), (ii) is geared towards developing the self-reliance of developing countries, (iii) is in opposition to the North, and (iv) seeks to create a more just international economic and political order. Many of the descriptions above could fall under the definition of SSC provided by the UN Secretary General (2012); in particular, the aspects of sharing resources and technical know-how (Wang 2005) and mutual benefit (Zhang & Xu 1986). There are, however, some important differences. While the UN Secretary General's definition states that SSC is a complement to North-South cooperation, Chinese analysts argue that SSC helps to oppose the North (Ding 2007). Zhao (2009) and Zhao (2010) argue that one goal of SSC is to achieve economic independence. This is missing from the UN Secretary General's definition. Part of Zhu's (2009) notion of comparative advantage falls within the UN Secretary General's definition, namely the technical aspects. However, the political, economic, and particularly the cultural aspects are missing from the UN definition. The following section examines the historical context of the Chinese definition and understandings of SSC.

### **4.3 SSC as the cornerstone of Chinese international relations**

The statement by Deputy Minister of Commerce Gui Jianguo cited at the beginning of this chapter asserts that SSC is *the* cornerstone of Chinese international relations, though this is not entirely accurate. China initially aligned itself with the socialist bloc when the Communist Party came to power in 1949. The socialist bloc included developing countries, but also more developed countries such as the Soviet Union, Poland, East Germany, and Czechoslovakia. Many newly independent countries, at the time, were not socialist, such as India and Myanmar. However, SSC is *a* cornerstone of

Chinese international relations. SSC, according to the Chinese literature, has its origins in the 1955 Bandung Conference of African and Asian countries (Tang 2010). India secured China an invitation to the conference (Chen & Chen 2006). In fact, China and India had signed a treaty one year earlier that proposed the Five Principles of Peaceful Coexistence (UN 1958).

Successive principles of economic cooperation launched by Zhou Enlai in the 1960s, Zhao Ziyang in the 1980s, and Hu Jintao in the new millennium, all retained these basic principles. The Chinese government has stated that it maintains relations with other nations on the basis of equality and mutual benefit. It further upholds, and expects the countries with which it maintains relations to uphold, the principle of non-interference in each other's internal affairs and respect for state sovereignty. These principles are very similar to the normative guiding principles formulated in the UN Secretary General's note on SSC (UNSG 2012). In fact, every UN normative guiding principle is also found in China's Five Principles of Peaceful Coexistence. This is likely because of the strong influence of developing countries in the UN due to their large number, and because China's Five Principles were included in the outcome declaration of the Bandung Conference.

The Bandung Conference called for SSC (Gao 2011, Tang 2010). This was the first time that the implementation of a South-South economic cooperation mechanism had been proposed. The conference supported promotion and consultation among raw materials producing and exporting countries, and it was the first time that a proposal was put forward that developing countries should implement financial and technical cooperation mechanisms (Gao 2011).

The 'Bandung spirit' led to the first Non-Aligned Movement (NAM) Summit in September 1961 (ibid.).<sup>38</sup> At this summit, the importance of South-South economic cooperation was recognized, and calls for mutual economic cooperation were made. Yugoslav President Tito, speaking at the summit, stated that, "Every country, regardless of their socio-economic system, must daily increase and broaden its economic cooperation" (cited in ibid.). It is important to note that the cooperation between developing countries in the NAM started with economic cooperation rather than technical cooperation. Economic cooperation focused particularly on trade, while technical cooperation entailed knowledge and skills transfer. Furthermore, the economic cooperation was motivated by the need to manage the real economic pressure and negative effects of the cooperation of industrialized nations on developing countries' economies. Economic development cooperation between NAM members was included as an article in the outcome declaration of the 1964 NAM Summit. It required all members to coordinate and implement measures promoting economic cooperation on the basis of equality and mutual benefit. It further obliged all members to expand trade relations with each other, and to strengthen consultation and cooperation so as to oppose all kinds of economic exploitation. During the 1980s, developing countries experienced difficult circumstances. African and Latin American countries, in particular, were faced with a debt crisis. This made North-South dialogue increasingly difficult as northern powers started to impose stricter conditionalities. The NAM promoted increased SSC to improve the bargaining power of developing countries vis-à-vis developed countries. The economic declaration of the NAM Summit in 1983 also described the economic complementarities of developing countries and the potential benefits of a large shared market.

Although China is not a NAM member, it has strongly identified with the efforts and principles of the movement and has observer status. Xi (2012) argues that China did not

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<sup>38</sup> This paragraph is based on Gao (2011).

join NAM due to its disappointing experience of the alignment agreement it had signed with the Soviet Union in 1960. Nevertheless, the fact that China was not a member did not impede the development of NAM and its promotion of SSC. China is a member of the G77. While not a founding member (this organization has its origins in UNCTAD in 1964, and China was not a member of UN until 1972), China aligned itself with the G77 even before joining (Chen & Chen 2006). Agreements and declarations made by the G77 during the 1960s and 1970s can be summarized as calling for the following: (i) recognition of the economic sovereignty of all nations; (ii) addressing the issues of global wealth and economic benefit redistribution according to the principles of justice and equality; and (iii) assurance of equal participation, equal benefits, and equal decision-making power rights of all nations, and developing countries in particular (ibid.). Nevertheless, international opinion suggests that the G77 has been unsuccessful for a number of reasons (ibid.). Firstly, institutional organization and periodic communication are said to have been too lax. Secondly, the G77 has no high-level promotional or research institutions. Lastly, the developed countries, in order to deal with G77 bloc negotiations, changed their negotiating strategies (ibid.). Regarding that last, one of the strategies adopted was to divide members of the negotiating blocs by enhancing bilateral ties and promising to increase or decrease financial incentives such as aid and FDI (ibid.). Another strategy was to make every effort to change the location and agenda of the negotiations to reduce the influence of the G77 in UNCTAD (ibid.).

Deng Xiaoping, speaking in the 1980s stated that China would forever align itself with the Third World and would never be a leader of the Third World (cited in Zou 2006). Deng argued that being a leader of the Third World would not be beneficial to China, and he felt that China was unable to take up such a role (ibid.). However, Deng's ideas are playing a gradually diminishing role in China's policy formulation. While his thinking did provide a number of guiding principles for post-1978 China, China and the world have become a very different place since Deng's time. Just as the influence of Mao's ideology has gradually declined, with brief resurgences in particular localities such as under Bo Xilai in Chongqing,<sup>39</sup> Deng's thought can no longer be said to guide China in the 21st century. Hu Jintao's 'Harmonious World' notion, however, has its roots in Deng's thought, particularly in his ideas about the unjust global political economic system. However, today's more consultative and multilateral approach represents an evolution of Deng's thought considered more appropriate to current global circumstances and China's evolving role in the international system.

These descriptions of the Bandung Conference, the NAM, the G77, and Deng Xiaoping's declaration of China's alignment represent the political and geopolitical aspects of SSC. They provide the political platforms on which political, economic, and technical SSC can be promoted and coordinated independent of Northern-dominated institutions. These forums also facilitate coordination for negotiating blocs such as G77. They have moreover played an important role in negotiating blocs in the UN. As one of the few international institutions which the government of China trusted from early on, the UN system has long been a partner and channel for China's SSC, as described below.

#### **4.4 China and the UN system**

The quote at the beginning of this chapter is from a China-UNDP project-signing ceremony on 6 July 2004. Indeed, China credits SSC with regaining its seat in the UN and on the UN Security Council. After nearly two decades of supporting independence

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<sup>39</sup> In 2013 Bo Xilai was convicted to life in prison on allegations of corruption and abuse of power relating to his attempt to cover up the fact that his wife murdered a British businessman.

movements and newly established independent states in Africa and Asia, China was voted back into the UN with the support of the majority of the developing South. For many years the UN was the only global intergovernmental organization that China actively participated in. It felt that the UN had the fairest representation of developing countries and provided a more adequate platform for developing countries than the Bretton Woods institutions (Warmerdam 2012). China started to cooperate with the UN system in development cooperation in the 1980s. This cooperation has continually grown ever since. The government pays great attention to its collaboration with the UN World Food Programme, and it has stated its desire to expand and strengthen this cooperation (Huang 2007). China also has strong relations with FAO, UNCTAD, UNIDO, and UNDP (IOSCPRC 2011). For example, since 1996 China has sent Chinese agricultural experts to developing countries in cooperation with FAO. However, it is China's cooperation with the UNDP in particular that has led to a number of cooperative projects in the realm of SSC.

The UN system, especially UNDP, has been a strong promoter of SSC (see Li 2003, Xu 2002, Chen 2012 on the role of the UN and the UNDP). A number of Chinese authors state that the UNDP has been the driving force promoting and fostering SSC, outside of political negotiating blocs (Wang 2005, Xu 2002). Originally the UNDP promoted TCDC. Between 1979 and 1998, the UNDP implemented four assistance programmes in China, including 841 projects worth 690 million USD in total (Li 2003). China provided the UNDP 40 million USD in the same period (*ibid.*). Under the heading of TCDC, China provided training to other developing countries in small hydropower plants, solar power, silkworm husbandry, aquaculture, and other technical skills in which China had a comparative advantage (*ibid.*). Through UNDP TCDC programmes, China also learned from other developing countries. For example, Chinese practitioners learned bamboo processing from the Philippines, post-disaster reconstruction from Indonesia, and agricultural and communication technical expertise from Brazil (*ibid.*).

In 1990, the UNDP launched its Economic Cooperation Among Developing Countries (ECDC) programme (*ibid.*). The notion behind ECDC was that SSC in the economic domain could offer viable opportunities for developing countries to pursue their individual and collective sustainable economic development. China was very active in the ECDC programme. In addition to the expert training it offered via TCDC, China assisted in the construction of small hydropower plants and research institutes in the 1990s as part of its ECDC activities (*ibid.*). However, at the time, a number of Chinese experts believed that the government could do more to promote and foster ECDC. These experts argued four points (Li 2003). The first was that the Chinese government could make better use of its earlier aid investments. They said that China now had good relations with many developing countries. It had also implemented a large number of assistance projects. These assets could be utilized to more fully exploit the potentials of economic cooperation. The second point argued was that the Chinese government should implement policies to promote expansion abroad of Chinese small-scale and medium-scale enterprises. In fact, these calls were answered in 2001 with the 'Go Out' policy, discussed in more detail below. Third, experts urged government to create conditions conducive to Chinese enterprise-bundling abroad. This implied that Chinese companies would coordinate their efforts, working together as partners or subcontractors on projects. Fourth, the Chinese government was urged to stimulate its embassies to carry out investment climate analyses. In fact, the embassy, in the Chinese diplomatic structure, is not responsible for commercial affairs, only for foreign relations. Embassies fall directly under the Ministry of Foreign Affairs. The Ministry of Commerce has its own overseas representative office known as the Economic and Commercial Counselor's Representative Office (ECCO) for commercial affairs abroad. The local ECCO websites now also contain investment climate information, as well as information on

important local companies, local government offices, local government policies, and economic development plans.<sup>40</sup>

Fieldwork by this author in Uganda showed that a number of Chinese companies did cooperate on projects in an enterprise-bundling manner; that is, cooperation through partnerships and subcontracting relationships to make the most of the different areas of member companies' expertise, while not being open to local companies (Warmerdam & Van Dijk 2013b). An example of such connections is an e-government project in Uganda. This was partly financed by a Chinese bank, the tender was won by a large privately owned Chinese ICT company that subcontracted the infrastructure construction to a Chinese SOE. The e-government project was implemented at the request of the Ugandan government, which lacked the technical expertise and financial resources to develop e-government on its own. To the extent that this project consisted of financial assistance and technology and skills transfer between developing countries, it can be considered the form SSC known as TCDC. The same infrastructure subcontractor was also signed to construct the power-line infrastructure for a hydropower project in which the main contractor was a Chinese mixed-ownership company controlled by the central Chinese State-Owned Assets Supervision and Administration Commission (SASAC) (Warmerdam & Van Dijk 2012b). Hydropower development is a Ugandan government policy goal devised to meet the country's increased power needs. In this area, China is capable of providing technical assistance that can be considered SSC. The World Bank and African Development Bank were other investors in this project.

A number of Chinese institutions are responsible for cooperation with UN agencies in support of SSC. The China International Center for Economic and Technical Exchanges (CICETE) coordinates UNDP, UNIDO and UN volunteers programmes to China, as well as organization with these UN agencies of foreign development cooperation programmes within China. CICETE was created in 1983 with the approval of the State Council, directly under the Ministry of Commerce. In addition to its coordination activities, CICETE promotes technical and economic cooperation and assists international NGOs and Chinese enterprises in their foreign aid UN procurement tendering applications.<sup>41</sup> By 2006, CICETE had successfully implemented projects worth a total of 800 million USD, including 800 projects nationally in various socio-economic fields (Zhao 2009). From 1983 to 2006 it implemented more than 100 projects specifically geared towards SSC, to which the Chinese government contributed 11 million USD (ibid.). In 2008 CICETE was awarded a prize for its contributions to SSC by the G77 and the UN Office for South-South Cooperation (ibid.). In 1995, China established the China SSC Network supported by UNDP, UNIDO, and CICETE (ibid.).<sup>42</sup> That network provides information and is intended to coordinate SSC, mainly as a resource for Chinese companies and government departments interested in SSC and developing or engaging in SSC projects. Another Chinese institution geared towards SSC is the Information Platform of Population and Development in South-South Cooperation (SSCPOP), which was established in 2009 with the support of the UN Population Fund (UNFPA). The remit of SSCPOP is to share China's experience of population and development, poverty reduction, family planning, and reproductive services.

In December 2004 the UNDP and other international organizations joined the Chinese government to establish the International Poverty Reduction Center China (IPRCC). The IPRCC's work focuses not only on China's own domestic poverty reduction processes but also on research and collaboration with other developing countries, such as in Africa

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<sup>40</sup> See for example the ECCO website of the representative office in Uganda (<http://ug.mofcom.gov.cn/>) and Brazil (<http://br.mofcom.gov.cn/>), accessed in January 2013.

<sup>41</sup> See <http://www.cicete.org/> accessed in January 2013.

<sup>42</sup> See <http://www.ecdc.net.cn/> accessed in January 2013.

and Central Asia, partly through the facilitating role played by the UNDP and other partner organizations. The IPRCC organizes frequent expert seminars, exchanges, and conferences. It also engages in research, which it publishes on its website. IPRCC delegations from China often visit other developing countries, and the organization receives delegations from these countries for working visits, workshops, and exchanges.<sup>43</sup>

The Chinese government and UNDP jointly established the China-Africa Business Council (CABC) in November in 2004 as a public-private partnership to support China's private sector investment activities in sub-Saharan Africa (World Bank 2007). CABC is one of the tools used to stimulate China's trade with Africa. It is facilitated by the UNDP. Regular progress reports from the UNDP (e.g., UNDP 2006) indicate that African and Chinese delegations taking part in these exchanges often sign cooperation agreements. For example, the Tangshan Shuguang Group cement factory in Madagascar was the result of CABC mediation (UNDP 2006).

China, since it resumed its seat in the UN General Assembly and UN Security Council, has over the past four decades, particularly more recently, become one of the larger troop contributors to UN peacekeeping operations (De Haan 2010, Taylor 2009, International Crisis Group 2009). It ranked fifteenth in terms of troop contributions in 2011, with just under 2,000 troops on active duty, slightly less than its peak of over 2,000 troops in 2008 (Campbell et al. 2012). It is the largest troop contributor among the permanent members of the Security Council (ibid.). These troop contributions indicate China's desire to be seen as a responsible actor and as assisting the Global South. China engages in military assistance programmes outside of the UN system as well. These have included, for example in Nepal, provision of non-lethal equipment and troop training intended as a means to strengthen security through SSC (ibid.).

China has thus expressed its interest in SSC through its close cooperation with UN agencies. This close cooperation expanded especially rapidly after the turn of the millennium and has also broadened from technical cooperation among developing countries (TCDC) to include economic cooperation among developing countries (ECDC). China is proactive in its relations with UN agencies to promote SSC. For example, China is the biggest donor to the UN Fund for South-South Cooperation (Media Global 2009: 9).

#### **4.5 North-South dialogue**

In discussions on SSC, it is important to understand the role and influence, direct or indirect, of the North. Deng Xiaoping noted the key role of the North in providing technology, investment, and market opportunities during the early years of reform and opening up initiated in 1978 (Ding 2007). He also emphasized the importance of opening up to the South (ibid.). Deng observed that the population of developing countries accounted for more than three quarters of the total world population, and therefore had enormous market potential (ibid.). He noted that because the European market was limited and that America practised protectionism, the market potential of developing countries was vital to economic development in China (Zou 2006). Deng believed that in this large market, countries could assist each other, compensating for each other's deficiencies, to the benefit of all. He argued that only when developing nations had strengthened their economic self-reliance through mutual cooperation could they develop well and have a stronger negotiating position in North-South dialogue. Developing countries should remove all internal and external barriers, he

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<sup>43</sup> For more information visit <http://www.iprcc.org/publish/page/en/>, accessed in January 2013.

continued, and unite to bring about changes in the international economic order. Deng stated that if developed countries did not assist developing countries, then developed countries would sooner or later be limited by their own market and economic capacities. He further argued that SSC could promote a better North-South cooperative relationship (ibid.).

Many Chinese academics similarly believe that SSC is crucial to address the disparities between North and South (e.g., Tang 2010, Zhu 2009). Tang (2010) argues that although there are problems between some developing countries, such as territorial and political disputes, in order to develop and in order to be able to negotiate with the North on an equal footing, developing countries must cooperate. Zhu (2009) describes China's efforts within the UN to support SSC, to promote North-South dialogue, and to create a more just international economic and political order. Chen and Chen (2006) describe the impact of SSC in the WTO Doha Development Round. They state that the aim of the Doha Development Round was to create a new international economic order and to pass new international economic legislation. While true, this seems to be more an expression of the authors' hopes and their own perceptions of the objectives. China, India, and Brazil represented the interests of the developing world in the negotiations. According to Chen & Chen (ibid.), by 2006 SSC had already registered several achievements in the Doha Development Round. First, some issues related to agriculture had been solved. For example, cotton export subsidies and agricultural export subsidies from developed countries were to be abolished by 2013 (ibid.), though this did not happen, despite a WTO conflict settlement panel ruling against the US. Second, developed countries gradually started to admit that it was necessary to come to more agreements on agricultural issues, such as the subsidies provided to farmers in many industrialized countries and removing trade barriers to agricultural imports from developing countries – though this has not yet led to any substantial changes in practical terms. Third, more voice had been granted to developing countries in WTO decision-making. According to WTO Director-General Pascal Lamy, as 75 per cent of WTO members were developing countries, they should be central in trade negotiations (ibid.).

Liu (2008) discusses another element of the Doha Development Round: the Trade-Related Aspects of Intellectual Property Rights (TRIPs). Liu (ibid.) argues that the TRIPs agreement was established by and favoured Western developed countries. However, through South-South cooperative bargaining in the Doha Development Round a number of issues were solved. Most notable was the recognition by the WTO that public health rights were more important than intellectual property rights (ibid.). This meant that developing countries no longer had to rely on overpriced pharmaceuticals imported from developed countries and could start using generic pharmaceuticals at a much lower cost. Due to the Doha Development Round, the transition period during which least developed countries could continue making use of the TRIPs agreement on medicine was extended (ibid.). Liu (ibid.) states that the World Health Organization played a key role in supporting developing countries in achieving these successes. FAO provided similar support to developing countries in their negotiations with developed countries regarding intellectual property rights on seeds and other agricultural products (ibid.). However, they still faced strong competition from and lobbying by large agribusiness multinationals.

#### **4.6 Forum on China-Africa Cooperation**

Deputy Minister of Commerce Gui Jianguo stated in the quote introducing this chapter that the government had launched the Forum on China-Africa Cooperation under the guiding principles of SSC. Xia (2005) goes further to state that China-Africa trade relations are the model for (Chinese) SSC. UN Secretary General Ban Ki-Moon,

addressing the Fifth Ministerial Conference of FOCAC (Forum on China-Africa Cooperation) in 2012 in Beijing, commended President Hu Jintao for establishing the FOCAC. He noted the important role that the FOCAC had been playing in Africa's development in a speech dominated by the theme of the key role of SSC in reducing poverty, strengthening African capacity, and building green economies (Ban 2012). Although Ban Ki-Moon did not explicitly state that FOCAC was a form of or platform for SSC, as Deputy Minister Gui Jianguo did, his speech seems to imply this.

Launched in Beijing in 2000, FOCAC has provided a platform for dialogue, consultation, and coordination and served as a mechanism for pragmatic cooperation (AFRODAD 2008, IOSCPRC 2011). China has used the platform to coordinate its foreign policy towards the African continent (Davies et al. 2008). FOCAC's day-to-day management is carried out by a committee based in the Ministry of Foreign Affairs, which has close working relations with African diplomats resident in Beijing (Tjønneland et al. 2006). Representatives of the Secretariat of the New Partnership for Africa's Development (NEPAD) were present for the first time at the 2006 FOCAC Summit. NEPAD has been promoted as a core mechanism for development of Africa as a region. In China's 2006 Africa policy, the government announced its support for NEPAD. It also sought the best way to further cooperation between FOCAC and NEPAD (MFAPRC 2006). This is likely the result of a request from African leaders that NEPAD play a more important role in Sino-African relations (Tjønneland et al. 2006). So far cooperation between NEPAD and FOCAC has emphasized infrastructure, human resources development, agriculture, and treatment of infectious diseases (Davies 2007, Tjønneland et al. 2006). Following on the FOCAC example, a number of other countries, such as India, Brazil, and South Korea, established similar forums for their relations with Africa (Bilal 2012, Hu & Liu 2011). Korea established the Korea-Africa Forum; Brazil established the Brazil-Africa Forum; and India established the India-Africa Forum Summit. The EU-Africa Summit was also established in response to FOCAC (Jacobs 2011). These forums are not intended to complement one another. Rather, they are intended as means of strengthening relations between the countries or regions involved and Africa, though not necessarily in competition with China.

The Chinese government has used the opportunity of the FOCAC summits to write off African debt and announce increases in development assistance. At the opening ceremony of the 2006 FOCAC Summit, Premier Wen Jiabao urged government officials and leaders of the business world, "(1) to expand China-Africa trade relations, (2) [to] improve China-Africa investment cooperation, (3) [to] increase the levels of Chinese aid to Africa, (4) [to] promote cooperation between Chinese and African companies, and (5) [to] increase training of Africans" (Zhang 2006: 68).

In 2009 the Chinese government announced that it would establish 100 green energy projects in Africa; provide 20 billion USD worth of concessional loans; increase investment in Africa; establish a 1 billion USD fund for the development of African small-scale and medium-scale enterprises; continue opening China's market for African products, including by expanding zero-tariff treatment for African products; increase medical cooperation with Africa; provide training to Africa's labour force; and expand Sino-African cultural ties (He 2011: 133). A number of these cooperation areas link in with the 'Go Out' policy described below.

At the most recent summit, in 2012 in Beijing, President Hu Jintao stated that the Chinese government would take steps in five priority areas (Hu 2012):

- 1) Investment cooperation and to support to Africa's sustainable development. These will be expanded, particularly in agriculture, manufacturing, infrastructure and support for SMEs.
- 2) Increased development assistance. This will include sending 1,500 medical staff to Africa, increasing the number of agricultural demonstration centers, training 30,000 personnel in different sectors, providing 15,000 government scholarships, and

constructing vocational training institutes, among other things. 3) Continue to support the African integration process through assistance to transnational and trans-regional infrastructure development. 4) Enhance people-to-people friendship. China intends to do this through, among other things, joint research projects and the establishment of a China-Africa Press Exchange Center. 5) Promote peace and stability in Africa.

Thus, a new China-Africa cooperative initiative on peace and security was to be launched, and cooperation with and financial support to AU security missions was slated to be increased. As these are new initiatives, time is needed to determine how well they are operationalized and what effects they have in practice.

It might be argued that the FOCAC itself is not a form of SSC. However, from the Chinese perspective it is a platform by which SSC can be coordinated. The announcements by Chinese officials at these conferences, such as the intention to increase medical cooperation and the training of Africa's labour force, are not themselves SSC. However, projects and programmes carried out in response to these announcements can be considered SSC. Nevertheless, some announcements, such as the goal of strengthening cultural ties, are unlikely to lead to SSC projects. Additionally, investment and trade cooperation would fall under ECDC rather than the TCDC label.

#### 4.7 The 'Go Out' policy

According to Deputy Minister of Commerce Gui Jianguo, the 'Go Out' policy was launched under the guiding principles of SSC (cited in Wang 2005). This seems to contradict many Western perceptions of China's 'Go Out' policy, as Western sources have variably described it as China's neocolonialism, as mercantilism, and as motivated purely by China's self-interest (see Vendryes 2012 for a discussion of 'Go Out' and Chinese analysts' opinions). It should be remembered, however, that the 'Go Out' policy is also guided by China's principles of foreign economic and political relations, including those described earlier as non-interference, respect for state sovereignty, equality, and mutual benefit. The economic cooperation that Chinese companies pursue under this policy resembles the concept of economic SSC as promulgated by UNCTAD and UNIDO. The extent to which this economic cooperation can be considered SSC depends on the degree that it fosters the economic development and industrialization of China's partners.

Jiang (2008) emphasizes that the 'Go Out' policy is driven by China's need to satisfy its own demand for energy and other natural resources for its economic development. He adds that it should not be seen as a predatory or well-planned strategy to take over the world. Shambaugh (2012: 8) argues:

[E]fforts to 'go global' tend to be driven by pent-up cash in search of a place to invest outside China's saturated domestic market; a strong mandate by the government to 'go out', with incentives to do so and penalties for not doing so; naïveté about the complexities of foreign countries; a desire to maximise profits as quickly as possible, rather than produce steady revenue streams; and a fickle management tendency to frequently change decisions and directions.

The 'Go Out' strategy was a natural successor to Deng Xiaoping's reform and opening up policy. It was launched in the tenth Five-Year Plan in 2001, and initially focused on supporting and promoting large Chinese companies to invest abroad. By 2009, 13,000 companies had been established abroad by Chinese investors, and FDI had reached 2,500 billion USD (Vendryes 2012). The 'Go Out' policy developed with successive Five Year Plans. Originally the goal was to "actively and steadily go out" (ibid.: 5). By the eleventh Five-Year Plan, the policy encouraged companies to "go further out", and the most recent Five-Year Plan calls on Chinese companies and government institutions to "accelerate the implementation of the strategy for going out" (ibid.).

Is China's 'Go Out' policy a form of SSC? While many Chinese companies originally believed that the 'Go Out' policy promoted their investment in Europe and North America, the developing world also presented great business opportunities (Feng 2002). Chinese authors state that the relationship between the 'Go Out' policy and SSC can be seen in terms of the complementarity between the Chinese economy and the economies of other developing countries (Lu & He 2010, Xia 2005, Xu 2002), although Lu and He (2010) also warn of competition.<sup>44</sup> Chinese authors describe Africa's abundant natural resources, large market, and large labour force, while noting that China, and other Asian countries, have capital resources, a talented workforce, development experience, technology, and affordable manufactured products (Xia 2005). To this they add that Africa is in need of infrastructure, agricultural development, and the development of its natural resources and labour force, while China and other Asian countries are willing and able to assist Africa in its development needs (*ibid.*). These Chinese authors argue that there is therefore a complementarity between Africa's supply and Asia's (China's) demand, and Africa's demand and Asia's (China's) supply. In accordance with the Chinese principle of mutual benefit, which Chinese academics and politicians believe is inherent in SSC, this form of economic cooperation can thus be considered SSC from the Chinese perspective.

Xi and He (2008) state that increasing labour and environmental costs in China are driving Chinese companies to invest in less-developed countries. In recent years a large number of Chinese companies, such as Sinopec, PetroChina, Baotou Steel, Haier, Huawei, and ZTE have established multinational enterprises. They were facilitated by government financial support (*ibid.*). According to Zhu (2009), the 'Go Out' policy has helped developing countries, too, especially in Africa, to develop their basic industrial systems. He adds that it has enabled these countries to become more self-reliant, which is one of the core principles of China's foreign economic cooperation and described as an objective of Chinese SSC (*ibid.*). These potentials of SSC are discussed by UNCTAD (2012) and Bartels and Vinanchiarachi (2009). Rui (2011) argues that China's engagement in Sudan helped that country develop its basic industrial system. He states that through skills and technology transfer, and the construction and joint operation of a new oil refinery, China helped Sudan move its oil sector upstream (*ibid.*). Senelwa (2012) describes a new automobile assembly plant being constructed by China's Foton Motors in Kenya.

Another aspect of the 'Go Out' policy with implications for SSC is the fact that the Chinese government promotes companies to 'Go Out' through its foreign assistance programme (Huang 2007, Xi & He 2008, Yang & Chen 2010). Liu and Feng (2011) argue that this has helped Chinese technology and expertise enter into other developing countries, from which China has benefited. Yang and Chen (2010) suggest that the policy has promoted the export of Chinese products and offered companies insight on possible investment opportunities. Xi and He (2008) argue that given the risks of foreign investment, and the high levels of capital investment required for infrastructure, the Chinese government has used foreign aid to facilitate investments by Chinese enterprises in developing countries. This has occurred partly through the contracting of Chinese companies on Chinese aid projects, particularly infrastructure and construction projects. Through such projects, Chinese companies have gained an understanding of the markets in which they operate and become better positioned to compete in local government and international organization tenders. Wang and Liu (2012: 8) argue that, "Foreign aid itself cannot change a society. Investment and trade are needed to break

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<sup>44</sup> For further analysis of the complementarity and competition posed by Chinese investors in Africa refer to the Asian Drivers Programme studies. This programme produced a number of studies on the increased trade with and investment by China and India in Africa.

the poverty trap and hence promote economic expansion and social development.” They further argue that China’s successful economic development can be attributed to its keen ability to organize, integrate, and combine foreign aid, FDI, and trade. By implication then, China’s engagement with Africa, which similarly combines aid, trade, and investment, should help Africa develop. What Wang and Liu (2012) neglect is that the Chinese government played a vital and strong role in organizing and integrating aid, trade, and investment inflows within its own borders. Some African governments may be less able, or willing, to do the same. The presence of Chinese companies helps to establish business networks that can then develop into industrial catalysts (Bräutigam 2003).

The description of China’s ‘Go Out’ policy and its relation to SSC indicates that the government considers the ‘Go Out’ policy a form of economic cooperation. This has implications for technology transfer and technological cooperation as well. Finally, the use of aid establishes a degree of cooperation in development initiatives. The former President of Botswana, for example, expressed an opinion common among African leaders in stating, “I find that the Chinese treat us as equals. The West treats us as former subjects” (cited in Paulo & Reisen 2010: 539). President Armando Emilio Guebuza of Mozambique, in a similar vein, stated, “When we see China coming up and developing an attitude of support to help our productivity, we Africans say ‘Welcome’, because these investments and projects, especially in infrastructure, will help reduce our poverty problems” (cited in Chan-Fishel 2007: 139-40).

However, not all African leaders are as enthusiastic about the manner of China’s engagement with the continent. The Governor of the Central Bank of Nigeria, Lamido Sanusi (2013), recently wrote a scathing opinion piece in the *Financial Times* on China’s engagement with Africa. He stated that China is now the world’s second largest economy,<sup>45</sup> and as such is capable of the same kinds of exploitation as Western countries. Sanusi (ibid.) argued that taking Africa’s resources and selling it back manufactured products is very similar to colonial economic relations. Former president of South Africa, Thabo Mbeki, similarly warned of the dangers of this form of relations, which could “condemn [Africa] to underdevelopment” (*BBC News* 2006). In recent keynote address at the Africa-China Business Summit in Sandton, South Africa, the Deputy Prime Minister of Zimbabwe, Professor Mutambara, tried to temper such rhetoric. He argued that African countries must not blame the negative effects of Chinese engagement on China, but rather African leaders should take responsibility for their own problems and solve them themselves (*BizDay Zimbabwe Business News* 2013).

#### 4.8 Cases in Chinese literature on SSC

The Chinese literature on SSC presents a number of reports and analyses of practical examples. These examples might shed light on the workings of these projects as experienced by Chinese experts and practitioners. They might also highlight practical problems associated with SSC. The three examples below are related to Chinese technical cooperation projects with developing countries. The first two are development assistance projects. The third is an example of knowledge and expertise collaboration seen by the authors (Wen et al. 2009) as a form of SSC.

Wang (2008) provides an account of an agricultural SSC project in Nigeria from 2004 to 2006. This project was a cooperation between FAO, the Chinese Ministry of Agriculture (represented by the Guizhou provincial-level agricultural department), and the Nigerian

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<sup>45</sup> At the time of completing the final draft of this thesis, China had become the world’s largest economy (measured in terms of purchasing power parity).

government. The conditions and activities of the cooperation were formulated according to needs described by the Nigerian government and advice of Chinese experts resident in Abuja, Nigeria. The author identified four main issues to be addressed: (i) appropriate use of fertilizer, (ii) appropriate crop densities, (iii) scientific soil preparation, and (iv) improved crop protection and crop tending. Wang (ibid.) suggested adjusting the planting and harvesting times of a number of crops to increase annual yields. Project initiators, however, faced resistance to their ideas. Initially, the local Nigerian government would not allow the Chinese experts to go to the fields of local farmers for inspection. The measures they proposed were also met with doubt. The Chinese experts wanted to demonstrate the effectiveness of their proposals, but had to make numerous requests before they were finally provided a piece of land on which to test their methods. Wang (ibid.) notes a perception that the Nigerians looked down on Chinese experts. He also states that the Nigerians suffered from low efficiency and superstition, which prevented them from improving their agricultural productivity. Yet he goes on to describe how they were able to break through these barriers and achieve positive results, by learning more about and accepting Nigerian culture and behaviour, as well as by demonstrating how things could be done differently and with what results.

Yuan (2008) describes experiences in a China-Nigeria SSC water resources project initiated in 2003 and completed in 2007. This again was a tripartite cooperation involving the Chinese Ministry of Agriculture, FAO, and the Nigerian government. The Chinese experts were tasked with water source engineering, soil and water conservation, and demonstrating water saving irrigation techniques. For skills transfer, the experts also wrote a number of manuals. The achievements of the project were widely recognized. As an indication of the recognition that Chinese experts received, the FAO appointed a Chinese expert as the director of a FAO-supported Nigerian food security project. Yuan (ibid.) describes a number of issues they encountered. The most prominent of these was the lack of financial resources. He argues that though more work could and needed to be done, they were unable to do this due to lack of funds. Yuan (ibid.) furthermore suggests that before being dispatched Chinese experts should be evaluated on the basis of their expertise and moral character.

Wen et al. (2009) present findings from an analysis of a research collaboration between China and India and between China and Thailand in the field of health-related biotechnology in the period 1994-2005. They argue that the Chinese government was not paying enough attention to SSC in this field although there was great potential. They state that most of the cooperative relationships had been established through informal channels, either by visits from experts on other business or when meeting during conferences. Many participants were motivated to cooperate in order to share knowledge, to gain access to data from other countries, to disseminate results from experiments, and to increase their academic levels. Aside from the lack of formal channels for cooperation, Wen et al. (ibid.) report a lack of funding for cooperative projects, some cultural differences, some theoretical differences, and problems importing experimental specimens.

#### **4.9 Challenges facing Chinese SSC**

Chinese analysts perceive a number of challenges confronting SSC. According to Hu and Liu (2012), one of the most pertinent questions for Chinese SSC is how to use China's identity as a country of the South to implement internationalized cooperation according to the standards of SSC. What Hu and Liu neglect is that, as yet, there are no clearly defined standards for SSC. As mentioned above, Zahran et al. (2011) of the UN Joint Inspection Unit argue that a clear definition and remit of SSC is currently lacking within the UN system. This gap might have been somewhat addressed by the note published by

the UN Secretary General in 2012. However, countries still need to adopt and operationalize the Secretary General's guidelines (UNSG 2012). For some countries, such as China, this is problematic, as Hu and Liu (2012) point out. While China still wants to identify itself as a developing country, as a country of the South, this is becoming increasingly difficult. It has become an economic superpower with the political clout associated with such a position. Although it is in many ways hesitant to accept this, its relations with other developing countries are inevitably changing due to its rise in status. Expectations of China are changing as well, and China will need to adjust its principles and practices accordingly.

Labour relations and environmental issues related to Chinese foreign investment have plagued China's recent economic engagement in developing countries. As economic cooperation is seen as a form of SSC, these issues also affect China's SSC. Issues associated with, for example, the plight of mine workers in Zambia, have called into question the Chinese government's rhetoric of equality and mutual benefit (Mwanawina 2008). The poor behaviour of any single Chinese actor abroad has a negative impact on the Chinese government's image. Moreover, as the Chinese definition of SSC is so broad, ranging from aid to trade and from technical to economic cooperation, labour and environmental issues have also impacted relations within SSC. The Chinese government is, however, taking urgent steps to tackle these problems (Hu & Liu 2012). The China Development Bank, for example, now requires that the companies it invests in implement the highest social and environmental standards (*ibid.*). It is this bank's responsibility to oversee this, however, and monitoring mechanisms have yet to be fully developed. In 2008, the China Exim Bank increased its environmental protection standards, supporting the government's 'Green Credit' policy (*ibid.*). The aim of the policy is to move credit away from projects and enterprises engaged in highly polluting or high energy consuming activities, towards projects and enterprises engaged in emissions reductions and energy conservation. An increasing number of Chinese companies are engaging in corporate social responsibility (CSR) activities (*ibid.*, Warmerdam & Van Dijk 2012b). In a survey of Chinese companies in Kampala (Uganda), Warmerdam and Van Dijk (*ibid.*) found that a Chinese construction company provided water to drought-ridden areas, donated food and clothing to local villagers, and used its machinery to flatten playing fields, build small bridges, and lay pipes in areas where they were engaged in construction projects. Another company in the same survey provided education materials to a different village every year (*ibid.*). According to Hu and Liu (2012), Chinese companies and the Chinese government have come to realize that foreign investment involves many social and international responsibilities, and they are working to increase their standards and practices abroad. Even mining companies, such as the Jinchuan Group (JNMC), which operates mines in Zambia, engages in CSR (JNMC 2012). However, corporations' understandings of CSR are still developing. JNMC, for example, describes activities such as emissions reductions, cleaner waste disposal, employee training policies, and improved workplace health and safety as CSR. Nevertheless, it also notes community participation and public service provision as CSR. Though CSR reports show laudable efforts on behalf of these companies, they mostly describe activities in China. There is little indication that these Chinese companies are employing the same CSR standards, however underdeveloped, in the countries in which they are active abroad.

A number of other problems are found related mainly to the characteristics of the countries involved in SSC. Developing countries have many different political systems, religions, and national cultures. This inevitably leads to, and often is the historical root of, conflicts among one another (Zhao 2012). Countries in the South are also at different levels and stages of socio-economic development, ranging from fragile states to middle-income countries. These disparities lead to the same kinds of tensions as exist in North-South relations, especially with regard to national economic interests. Xu (2002)

observes conflicts of interests and disparities in reciprocity. Conflicts relate to territory, such as the various claims on the Spratly Islands. Economic disparities include issues such as trade imbalances and accusations of product dumping. Zhao (2010) reminds us that the Global North had similar conflicts and issues when it was developing.

Xu (2002) argues that there is no effective institution, fund, or ability to address these issues. There are of course intergovernmental and multilateral organizations, but not one solely dedicated to resolving South-South affairs. Xu (ibid.) adds that another issue is the level of interference of the North in South-South relations. According to Luo (2000: 49), the North still “writes the rules of the economic globalization game”. He adds that the economic gap between North and South is growing, and negotiations with the North are becoming more difficult for the South (ibid.).

Given that Asia has developed faster than Africa, Xia (2005) notes that there is now also a problem of Asian products competing with African products in the global market. Indeed, Lu and He (2010) found that most Chinese exports compete with exports from other developing countries. In normal circumstances, economic cooperation requires a clear division of labour (ibid.). This could be a vertical, horizontal, or protocol division of labour (ibid.). So far, some division of labour has been realized among developing countries. However, it is difficult for them to achieve a vertical division of labour, given that they are all focused on labour-intensive and capital-intensive industries (ibid.). Nevertheless, as countries such as China, India, and Malaysia develop, they continue moving up the value chain to positions currently dominated by developed countries. As they do so, many Chinese companies, for example, are shifting their production to other developing countries, and Africa in particular. The World Bank has consulted with the Chinese government on the potential of shifting 80 million manufacturing jobs to Africa to increase African employment (Lewis 2011). China itself is interested in moving beyond manufacturing, not falling into the middle-income trap, but focusing instead on R&D and service provision, as indicated in its twelfth Five-Year Plan and *China 2030* (World Bank & DRC SC 2012).

#### 4.10 Conclusion

This chapter has examined the great importance that China attaches to the rhetoric of SSC. Table 4.1 compares China’s notion of SSC with that published in 2012 by the UN Secretary General. In terms of normative principles, China’s perception of SSC is very similar to that of the UN Secretary General. This should not be too surprising, as the UN’s definition of SSC has its roots in the G77 and NAM with which China has also been affiliated. One of the key differences, however, is related to the perception of North-South cooperation. The Chinese conceive SSC as a counterbalance to North-South cooperation, while the UN Secretary General considers the two to be complementary.

Major differences between the Chinese and UN Secretary General’s concepts of SSC are found in the operational principles. China places a strong emphasis on economic cooperation. Such an emphasis is absent from the UN Secretary General’s (2012) definition of SSC. The UN Secretary General, moreover, accentuates technical and capacity development aspects, though more economic aspects were included in earlier UN incarnations of the SSC concept. Chinese definitions also incorporate technical cooperation and capacity development aspects. This is evidenced in practice as well. The Chinese government has launched a number of agricultural demonstration centres, described in the cases above. These are intended to serve as facilities for learning within host countries. The Chinese government also established the IPRCC, with the assistance of the UNDP. This too has been intended as a centre for learning and exchange, this time focused on poverty reduction and capacity and knowledge development. The quote at the beginning of this chapter by Deputy Minister of Commerce Gui Jianguo, similarly

emphasizes the need for developing countries, including China, to learn from each other, to develop together. This notion is very similar to the UN Secretary General's definition of SSC.

**Table 4.1**  
*Comparison of the Chinese and UN Secretary General's definitions of SSC*

<b>UN Secretary General</b>	<b>China</b>
<i>Normative Principles</i>	
<ul style="list-style-type: none"> <li>• Respect for national sovereignty and ownership</li> <li>• Partnership among equals</li> <li>• Non-conditionality</li> <li>• Non-interference in domestic affairs</li> <li>• Mutual benefit</li> <li>• Compete with North-South cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Respect for national sovereignty and ownership</li> <li>• Partnership among equals</li> <li>• Non-conditionality</li> <li>• Non-interference in domestic affairs</li> <li>• Mutual benefit</li> <li>• Counterbalance to North-South cooperation</li> </ul>
<i>Operational Principles</i>	
<ul style="list-style-type: none"> <li>• Emphasis on technical and capacity development</li> <li>• Mutual accountability and transparency</li> <li>• Development effectiveness</li> <li>• Coordination of evidence- and results-based initiatives</li> <li>• Multi-stakeholder approach</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasis on economic cooperation, economic development, and development effectiveness</li> <li>• Technical cooperation in a limited (but growing) number of fields</li> <li>• Political diplomacy</li> <li>• Cultural diplomacy</li> <li>• Mainly bilateral approach</li> <li>• Cooperation with UN system</li> </ul>

Source: Author's compilation

Chinese understandings of SSC place more emphasis on political cooperation. This should be seen in part in the historical context of China's SSC. Its NAM and G77 alignment is an indication of this. These forums also played a coordinating and promotional role in technical cooperation and economic cooperation among developing countries. However, their most important function was as negotiating blocs in the UN and other international organizations. Chinese analysts and the government have attached considerable importance to the role of these negotiating blocs. China sees SSC as a counterbalance to the North and to the North's political dominance of international organizations. This is very different from the UN Secretary General's definition of SSC, which describes SSC as a complement to North-South cooperation. This might be because the UN Secretary General's definition included feedback from member states, including northern nations (UNSG 2012). China's placement of SSC in opposition to the North might also be an indication of its aspiration to change the international political and economic order.

China's Deputy Minister of Commerce Gui Jianguo stated that establishment of the Forum on China-Africa Cooperation (FOCAC) was guided by the policy of SSC. SSC is apparent in FOCAC in two ways. Firstly, FOCAC provides a platform for China to coordinate and consult with African leaders. Africa has a high level of input in FOCAC. The inclusion of NEPAD in FOCAC and the emphasis in Chinese rhetoric on cooperation with the African Union are the result of pressures and lobbying of African leaders in FOCAC. Additionally, the establishment of FOCAC as a separate forum through which to engage with African leaders, outside such institutions as the G77, NAM, and even the UN itself, could be indicative of the centring role that China wants to play in developing countries, and the counterbalance it wants to create to Western-dominated institutions.

China places great emphasis on economic cooperation, which is lacking in the UN Secretary General's definition of SSC. The UN Secretary General's notion of SSC does not explicitly include economic cooperation, though earlier UN incarnations of this concept did, as described above. The importance of economic cooperation is evident in the description of SSC by the Deputy Minister of Commerce, who stated that China's 'Go Out' policy was launched to advance SSC. Other Chinese analysts place a similarly great emphasis on the economic aspects of SSC. Chinese authors have argued that China's economic engagement has helped to industrialize recipient countries, that it has provided jobs and incomes, and that it has generated revenues for developing country governments to then use to improve the livelihoods of their citizens. Chinese construction companies have assisted Africa, and developing countries elsewhere, in building infrastructure, affordable housing, and public buildings. However, as described in this chapter, not everyone has been equally pleased with China's economic engagement. Labour disquiet and environmental issues have harmed China's image, to the extent of casting doubt on the validity and effectiveness of the principles and practices that China has promulgated for its economic engagement. The Chinese government has moved to address these issues, for example, through its 'Green Credit' scheme, FDI guidelines, and soon to be announced legislation on unfair FDI practices.

The operational principles underlying the UN Secretary General's definition emphasize mutual accountability and transparency. These aspects are not obvious in the Chinese definition, nor is mutual accountability and transparency evident in the practical implementation of Chinese SSC, as described in this thesis, or in Chinese governance in general. The UN Secretary General emphasizes multi-stakeholder approaches. The Chinese approach to SSC is mostly bilateral, or through cooperation with UN agencies and to a lesser extent the international financial institutions. Additionally, the Chinese modalities have targeted project assistance, often without including many other stakeholders. The IPRCC is an example of China's use of the type of evidence- and results-based initiatives that are alluded to in the UN Secretary General's definition. These initiatives are coordinated through the UN system, as the IPRCC is also supported by the UNDP. However, broader coordination is lacking. Finally, both concepts of SSC emphasize development effectiveness rather than aid effectiveness, though the Chinese definition places more emphasis on economic aspects than the UN Secretary General's definition.

There are still questions concerning to what extent Chinese SSC in the political realm really promotes the interests of China's partner countries. With regard to China's economic emphasis in SSC, questions also remain regarding the extent to which developing countries benefit at all. There are important differences between developing countries, which make the general concept of SSC both vague and problematic. As of now, SSC tends to involve the more developed developing nations, which cooperate with other developing nations. In fact, middle-income countries cooperating with, or providing aid to, low-income countries, is still considered SSC. There would then seem to be little difference between SSC and North-South cooperation; as each represents a more developed nation assisting a less developed one.

The second problematic issue with the general concept of SSC is the element of cooperation. No parameters are set through which cooperation can be measured. In the case of China, some countries have more leverage in economic negotiations with China than others, and it can be assumed that these countries benefit more from China's economic engagement. Other factors, such as exchange rates and commodity prices, also vary the benefits that Chinese engagement provides, and these factors are largely beyond the Chinese government's control. Further empirical research is warranted on the effectiveness of Chinese SSC. Case studies could be chosen, for example, on the role and effectiveness of IPRCC or CICETE (the China International Center for Economic and

Technical Exchanges), or on the effectiveness China's agricultural demonstration centres in promoting technical capacity building and technical transfer in developing countries.<sup>46</sup> There is a rapidly evolving literature on case studies of China's economic and development assistance. However, very little has been written about the institutions that facilitate this, such as CICETE, and about ancillary institutions, such as IPRCC, which facilitate knowledge and skills exchange among countries of the Global South.

The final, but overriding issue is that China still wants to identify itself as a developing country, as a country of the South. This is becoming increasingly difficult. China has become an economic superpower, with the political clout associated with such a position. This produces an inherent imbalance in relations *ex ante*. This imbalance cannot be countered by rhetoric. While African leaders have lauded China's engagement as one based on equality, the question is, will this last? If the spirit of SSC, of equality and mutual benefit, is the "cornerstone of Chinese international relations" (Wang 2005: 138) will this spirit remain? Or will it diminish? Although China is in many ways hesitant to accept this, its relations with other developing countries are changing due to its rising status. Expectations of China are changing, and China will need to further adjust its principles and practices accordingly.

Regarding SSC, both as perceived within China and according to the UN definition, a number of conclusions can be drawn. The concept of SSC is generally rhetorical. Many issues have been forced into an SSC programme or framework, for example, economic and technical cooperation between developing countries. However, as noted in this chapter, key elements of the concept are both vague and artificial. For example, what countries belong to the 'South' is not clearly defined. Is belonging to this category determined by a particular GDP per capita, or by a country's own self-identification? Currently the latter seems to be predominant. Similarly, the issue of what constitutes cooperation is vague and broad. Development cooperation is clearly included in the UN and Chinese definitions, but trade and FDI are also included in the Chinese definitions, and they are also likely to figure in the SSC definitions of other partners in the South, such as Brazil, Malaysia, and India. This is too broad. Clear guidelines could be developed, as the OECD-DAC has done for the definition of foreign aid. The UN is the most appropriate candidate to do this. As it stands, SSC is open to ideological interpretations and controversies.

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<sup>46</sup> For an interesting analysis of China's land-based interventions see Buckley (2013).

### 5.1 Introduction

As Chinese foreign aid re-emerged in the international aid system, it raised many questions, particularly as the nature of Chinese aid had changed from ideological to more economic, and almost simultaneously China's domestic economy was enjoying sustained, stable, and rapid growth. Moreover, recent years have witnessed somewhat of a crisis in the international aid system. This has been labelled by some a resurgence of aid fatigue, while others have concluded that the aid system itself is inherently unsuited to fostering the socio-economic development of the countries it purportedly aims to help (Moyo 2009). China's re-emergence as a donor and its simultaneous rapid economic development, notably without a high degree of donor involvement and fiscal support (as will be described in Chapter 7), caused some to view China as an example of development and possibly a better partner for domestic development agendas than the traditional donors (*ibid.*). This chapter scrutinizes these assumptions. It analyses the nature of Chinese foreign aid and its complementarities with traditional donor aid. It further looks at some lessons from China's own domestic development experience and assesses the possibility of applying these in other developing countries.

This chapter is organized as follows. Section 5.2 looks at the nature and complementarities of Chinese aid modalities. Section 5.3 investigates the applicability of China's own domestic development experiences in its developing country partners. Section 5.4 presents a summary and conclusions.

Developing countries are very diverse. National and local conditions vary. Therefore, governments must identify their own development paths in accordance with their own conditions. China does have lessons to offer from its domestic development that it can share with other developing countries. These are, particularly, its policy development mechanisms, its strong institutional capacity, and national ownership of the development agenda.

### 5.2 The nature and complementarities of Chinese aid modalities

#### 5.2.1 Determinants of Chinese aid modalities

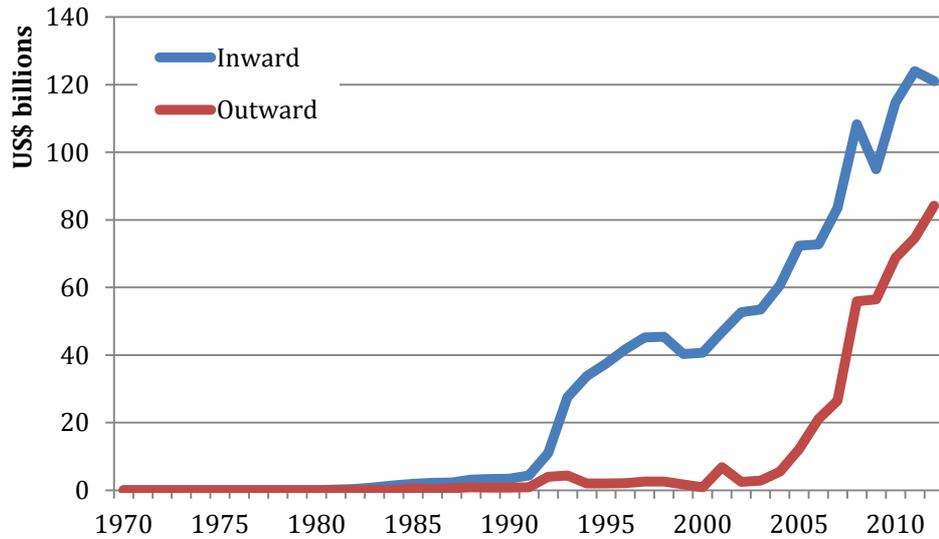
It is evident from the previous chapters that much of China's foreign aid is driven by its own developmental experience and the lessons it has learned as an aid donor since 1950 (Ping 1999). Further, as is evidenced by Figure 3.10 (in Chapter 3), as well as Figure 5.1 below, China's engagement with the world in terms of trade (exports and imports) as well as both inward and outward FDI, has increased rapidly during the past two decades. Outward FDI has seen the most rapid growth in the last decade, especially since the launch of China's 'Go Out' policy in 2000 (Besada et al. 2008).

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<sup>47</sup> This chapter is based on Warmerdam, W. (*forthcoming*), "Beyond debates of which is best: Investigating the complementarity of Chinese and Western aid, and the possible lessons from China's development," *Fudan Journal of Humanities and Social Sciences*, DOI: 10.1007/s40647-013-0005-8.

**Figure 5.1**

*Foreign direct investment (FDI) inward to and outward from China (in billions of US dollars at current prices and current exchange rates) between 1979 and 2012*



Source: [http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS\\_referer=&sCS\\_ChosenLang=en](http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en) (accessed in May 2011)

These trade and investment spurts also have correlations with China's foreign aid policy adjustments. However, it is important not to conflate Chinese ODA with other official flows provided in support of Chinese trade and investment (Bräutigam 2011). As noted above, a number of administrative and regulatory reforms in 1993 distanced the government from aid implementation and increased the role of the private sector in foreign development assistance. In 1994, the China Exim Bank responsible for, among other things, export and import credits and concessional loans, was founded. As Figure 5.1 shows, during this period (1991-95), China also saw a small spurt in outward FDI. The creation of the FOCAC in 2000, with its triennial meetings in 2003, 2006, and 2009 (with the associated government promises of, e.g., debt cancellations, increased assistance, and scholarships), as well as creation of the China-Africa Business Council and the IPRCC in 2004, also correlate with growth in outward FDI and increases in trade as Figure 5.1 and Figure 3.10 show. To determine the extent that these increased foreign assistance efforts promoted and increased outward FDI and trade would require further statistical research considering China's aid, trade, and investment package engagement with the developing world, as well as China's proclaimed principle of mutual benefit and its requirement of at least 50 per cent of procurement tying (Davies 2007). It can be reasonably assumed that China's foreign aid strategy has also been based, in part, on its own developmental needs. Not just as a means of obtaining the resources necessary for its continued economic development and the production of goods for export, but also as a means of promoting exports to other markets.<sup>48</sup>

<sup>48</sup> It should be noted that Figures 3.9 and 3.10 use values in dollars as their measures. As China exports largely low value goods to developing countries (Chan-Fishel 2007, Davies 2007, Lee 2006, 2007, Tjønneland et al. 2006), the actual levels of trade and their comparability with advanced economies which receive largely higher value goods, may be skewed. A slightly better indicator might be units rather than value of trade. However, this author has, as yet, not found comparable regional units of trade data.

## 5.2.2 Chinese aid modalities

The particularities of Chinese foreign aid have traditionally been rather opaque. Prior to the White Paper on Chinese foreign aid released in April 2011, the specifics of Chinese foreign aid modalities were generally unknown. The White Paper cleared up a number of elements, such as the financial modalities of Chinese foreign assistance, which were now more clearly stipulated.<sup>49</sup> These included grants, interest-free loans, and concessional loans. The former two were provided by China's state finances, while concessional loans were provided by the China Exim Bank.<sup>50</sup>

The government has stated that grants are used to assist recipient countries in building hospitals, schools, low-cost housing, and other medium to small projects related to social welfare (IOSCPRC 2011a: 5). Grants have also been used for emergency humanitarian aid, technical cooperation, human resources development cooperation, and technical cooperation (*ibid.*). Interest-free loans, generally provided to countries with 'relatively good economic conditions', with a 20-year duration, have mainly been used for the construction of public facilities and projects to improve people's livelihoods (*ibid.*).<sup>51</sup> Concessional loans, on the other hand, were used for productive projects that generate both economic and social benefits, as well as medium and large-scale infrastructure projects (*ibid.*). Concessional loans had further been provided to fund complete plant projects and for obtaining mechanical and electrical products, technical services, and other materials (*ibid.*). The repayment periods on these loans typically varied from 15 to 20 years, with annual interest rates of between 2 and 3 per cent, including a grace period of 5 to 7 years (*ibid.*). The Chinese government has also provided debt cancellations. By the end of 2009, it had cancelled 380 mature governmental debts owed by HIPC and LDCs that have diplomatic relations with China, totalling 25.58 billion RMB (*ibid.*: 9). Of the 380 debts forgiven, 312 were held by African countries, accounting for 82 per cent (*ibid.*: 10). In terms of value, these accounted for almost three quarters of the total cancelled debts by China.

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<sup>49</sup> The Information Office of the State Council of China publishes White Papers not as a means of analysing or debating issues or progress on given issues. Rather, it uses White Papers more as a means of presenting the central government's own narrative on a given issue.

<sup>50</sup> Bräutigam (2009) does an excellent job of unpacking the complexities of China's foreign aid programme and differentiating Chinese ODA from other official financial flows (Bräutigam 2011). A lot of our understanding of Chinese aid is impeded by widespread popular misconceptions. As China does not publish any aid data, bar the small aggregated sample in its 2011 White Paper, much less through OECD-DAC, many efforts have been made to estimate these. One approach has been to use media reports on China's engagement, for example, with Africa, taking 'state-sponsored investment' to mean 'foreign aid', leading to the conclusion that Chinese foreign aid is motivated by a desire to gain access to natural resources (*ibid.*). However, this approach has a number of deficiencies. Firstly, the definition of foreign aid as 'state-sponsored investment' is not in accordance with the OECD-DAC definition of foreign aid. Such an approach conflates ODA with other official financial flows. Secondly, the media reports used are unverified, incomplete, and do not differentiate between pledges and disbursements. Finally, the conclusions drawn from this approach obscure the true nature of Chinese aid and create the misconception that it is motivated by natural resources. Chinese development aid, as noted by Bräutigam (*ibid.*: 216), is allocated to every country in Africa that has diplomatic ties with China and is driven by diplomatic efforts rather than natural resources. Chinese investment, on the other hand, supported by other Chinese official financial flows, such as export credits and non-concessional loans, is primarily driven by a desire to gain access to natural resources. Another approach to gaining figures for Chinese foreign aid has been to use data for Chinese foreign economic cooperation as a proxy (Bräutigam 2011). This approach falls into the same conflationary trap, presenting a distorted picture of Chinese aid. Another issue is the China Exim Bank itself. While it is widely known for its role as the provider of concessional loans as part of Chinese foreign aid, this only represents a very small part of its portfolio, around 3 per cent of its assets in 2005 (*ibid.*: 205). Its other activities are, however, sometimes confused as part of its aid portfolio.

<sup>51</sup> For a lot of the terminology used, for example 'relatively good economic conditions' and 'improve people's livelihoods', no explanation is provided as to what criteria are used and how these were measured, evaluated, or granted. However, this first White Paper on Chinese foreign aid has at least clarified the issue of what foreign aid resources are used for what purposes.

The forms of Chinese foreign aid include complete plant (turnkey) projects, provision of goods and materials, provision of technical cooperation, human resources development cooperation, dispatching of Chinese medical teams, emergency humanitarian aid, overseas volunteer programmes, and debt relief (ibid.: 5). China's preferred aid modality in the 1960s was turnkey projects. Statistics presented in the recent government White Paper on foreign aid<sup>52</sup> state that the total number of completed turnkey projects from their inception to 2009 was 2,025 (ibid.: 6).

**Table 5.1**  
*China and DAC donor commitments (as a per cent of total), 2009*

<b>Sector</b>	<b>China</b>	<b>France</b>	<b>Germany</b>	<b>Japan</b>	<b>South Korea</b>	<b>Netherlands</b>	<b>UK</b>	<b>US</b>	<b>World Bank</b>	<b>Reg. Dev. Banks</b>	<b>Tot DAC</b>
Economic infrastructure	61	7.8	13.4	27.0	52.2	3.7	16.0	6.8	36.1	30.5	11.3
Industry	16.1	1.5	1.6	2.3	0.3	0.2	0.4	0.4	3.9	0.4	1.0
energy and resources development	8.9	1.7	8.4	6.9	8.4	4.4	1.0	2.2	15.3	18.1	3.6
Agriculture	4.3	5.3	3.7	4.9	3.5	3.3	1.7	5.0	5.9	5.0	4.7
Public facilities	3.2	1.6	14.7	1.2	1.7	10.7	14.7	18.6	8.0	16.9	12.5
Others	6.5	65.7	52.3	54.7	32.9	70.0	56.4	50.6	30.9	29.0	55.6

Note: For China, this is the percentage of total concessional loans, whereas for DAC donors this is the percentage of total commitments apart from debt relief and humanitarian aid.

Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats) (accessed in May 2010); IOSCPRC (2011a)

The sectoral distribution of turnkey projects funded by Chinese foreign aid shows a strong preference for industry and economic infrastructure (Table 5.1, Figure 5.2), while DAC donors have demonstrated a greater preference for social and administrative infrastructure (Table 5.1, Figure 5.3). There are, however, large differences between DAC members' bilateral aid preferences (see figures in Appendix 2). Korea and the World Bank provide more than half of their aid to economic infrastructure projects, and Japan provides more than a third to these. Greece provides more than 60 per cent of its bilateral aid to social infrastructure, while the US devotes more than 50 per cent of its aid to this area, and the UK more than 40 per cent. France provides the highest percentage of aid for actions relating to debt. However, it should be noted that the statistics available for Chinese aid are incomplete. Thus far, only the sectoral distribution statistics for concessional loans have been made public. The sectoral distribution might change with the inclusion of grants (provided for small-scale and medium-scale social welfare projects such as hospital and low-cost housing

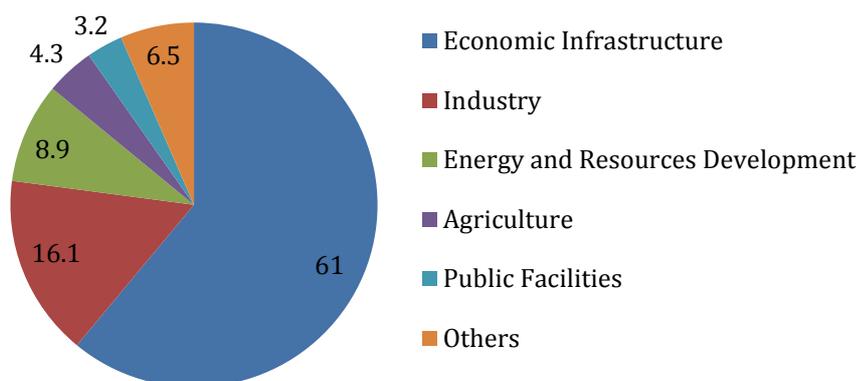
<sup>52</sup> There is a lack clarity regarding Chinese complete plant projects statistics provided in its White Paper. In the section discussing foreign aid financial resources, the government states that concessional loans are provided for, among other things, complete plant projects. Yet, in the section on the modalities of aid, the government states that complete plant projects are funded by grants or interest-free loans. The government then continues to provide statistics on complete plant projects. It is thus not clear whether the statistics for complete plant projects contained within this section are only those funded by grants and interest-free loans (from state coffers), or also include those funded by concessional loans (provided by the China Exim Bank). Knowing how complete plant projects are funded would help us to gauge the financial impact these have on recipient governments.

construction) and interest-free loans (provided for the construction of public facilities and projects intended to improve people’s livelihoods).

Table 5.1 provides an overview of Chinese aid commitments compared to those of DAC donors. Note that the categorizations used by China and DAC donors are slightly different. Additionally, the figures for China are only for its concessional loans, while those for DAC donors are their total commitments not including debt relief and humanitarian aid. The table shows that China has the highest commitment to both industry and economic infrastructure. However, in terms of commitments to economic infrastructure, South Korea has similarly high levels of commitments.

Another aspect that remains unclear is how China’s foreign aid projects are initiated. As far as concessional loans are concerned it is known that potential recipients must apply to the China Exim Bank for loans (Davies et al. 2008). However, it is not clear if the same is true for other financial resources and modalities. It has been argued that aid from China is more demand-driven (ibid.), while that from traditional donors tends to be more supply-driven (Wood et al. 2008). To determine whether this is the case, it is important to gain a better understanding of aid initiation in China’s foreign assistance programme. Knowing where initiation takes place, whether it is on the demand side or the supply side, would shed light on not only the degree to which recipients request and obtain what they need and if what they ask for is what they get, but also the extent that the decision of what is provided is influenced by China’s own developmental experience, China’s own conceptions of development, or other factors. This is something that requires further research or clarification by the Chinese government.

**Figure 5.2**  
Sectoral distribution of concessional loans from China, by end 2009

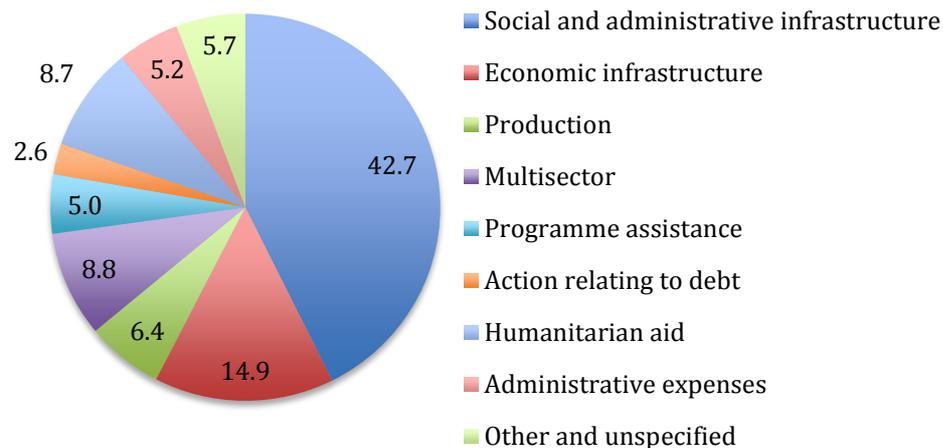


Source: IOSCPRC (2011a)

A number of assumptions can be made that allow further extrapolation of our analysis. According to the Chinese government, concessional loans have been provided to fund turnkey projects. Concessional loan applications undergo an evaluation process, which implies that there is room for Chinese notions of development and China’s own developmental experience to influence decision-making processes. As there are statistics regarding the sectoral distribution of concessional loans, a number of inferences can be made about the influence of China’s own developmental experience,

its concepts of development, its experience as a donor, and its experience as an aid recipient, on the decision-making process. These inferences are presented below.

**Figure 5.3**  
Total DAC aid commitments by purpose, 2009



Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats) (accessed in May 2010)

### *Economic infrastructure & industry*

The dominance of economic infrastructure and industry in the sectoral distribution of concessional loans reflects aspects of China's own developmental experience (Dollar 2008, Ping 1999). The focus on economically productive projects is intended to stimulate economic development. Of the 635 industrial turnkey projects, approximately half (320) were light industry projects (IOSCPRC 2011a), indicating an understanding of the local conditions, as heavy industry requires a smaller but more highly skilled labour force, while a larger low-skilled or unskilled labour force is suitable for light industry. It further indicates lower levels of available funds in recipient countries, as heavy industry is more capital-intensive, and light industry is comparatively less expensive.

Approximately half of the concessional loans for economic infrastructure were for transport, while power supply, and broadcasting and telecommunications each received one fourth (IOSCPRC 2011). The expansion of the national infrastructure network was a major component of China's own development strategy (Bräutigam 2009, Dollar 2008).<sup>53</sup> China's focus of foreign aid on economic infrastructure, light industry, and resource extraction also points to a lesson learned from its own developmental success, namely the strategy of following comparative advantage (Lin 2009).

In terms of development in Africa, much of the continent is resource- and labour-rich, while also being capital-poor. As such, its comparative advantages lie in resource extraction and labour-intensive production (ibid.). Such a developmental track will eventually lead to an increase in capital and a higher-skilled labour force more suited for capital-intensive production and later to service provision. Following a comparative-advantage-defying strategy, for example, attempting to prematurely develop heavy industry such as oil refineries, automobile production, and chemical processing, would

<sup>53</sup> The Chinese government's belief in the necessity of infrastructure for socio-economic development is enshrined in its saying, "To end poverty, build a road" (Bräutigam 2009: 308).

presumably quickly become a burden on the recipient government (*ibid.*). Such initiatives would require constant subsidies, drawing resources away from more viable projects. This would be disastrous to a nation's economy and government resources. However, a comparative-advantage-following approach, making the most of what is available and local conditions, building each development on its predecessor and not engaging in further development initiatives prematurely, is viewed as most likely to contribute to developmental success (*ibid.*).

The central government of China has applied a similar approach in development of its western regions with its Great Western Development Scheme (*Xibu Da Kaifa*). Here, government similarly invested in development of economic infrastructure, improvement of transportation links, and in power supply and communications networks (Becquelin 2004, Zhao 2001). A World Bank evaluation noted that the infrastructure investments had clearly improved the quality of life of residents in rural areas of China (World Bank 2008: 61). Government encouraged companies from the more developed eastern coastal provinces to invest in the west. Many did so, though most invested in resource extraction, which created only limited jobs for the local population, while resources were transported to eastern China, generating limited revenues locally (Becquelin 2004). Companies from the eastern coastal provinces hardly invested in industry in these western regions, as these regions are sparsely populated, and industrial investment opportunities were more favourable in their own provinces, as the labour force there was more skilled, comparatively inexpensive, and transportation costs for raw materials and to export markets made processing locations in eastern provinces more attractive.<sup>54</sup>

Consideration of China's own experiences of fostering socio-economic development through construction of economic infrastructure and industry has likely been an important factor in its evaluation of concessional loan applications from recipient governments. Equally, China's larger proportion of concessional loans awarded for economic infrastructure and industry could reflect a larger number of applications for loans of this sort, as recipient governments might believe these to be necessary for their socio-economic development. While concessional loans – or ODA in OECD terms (Bräutigam 2011) – are utilized for economic infrastructure and industrial development, it is not clear, and certainly deserves further investigation, whether there is complementarity, or some other relationship, between these and other forms of finance provided by the government in support of Chinese investment overseas.

### *Agriculture*

China has been engaged in agricultural assistance in Africa since the late 1950s (Ping 1999). However, its engagement rapidly increased in recent decades (Bräutigam & Tang 2009, Bräutigam 2009). As Figure 5.4 shows, 6 per cent of all turnkey projects completed with the assistance of Chinese funds have been in the agricultural sector. Bräutigam and Tang (2009) note that Chinese engagement in African agriculture adheres to three overlapping forms: diplomacy-based aid, overseas investment by Chinese companies, and public-private partnerships. The use of public-private partnerships is a relatively new form of engagement which emerged out of previous

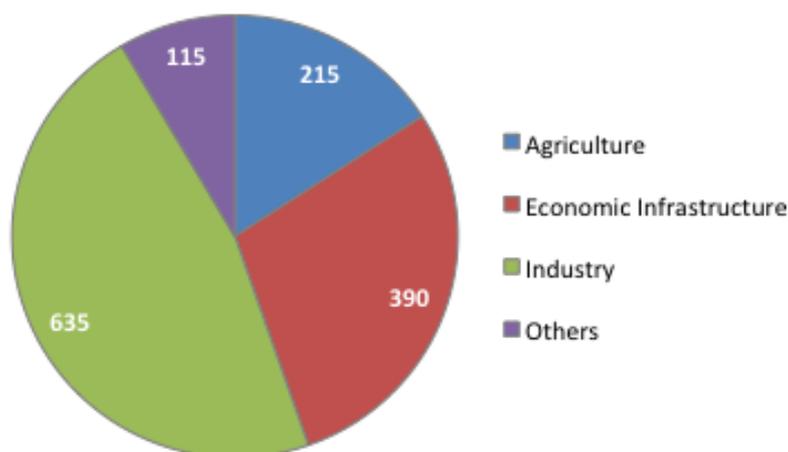
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<sup>54</sup> In fact, it was recently reported that China's economic development had reached the point where rising labour costs in China were set to push approximately 80 million jobs in China's light manufacturing sector abroad in the next three to five years, with Africa being a likely candidate to receive these employment opportunities (Lewis 2011). Local manufacturing plants have already been established in Africa by Chinese companies including Foton Motors, Golden Lion battery makers, and technology firms such as Huawei, ZTE, and Aucma (Juma 2011).

lessons of failures of aid projects provided for diplomatic/political purposes,<sup>55</sup> and such partnerships are seen as a means to maintain sustainability and improve productivity (ibid., Ping 1999). Part of China's agricultural engagement with the developing world since 1996 has been through the FAO SSC programme for food security, which promotes practical knowledge exchange (see also 0, Bräutigam & Tang 2009). China is a world leader in hybrid rice farming and has extensive practical knowledge on farming in hostile environments, giving it a comparative advantage in support to recipient countries in these areas (Bräutigam & Tang 2009, Ping 1999).

China's carefully managed transition from an agrarian society to an industrial one is a key component of its development success (Dollar 2009). This transition has likely informed its engagement with Africa. Similarly, lessons from China's agricultural engagement with Africa have led to adaptations in this engagement, such as the emergence of public-private partnerships aimed at fostering greater sustainability and productivity. However, not all of China's agricultural engagement with Africa is motivated by development assistance objectives. Chinese agribusinesses have also started investing in Africa on their own account, for their own profit and low levels of exports to feed China's domestic economy (Bräutigam & Tang 2009). As a result they are coming into direct competition with their African counterparts, creating tensions as African businesses worry about their own market shares (ibid.). There have even been claims of land grabbing by African governments for the benefit of Chinese firms (ibid.).

**Figure 5.4**  
Sectoral distribution of Chinese turnkey aid projects, up to 2009



Source: IOSCPRC (2011a)

### Special Economic Zones

The Chinese government is seeking to establish four or five 'Special Economic Zones' (SEZs) in Africa, with Egypt, Mauritius, Nigeria, Tanzania, and Zambia providing possible locations (AFRODAD 2008, Davies et al. 2008, Jiang 2008, Rotberg 2008). The intention

<sup>55</sup> The World Bank reports that approximately 50 percent of Chinese rural development projects in Africa between 1965 and 1986 were considered failures (Bräutigam and Tang 2009).

of these zones is to create areas which enjoy liberalized investment environments focused on strategic industries in order to attract FDI and foreign companies (Davies 2008). SEZs are being promoted as African growth nodes, potentially providing infrastructural corridors to link Africa's fragmented markets and ports, furthering regional economic integration (ibid.). Unlike most other Chinese foreign aid, SEZs have been initiated by China rather than the recipients (ibid.). Whether investment in SEZs should be considered as being within the aid framework is unclear, as the details of the financial mechanisms to be used for developing these are unclear. Whether these are supported by ODA or by other official financial flows needs to be investigated. Nevertheless, as part of China's overall engagement with Africa, with its characteristic package of aid, trade, and investment, it is clearly an important form of engagement that reflects China's own developmental experience. As such, it seems to be a unique instance of the Chinese government promoting its own developmental experience.

In the early 1980s the central government of China established four SEZs in four eastern Chinese cities (Davies 2008, Perkins 1997). The zones had better infrastructure than many cities in China, as concerted efforts had been made to provide infrastructure and transport networks (Perkins 1997). The SEZs also enjoyed a more liberal tax regime, as well as more liberal regulations regarding foreign investment, trade, and foreign exchange. The intention here was to attract higher levels of export-oriented foreign investment (ibid.). Companies located in SEZs were only required to pay a 15 per cent company tax, compared to 55 per cent (at the time) nationally (ibid.). They were also permitted to retain 100 per cent of their foreign exchange earnings and enjoyed import duty tax breaks (ibid.). Following the success of their trade stimulation, the government expanded the number of SEZs, while also implementing mechanisms to further promote Chinese companies' entry into international markets (ibid.). Perkins (ibid.) notes that export orientation was found to improve productivity in China. The government's promotion of SEZs in Africa can thus be linked both to China's own developmental experience and its own economic self-interest, but also to its intention of fostering socio-economic development in the developing world.

### 5.2.3 Complementarity

From the above description of China's aid modalities and preferences it is evident that China's foreign aid strategy is determined in part by its own developmental experience of focusing on economic infrastructure and agriculture, its own experience as a donor, and its own developmental needs. This combination has produced an aid programme honed to economic development and the private sector. This stands in contrast to the approach of traditional donors, which in the post-structural adjustment period have focused more on social services, the public sector, and governance, as shown by Table 5.1 and Figure 5.3 and Appendix 2. Though it is important to note that there are great differences between traditional donors' approaches, it could be argued that Chinese foreign aid differs less from, say, Japanese, US, and World Bank aid than Swedish aid differs from any of the latter (De Haan & Warmerdam 2013). As such, a combination of the approaches could be considered a more holistic approach to development assistance (ibid.).

## 5.3 Lessons from China's own development

### 5.3.1 Wider applicability of China's developmental lessons

This chapter suggests that China's developmental experience may provide lessons for other developing countries. However, these lessons may not be specific programmes

and policies. Rather, they may reside in the policy development mechanisms used by China's government. In fact, a number of China's development experiences cannot be applied in other countries, given that they are of particular relevance to China alone. It is important to note that lessons from China's domestic developmental experience are not explicitly implemented and transfused as such. Employment of domestic development experiences is imbued in the modalities and focus areas of China's development cooperation, especially its focus on economic infrastructure, trade facilitation, and technical capacity programmes. The application of domestic developmental experiences in foreign aid programmes is thus implicit and indirect (Chapter 7 provides a further analysis).

This section first describes policy development mechanisms. It then argues that some successful elements of China's development are particular to China. Finally, it examines programmes that have the potential to be applied to other countries, as their content and the conditions for their success are not peculiar to China.

### 5.3.2 Policy development

#### *Point-to-surface mechanism*

Perhaps the most important lesson from China for other developing countries, is the Chinese government's, and more specifically the Communist Party's, approach to national policy formulation and implementation. The Communist Party, even before it established New China in 1949, adopted an approach known as 'proceeding from point to surface' (*you dian dao mian*) (Heilmann 2008: 2). Heilmann (*ibid.*) states that this decentralized experimentation enjoys an "entrenched legitimacy" in Chinese Communist Party and Chinese governmental policymaking. The central government or Party determines a policy goal and then encourages experimentation at the local level in order to find the best means of achieving the goal. Honest, transparent, and factual interaction between the local and the central levels is essential in this process, although, of course, this does not always occur. Progress and evaluation reports are sent back up to the central level, which gathers all of these evaluations and conducts its own overall evaluation. Once an appropriate mechanism has been identified, it is then scaled up to the national level, thus proceeding 'from point to surface' (*ibid.*). The Party always maintains the power to continue, to promote, or to cancel local experiments. While this has proved a very fruitful means of policy development, it has, in politically unstable or radical times (such as during the Cultural Revolution), also constrained broader experimentation as local governments sought to fall within tightly constrained accepted norms (*ibid.*). The focus of the experiments is not, however, on developing *policy objectives*, as these are centrally determined. Rather, local experiments aim to develop *instruments* for the achievement of the centrally determined policy objectives. In fact, the importance of experimentation to find new methods to solve new problems in order to "develop Marxism in practice", was written into the Chinese constitution in 1992 (*ibid.*: 26-7). It was through the point-to-surface approach that most, if not all, of the policy mechanisms mentioned in this chapter, including the abovementioned SEZs and mechanisms detailed below, such as the NCMS (New Cooperative Medical Scheme) and the HRS (Household Responsibility Scheme), came to be national policies.

#### *Dual-track approach*

Another broad policy mechanism that has been essential to China's developmental success is the use of transition institutions (Qian 2003). These are flexible institutions that in China were not created purely to 'increase the size of the pie' but also to take into account how the pie is distributed and respond to political concerns of those in power (*ibid.*). The abovementioned SEZs are an example of transition institutions, as they

bridged a gap, allowing Chinese firms to enter the international market and foreign firms to enter the Chinese market.

The success of dual-track approaches in China is similar to findings from the Africa Power and Politics Programme on 'working with the grain' and development patrimonialism; that is, that the institutions best suited to working for the development of African nations are those that have a local problem-solving character and are founded on local socio-economic and political conditions, where the new and the old system might temporarily run in parallel (Booth 2011a, 2011b).

### 5.3.3 Reform-driven development successes

A number of the successes of China's development can be directly attributed to reforms of its economy. Additionally, these reforms, some of which are described above, often followed a pattern of experimentation first. Many of the earlier reforms also took a gradualist and dual-track approach. This section describes three of these reform and transition institutions: the HRS (Household Responsibility System), the TVEs (Township and Village Enterprises), and the SEZs. While the SEZs are not peculiar to China, the Chinese government has used them as policy experimentation and dual-track institutions. As such, they differ from the trade zones also found in other countries, and even differ from the SEZs that the Chinese government is promoting in Africa.

#### *Household Responsibility System*

Possibly one of the most important reforms leading to widespread poverty reduction in China was establishment of the HRS (Fan et al. 2004). This is an example of a transition institution that became national policy after emerging as a best practice from local level experimentation. Fan et al. (2004) attribute 60 per cent of the agricultural growth in China between 1978 and 1984 to the HRS, as well as 51 per cent of the reduction in poverty. The HRS was a dual-track transition institution approach to market liberalization. Prior to the post-1978 reforms and the HRS, all production was contained within the commune system. Farmers produced in order to meet the targets of the commune, and the commune owned all produce. Under the dual-track approach of the HRS, specific quantities were produced and sold to the state at fixed prices – this was the plan track – and any surplus was traded with economic agents at free market prices – the market track (Qian 2003). This met with some resistance on ideological grounds, but experimentation had proved its effectiveness (Zhang, X. B. et al. 2010). The dual-track approach ensured that there were politically no losers, as everyone could benefit (Qian 2003). Economically, efficiency and productivity were improved, as producers had an added incentive to produce more (ibid.). Existing institutions from the planned economy were used for the plan track. Gradually the plan track was absorbed into the market track, though rural residents were still each allocated a plot of land that they were obliged to cultivate (Oi 1999, Qian 2003). A dual-track approach was also taken to industrial market liberalization (Qian 2003).

The success of HRS relied heavily on China's particular socio-economic and political circumstances, most importantly, the planned economy and the equal distribution of usufruct rights to agricultural land. Its transferability to other countries is thus limited. However, depending on government capacity and political willingness, a government could institute a programme along the lines of HRS, namely, one in which government procures fixed amounts of agricultural products at fixed prices and surplus products are sold at free market prices. This could be limited either to specific income groups or to certain geographical areas most afflicted by poverty. It would be essential for any government attempting such a reform to follow the point-to-surface approach for piloting in order to identify an instrument most suited to local conditions. In designing

local decentralized experimentation, government officials might consider the dual-track approach, which seeks to use transition mechanisms to allow initial political compromises which are later absorbed into the chosen primary policy. While the successes of HRS in poverty reduction have been noted, it is also important to point out that HRS was only a transition instrument. Between 1978 and 1982 it had a major impact in reducing poverty. But from 1982 to 2000, its impact was small or even negative (Fan et al. 2004). In this latter period, Fan et al. (ibid.) attributes 63 per cent of agricultural growth and 94 per cent of poverty reduction to public investment in rural areas. This was likely due to a wearing off of the effect of the agricultural reforms and the increased financial capacity of the government to invest.

#### *Township and Village Enterprises*

Another reform relatively particular to China, which emerged from point-to-surface experimentation and adhered to the dual-track approach of using existing institutions for transition purposes, was the local government firm, called Township and Village Enterprises (TVEs). TVEs developed out of China's commune system. At that time there was no rule of law to protect property rights, and a socialist anti-private enterprise ideology was prevalent. TVEs were protected by local governments and offered a useful instrument to advance the interests of the collective (ibid.). TVEs provided local governments a cheap and efficient means of gaining revenues and absorbing rural surplus labour without having to make large investments (Perotti et al. 1998, Qian 2003, Fu & Balasubramanyam 2003, Wang 2005b). In 2000, TVEs employed approximately 127 million workers, accounting for 18 per cent of China's total labour force and 25 per cent of the rural labour force, having declined from even higher levels in the 1980s and 1990s (Fu & Balasubramanyam 2003: 28).

Further, they benefited the national government as they provided revenue (Qian 2003). The central government required that after-tax profits be used for local public goods and be reinvested in the enterprises (ibid.). In 1985, nationally, 46 per cent of after-tax profits were reinvested and 49 per cent was used for local expenditures (ibid.: 312). By 1992, 40 per cent was being used for local expenditures, and 59 per cent was being reinvested (ibid.). TVEs are considered one of the drivers of China's economic success. In fact, in 1993, TVEs accounted for 42 per cent of China's total national industrial output, while private firms accounted for only 15 per cent of output (Chang & Wang 1994, Qian 2003: 312). It was only in the late 1990s, when China had already made great economic progress, that TVEs began to privatize, partly due to the difficulties of competing with private enterprises and state-supported and owned enterprises (Qian 2003). Now private enterprises dominate many realms of the Chinese economy, though key sectors, such as oil and gas and the financial sector, are still dominated by SOEs (Dollar 2008).

Transferability of the TVE instrument for socio-economic development depends on a number of factors. As noted before, experimentation is essential to determine the most appropriate instrument for local conditions. However, a number of elements of the TVE approach can be identified that could potentially be adjusted to local conditions to achieve the goal of using transition institutions, which constitute a political compromise, in order to achieve local socio-economic development. Decentralized revenue generation in financially poor areas can leave local governments unable to provide public goods, while local communities might lack the appropriate property rights guarantees or capabilities to establish productive enterprises. If local governments establish TVEs, and protect the interests of their members, these enterprises could become a revenue-generating mechanism. Reinvesting a proportion of after-tax profits could enable the TVEs to continue to grow, stimulating the local economy. Further, by using a proportion of the after-tax profits to provide local public goods, the community benefits. There is thus an inherent incentive for the local government to work for the

benefit of the community, and to reduce or eliminate corruption, as members of the TVEs will be more motivated and productive if they see the local government working in their best interests. Further, TVE members themselves benefit from their enterprise's productivity and revenues. TVEs can be gradually privatized as local governments gain sufficient revenue streams and government involvement starts to be a hindrance, preventing other firms from becoming active locally. The prospect of having more firms in the area generating revenue is then an incentive for local government to reduce its involvement. In localities with multiple stakeholder groups, the essence of the TVE approach could be retained, but the balance of the compromises would need to be adjusted in order to align the interests of all, particularly elites. A successor of the TVEs in China, used as a stop-gap for agricultural 'industrialization' and food supply chain integration, is the Dragon Head Enterprises supported by government subsidies, funding, and tax breaks (World Bank 2008).

### *Special Economic Zones*

As detailed in section 5.2.2, the Chinese government established four experimental SEZs in four eastern Chinese cities in the early 1980s. These zones had, and were further provided, better infrastructure than many other cities in China (Perkins 1997). They also enjoyed more liberal regulations on foreign investment, foreign exchange, taxes, and trade (ibid.). The goal was to attract export-oriented foreign investment, initially from Chinese expatriates in Hong Kong, Macao, and Taiwan, as was evident in the locations of the first SEZs, in Shenzhen, Zhuhai, Shantou, and Xiamen (Davies 2008). Employment in SEZs increased rapidly, and they were expanded to other coastal cities (ibid., Perkins 1997). The export orientation of SEZs improved companies' productivity, rather than productivity increasing export orientation (Perkins 1997). In the early 1990s, SEZs started to draw the attention of the market and attract FDI (Davies 2008).

As China became more integrated into the international system, and firms with foreign investors became more integrated into China's economy, the central government reduced a number of the special privileges enjoyed by foreign-invested firms in order to improve the competitiveness of Chinese firms (Perkins 1997). For example, foreign-invested firms initially paid only the 15 per cent company tax, mentioned earlier, while their Chinese counterparts paid 55 per cent (ibid.). By 1997 both Chinese-owned firms and firms with foreign investors paid 39 per cent company taxes (ibid.). This has since decreased to 25 per cent. The SEZs were also a successful conduit for market liberalization (Davies 2008).

The transferability of SEZs is, as always, dependent on local conditions. A number of factors have been key to the success of Chinese SEZs. Firstly, the original four SEZs were close to potential foreign investment sources: Shenzhen was close to Hong Kong, Zhuhai to Macao, Xiamen to Taiwan, and Shantou was located between Shenzhen and Xiamen along China's east coast. These locations were also close to potential markets for SEZ products. Secondly, all of these cities had very good transportation connections, both road links and ports. Only Zhuhai, until recently, lacked a rail link. Thirdly, SEZs adopted more liberal economic and administrative policies than other areas. This attracted foreign investment. However, the fourth lesson is that these policies were just a transition approach, as policy adjustments were eventually made to put local Chinese firms on a more equal footing with their international counterparts. Foreign investment in SEZs and the creation of employment opportunities also increased skills and technology transfer, which are vital for a nation to step up its economic development. A further lesson, though not limited to SEZs, is that decentralizing decision-making and revenue-generation to provinces and cities encourages competition among local governments to create positive private investment climates, to attract both foreign and domestic investment (Dollar 2008).

Recently, the Chinese government has supported establishment of SEZs in Africa as part of its foreign aid programme. However, these cannot really be considered an example of China utilizing its own positive domestic developmental experiences to foster economic development in other countries. Zha (2014), in a very candid description, characterizes Chinese SEZs in Africa as “purely self-interested”. Though this may be exaggerated, there are indications that it is true, and that the unique lessons of SEZs in China are not being applied. Firstly, part of the success of SEZs in China was that they were under the control of local governments, which reported directly to Beijing. Chinese SEZs in Africa, however, are run by Chinese companies, not by local African governments, and they, when necessary, report to Beijing, not to the central government of their host country. Secondly, SEZs in China were used as policy experimentation zones. Successful experiments were gradually scaled up to the national level. Chinese SEZs in Africa are not used as policy experimentation zones to inform the national policies of the host countries. Thirdly, SEZs in China were a venue for skills and technology transfer from foreign companies to Chinese companies, often with strict requirements on joint ventures between the two. There are no indications that this is happening in Chinese SEZs in Africa. In fact, there are indications that most of the companies in these SEZs are purely Chinese. The degree to which skills and technology transfer is taking place still awaits empirical research, though the low levels of local ownership and participation suggest that there is, as yet, little transfer to local companies.

#### 5.3.4 Social welfare programmes

As the poverty reduction successes of the reforms started to wear off in the 1990s (Fan et al. 2004, Zhang et al. 2007) and social discontent began to rise, particularly as social safety nets were gradually removed through the reforms, government started to target social welfare problems in the early 2000s. Two programmes, in particular, have sought to provide a social safety net to China’s poor. These programmes could potentially be considered examples or lessons from China for other developing countries.

##### *New Cooperative Medical Scheme*

Following the reforms initiated in 1978, the Chinese government moved away from the commune system towards the HRS, reducing the financial mechanisms that supported the Cooperative Medical Scheme (CMS) (Chen et al. 2012, You & Kobayashi 2009). While the CMS had covered more than 90 per cent of all rural residents before and during the 1970s, by 2003 this figure had dropped to 9.5 per cent of rural residents (Zhang, L. X. et al. 2010). As the central government reduced its subsidies to health care and hospitals, hospitals began to develop other revenue-generating mechanisms to cover their costs (ISSA 2009). One of these was sales of non-basic prescription medicines and charges for high-tech diagnostics, on which the central government allowed a certain percentage mark up, while basic medicines were still priced below cost (ibid.). This resulted in an over-prescribing of medicines and treatments, as “medicines maintained hospitals” (Wen 2009: 5, see also Dumoulin-Smith 2010, Wagstaff et al. 2007). As a consequence, medical care became increasingly beyond the reach of an ever-growing segment of the population. By 2003, 75 per cent of those in rural areas who needed medical attention did not seek it, up from 64 per cent in 1998 (Hougaard et al. 2008). In the 1990s, the central government and a number of international organizations attempted to revive the CMS. However, a lack of political and financial support, and inadequate management, doomed these attempts to failure (Meng 2009, Sun et al. 2009, You & Kobayashi 2009).

In the early 2000s, the government again attempted to revive the health care system to reduce health care payment induced poverty. It launched 300 New Cooperative Medical Scheme (NCMS) pilots in more than 2,000 rural counties (Zhang, L. X. et al. 2010, Zhang, L. Y. 2010). NCMS was part of a broader social security policy development strategy that

also included medical insurance for a variety of urban residents and assistance programmes aimed at the extremely poor. Although regions differed, due to local government autonomy and the policy of experimentation, the core of each programme was the same. Each model of NCMS had to cover catastrophic costs (i.e., costs incurred due to expensive-to-treat health conditions) with annual payments composed of three parts: an individual contribution (initially 10 RMB), a local government contribution, and a central government contribution (the latter two being equal, at 20 RMB each, though the central government provided extra subsidies for poorer regions) (Sun et al. 2010, Wagstaff et al. 2007). In 2009, the total premium subsidies were 80 RMB per person per year, and said to rise to 120 RMB by 2010 (NDRC 2009). The central government only pays subsidies to those regions that meet the minimum enrolment rate of 80 per cent, which has led to stepped-up efforts by local governments to increase participation (You & Kobayashi 2009).

The NCMS is still at an early stage of development, though it had expanded from 300 counties in the early 2000s, to 600 counties in 2005, and further to 1,433 counties in 2006. In 2008 more than 95 per cent of all rural counties had implemented the scheme, covering more than 96 per cent of rural residents in 2010 (Wagstaff et al. 2010, Zhang, L. X. et al. 2010, Zhang, L. Y. et al. 2010). The NCMS is still plagued by a number of issues, such as low real reimbursement rates, inadequate management, moral hazard, and lack of financial resources (Chen et al. 2012). However, its impact on poverty reduction and access to health care has been generally positive (ibid.). The NCMS again highlights the central government's point-to-surface approach to policymaking. While the policy objectives of poverty reduction and elimination of poverty induced by rising health care related payments were clearly set, the most appropriate mechanisms were still gradually evolving. Although NCMS co-financed medical insurance is seen as the best mechanism, its details (contribution levels, covered expenses, deductibles, and ceilings) are still under development.

As with other policy instruments, the transferability of NCMS depends on careful piloting and evaluation by policymakers. However, a number of elements can clearly be the focus of such an evaluation. The co-payment mechanism, for example, deserves further attention. This mechanism reduces the burden on all parties involved: the individual, the local government, and the central government. By pooling the funds locally, areas with a large healthy population can cover the costs of the sick. The requirement that the locality achieve a specified participation rate (80 per cent in China) provides an incentive for everyone involved. By achieving higher participation rates, the pooled funds are increased, again reducing the burden on all parties. Further, local government has the incentive of gaining central government support. In line with the dual-track philosophy, this policy has not yet addressed supply-side issues, particularly the over-prescribing of non-basic medicines and high-tech diagnostics. This policy design is likely being used as a transition mechanism, aligning the interests of all stakeholders, especially the elite (in this instance the hospital administrators).<sup>56</sup>

#### *Minimum Living Standard Guarantees*

Another social policy instrument recently developed in China to tackle poverty is the Minimum Living Standard Guarantee (MLSG)<sup>57</sup> also known as *dibao* (低保). Initially established in Shanghai in 1993 to provide a basic safety net for the urban poor, the programme aims to guarantee recipients a subsistence income in accordance with a locally determined minimum living standard meeting basic consumption needs (Gao

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<sup>56</sup> Nevertheless, supply-side cost control mechanisms are being piloted (Zhang, L. Y. et al. 2010), and the central government is set to increase subsidies to hospitals (Meng 2009).

<sup>57</sup> Also known as Minimum Living Standard Assistance (MLSA) (Gao 2011).

2011). Eligibility is determined by the relation between a household's per capita income and the minimum living standard. If a family's per capita household income is below the minimum living standard, then it is eligible to receive assistance (ibid.). As with most other policy instruments in China, this instrument was expanded to other cities after its success in Shanghai. In 1999, the central government decreed that *dibao* should be implemented in all cities (ibid.).

Experimentation with *dibao* in rural areas began in Shanxi in 1994 (ibid.). Shanxi has one of the largest peasant populations and highest rural poverty rates in China (ibid.). By 1996 other provinces had initiated *dibao* pilots, and by 2007 rural *dibao* was formally implemented nationally (ibid.). Participation in rural *dibao* increased rapidly from 3 million in 2001 to nearly 40 million in 2008 (Zhang & Sun 2008). The average monthly subsidies also increased during this period, from 12.8 RMB per person in 2001 to 43 RMB in 2008 (ibid., World Bank 2008). Subsidies are evaluated and adjusted every year according to developments in local minimum living standards (Gao 2011). While issues remain with regard to coverage, delivery, and targeting (Chen et al. 2006), findings from 2006 suggest that *dibao* has had a modest impact in poverty reduction and more pronounced impacts in reducing the depth and severity of poverty (ibid.). More recent findings demonstrate a significant impact of *dibao* on poverty alleviation, but less impact in terms of narrowing inequality (Li and Yang 2009).

Transferability, here again, is dependent on local conditions, political capacity, and governmental willingness. A point-to-surface approach to policy formulation could help identify what policy instruments are potentially most appropriate for *dibao* programme objectives. However, a number of policy lessons can be drawn from China's experience. Firstly, as with NCMS, allowing local autonomy in determining the specifics of the programme ensures that varieties of the programme are implemented in a way best suited to local conditions. In China this has meant, for example, higher monthly subsidy rates in areas with higher levels of basic consumption, and lower rates where minimum living standards are lower. Secondly, central and provincial government support has been necessary to increase coverage in areas where local governments lack the budgetary capacity to roll out the programme (World Bank 2008). Relying solely on local government finances might have obstructed the programme in some places, especially in poorer provinces. Thirdly, *dibao* again demonstrates the success of the point-to-surface approach in identifying what policy instruments are best suited to local conditions. *Dibao* is not a replacement for regular income, especially as most beneficiaries are of working age – 60 per cent in urban areas and 52 per cent in rural areas (Gao 2011). To improve the employability of beneficiaries, local governments have started to implement job training programmes and explore employment options for working-age beneficiaries (ibid.). As local governments finance the programme, except in those areas that lack the necessary resources, there is an incentive for them to improve the employability of working-age beneficiaries in order to reduce the burden of programme expenditures. Working-age beneficiaries also have an incentive to seek employment, as the assistance levels are comparatively low, even compared to low-wage employment.

## 5.4 Conclusion

Chinese foreign aid modalities, like those of traditional donors, have been based on China's own domestic developmental experiences, the lessons it has learned as a donor, and its domestic interests. China has focused its aid on economic infrastructure,

industry, and private sector development, while traditional donors<sup>58</sup> have focused more on social sector projects and the public sector. As such, a combination of the two approaches could be considered more holistic. However, this does not mean that such a combination is the answer to developing country woes. National and local conditions vary. Countries must identify their own developmental paths in accordance with their own conditions.

Not all lessons from China's domestic development can be directly implemented in its foreign aid projects. However, as some see China as an example for other developing countries, it is relevant to analyse possible lessons from China's developmental success. The lessons provided by China for other developing countries are not necessarily related to specific programmes or practices. Rather, the main lessons from China are found in its policy development processes and institutions. These can be summarized as follows:

- The point-to-surface approach to policy development enables identification of the policy instruments most suited to national and local conditions.
- Local governments are afforded autonomy within boundaries set by the central government and provided provincial and central government support.
- The dual-track approach makes use of existing institutions as transition institutions, while adapting incentive structures as the transition institutions become obsolete.
- A strong civil service is necessary (Zhang, X. B. et al. 2010),<sup>59</sup> alongside responsible ownership by a government truly concerned with socio-economic development.

All of these factors have proven conducive to the socio-economic development of China, and other nations as well. These lessons are not only for developing countries, but also for actors involved in promoting national development.

Of course, this is not to say that China is not itself afflicted by problems. In fact, a number of its difficulties also provide lessons for other countries. One of these relates to local government autonomy. In China, local governments are fiscally autonomous, and they also have a degree of legislative autonomy. However, they may suffer because of this fiscal autonomy. This has caused local governments to, for example, sell off land to housing development companies, often with forced relocations of local populations being the result. Additionally, as some local authorities are so far removed from the central government, it is difficult for the centre to exercise direct control of them, sometimes with disastrous effects. Moreover, local authorities sometimes resist central policy adjustments, refraining from implementing them at the local level or amending their implementation in such a way as to undermine the original centrally stipulated intent. Local autonomy is an important tool for developing locally relevant policies and regulations and adjusting central policies to suit local conditions. However, for this tool

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<sup>58</sup> With the possible exception of Japan whose aid architecture is arguably similar to the Chinese model as the latter has to a certain degree based it's model on the former.

<sup>59</sup> Chinese civil servants undergo very competitive exams before they are accepted into the civil service. Only the best are allowed to enter. Recently, policies have been implemented requiring civil servants to take periodic exams, in order to maintain their high standards.

to work, local governments need to receive sufficient central support and be under sufficient central government control.

The point-to-surface mechanism has had its problems, linked in part to issues of autonomy, especially political and ideological autonomy. While the point-to-surface mechanism allows broad experimentation in order to achieve a policy goal, in practice the differences between the various experiments have been minimal. This has particularly been the case during times of ideological constriction, such as during the Cultural Revolution. Similarly, since local officials used to be evaluated based on their ability to generate GDP growth, these officials all resorted to techniques that had seemed successful elsewhere, trying to emulate them in their own regions without due consideration of local idiosyncrasies. If the point-to-surface mechanism is to be effectively implemented, experimentation has to be allowed to flourish throughout the breadth of the ideological spectrum.

Two difficulties affect the dual-track approach. Firstly, if not carefully treated, the dual-track approach can lead to rent-seeking, as occurred in China during the 1980s during the implementation of HRS. Appropriate checks and balances need to be put in place to avoid this. The second difficulty is linked to the first. This concerns the timespan that a transition institution exists. The central government of China has allowed a number of transition institutions to gradually fade into history, such as TVEs. However, as vested interests have built up, partly through rent seeking, a number of transition institutions have failed to be completely reformed. SOEs are a key example of this. SOEs have undergone multiple series of reforms. However, they are backed by strong lobbies and vested interests – since all leading officials in SOEs are also party officials. As such, they have, as yet, managed to resist further reform and privatization. There needs to be more effective planning and transparency in the use of transition institutions to prevent them from defeating the objective of their creation; that is, to smooth the transition to another form of institution.

Similarly, while a strong civil service is important for effective governance, there is a difference between a civil service that is well qualified and one that is accountable, responsible, and effective. China's situation has shown that even where accountability, responsibility, and effectiveness of civil servants are considered to be low, positive change can be brought about if incentive structures are developed in such a way that civil servants endeavour to foster socio-economic development. However, as was the case in 1989, and has been emerging again more recently, social discontent with unaccountable, irresponsible, and ineffective officials increases if society feels that its needs are not being met or are even being undermined. Recently, social media in China has been allowed growing space to voice such discontent and to hold *local* officials to account. This space does not extend to the central leadership. Nevertheless, it remains an important tool and is being used both by society and the Chinese government (at all levels) to foster the accountability, responsibility, and effectiveness of local government. While China has a strong civil service in terms of qualifications, and this too is a lesson for other countries, it is itself still developing an accountable, responsible, and effective civil service. Chapter 7 will analyse further the role of civil service in China's development cooperation.

Finally, while one of the lessons from China is the need for responsible ownership by a development-oriented leadership, the extent to which this is actually the case in China can be challenged. As discussed above, the level of responsibility of Chinese officials is oftentimes still lacking, although it is developing. The major issue here is the question of whether the Chinese leadership is truly concerned with socio-economic development in China. It seems likely that while the leadership is concerned with national socio-economic development, this concern is partly, if not wholly, driven by the determination to remain in power. The motives of the leadership might not be of great concern while

socio-economic development is still occurring at a rate that prevents social discontent from reaching a critical mass. But as has become increasingly apparent, also to the central leadership, there will come a point when socio-economic development alone will no longer satisfy a population that is feeling simultaneously economically empowered and politically disempowered.

Many other issues remain, and new issues emerge as China's socio-economic development progresses. Growing inequalities, human rights abuses, the spread of HIV/AIDS, and environmental damage (HRW 2011) are among the many problems that still afflict China. These are areas where China could learn from other countries. Furthermore, China could learn from countries that have successfully engaged their domestic civil society organizations, as the Chinese government withdraws itself from society, even though this creates a greater role for civil society organizations (Ma 2002, Saich 2000). Although civil society organizations in China are increasingly receiving legal status, and are being granted more leeway for independent decision-making (Teets 2009), much work still needs to be done to build up both the capacities of these organizations and levels of trust between the state and civil society. Investigations also need to be undertaken regarding ways to promote the engagement of Chinese actors with civil society organizations in other countries, especially other developing countries. International NGOs engaged in China could play an important role here.

### 6.1 Introduction

Relations between China and African countries are conditioned on a number of principles, referred to as the Eight Principles of Economic Cooperation.<sup>61</sup> One of these principles is mutual benefit. Two main benefits that China is said to accrue from its relations with Africa are the extraction of natural resources (Chan-Fishel 2007, Rupp 2008, Tjønneland et al. 2006) and sales of Chinese products (Rupp 2008, Tjønneland et al. 2006, Van Dijk 2009). Four main benefits to Africa have been described as access to cheap consumer products (AfDB et al. 2011, Tjønneland et al. 2006); higher sales prices for commodities, which has increased national incomes in a number of African countries (AfDB et al. 2011, Davies 2007) and helped these countries invest more in the public sector (AfDB et al. 2011); improved infrastructure (AfDB et al. 2011, De Haan 2010); and the opening up of negotiating space when dealing with donors (AfDB et al. 2011, Warmerdam 2013b). China has also become an increasingly significant aid donor.

The multi-institutional Asian Drivers Programme (ADP) has conducted groundbreaking research on the impact of China and India on sub-Saharan Africa. It has developed a conceptual framework with which to analyse the impact of these two countries through a number of channels – including aid, trade, FDI, and migration – arguing that impacts can be either competitive or complementary, and direct or indirect (Ajakaiye & Kaplinsky 2007). As part of the ADP, the African Economic Research Consortium's (AERC) scoping studies have used this conceptual framework to provide useful insights into country-specific impacts of China and India. However, the Uganda Scoping Study (Guloba et al. 2010) focuses specifically on the impact of Chinese aid to Uganda, and does not address other channels.

The current chapter is concerned with the direct impacts of the investment channel. The chapter also seeks insight into the volume and nature of Chinese aid to Uganda, and whether there has been a blurring of lines between foreign aid, trade, and investment. In his framework design paper, Kaplinsky (2007) states that Chinese investment in developing countries generally fits the resource-seeking and market-seeking types of FDI. As described below, we find that this typology also fits Chinese companies in Uganda, although the market-seeking type was dominant. Direct impacts of investment include capital injections into an economy through acquisition of properties, sourcing of local materials, and utilization of local suppliers, as well as creation of employment opportunities, skills and knowledge transfer, and the payment of taxes. Such direct impacts can be broken down into complementary and competitive impacts. When materials are sourced from China rather than locally, even though similar materials may be available locally, this would be a competitive impact. Similarly, if Chinese labour is used where equivalent local labour was available there would be a competitive impact. An additional type of competitive impact is competition between Chinese and Ugandan companies in the local market. This is more pronounced in certain sectors, such as wholesale or imports, where the Chinese companies do not bring technology or

<sup>60</sup> This chapter is based on Warmerdam, Ward and Meine Pieter van Dijk (2012), "China-Uganda and the Question of Mutual Benefits," *South African Journal of International Affairs*, 20(2): 271-295.

<sup>61</sup> Later versions have included fewer principles, proclaimed by different leaders, but in essence they do not vary greatly from these, and in fact Chinese leaders still often refer to these (see 0).

expertise unavailable in Uganda. On the other hand, where Chinese companies engage in manufacturing, construction, and more prominently, in ICT, these companies might provide technology and expertise not widely available in Uganda, and therefore have a complementary impact. Where labour and materials are locally sourced, this too would be a complementary direct impact.

This chapter expands on ADP research carried out by Gu (2009) focusing on the investment channel and Chinese private enterprises in Ghana, Nigeria, and Madagascar. The focus in this chapter is on Chinese enterprises in general. Further, an earlier study of China-Uganda relations by Lee (2007) noted a number of negative impacts of Chinese enterprises in Uganda, most notably, competition between Chinese traders and locals, the ubiquity of Chinese enterprises in all sectors, a lack of local capacity building, and a lack of employment opportunities due to the import of Chinese labour. By disaggregating the various Chinese enterprises engaged in Uganda, the current analysis adds nuance to Lee's study.

The contributions of Chinese companies investing in Uganda are analysed based on six elements: investment, turnover, employment, workforce size and composition, management composition, and employee training policies. Investment injects capital into the economy, while turnover is taxable and can be reinvested. Larger workforces mean more workers occupy more jobs, especially if there is a higher composition of locals in the workforce. Greater numbers of locals in management contributes to increase the local middle class and taxable incomes, allows for local input in the companies' economic activities, and builds transferable management skills. Training policies similarly promote the transfer of skills that can also be utilized by local companies.

The current study is based on fieldwork conducted in July 2012 in Kampala, Uganda. The Secretary of the Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in the Republic of Uganda (ECCO) provided an updated list of 31 Chinese companies for 2012. Eighteen companies not on the ECCO list were also examined. Seven companies on the list provided by ECCO were not involved in the study because the contact information was incorrect. Data was gathered on a total of 42 companies, in which semi-structured interviews were held focusing on economic variables, history of involvement, and problems that Chinese companies faced in Uganda. Complementary follow-up research examining the Ugandan point of view is recommended to gain a more comprehensive picture.

## **6.2 FDI and trade in Uganda**

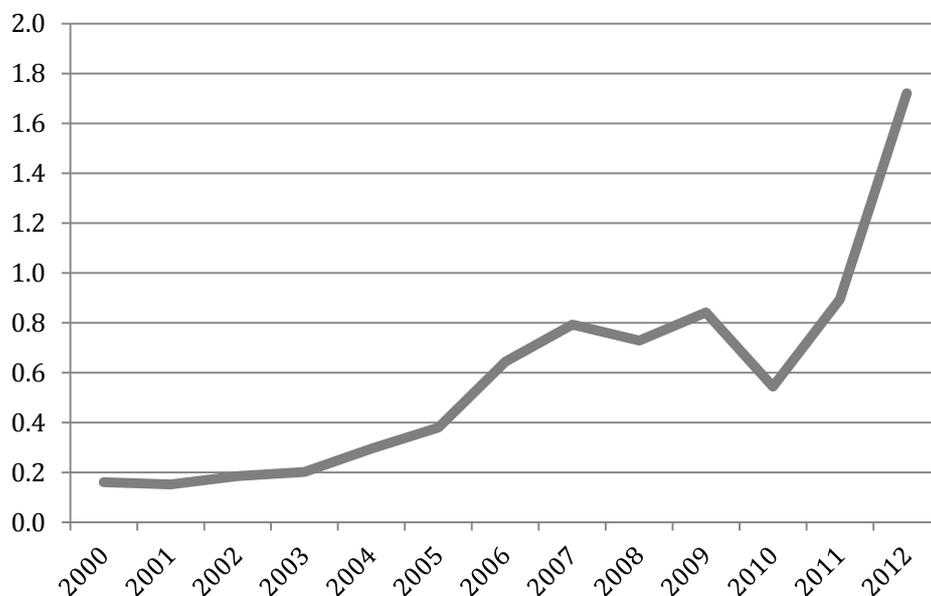
A sketch of the general context of FDI and trade in Uganda establishes the background for our analysis of China's engagement in Uganda in terms of its FDI, trade, and aid. There has been a rapid increase in FDI in and trade with Uganda over the past 10 years, particularly since 2009. Within this period, China's role has also grown rapidly.

### **6.2.1 FDI in Uganda**

FDI rose sharply in Uganda during the past decade (Figure 6.1). From just under 200 million USD in 2000, it reached just under 1.8 billion USD in 2012. The Ugandan government reported that by 2010 there were 4,303 licensed projects with a total nominal investment of 12.4 billion USD (UBS 2012). More than half of the private investment in Uganda, in terms of value, was provided by foreign sources (53.5 per cent), 4.3 per cent took the form of joint ventures, while the remaining 42.2 per cent was provided by domestic investors (UBS 2012). Asia was the biggest source of foreign

investment, accounting for slightly less than half of all such investment (ibid.). Of this, India was the largest investor with a total of 154 projects worth 332.5 million USD. China was the second largest Asian investor in Uganda, with 44 projects and an investment value of 115.3 million USD. Singapore had two projects valued at 331.8 million USD. Within the European Union (EU), Britain and the Netherlands were the largest investors in Uganda. Britain had 51 projects worth 198.2 million USD, and the Netherlands had 17 projects worth 50.6 million USD. Kenya was the largest investor from the East African Community, with 55 projects worth 102 million USD. Another important investor was Sudan with an investment portfolio of 124.7 million USD. From this it can be seen that China was among Uganda's most important investors, though it was not *the* most important source of investment either in number of projects or in size of investments (ibid.).

**Figure 6.1**  
*FDI in Uganda (billions of US dollars), 2000-2012*

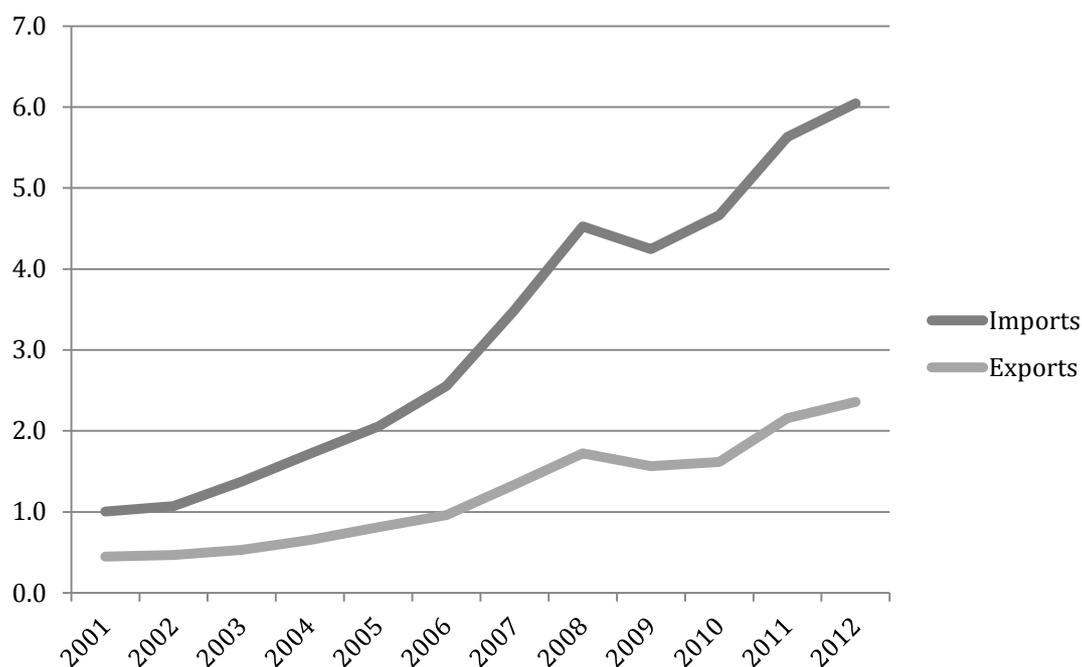


Source: ITC Trade Map, online: <<http://www.trademap.org/>> (Accessed April 2013)

### 6.2.2 Uganda's trade relations

Trade in Uganda has quickly expanded, but the country currently has a trade deficit (Figure 6.2). Some 21 per cent of Uganda's imports in 2012 came from India, 11 per cent from China, and 10 per cent from Kenya (ITC 2013). Some 18 per cent of Uganda's exports in 2012 were destined for Sudan, 11 per cent went to Kenya, 10 per cent went to DRC, and 10 per cent went to Rwanda (ibid.). In terms of trade, Kenya is a more significant partner to Uganda than China, however, with the increasing Chinese presence and the growth of Chinese FDI to Uganda, China's role as a trading partner is likely to become more significant.

**Figure 6.2**  
Uganda trade data (in millions of US dollars), 2001-2012



Source: ITC Trade Map, online: <<http://www.trademap.org/>> (Accessed April 2013)

### 6.2.3 China's FDI and trade with Uganda

In terms of FDI stock, China's relationship with Uganda does not appear particularly significant, at least not when compared to countries such as Nigeria, South Africa, and Zambia. Chinese FDI stock in Nigeria in 2010 stood at 1.2 billion USD, in South Africa at 4.2 billion, and in Zambia at 0.9 billion. However, Chinese FDI stock in Uganda grew by 8,447 per cent between 2003 and 2010. A large portion of this can be attributed to the discovery of oil in Uganda in 2009. In fact, the growth rate from 2009 to 2010 was 94.13 per cent, and from 2008 to 2010 was 848.91 per cent.

**Table 6.1**  
Growth of China's outward foreign direct investment (FDI) stock  
in selected African countries (in millions of US dollars), 2003-2010

Country	2003	2004	2005	2006	2007	2008	2009	2010	Growth (2003-2010)
Angola	0.3	0.5	8.8	37.2	78.5	68.9	195.5	351.8	11,7157%
Botswana	2.1	3.8	18.1	25.5	43.4	65.3	119.3	178.5	8,401%
DRC	0.2	15.7	25.1	37.6	104.4	134.1	397.4	630.9	262,783%
Nigeria	32.0	75.6	94.1	630.3	35.6	795.9	1,026.0	1,210.9	3,686%
South Africa	44.8	58.9	112.3	702.4	13.5	3,048.6	2,306.9	4,153.0	9,176%
Tanzania	7.5	53.8	62.0	110.9	104.4	190.2	281.8	307.5	4,022%
Uganda	1.3	0.2	5.0	18.7	1.6	12.0	58.6	113.7	8,447%
Zambia	143.7	147.8	160.3	429.4	131.6	651.3	844.0	943.7	557%
Total	386.7	561.4	806.3	2,591.6	7,516.8	5,816.3	6,661.3	9,707.3	2,410%

Source: China MOFCOM (2011), *2010 Statistical Yearbook*, Beijing: Ministry of Commerce China

Imports to China from Uganda increased by 618 per cent between 2002 and 2011. However, in terms of absolute value, imports remained relatively insignificant at 40 million USD (Table 6.2). On average, between 2002 and 2011, imports from Uganda accounted for 0.002 per cent of China's total imports.

**Table 6.2**  
*Imports by China from Uganda, 2002-2011*

<b>Year</b>	<b>Uganda (million USD)</b>	<b>World (billion USD)</b>
2002	6	295
2003	4	413
2004	12	561
2005	20	656
2006	18	792
2007	20	956
2008	17	1,133
2009	20	1,006
2010	27	1,396
2011	40	1,743
Average	25	1,247

Source: ITC Trade Map, online: <<http://www.trademap.org/>> (Accessed April 2013)

Adding to our picture of the relative insignificance of China's trade with Uganda is the fact that just 2 per cent of Uganda's total exports are destined for China (Table 6.3).

**Table 6.3**  
*Ugandan exports (millions of US dollars), average over 2007-2011*

<b>Country</b>	<b>All Exports</b>	<b>Mining Sector</b>	<b>Agriculture Sector</b>	<b>Fishery Sector</b>	<b>Forestry Sector</b>	<b>Energy Sector</b>
Uganda to world	1,076	108	876	145	13	2
Uganda to China	25	3	21	0.2	0.3	0
Uganda to China %	2.3%	3.2%	2.3%	0.1%	2.5%	0.0 %

Source: ITC Trade Map, online: <<http://www.trademap.org/>> (Accessed April 2013)

From the above FDI and trade data, it is evident that while China is playing a growing role in Uganda, Uganda is not yet a significant economic partner to China. Trade levels are quite low and bilateral trade is not of great importance, as indicated by shares of China's imports to Uganda and Uganda's exports to China. However, FDI flows and stock figures show China's increasing importance. The low total value of total can also be explained by the low value of the individual goods traded between the two nations.

The fact that Uganda is not an important economic partner to China makes it a useful case study. Analysis of Chinese actors in and China's economic engagement with Uganda is then uninfluenced by resource-seeking activities, as might be found, for example, in Nigeria, Sudan, Zambia, DRC, and Angola. Similarly, given the relatively low geopolitical significance of Uganda in comparison to Nigeria, Ethiopia, Kenya, and South Africa, China's economic engagement with Uganda can be analysed based more purely on economic contributions without an additional geopolitical element.

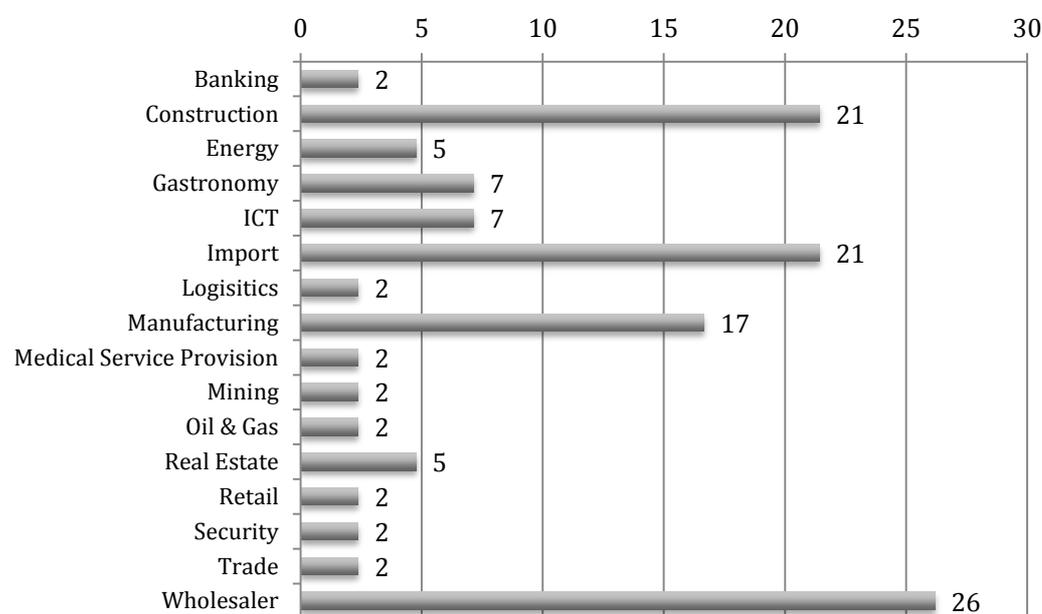
Important questions remain about the nature of China's economic engagement with Uganda, in particular its FDI. What sectors is it directed towards? What motivates it?

And what are its economic impacts on the Ugandan economy? These areas are examined in the following sections.

### 6.3 Chinese companies in Kampala

To complete the context of our analyses of China’s contributions to the Ugandan economy, the 42 enterprises involved in this study are characterized according to their ownership structure, their motivation for investing in Uganda, and the support they did or did not receive. A brief description of their investments, turnovers, and employment is also provided. Sixty-four per cent of the companies involved in our analysis were 100 per cent privately owned enterprises (POEs), 21 per cent were 100 per cent state-owned enterprises (SOEs), and 14 per cent were mixed ownership, also known as hybrids. The companies that were not on the ECCO list were all POEs.

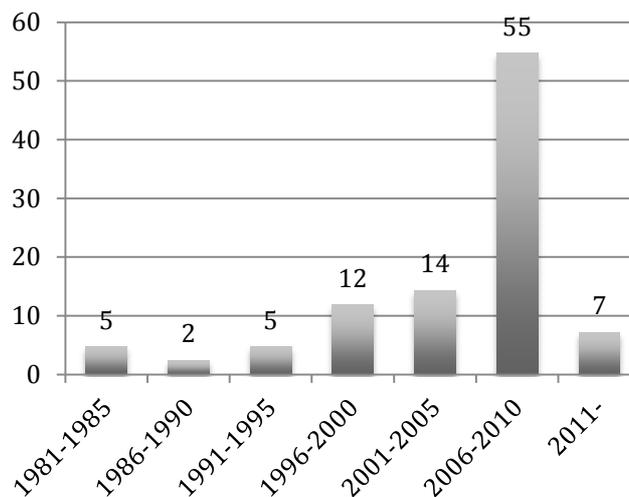
**Figure 6.3**  
Sector involvement of all companies in the sample (percentages)



Note: A number of companies were active in multiple sectors.  
Source: Authors’ compilation, based on information gathered in interviews

Chinese companies were most heavily involved in four sectors: wholesale, construction, imports for retail and wholesale, and manufacturing. The remaining sectors each accounted for less than 10 per cent (Figure 6.3). SOEs dominated the construction sector, as 78 per cent of the SOEs in our sample were engaged in construction, and 22 per cent were engaged in imports. POEs had a broader spread of sector involvement: 37 per cent were involved in wholesale, 22 per cent in manufacturing, and 19 per cent in imports. Hybrids similarly had a broad spread of sector involvement. Their highest levels of engagement were in imports, which accounted for 33 per cent of the hybrid enterprises; construction, ICT, manufacturing, oil and gas, retail, and wholesale accounted for 17 per cent each. Note that the statistics on Uganda’s exports to China from Table 6.3 do not correlate with the sector involvement depicted in Figure 6.3. This suggests that a number of key companies might not have been identified, or that Ugandan or other foreign enterprises were exporting products from Uganda to China.

**Figure 6.4**  
Year entered Uganda for all interviewed companies (percentages)



Source: Authors' compilation, based on information gathered in interviews

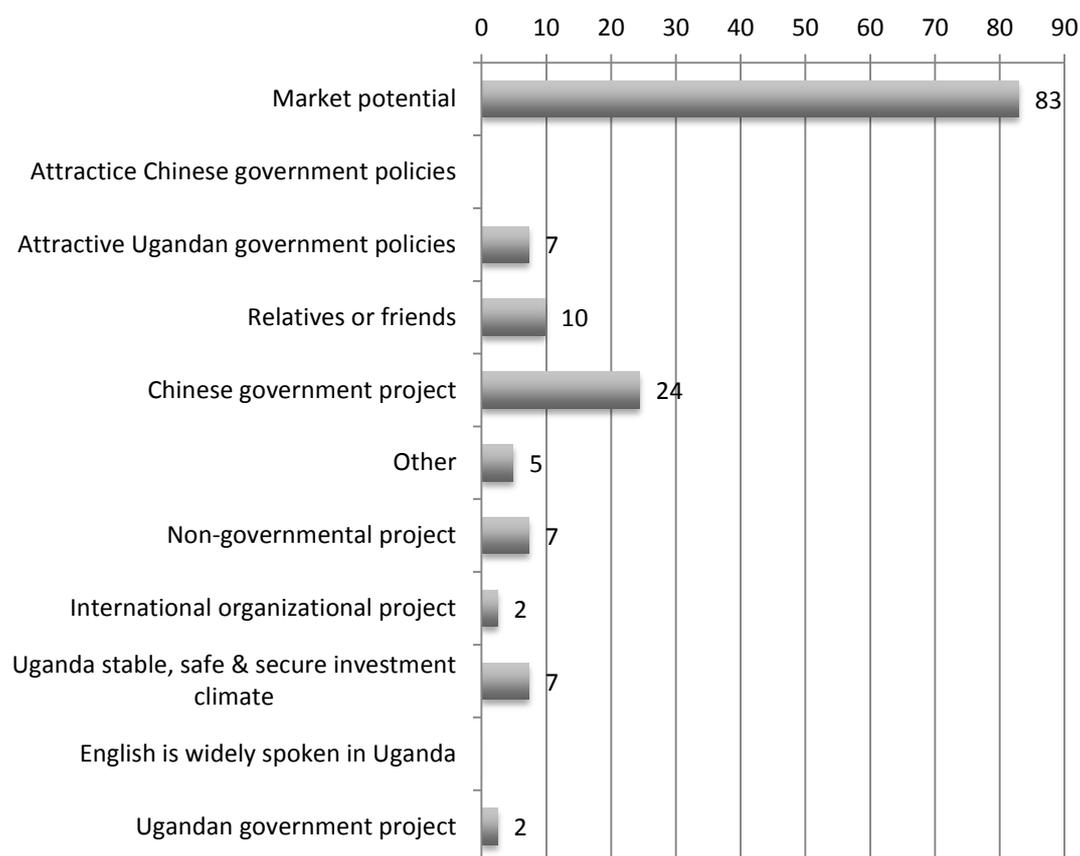
More than half of the interviewed companies came to Uganda between 2006 and 2010 (Figure 6.4). Note that the final period (2011-15) was not complete at the time of this writing, preventing us from drawing conclusions. Additionally, these statistics are only for the sampled companies; companies that entered Uganda earlier but which had departed prior to our survey could not be included in the survey. Nevertheless, these figures suggest that the number of Chinese companies entering Kampala increased after initiation in 2000 of the Chinese government's 'Go Out' policy.

Many companies gave more than one reason for coming to Uganda. Most companies noted the market potential of Uganda as their main motivation for coming (Figure 6.5). The second most popular response was participation in a Chinese government-funded project. This affirms descriptions in other studies of China's increased commercial interest in Africa (Burke et al. 2007, Large 2008, Oya 2006). Our findings from Kampala also confirm research findings from other countries that state-owned construction companies often enter Africa for involvement in a project, while companies in other sectors and with other ownership forms do not (Bräutigam & Tang 2009, Davies & Corkin 2006, Tjønneland et al. 2006, Zhu 2010). Gu (2009) also found access to the local market to be the most common motive for POEs' entry into Uganda.

Many Chinese companies in Kampala came because they expected to find markets, especially in Kampala (90 per cent) and/or in Uganda in general (74 per cent) (Figure 6.5). Only 36 per cent of the respondents indicated that they were also interested in the regional market.<sup>62</sup> None of the sampled companies indicated interest in operating in the global market. Larger multinationals, such as Huawei, ZTE, COMPLANT, and the Chongqing International Construction Corporation (CICC), also had branches in other countries in the region, including DRC, Tanzania, and Kenya. They were not interested in operating in those markets from their base in Uganda. Regional aspirations included opening subsidiaries or authorized dealerships in the region and attracting customers from regional markets, who often came to Kampala.

<sup>62</sup> Chinese enterprises considered the regional market to be made up of the countries bordering Uganda. Additionally, Sudan was often mentioned as a market that companies were interested in regionally, though Burundi was not.

**Figure 6.5**  
Enterprises' motivation for coming to Uganda (percentage)



Source: Authors' compilation, based on information gathered in interviews

**Table 6.4**  
Sizes of initial investments of all companies

Investment Size	Percentage
<\$10,000	6.5
\$10,000-<50,000	9.7
\$50,000-<100,000	3.2
\$100,000-<250,000	9.7
\$250,000-<500,000	9.7
\$500,000-<1m	19.4
\$1m-<3m	25.8
\$3m-<5m	3.2
\$5m-<10m	6.5
Over \$10m	6.5

Source: Authors' compilation, based on information gathered in interviews

Government support is often mentioned as a reason why Chinese companies choose to invest in Africa (see, e.g., Van Dijk 2009). However, 82.5 per cent of all sampled companies stated that they had *not* received Chinese or Ugandan government support.

Only 17.5 per cent stated that they had received government assistance. Of those that had received government assistance, all had received Chinese government assistance, and 43 per cent had also received Ugandan government assistance. Linking government support to ownership forms, we find that 44 per cent of SOEs and 17 per cent of hybrids had received government assistance, while only 8 per cent of POEs had. Gu (2009) similarly found that most POEs in her survey followed their own path to Africa.

Chinese companies had a broad range of investment sizes (see Table 6.4). The companies also had a large spectrum of turnovers (Table 6.5).

**Table 6.5**  
*Approximate size of current turnover for all sampled companies*

<b>Investment Size</b>	<b>Percentage</b>
\$10,000-<50,000	7.1
\$50,000-<100,000	0.0
\$100,000-<250,000	3.6
\$250,000-<500,000	7.1
\$500,000-<1m	7.1
\$1m-<3m	14.3
\$3m-<3m	10.7
\$5m-<10	0.0
Over \$10m	35.7
Loss/No return on investments	14.3

Source: Authors' compilation, based on information gathered in interviews

Chinese companies in Kampala also had a broad range of workforce sizes, indicating different levels of employment creation (Table 6.6).

**Table 6.6**  
*Workforce size for all sampled companies*

<b>Workforce Size</b>	<b>Percentage</b>
1-5	14.3
6-10	11.9
11-20	16.7
21-50	9.5
51-100	14.3
101-200	11.9
201-500	7.1
501-1000	4.8
1000+	9.5

Source: Authors' compilation, based on information gathered in interviews

Closer investigation of workforce shows that more than half of the Chinese companies had a workforce composed of 76-100 per cent Ugandans, and a further 29 per cent had a workforce composed of 51-75 per cent Ugandans. While there is large percentage of Ugandans in the general workforce of Chinese companies, the proportions are quite different at the management level. Only 3 per cent of the sampled companies had

between 76-100 per cent Ugandans at the management level, and a further 3 per cent had 51-75 per cent Ugandans in management. Some 21 per cent of all sampled companies had a management level composed of 26-50 per cent Ugandans, while almost three quarters of the sampled companies had 0-25 per cent Ugandans in management.

From the above characterization of Chinese companies in Kampala, we find that more than half of our sample was POEs, and SOEs accounted for one fifth of the companies. Chinese companies operated mostly in construction, imports, manufacturing, and wholesale. SOEs were most prominent in construction, and POEs were more involved in manufacturing and wholesale. Most of the companies were recent arrivals. Most were attracted by Kampala's and Uganda's market potential. Levels of investment and turnover were widely spread, although a large proportion of investments ranged between 500,000 USD and 3 million USD, and turnover often exceeded 10 million USD. Employment varied greatly in size and composition. While the majority of companies employed large proportions of Ugandans, there was a lack of Ugandans in management. This analysis suggests that although potential benefits are apparent, especially with regard to investment and turnover, a more detailed analysis is necessary to understand what kind of companies are most beneficial to Uganda's economy.

## **6.4 Potential benefits to the Ugandan economy**

### **6.4.1 Assessing the benefits**

Potential benefits to the Ugandan economy of the presence of Chinese companies can be partly gauged through a closer analysis of investments, turnovers, employment, workforce size and composition, management composition, and employee training policies. Investments inject money into the economy. Turnover is a direct effect of engagement, and part of it may be reinvested into the local economy and is taxable. A larger workforce means more local job opportunities, especially if it is composed of higher proportions of locals. Greater compositions of locals in management entail increased local input into economic activities, and a larger group with higher taxable incomes. Employee training policies promote skills transfer, which also may benefit local companies. The analysis below focuses on these elements, differentiating findings on the basis of the form of enterprise ownership, sector, and whether or not the companies were on the ECCO list. Data analysis suggested often significant differences between the companies on the ECCO list and those not on the list. Thus, while there may be no theoretical basis for analysis on this criterion, it nonetheless proved informative and could even have policy implications, as argued in the conclusion of this chapter.

### **6.4.2 The benefits of turnover**

The potential benefits of turnover depend on three factors: (i) payment of local taxes, (ii) use of local raw materials, and (iii) use of local labour. Regarding the first factor, the more local taxes a company pays the greater its benefit to the Ugandan economy. However, the company might enjoy tax concessions, such as import or export tax waivers, profit tax waivers and grace periods, and VAT waivers. Concerning the use of local raw materials and local labour, the greater the amount of turnover that the company uses to source local materials and labour, the greater the company's benefit to the host economy. Table 6.7 provides a schematic of the benefits of company turnover, classifying companies into categories of 'poor', 'limited', and 'high' benefit to the host economy and presenting examples of Chinese companies fitting into each category.

The Ugandan income tax rate for companies not engaged in mining is 30 per cent, while for mining it is between 25 and 45 per cent (URA 2011). Uganda, furthermore, has a

progressive income tax, with annual salaries less than approximately 600 USD (1,560,000 shillings) not taxed, and tax brackets of 10 per cent, 20 per cent, and 30 per cent above this minimum income, with additional fixed fees for the two upper brackets (ibid.). Income tax for contractors and subcontractors ranged between 30 per cent for residents and 15 per cent for non-residents (ibid.). The only relevant tax exemption found written into domestic tax laws was a 10-year export tax exemption for domestically produced finished consumer and capital goods. Nonetheless, tax exemptions were also granted to companies that applied for and were awarded a 'certificate of incentives'. Analysis of companies' turnover may therefore give a better indication of the benefits of Chinese business activities to the Ugandan economy, though these must be scrutinized in the context of the aforementioned factors underlying the real benefits accruing to a host economy.

**Table 6.7**  
*Schematic of turnover benefits*

<b>Criteria</b>	<b>Poor</b>	<b>Limited</b>	<b>High</b>
<b>Taxes</b>	Chinese National Offshore Oil Company (CNOOC): Arrived in 2012. Still had no return on investments. Employed 50 per cent Ugandans, therefore paid little tax.	Landy (flip-flop manufacturer): Imported raw materials for manufacturing in Uganda were tax-exempt. Paid VAT and worker income tax for large workforce.	Chongqing International Construction Corporation (CICC): Employed a large workforce force paying income tax and used locally sourced materials. Paid profit tax on its large turnover.
<b>Local Materials</b>	Hisense (TV manufacturer): Parts were imported from China and assembled in Uganda.	Huawei (telecom company): Used local resources for construction, but imported high-tech equipment from China.	Lifemate (furniture manufacturer and retailer): Used only locally sourced materials.
<b>Local Labour</b>	China Development Bank: No Ugandan employees.	ZTE (telecom company): Like other Chinese ICT companies in Uganda, employed lower skilled Ugandans in workforce.	HASH Security: Eight of the 1,208 employees were Chinese.

Source: Authors' compilation, based on information gathered in interviews.

Analysing the data on the approximate turnover sizes of Chinese companies in Uganda by ownership form shows some notable differences. Among POEs that provided information regarding their approximate current turnover, 32 per cent reported turnovers less than 500,000 USD, a further 31 per cent reported turnovers of 1 million to 5 million USD. Nineteen per cent of POEs reported that they were operating at a loss or were not seeing any return on investments. SOEs had a narrower range of turnovers, all exceeding 3 million USD, apart from 13 per cent, which reported that they were operating at a loss or not yet seeing any return on investments. Seventy-five per cent of SOEs reported turnovers of more than 10 million USD. Hybrids similarly reported a narrow range of turnovers. However, these were slightly lower than reported by SOEs, though higher than most POEs. Twenty-five per cent of the hybrids sampled reported turnovers between 500,000 USD and 1 million USD. A further 25 per cent reported approximate turnovers between 3 million and 5 million USD, and the final 50 per cent reported turnovers of more than 10 million USD.

Further categorization of POEs on the basis of whether they were on the ECCO list shows that all POEs on the list reported turnovers of more than 250,000 USD: 33 per cent reported turnovers between 250,000 and 5 million USD, 33 per cent reported turnovers between 3 million and 5 million USD, and 33 per cent reported turnovers of more than 10 million USD. Most POEs not on the ECCO list reported turnovers of less than 10 million USD or stated that they were running at a loss or not seeing any return on investments. Twenty-three per cent of POEs not on the list reported running at a loss or not seeing any return on investments, while no POEs on the list reported a loss. Thirty-one per cent of all sampled POEs not on the list reported approximate turnovers of 10,000 to 500,000 USD, and 31 per cent reported turnovers between 1 million and 3 million USD.

Regarding approximate turnover size by sector, all ICT companies reported turnovers of more than 10 million USD. Similarly, all hotels and restaurants reported turnovers between 250,000 and 500,000 USD. Half of the sampled companies in the oil, gas, and energy sector reported turnovers between 3 million and 5 million USD; the other half reported that they were running at a loss or had not yet seen any return on investments. A quarter of all sampled construction companies reported turnovers between 3 million and 5 million USD, and a further 63 per cent reported turnovers in excess of 10 million USD. Wholesalers, in general, reported lower turnovers, with all of the sampled companies reporting turnovers of less than 3 million USD. Seventeen per cent of wholesalers reported that they were operating at a loss or had not yet seen any return on investments. A further 34 per cent reported turnovers between 10,000 and 250,000 USD. Half of the wholesalers reported current turnovers of between 1 million and 3 million USD. Importers had slightly higher turnovers: 33 per cent reported turnovers between 500,000 and 1 million USD, and 33 per cent reported turnovers of more than 10 million USD. Manufacturers had the broadest spread of reported turnovers: 40 per cent of manufacturers reported turnovers between 250,000 and 1 million USD, and 40 per cent reported turnovers between 1 million and 5 million USD. The remaining 20 per cent of manufacturers stated that they were operating at a loss or had not yet seen any return on investments.

These figures indicate that three quarters of SOEs had turnovers in excess of 10 million USD. Half of the hybrids had turnovers of this amount. POEs on the ECCO list all reported turnovers greater than 250,000 USD, with 33 per cent exceeding 10 million USD. POEs not on the list generally reported lower turnovers. Companies involved in ICT, construction, and to a lesser extent, manufacturing reported the highest turnovers, while hotels and restaurants and wholesalers had lower turnovers. To the extent that these turnovers indicate company income, it can be argued that SOEs, many hybrids, and the POEs on the ECCO list were the most beneficial to the Ugandan economy. The construction, ICT, and manufacturing sectors were also most beneficial on this basis. Factoring in the use of locally sourced raw materials implies that construction companies and manufacturing companies deliver more benefits than those in other sectors, though it should be noted that most construction equipment was imported from China, as were steel pipes and wires, which a number of Chinese companies described as too expensive and too poor quality in Uganda. The section on employment below provides a further indication of the benefits of turnover on the basis of the hiring of local labour.

#### 6.4.3 The benefits of investments

AFRODAD (2008) reports that China's involvement in Africa seems to be of major benefit to the continent, particularly due to China's high levels of investment. It further states that China's investments provide benefits beyond elite circles (*ibid.*). It has also

been argued that Africa has welcomed China's investments, as low levels of FDI are considered a major factor in the continent's persistent low level of development (Alden 2005). However, further disaggregation is necessary to understand which types of companies provide the greatest benefits.

Examining size of investments by form of ownership of the investing company demonstrates some notable differences. POEs had a very broad range of investment sizes. Twenty-four per cent made initial investments of less than 100,000 USD, and 24 per cent made initial investments of between 100,000 and 500,000 USD. A further 24 per cent of POEs invested between 500,000 and 1 million USD. Nineteen per cent of POEs invested between 1 million and 5 million USD, and a final 10 per cent made initial investments of between 5 million and 10 million USD. None of the sampled POEs made initial investments greater than 10 million USD. SOEs had a narrower spread of investment sizes. Half of the sampled SOEs made initial investments of between 1 million and 3 million USD. Seventeen per cent made initial investments greater than 10 million USD. Hybrids had a somewhat lower and narrower investment range. All hybrids invested more than 500,000 USD. Twenty-five per cent made initial investments of between 500,000 and 1 million USD. Half of the sampled hybrids reported initial investments between 1 million and 3 million USD, and 25 per cent reported initial investments greater than 10 million USD.

Categorizing the sampled POEs on the basis of whether these companies were on the ECCO list, we find that 63 per cent of POEs not on the list made initial investments of less than 500,000 USD, and 21 per cent of them made initial investments of between 1 million and 3 million USD. Of all sampled POEs on the ECCO list, 86 per cent made initial investments of between 500,000 and 10 million USD. The initial investment of 43 per cent of POEs on the list was between 3 million and 10 million USD.

**Table 6.8**  
*Workforce size and initial investment of sampled companies*  
(percentages of respondents by investment range, investment amounts in US dollars)

<b>Workforce Size</b>	<b>&lt;10,000</b>	<b>10,000-&lt;50,000</b>	<b>50,000-&lt;100,000</b>	<b>100,000-&lt;250,000</b>	<b>250,000-&lt;500,000</b>	<b>500,000-&lt;1m</b>	<b>1m-&lt;3m</b>	<b>3m-&lt;5m</b>	<b>\$5m-&lt;10</b>	<b>Over 10m</b>
1-5	100	33	0	0	33	0	0	0	0	0
6-10	0	0	100	67	67	0	0	0	0	0
11-20	0	33	0	0	0	0	13	0	0	0
21-50	0	0	0	0	0	33	25	0	0	0
51-100	0	0	0	33	0	33	13	0	50	50
101-200	0	0	0	0	0	17	13	100	0	0
201-500	0	33	0	0	0	0	13	0	0	0
501-1000	0	0	0	0	0	0	0	0	0	50
1000+	0	0	0	0	0	17	25	0	50	0

Source: Authors' compilation, based on information gathered in interviews

Looking at the size of investments by sector, all companies engaged in construction; oil, gas, and energy; and ICT reported initial investments greater than 1 million USD. In the

construction sector, 80 per cent of the companies had invested between 1 million and 3 million USD, and a further 20 per cent had invested more than 10 million USD. Sixty-seven per cent of the sampled companies in the oil, gas, and energy sector made initial investments of between 1 million and 3 million USD, and the remaining 33 per cent had initially invested more than 10 million USD. All of the sampled ICT companies reported initial investments between 5 million and 10 million USD. Wholesalers reported a broader spread of investment sizes. However, most said they had initially invested less than 500,000 USD. Of all the sampled wholesalers, 66 per cent reported initial investments between 100,000 and 500,000 USD, and 17 per cent said they had initially invested between 10,000 and 50,000 USD. Another 17 per cent of wholesalers reported initial investments of between 1 million and 3 million USD. Companies engaged in import activities also reported a broad range of investment sizes. All of the sampled importers made initial investments greater than 100,000 USD, with 43 per cent reporting initial investments greater than 1 million USD. Among the sampled importers, 28 per cent reported initial investments of between 100,000 and 500,000 USD, while a further 29 per cent reported initial investments of between 500,000 and 1 million USD, and 29 per cent reported initial investments of between 1 million and 3 million USD. Manufacturing companies had relatively higher levels of initial investment. All manufacturers reported initial investments ranging from 500,000 to 10 million USD. Some 71 per cent of these companies reported initial investments between 1 million and 10 million USD. The hotel and restaurant sector again had a smaller spread of initial investments: 33 per cent of all sampled companies in this sector reported an initial investment of 10,000 to 50,000 USD, while the remaining 67 per cent of these companies reported an initial investment between 500,000 and 1 million USD.

Closer investigation of the relation between initial investment and workforce size suggests that the greater the initial investment, the larger the workforce. All companies with initial investments of less than 10,000 USD had between 1 and 5 employees, while those companies with investments greater than 3 million USD had workforces larger than 50 employees (Table 6.8).

From the data above we see that half of all POEs invested less than 1 million USD; this figure rises to 63 per cent if we look only at POEs not on the ECCO list. All SOEs invested more than 1 million USD, as did three quarters of the sampled hybrid companies. In this sense, SOEs, hybrids, and POEs on the ECCO list would appear to benefit the Ugandan economy most. Wholesalers reported lower initial investments than companies engaged in construction, manufacturing, ICT, and oil, gas, and energy. The vast majority of wholesalers (83 per cent) had invested less than 500,000 USD. While this spread can be understood as due in part to the nature of these sectors, it nevertheless also indicates that in terms of investment, wholesalers benefit the Ugandan economy less than companies in other sectors. Companies with larger initial investments generally had larger workforces, presumably benefiting the Ugandan economy more, particularly if they had greater proportions of Ugandans in the workforce.

#### 6.4.4 The benefits of employment

Concerns have been raised regarding whether the high levels of Chinese investment in Africa also provide similarly high levels of employment (Asche & Schüller 2008, Davies 2007, Tjønneland et al. 2006). Data in the section above has shown this fear to be unfounded. The Chinese government, however, has responded to such concerns by pledging to prioritize local capacity building and technical support, especially for aid projects (Davies 2007). A number of reports state that Chinese companies are actually creating employment for Africans (Bräutigam 2009, AfDB et al. 2011), although Kaplinksy et al. (2007) note that China's competition in the global export market is undermining

the competitiveness of some sectors, such as clothing, in Africa, especially in Lesotho, Madagascar, Kenya, and South Africa. This has led to high levels of worker layoffs, according to the reports. Lee (2007) argues that in Uganda China has the potential to reduce the high levels of unemployment, but that the Ugandan government needs to take a more proactive role to enable this to happen. Naidu (2007) and AFRODAD (2008) similarly call for African governments to take a more assertive role in promoting local employment by Chinese companies. In order to gain a clearer picture of the employment created by Chinese companies, further disaggregation is needed.

The investigation above of the sizes of workforces on the basis of company ownership indicated that, on the whole, SOEs had larger workforces than POEs and hybrids, with 66 per cent of SOEs employing more than 200 employees. Among POEs, 19 per cent had a workforce of 51-100 employees, 34 per cent had a small workforce of 1-10 employees, and 26 per cent had a workforce of 11-50 employees. Among SOEs, 22 per cent had 1-10 employees,<sup>63</sup> 33 per cent had 101-500 employees, 22 per cent had 501-1,000 employees, and a final 22 per cent had more than 1,000 employees. Hybrids, on the whole, had larger workforces than most POEs and smaller workforces than most SOEs: 66 per cent of the hybrids reported 11-50 employees and 34 per cent reported having 51-200 employees.

All POEs on the ECCO list had more than 50 employees, while 84 per cent of those not on the list had less than 50 employees. Twenty-six per cent of POEs not on the list had 1-5 employees, 21 per cent had 6-10 employees, and 26 per cent had 11-20 employees. POEs on the ECCO list, thus, had larger workforces: 25 per cent had 51-100 employees, 51 per cent had 101-500 employees, and a further 25 per cent had more than 1,000 employees.

Analysis of size of workforce by sector shows that most wholesalers and importers employed smaller workforces, while the companies in other sectors had larger workforces. Seventy per cent of wholesalers employed 1-10 employees, and a further 30 per cent had 11-20 employees. Importers had slightly larger workforces in general, though still smaller than other sectors. Thirty-three per cent of all sampled importers employed 6-20 workers, 33 per cent employed 21-50 workers, and 22 per cent employed 51-100 workers.<sup>64</sup> Half of all enterprises engaged in construction employed 101-500 workers, 25 per cent had 501-1,000 employees, and the final 25 per cent had more than 1,000 employees. The manufacturing sector generally had smaller workforces than construction, though still larger than importers and wholesalers: 57 per cent of manufacturers employed 21-100 workers, 29 per cent had 101-200 employees, and the final 14 per cent had workforces larger than 1,000 employees. The hotel and restaurant sector also had relatively large workforces, with 67 per cent of these companies employing 51-100 workers and 33 per cent having 201-500 workers. In the ICT sector, similarly, 67 per cent employed 51-100 workers, with a further 33 per cent employing 201-500 workers. In the oil, gas, and energy sector, 67 per cent of the sampled companies employed 51-200 workers, and 33 per cent employed 201-500 workers.

In terms of benefit to the Ugandan economy provided by employment in Chinese companies, these figures suggest that SOEs generally have the largest benefit, as they had the largest workforces, while POEs not on the ECCO list had the smallest benefit.

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<sup>63</sup> The China Development Bank had a small sales team of three Chinese employees. Tianjin Machinery Company, an import company, also had a relatively small workforce of ten employees.

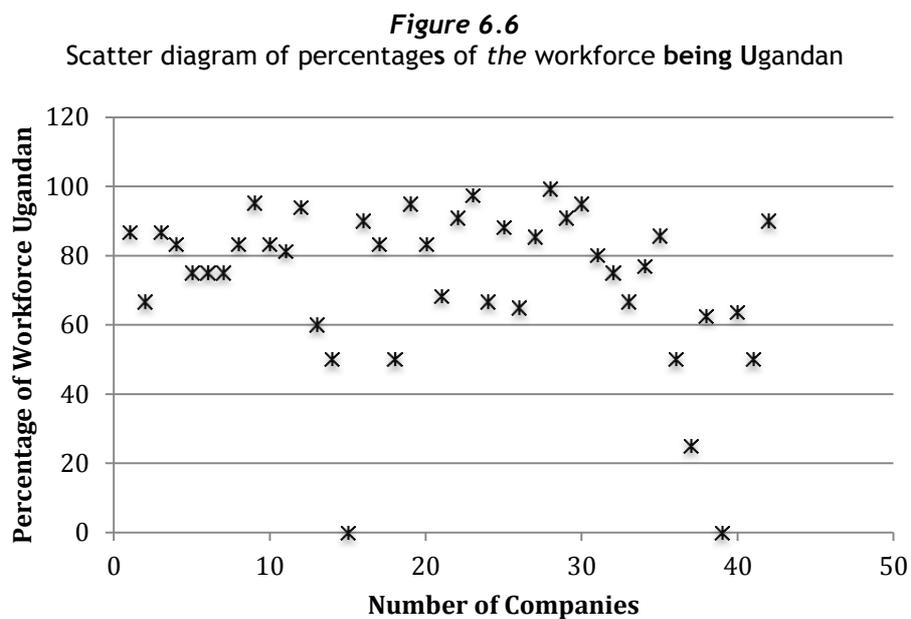
<sup>64</sup> This last figure might be affected by China AVIC, which is an import company that also engages in construction, and therefore employs a larger workforce.

Similarly, the construction and manufacturing sectors provided the greatest employment opportunities, while wholesale and import provided the least.

#### 6.4.5 The question of imported labour

The section above looked at the workforce sizes of Chinese companies. However, it has often been claimed that China imports a lot of its own labour, both for resource extraction and infrastructure projects (AfDB et al. 2011) as well as for other sectors (Rotberg 2008, Rupp 2008). If this is true then even though the companies might employ large workforces, such employment might provide limited benefit to the Ugandan economy. Below we investigate whether this is true for the companies in Kampala.

The scatter diagram in Figure 6.6 shows that the majority of Chinese companies employ more than 60 per cent Ugandans, with many having a workforce that is more than 80 per cent Ugandan. Analysing workforce composition by ownership, we find that 30 per cent of POEs employed 51-75 per cent Ugandans, while 56 per cent employed workforces that were 76-100 per cent Ugandan. SOEs generally employed greater percentages of Ugandans. Among the SOEs sampled, 67 per cent had a workforce composed of 76-100 per cent Ugandans, and 22 per cent had a workforce composed of 51-75 per cent Ugandans. Thirty-three per cent of hybrid companies had a workforce composed of 26-50 per cent Ugandans, with another 33 per cent employing 51-75 per cent Ugandans and a final 33 per cent having a workforce composed of 76-100 per cent Ugandans.



Source: Authors' compilation, based on information gathered in interviews

Categorizing POEs according to whether they were on the ECCO list shows some notable differences. All POEs on the list had a workforce composed of more than 51 per cent Ugandans, and 88 per cent of these POEs had a workforce composed of 76-100 per cent Ugandans. Of the POEs not on the list, 22 per cent had a workforce of 0-50 per cent Ugandans, 37 per cent had a workforce composed of 51-75 per cent Ugandans, and 42 per cent had a workforce composed of 76-100 per cent Ugandans.

Analysis of workforce composition by sector also shows some notable differences. In the construction sector all companies had a workforce composed of more than 51 per cent Ugandans, with 88 per cent employing 76-100 per cent Ugandans. Manufacturing had similar proportions: all manufacturers employed more than 51 per cent Ugandans, with 86 per cent employing 76-100 per cent Ugandans. All hotels and restaurants employed 76-100 per cent Ugandans. Importers had slightly lower proportions of Ugandans, though all still employed more than 51 per cent Ugandans; 33 per cent had a workforce composed of 76-100 per cent Ugandans, and 67 per cent had a workforce composed of 51-75 per cent Ugandans. In the oil, gas, and energy sector, 65 per cent of all sampled companies had a workforce composed of 76-100 per cent Ugandans, and 33 per cent had a workforce composed of 26-50 per cent Ugandans.<sup>65</sup> The ICT sector, similarly, had slightly lower proportions of Ugandans: 33 per cent of the sampled ICT companies employed 76-100 per cent Ugandans, 33 per cent employed 51-75 per cent Ugandans, and a final 33 per cent employed 26-50 per cent Ugandans.<sup>66</sup> Wholesalers, again, had relatively fewer Ugandans on their workforce: 20 per cent had a workforce composed of 76-100 per cent Ugandans, 40 per cent had a workforce composed of 51-75 per cent Ugandans, and 40 per cent had a workforce composed of 0-50 per cent Ugandans.

We conclude that the vast majority of Chinese companies employed more than 60 per cent Ugandans, with a large proportion employing more than 80 per cent locally. POEs on the ECCO list as well as SOEs had the greatest proportions of Ugandan employees, thus providing the greatest benefits to the Ugandan economy in terms of employment. POEs not on the list had the lowest proportions of Ugandans in employment. Companies engaged in construction, manufacturing, and hotels and restaurants had the greatest proportions of Ugandan employees, while wholesalers hired the smallest proportions of their workforce locally. Companies in ICT and in the oil, gas, and energy sector had relatively small Ugandan workforces due to the higher skill level required in these fields and the use of Chinese technologies. Companies in these sectors thus would seem to benefit the Ugandan economy relatively less.

#### 6.4.6 Is there local management?

The above sections examined the variations in workforce size and composition. While many of the sampled Chinese companies were found to employ more than 60-80 per cent Ugandans, the question can nonetheless be asked of how large the Ugandan presence is in management. This is due not only to the greater potential benefits to the host economy of having local workers in management, but also because more Ugandans in management might serve to mitigate worker-management relations problems, such as those prevalent in Zambia, and ease cultural differences that might otherwise lead to mutual dissatisfaction (Giese & Thiel 2012). This chapter's characterization of Chinese companies in Kampala already showed that relatively few Ugandans were in management positions in the sampled companies. Below, further disaggregation shows the differences by company ownership and sector.

Some 74 per cent of POEs had 0-25 per cent Ugandans in management. Only POEs had management levels composed of more than 51 per cent: 5 per cent of POEs reported a management composed of 51-75 per cent Ugandans, and a further 5 per cent reported a management composed of 76-100 per cent Ugandans. Of the sampled SOEs, 71 per cent had a management composed of 0-25 per cent Ugandans, and 29 per cent had a

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<sup>65</sup> This latter figure is affected by CNOOC, likely due to the fact that they are still in a very preliminary stage of operations in Uganda and require more Chinese experts than local labourers.

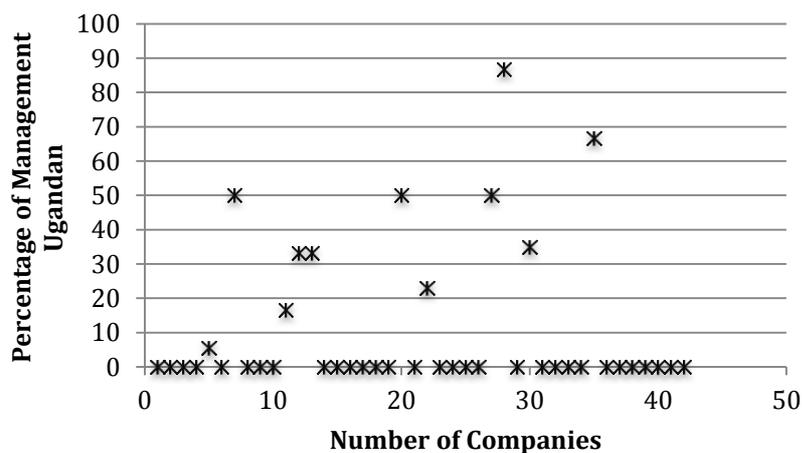
<sup>66</sup> These lower levels of Ugandans in the workforce can be attributed to a lack of appropriately trained local personnel.

management composed of 26-50 per cent Ugandans. Hybrids reported similar proportions, with 67 per cent of all sampled hybrids reporting a management composed of 0-25 per cent Ugandans, and a further 33 per cent reporting a management composed of 26-50 per cent Ugandans.

Separation of POEs according to whether they are on the ECCO list shows that 88 per cent of all sampled POEs not on the list had a management composed of 0-25 per cent Ugandans. POEs on the ECCO list employed slightly greater proportions of Ugandans at the management level. Of the ECCO-listed POEs, 67 per cent had a management composed of 26-50 per cent Ugandans, and a further 33 per cent had a management composed of 76-100 per cent Ugandans.

Examination of the proportions of Ugandan in management at the sampled companies by sector shows some notable differences, although the vast majority of the major sectors still show Ugandans in management as generally not exceeding 50 per cent. Notably, 89 per cent of the sampled wholesalers had a management composed of 0-25 per cent Ugandans. In the construction sector, 83 per cent of the companies employed 0-25 per cent Ugandans in management. Three quarters of the sampled importers and manufacturers had a management composed of 0-25 per cent Ugandans, and the remaining quarter in both sectors had a management composed of 26-50 per cent Ugandans. All sampled ICT companies and companies in the oil, gas, and energy sector had a management composed of 0-25 per cent Ugandans. In the hotel and restaurant sector there were slightly greater proportions of Ugandans at the management level, as all companies sampled in this sector had a management composed of 26-50 per cent Ugandans. The scatter diagram in Figure 6.7 shows that the vast majority of Chinese companies in Uganda employ no Ugandans at the management level.

**Figure 6.7**  
Scatter diagram of the percentage of management being Ugandan



Source: Authors' compilation, based on information gathered in interviews

Figure 6.8 combines data on the general workforce and management compositions. In brief, while the majority of companies sampled employed more than 60 per cent Ugandans, with many employing more than 80 per cent Ugandans, management compositions were very different. The majority of companies sampled employed no Ugandans in management, with just two employing more than 60 per cent and three more (for a total of five) employing more than 50 per cent Ugandan managers. A further five companies employed between 10 and 40 per cent Ugandans at the management



categorizing POEs based on whether they were on the ECCO list shows some striking differences: 71 per cent of POEs on the list indicated having employee training policies, while less than half (43 per cent) of the sampled POEs not on the list had such policies.

Further analysis of employee training policies by sector shows that all ICT and oil, gas, and energy sector companies had training policies. Of the manufacturers, 83 per cent had training policies, as did 78 per cent of all importers. In the hotel and restaurant sector, 67 per cent of all companies had employee training policies. In the construction sector, 63 per cent had employee training policies. However, only 33 per cent of wholesalers had employee training policies.

Analysis of employee training policies on the basis of initial investments shows some noteworthy differences. There is no workable data on employee training policies for the investment range 50,000 to 100,000 USD, as an insufficient number of respondents in this range stated whether they had training policies. None of the companies with an initial investment less than 50,000 USD had training policies. Half of the companies with an initial investment between 100,000 and 500,000 USD did not have employee training policies. However, all companies with an initial investment between 500,000 and 1 million USD had training policies. Sixty-three per cent of all companies with an initial investment between 1 million and 3 million USD had training policies, while a further 25 per cent did not. All companies with initial investments greater than 5 million had employee training policies.

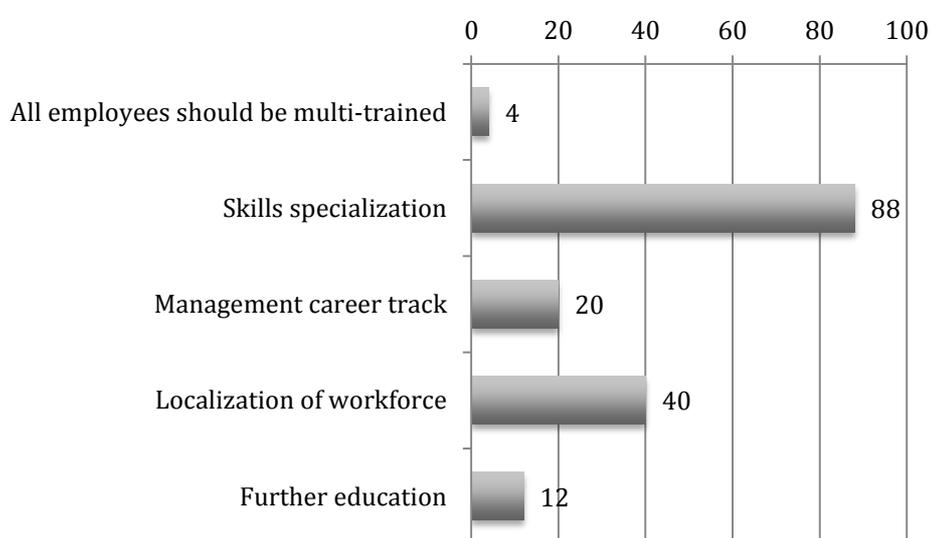
Considering the relation between employee training policies and turnovers shows some notable differences. There was no workable data on employment policies for the following turnover ranges: 50,000 to 100,000 USD and 5 million to 10 million USD, as an insufficient number of respondents in these turnover ranges stated whether they had training policies. No companies with reported approximate turnovers between 10,000 and 50,000 USD had training policies, and 67 per cent of the companies that were operating at a loss lacked training policies, although 33 per cent did have them. All companies with approximate current turnovers between 100,000 and 250,000 USD had employee training policies. Half of the companies with reported turnovers between 250,000 and 500,000 USD had employee training policies, while the other half were unclear in their responses. All companies with reported approximate current turnovers between 500,000 and 1 million USD had employee training policies. A third of all interviewed companies with reported approximate current turnovers between 1 million and 3 million USD had employee training policies, while the remaining 67 per cent were unclear in their responses. All companies with reported approximate current turnovers between 3 million and 5 million USD had employee training policies. Of the interviewed companies with reported approximate turnovers greater than 10 million USD, 78 per cent had training policies.

In terms of the provision of employee training opportunities, the above analysis has shown that all hybrids had training policies, while SOEs and POEs lagged behind at slightly more than half each, indicating that hybrids contributed more to the Ugandan economy in this respect. Differentiating POEs shows that almost three quarter of POEs on the list also provided training opportunities for their employees. In terms of sectors, the greatest contributors were ICT, manufacturing, and oil, gas and energy, while less than half of the wholesalers provided training opportunities thus benefiting the Ugandan economy least. A correlation was found with investments and turnovers and employee training policies. The higher the investment and/or turnover the more likely a company was to have training policies, thus contributing to the economy most. Nevertheless, follow-up research is needed to evaluate whether these training policies do in fact lead to job advancement.

### 6.4.8 Motivations for employee training policies

Investigation of the motivations for employee training policies provides further indications of the benefits to the economy of such policies. For example, if the policies are motivated by skills specialization, this could indicate knowledge and skills transfer. If the policies are employed in order to develop local management and indigenize the workforce then this suggests a desire to move away from Chinese workers and managers in Chinese enterprises in Uganda. The vast majority (88 per cent) of all respondents noted skills specialization of workers as one of their main motivations for employee training (Figure 6.9).

**Figure 6.9**  
*Motivations for employee training policies among all sampled companies*



Source: Authors' compilation, based on information gathered in interviews

We looked closer at the motivations for employee training policies according to company ownership form. The majority of respondents – in all types of companies – mentioned skills specialization as a motivation for their employee training policy (91 per cent of POEs, 88 per cent of SOEs, and 83 per cent of all hybrids mentioned this motivation). Differences did emerge with regard to other motivations: 36 per cent of POEs mentioned indigenization of the workforce as a motivation, 17 per cent of hybrids mentioned this motivation, and 63 per cent all sampled SOEs mentioned indigenization of the workforce as a motivation for their training policies. Within POEs and SOEs, 18 per cent and 38 per cent of respondents, respectively, mentioned the desire to develop local management as a motivation. However, respondents from hybrid companies did not mention this motivation.

By sector, companies' motivations for employee training policies also differed. Skills specialization was a major motivation in most sectors, as all hotels and restaurants, companies in oil, gas, and energy, and the wholesale sector mentioned skills specialization as a motivation for their employee training policies. Of the construction companies, 88 per cent mentioned skills specialization as a motivation for their employee training policies, as did 86 per cent of the sampled importers, 83 per cent of the manufacturers, and 67 per cent of the ICT companies. Developing local management was another important motivation for wholesalers. All wholesalers with training policies mentioned this motivation. Of companies with training policies and engaged in construction, 38 per cent mentioned developing local management as a motivation, as

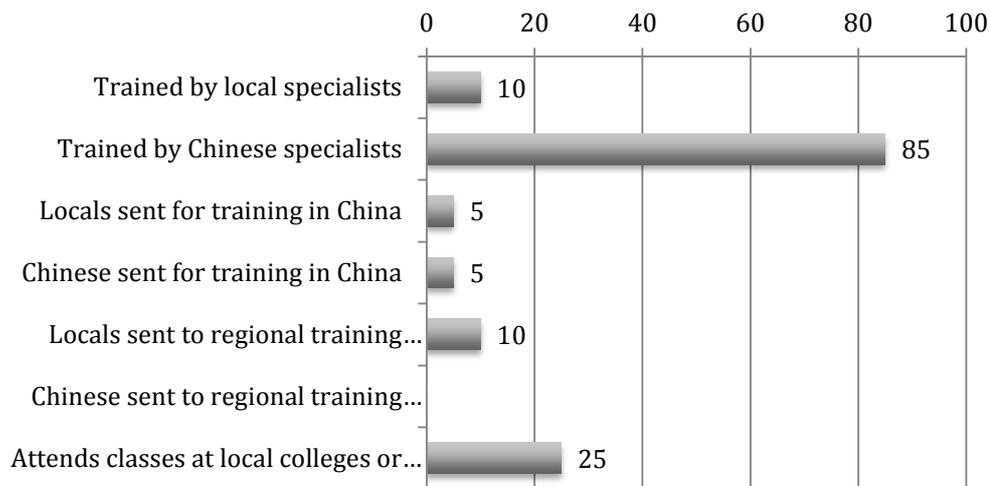
did 50 per cent of hotels and restaurants. Indigenization of the workforce was an important motivation for companies engaged in ICT and construction. All companies engaged in ICT and 63 per cent of those in construction mentioned this motivation. Twenty-nine per cent of importers, 33 per cent of manufacturers, and 33 per cent of companies in the oil, gas, and energy sector also mentioned this motivation. Further education was mentioned by 50 per cent of hotels and restaurants and by 33 per cent of the companies engaged in ICT.

As skills specialization, management career track, and indigenization of the workforce were by far the most common motivations, only these were used in the further analysis of employee training policies based on size of company investment. Of companies that mentioned indigenization of the workforce as a motivation for their employee training policies, 83 per cent had made an initial investment of between 1 million and 3 million USD; the remaining 17 per cent of companies mentioning this motivation had made an initial investment of 5 million to 10 million USD. Of the companies that noted skills specialization as a motivation for employee training policies, 31 per cent had made an initial investment of 1 million to 3 million USD. Developing local management was noted as an important motivation for companies with an initial investment of between 500,000 and 1 million USD, accounting for half the companies mentioning this motivation. The other half was composed of companies with an initial investment greater than 10 million USD. Companies that reported skills specialization as a motive for training policies represented a broad range of investment amounts, though all were greater than 250,000 USD. Thirty-one per cent had made an initial investment between 500,000 and 1 million USD, 37 per cent had made an initial investment between 1 million and 5 million USD, and 26 per cent had made an initial investment greater than 5 million USD.

A closer look at the relationship between approximate reported current turnover and motivations for employee training policies shows that companies with turnovers greater than 10 million USD were prominent among the respondents that mentioned skills specialization, development of local management, and indigenization of workforce as motivations for their employee training policies. Of all companies that noted indigenization of the workforce as a motivation for employee training policies, 67 per cent had approximate turnovers in excess of 10 million USD, 11 per cent had a turnover between 1 million and 3 million USD, and 22 per cent were making a loss or had not seen any return on their investment. Of all companies that mentioned developing local management as a motivation for their employee training policies, 75 per cent reported approximate turnovers greater than 10 million USD, and the remaining 25 per cent reported a turnover between 100,000 and 250,000 USD. Forty-one per cent of the sampled companies with employee training policies that mentioned skills specialization as a motivation had approximate current turnovers greater than 10 million USD. A further 30 per cent had turnovers between 100,000 and 1 million USD; 18 per cent had turnovers between 3 million and 5 million USD; and a final 12 per cent were operating at a loss or had not yet seen any return on their investments.

The three primary motivations reported for employee training policies were thus skills specialization, indigenization of the workforce, and development of local management. Skills specialization featured highly in all ownership forms, while indigenization of the workforce and development of local management featured most prominently among SOEs and POEs. All wholesalers with employee training policies were motivated by skills specialization and development of local management. Skills specialization featured highly in all sectors, but indigenization of the workforce featured most highly in the ICT and construction sectors. This analysis indicates that substantial *potential* exists for knowledge and skills transfer and for indigenization of the workforce and management, implying increasing benefit to the host country economy.

**Figure 6.10**  
*Method of employee training among all sampled companies*



Source: Authors' compilation, based on information gathered in interviews

Consideration of employee training methods shows that of all the companies mentioning training policies, 85 per cent used Chinese specialists or experts to train local employees, and 25 per cent allowed or funded their employees to attend classes at a local colleges or universities (Figure 6.10). Training by Chinese specialists was common among companies in most sectors. However, it was more important in some sectors than in others. All hotels and restaurants and companies engaged in import activities and manufacturing utilized this training method. Eighty-three per cent of the companies engaged in construction, 67 per cent of those in ICT, and 67 per cent of companies in the oil, gas, and energy sector also utilized Chinese expert training. Allowing employees to attend classes at local colleges or universities was a primary training method among hotels and restaurants and ICT companies, with 100 per cent and 67 per cent, respectively, of the sampled businesses in these sectors reporting this method of training. One third of sampled companies in the oil, gas, and energy sector used this training method as well, while a third of companies in this sector also sent their local employees for training in regional training programmes, as did 17 per cent of companies engaged in construction and 17 per cent of importers. A third of the companies engaged in ICT sent local workers to China for training. ICT companies, like Huawei and ZTE, had many training centres in China, with some geared specifically for training foreign employees.

## 6.5 Chinese aid to Uganda

### 6.5.1 China's rising importance as a donor in Uganda

Statements by the Ugandan minister for Foreign Affairs have confirmed the rising importance of China as a donor: "This is China's time... [the US and European countries] had the opportunity to build Africa [but they did not succeed]" (Sserunjogi 2013). Indeed, China has become an increasingly important source of external finance for Uganda (Table 6.9). As a proportion of total external debt, China's share increased from 4.52 per cent in 2012 to 7.59 per cent in 2014. According to Guloba et al. (2010), on average between 2000 and 2008, Chinese financing accounted for approximately 2 per

cent of Uganda's total external debt stock. As a source of external financing, China is Uganda's most significant bilateral donor.

**Table 6.9**  
*Stock of Ugandan external debt (millions of US dollars)*

<b>Creditor</b>	<b>Drawing stock (31 March 2014)</b>	<b>Per cent of total 2014</b>	<b>Drawing stock (31 March 2013)</b>	<b>Per cent of total 2013</b>	<b>Drawing stock (31 March 2012)</b>	<b>Per cent of total 2012</b>
China	336.29	7.59%	284.45	7.57%	149.38	4.52%
India	50.66	1.14%	50.63	1.35%	50.63	1.53%
Iraq	0.00	0.00%	0.00	0.00%	0.00	0.00%
Kuwait	27.59	0.62%	27.17	0.72%	27.97	0.85%
Nigeria	9.00	0.20%	9.00	0.24%	9.00	0.27%
Saudi Arabia	10.27	0.23%	10.16	0.27%	10.16	0.31%
South Korea	4.79	0.11%	4.59	0.12%	4.51	0.14%
Tanzania	35.16	0.79%	35.16	0.94%	35.16	1.06%
United Arab Emirates	5.84	0.13%	5.85	0.16%	5.84	0.18%
<b>Total bilateral non-DAC</b>	<b>479.57</b>	<b>10.83%</b>	<b>427.01</b>	<b>11.37%</b>	<b>292.66</b>	<b>8.86%</b>
Austria	26.99	0.61%	25.08	0.67%	26.06	0.79%
France	8.25	0.19%	3.83	0.10%	-	-
Japan	54.62	1.23%	33.86	0.90%	23.04	0.70%
Spain	24.50	0.55%	24.50	0.65%	24.50	0.74%
Sweden	-	-	2.53	0.07%	2.47	0.07%
<b>Total bilateral DAC</b>	<b>114.36</b>	<b>2.58%</b>	<b>89.81</b>	<b>2.39%</b>	<b>76.06</b>	<b>2.30%</b>
<b>Bilateral total</b>	<b>593.93</b>	<b>13.41%</b>	<b>516.82</b>	<b>13.76%</b>	<b>333.57</b>	<b>10.10%</b>
African Development Bank (AfDB)	6.62	0.15%	6.62	0.18%	6.62	0.20%
African Development Fund (AfDB)	853.73	19.27%	704.33	18.75%	574.12	17.39%
Arab Bank for Economic Development in Africa (BADEA)	26.40	0.60%	25.59	0.68%	25.19	0.76%
European Investment Bank (EIB)	83.89	1.89%	106.09	2.82%	110.21	3.34%
International Development Association (World Bank)	2,477.93	55.94%	2,060.92	54.87%	1,890.75	57.26%
IMF	9.26	0.21%	8.98	0.24%	9.27	0.28%
Islamic Development Bank (IDB)	21.69	0.49%	17.53	0.47%	17.78	0.54%
Nordic Development Fund (NDF)	81.96	1.85%	76.10	2.03%	76.92	2.33%
Organization of Petroleum Exporting Countries (OPEC)	24.42	0.55%	24.00	0.64%	23.80	0.72%
The International Fund for Agricultural Development (IFAD)	248.93	5.62%	208.31	5.55%	197.74	5.99%
<b>Multilateral</b>	<b>3,834.82</b>	<b>86.57%</b>	<b>3,238.47</b>	<b>86.22%</b>	<b>2,932.40</b>	<b>88.81%</b>
East African Development Bank	0.90	0.02%	0.90	0.02%	0.90	0.03%
Private banks (other financial institutions)	0.90	0.02%	0.90	0.02%	0.90	0.03%
<b>Total</b>	<b>4,429.65</b>		<b>3,756.19</b>		<b>3,302.02</b>	

Source: Ministry of Finance, Planning and Economic Development of Uganda (2014), *Report on Loans, Grants and Guarantees for Financial Year 2013/14*, Entebbe, p. 8; Ministry of Finance, Planning and Economic Development of Uganda (2013), *Report on Loans, Grants and Guarantees for Financial Year 2012/13*, Entebbe, p. 4-5; Ministry of Finance, Planning and Economic Development of Uganda (2012), *Report on Loans, Grants and Guarantees for Financial Year 2011/12*, Entebbe, p. 6-7.

The Chinese government provides grants, interest-free loans, and concessional loans to aid recipients. Focusing specifically on loan disbursements to Uganda, it is evident that China is a significant lender to Uganda. Table 6.10 presents data from a Ugandan government report. Loan disbursement data was not available for previous years, but in 2013-14, China provided 9.4 per cent of all loans disbursed to Uganda. As noted earlier, this made it Uganda's most significant bilateral aid donor. Japan was the second most significant bilateral lender in the same period. The maturity, grace period, and interest rates of Chinese loans differ depending on the lender. Loans provided by the China Exim Bank are concessional loans. These have a maturity of 20 years, a grace period of 5 years, and an interest rate of 2 per cent. Loans from the Chinese Ministry of Finance have a maturity of 30 years, a grace period of 10 years, and are interest-free (MFPED 2014: 18). This compares favourably to loans provided by other donors, such as Germany, which extends loans with a maturity of 15 years, a grace period of 3 years, and an interest rate of 4.5 per cent (*ibid.*). Or France, which provides loans to Uganda with a maturity of 20 years, a grace period of 5 years, and an interest rate of 7.13 per cent (*ibid.*). The terms of Chinese interest-free and concessional loans also compare favourably with loans from the European Investment Bank, the Islamic Development Bank, and the Arab Bank for the Development of Africa (*ibid.*).

**Table 6.10**  
*Loan disbursements to Uganda (millions of US dollars) in financial year 2013-2014*

<b>Donor</b>	<b>FY2013-2014</b>	<b>Per cent of total</b>
African Development Fund (AfDB)	87.29	28.3%
Arab Bank for Economic Development in Africa (BADEA)	0.04	0.0%
China	28.90	9.4%
European Investment Bank (EIB)	4.12	1.3%
France	4.12	1.3%
International Development Association (World Bank)	144.96	47.0%
Islamic Development Bank (IDB)	1.63	0.5%
The International Fund for Agricultural Development (IFAD)	14.41	4.7%
Japan	22.61	7.3%
Organization of Petroleum Exporting Countries (OPEC)	0.07	0.0%
<b>Total</b>	<b>308.16</b>	

Source: Ministry of Finance, Planning and Economic Development of Uganda (2013), *Report on Loans, Grants and Guarantees for Financial Year 2012/13*, Entebbe, p. 16.

Traditional donors tend to surpass China in grants and off-budget disbursements to Uganda. Norway, Austria, and Denmark provided 13 per cent, 12 per cent, and 11 per cent, respectively, of all grants to Uganda in 2013-14 (*ibid.*: 32). The US, Norway, and the UK provided 38.9 per cent, 14.7 per cent, and 13.5 per cent, respectively, of all off-budget disbursements to Uganda (*ibid.*).

China has provided Uganda a variety of aid projects over the years. Guloba et al. (2010) report that the Chinese government established the Uganda Industrial Research Institute in Kampala in 2001, providing technical personnel, community groups, small-scale enterprises, and students with training geared towards the light industry sector. By 2010, 690 technical personnel had been trained (*ibid.*). These authors state that the institute has become "one of the strongest equipped industrial research institutes on the

African continent” (ibid.: 11-12). However, the current author did not hear of this project during his fieldwork, and ECCO did not suggest that the author visit this institute.

In September 2007, the Chinese government agreed to finance and build the Wakawaka fish-landing site, which has since been completed and handed over to the Ugandan government (ibid.). Additionally, in 2007, the Chinese government provided computers worth 20,000 USD to the Office of the Inspector General (ibid.). That same year saw an agreement signed between the Chinese and Ugandan governments for construction of an office block intended to house the Office of the President, the Office of the Vice President, and the Office of the Prime Minister (ibid.: 12). The value of the project was estimated at approximately 20 million USD (ibid.). The project had been completed at the time of the fieldwork for the current study. In 2007 the Chinese government agreed to build rural schools in Sembablue and Kanugu districts (Guloba et al. 2010). These too were completed at the time of the fieldwork, and had a capacity of 150 students each (ibid.).

The Chinese government has, on numerous occasions, provided anti-malarial medicine and medical equipment to Uganda (ibid.). It has provided other goods and services as well, such as lamps and farm tools (ibid.).

Further, the Chinese government provided a 32 million USD interest-free loan to the Government of Uganda to build the Mandela Stadium (ibid.). The government of China extended a 30 million USD concessional loan to Uganda for a national ICT and e-government project in 2007 (ibid.). This was part of a larger programme valued at a projected 106 million USD by the time of completion.

The Chinese government has provided the Ugandan government numerous grants. These have included a grant to the Kampala City Council in 2002 worth 1.6 million USD for 30 garbage trucks (ibid.) and a 4 million USD donation for the construction of the Ministry of Affairs (ibid.). Numerous other grants were reported, between 200,000 and 3 million USD. Moreover, the Chinese assistant Minister of Commerce cancelled debt worth 17 million USD during a visit to Uganda in 2007 (ibid.).

The two governments signed a technical cooperation agreement in 2006 worth 5.33 million USD (ibid.). The exact use of the proceeds was to be decided by both governments (ibid.). China, furthermore, supports Ugandan human resources development by sponsoring training in agriculture, disease control, food processing, capacity building, information technology, and many other topics (ibid.).

China has supported Uganda’s trade promotion efforts as well. This has been done in part by providing relevant training and by assisting construction of the Ugandan exports centre in a suburb of Kampala (ibid.). However, most Chinese support to Ugandan trade has been indirect, through development of economic infrastructure and by developing local value-added capacities through technical cooperation.

In 2014 four projects funded by the Chinese government were listed by the Ugandan Ministry of Finance Planning and Economic Development (MFPED 2014: 16-17):

- Ayago Hydropower Plant (600 MW) funded by a China Exim Bank concessional loan. The preliminary feasibility study report for this plant was developed with Japanese funding. A memorandum of understanding was signed with the Chinese construction company slated to build the power plant. The contractor was the China Gezhouba Group Corporation (CGGC) (ibid.: 16).
- Isimba Hydropower Plant (183 KV) and Isimba–Bujagali Interconnection project. The financing of this project is to be split between a 485.2 million USD concessional loan from the China Exim Bank and a Government of Uganda

investment of 85.1 million USD. This project still needs to be approved by the Ugandan parliament. No contractor has yet been identified (ibid.).

- Four Industrial Parks (Luzira, Iganga, Namanve South, and Mukon), power transmission stations and substations. Funded by a 94.98 million USD loan from the China Exim Bank. This loan still has to be approved by the Ugandan parliament. The contractor is the China CAMC Engineering company (ibid.).
- Karuma Hydroelectric Power Station (600 MW) and associated transmission line works. The total cost of 1.436 billion USD is to be funded by a China Exim Bank loan and a Government of Uganda investment (the latter worth 253.5 million USD). This project currently still needs to be approved by parliament. The contractor is Sinohydro (ibid.: 17).

As becomes clear from the above descriptions, Chinese aid to Uganda is significant and growing. During the fieldwork that forms the basis of this chapter, this author had the opportunity to visit three Chinese aid projects and interview Chinese representatives there: (i) a maintenance team at the Mandela National Stadium, (ii) the Friendship Hospital and accompanying medical team, and (iii) an agricultural demonstration centre. Furthermore, the project to build an Entebbe-Kampala expressway was announced only one month prior to the field research (i.e., in June 2012). It had been contracted to the China Communications Construction (CCC) Group.

### 6.5.2 The Entebbe-Kampala expressway

The director of the CCC Group (a national-level Chinese SOE)<sup>67</sup> in Uganda stated that the company had suggested the Entebbe-Kampala expressway as a possible project for Chinese funding. However, this claim was refuted by ECCO, which stated that the project had been requested by the Ugandan government (Warmerdam & Van Dijk 2013b). While the director of the construction company admitted involvement of the Ugandan government at the design stage, he asserted that he had taken the initiative in suggesting the project for Chinese funding. Given that many of these construction companies have been operating in Uganda for a number of years, they also often compete for tenders from the Ugandan government and international organizations such as the World Bank and the African Development Bank. They are, however, prohibited from entering EU-funded project tendering processes, as these are limited to companies from the EU or Africa.

The CCC Group was involved in African-executed construction projects in Kenya. Jiangsu International (中国江苏国际经济技术合作公司) (a provincial-level Chinese SOE) had won a contract from the Ugandan government to repair a dirt road. However, Jiangsu International mainly constructed buildings, so it asked the CCC Group to take on that project. Since then the CCC Group had completed a number of infrastructure projects in Uganda, including projects financed by the African Development Bank and World Bank.

The director of the CCC Group in Uganda said that CCC had identified and designed the Entebbe-Kampala expressway project, involving at a later stage the Ugandan government in order to comply with the requirements and wishes of the Ugandan government. The Ugandan government then submitted the proposal to the China Exim Bank. Exim Bank experts evaluated the project, with the Ugandan finance minister going to China to meet his counterpart there and discuss the terms. After some adaptations to the contract requested by both sides, it was agreed and signed. The whole process of project planning and decision-making took about three years. CCC's director noted that

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<sup>67</sup> The CCC Group was included in the previous sections' analyses of benefits to Uganda in terms of turnover, investment, and labour.

in China it would only have taken about six months. The expressway was funded by a Chinese concessional loan. The grace period is 7 years, although Uganda only requested 5 years. The loan matures in 25 years, with an interest rate of 2 per cent. The total loan value is 476 million USD. The expressway will be a toll road. Toll fees will be used to repay the loan. This model of infrastructure development has also been commonly used domestically in China, and the World Bank has taken it on as best practice (World Bank 2007).

### 6.5.3 The Mandela Stadium

The Mandela Stadium, completed in 1997, is an important regional venue, also used by neighbouring countries and for major national events and competitions. The agreement to build the Mandela Stadium was signed in 1993. Work started in 1996 and the project was completed in 1997 (CMTMS 2012). The project was financed with a 210 million RMB grant. The stadium was handed over to the Ugandan government in 1997. Since then, the Ugandan government has asked the Chinese government to provide a maintenance team.

The maintenance team works on two-year rotations. The team at the stadium is currently the China Sports International Co., Ltd. (*Zhongguo Tiyu Guoji Jingji Jishu Hezuo Gongsi*). The original maintenance team was from the General Administration of Sport of China. A separate company under the General Administration of Sport of China (*Zhongguo Tiyu Guoji Jingji Jishu Hezuo Gongsi*) was created later. The Chinese government covers the annual costs of the maintenance team, approximately 4.8 million RMB. This covers the salaries of the Chinese experts and translator and the costs of parts reparation.

In 2011 there were extra refurbishments, including a high-voltage electricity system, new big screens, and a new track. The director did not reveal the cost, but stated that the Chinese government had covered them. The Ugandan government pays for the local workers at the stadium and the utilities. The Chinese government does not fund cosmetic upkeep such as painting, but it does provide funds for the more substantial maintenance and refurbishments. In 2013, the team expected to refurbish the tennis and basketball courts, the indoor broadcasting system, and the low-voltage electricity system.

Part of the maintenance team's remit was to provide training to Ugandan workers. The team trains approximately ten workers per rotation. Each Chinese expert (five in total) trains two Ugandans, often teaching by doing. The team reported that they encountered a number of difficulties. Firstly, training Ugandan workers never resulted in the transfer of the project completely to a Ugandan team. The newly trained workers went to other employers after they had completed their training. As such, the director of the Chinese maintenance team saw no end date for the project. Additionally, the Chinese experts felt that many of the trainees, including recent university graduates, lacked the basic knowledge and skills even to undertake the training.

The director of the maintenance team noted a restriction placed on them by the Chinese government, namely, while engaged in the maintenance aid project they were not allowed to be involved in any commercial activities in Uganda or any other activities outside the remit of maintaining the stadium and training Ugandan workers. A Ugandan minister has commented that China should follow the US example and give money directly rather than goods and services.

#### 6.5.4 The Friendship Hospital and medical team

The first Chinese medical team came to Uganda in 1983. At the time of the fieldwork, they were on their 15th rotation. Originally, the team was located in Jinja, Uganda's second largest city. Countries receiving Chinese medical teams are usually partnered with Chinese provinces. Uganda was partnered with Yunnan Province in southern China. Originally, the teams met direct medicine and medical care needs. At the time of the fieldwork, they also trained medical professionals and developed hospital departments. Some Ugandan doctors and hospital administrators received funding for training in China. The Chinese government supplied the medical team medicine every year valued at approximately 100,000 RMB. The medical team consisted of eight members: six doctors, one translator, and one cook.

The Friendship Hospital was completed in January 2012. There were no other foreign-donated hospitals in Uganda, according to the team leader, although there were smaller medical centres (CMT 2012). The medical team moved from Jinja to Kampala to work in the new hospital in June 2012. The team leader said that the Ugandan doctors and hospital administrators now had sufficient capacity to do without the assistance of the Chinese medical team. Nonetheless, the move from Jinja to Kampala had been requested by the Ugandan government.

Treatment at the Friendship Hospital was free, although the team leader explained that treatment in state hospitals in Uganda was also theoretically free. He added that medicine in hospitals was often sold out, so patients had to buy medicine from elsewhere, if they could find it and afford it. The team leader said that the biggest problem the team faced in Uganda was a lack of medicine and a lack of doctors.

#### 6.5.5 Agricultural demonstration centre

During the 2006 FOCAC Summit, then president Hu Jintao promised to establish 30 agricultural demonstration centres across Africa. Uganda was selected as the location for one of these. The director of the Chinese agricultural demonstration centre in Uganda indicated not knowing the reasoning behind the country's selection (CADC 2012). The director suggested that Uganda's central location and relative stability might have been deciding factors. The company being considered for implementing the agricultural demonstration centre sent an evaluation team to Uganda in May 2007. By the end of 2007 that company (Huaqiao Fenghuang) had won the tender. Planning started after that, then Huaqiao Fenghuang sent its plans to the Chinese Ministry of Commerce. In June 2008, representatives from the Ministry of Commerce, Huaqiao, and other experts came to evaluate and adapt the plans. In September 2008, Ugandan experts evaluated the new plan. Construction started in January 2009, and was completed by 2010.

A 5 million USD grant financed the project. The annual cost amounted to approximately 5 million RMB (CADC 2012). The land belonged to the Ugandan government, but the buildings and other facilities were constructed by Huaqiao Fenghuang, paid for by the Chinese government. The necessary resources were imported from China, for example, iron and steel, and the equipment necessary for aquaculture. The Chinese Ministry of Commerce did not require the project to import anything from China, but it had stipulated certain quality standards that had to be met.

The agricultural demonstration centre in Uganda differs from those in other countries in two respects. Firstly, it is an aquaculture demonstration centre. This decision was made given the abundance of water and the proximity of the site to Lake Victoria. Secondly, it was being operated by a private Chinese enterprise, not an SOE. Huaqiao Fenghuang is one of a very small handful of non-state-owned companies that have won government

development cooperation project tenders. In fact, Huaqiao Fenghuang was, as far as the director of the agricultural demonstration centre was aware, the first non-SOE to win a government tender before 2009.

The CEO of Huaqiao Fenghuang initiated the company's participation in the tender for two reasons. The first was to gain experience in government tendering processes. The company group also has real-estate and construction subsidiaries, including in South Africa. Experience in the tendering would potentially provide Huaqiao Fenghuang the capacity to win more government tenders. A second, and likely related, reason for participation was to gain entry to the Ugandan market (ibid.). Winning other tenders in Africa would help the company gain access to other markets as well. The director of the demonstration centre explained that it could not currently engage in any commercial activity, as this was stipulated by the Chinese government's agreement with Uganda. However, they were already exploring the possibilities for after the project's completion in three years' time. The director had written a proposal to the CEO for a potential project worth 170 million USD. This would focus on feed, food processing, and aquaculture. One of the elements in this proposal was an assessment of the level of political support for the project. That support had been evidenced by the fact that President Museveni mentioned the demonstration centre in a speech. The director admitted having given small bribes to government officials on occasion, but emphasized that he felt uncomfortable doing so and would like to avoid this practice if they were to establish a larger private project. One of the problems he foresaw in remaining in Uganda after project completion was the lack of government efficiency. He added that a preliminary field analysis had suggested that the investment climate and therefore commercial development opportunities were much better in Rwanda.

The demonstration centre was also being used for technical capacity training. In June 2012 alone it received more than 600 visitors (mostly students from primary and secondary schools and universities). Everything was provided free of charge: food, accommodation, transportation, travel and day subsidies, and teaching materials. Originally, the Ugandan government was to be responsible for those costs. However, the director reported that the Ugandan government had paid nothing as yet. The Chinese government has not paid these costs either. So the Huaqiao Fenghuang group was temporarily covering these expenses. The Chinese government is likely to pay them back, the director said; however, the Ugandan government first has to ask the Chinese government for the money. Uganda had not yet asked for it, perhaps because it would mean losing face. It's not that the Chinese government doesn't have the money, or isn't willing to pay, the director emphasized. It just needs to follow its bureaucratic processes. In this case, that meant that the Ugandan government had to apply for the funding itself.

Apart from the mention in President Museveni's speech, the centre has evoked many positive responses. The director explained that the response had been so positive that the Icelandic ambassador to Uganda had even asked to cooperate in providing technical capacity training. Though the Icelandic team had already been providing aquaculture technical capacity training, locals had expressed a preference for the Chinese training. Additionally, many Ugandan government entities and private enterprises wanted to cooperate with the Chinese team at the demonstration centre. The director explained that the training provided by the Chinese team was much more detailed and practical than that provided by other countries. He added that the difference between Chinese aid and aid provided by other countries, according to local people and the Ugandan government, is that China provides aid with the aim of allowing recipients to attain the same level of development as the donor. Other countries were said to provide aid aimed at enabling recipients to improve but never to attain the same level of development as

the donor. The director emphasized that this was not his own perception, but what locals said.

## 6.6 Conclusion

This chapter utilized Chinese engagement in Uganda as a case study of China's development cooperation in developing countries. As described in 0, China places particular emphasis on economic cooperation between developing countries. Additionally, a core principle of China's engagement and development cooperation is that of 'mutual benefit'. This chapter analysed how this works in practice, in one case study country. It further provided insights into Chinese foreign aid to Uganda.

The analysis has added a degree of nuance to Lee's (2007) study, which found negative impacts of Chinese engagement in Uganda. By disaggregating the various Chinese enterprises active in Uganda it became evident that their contributions to the local economy differ, depending on ownership form, sector, and whether these companies were or were not on the ECCO list. Findings based on this categorization can be utilized to enhance Chinese contributions to the Ugandan economy. SOEs and hybrids were found to contribute most in terms of investments. POEs not on the ECCO list invested least, and thus contributed least. Regarding sector of involvement, wholesalers were found to contribute the least, while construction companies, manufacturers, ICT companies, and companies involved in the oil, gas, and energy sector contributed the most in terms of investment. Companies with higher levels of investments also had larger workforces and provided more employment for Ugandans. Analysis of contributions to the economy on the basis of turnovers showed a similar pattern, with POEs not on the ECCO list, wholesalers, and hotels and restaurants having lower turnovers, thus benefiting the economy least. SOEs, ICT, construction, and to a lesser extent, manufacturers had higher turnovers and benefited the local economy more. Nevertheless, although turnovers were higher, this study could gain no information on the repatriation of profits or their reinvestment locally. A number of companies mentioned a preference for reinvesting profits in local real estate and construction. However, some companies also stated that they had chosen to invest in Uganda, as there were no limits to the repatriation of profits. Other countries in the regions, such as Tanzania, do have limits on the repatriation of profits of foreign invested companies.

With regard to employment, similar patterns of contribution to the Ugandan economy were observed. SOEs, construction companies, and manufacturers had the largest workforces, thus contributing most to the local economy. However, construction companies and manufacturers by nature require larger workforces. It is therefore informative to also look at workforce composition. POEs on the ECCO list and SOEs had the highest proportions of Ugandans on their workforce, thus providing the greatest contributions to the Ugandan economy. Companies engaged in construction or manufacturing and hotels and restaurants had the largest shares of Ugandan employees, while wholesalers had the smallest. One area where Chinese companies contributed the least to the Ugandan economy was in terms of management composition: only a quarter of the Chinese companies sampled employed any Ugandans in management. POEs on the ECCO list and hotels and restaurants fared slightly better. However, all other sectors employed less than 25 per cent Ugandans in management. The motivations for employee training policies show promising signs of rectifying this, as development of local management skills and indigenization of the workforce were among the three primary motivations noted for training policies. Nevertheless, skills specialization still dominated as a motivation for such policies. These three motivations all have the potential to contribute to the Ugandan economy in their own way. The majority of POEs on the ECCO list and hybrids had training policies, while just more than half of the SOEs

and less than half of the POEs not on the list did. ICT companies, manufacturers, and companies engaged in the oil, gas, and energy sector contributed most in terms of training policies, while wholesalers contributed the least. Finally, the higher the turnover and/or initial investment, the more likely a company was of having training policies, and thus contributing to the development potential of Uganda.

Analysis of Chinese aid projects provided some nuance to our understanding of Chinese aid in practice. Firstly, while there does seem to be some blurring of the lines between Chinese aid, trade, and FDI, this is not as widespread as expected. In fact, in some instances, clear delineations were found between Chinese aid, trade, and FDI. Three of the aid projects examined did not allow the implementing teams to engage in commercial activities; this pertained to the medical team, the company involved in the agricultural demonstration centre, and the Mandela Stadium maintenance crew. It is likely that the Chinese government considers these to be 'aid' projects, while it considers infrastructure and construction projects as 'development cooperation'. The three aid projects examined were all financed by grants, while infrastructure projects are financed almost exclusively by concessional loans. The different forms of financing might be an indicator of the different regulations governing them. Concessional loans have to be repaid, and the productive nature of the projects financed through this channel lends itself more to commercial activities. Agricultural demonstration centres and medical teams are not intended to be economically productive, but rather to serve the communities in which they operate. The Chinese government likely disallows the teams implementing such projects from engaging in commercial activity in order to protect the image of service provision to the community for which they are intended.

The teams implementing economic infrastructure projects were allowed to engage in commercial activities and compete for tenders from other donors. In fact, evidence provided by the CCC Group suggests that the Chinese government encourages these, often state-owned companies to identify projects for the government to finance. This may serve two functions: (i) generating revenues for the SOEs and (ii) benefiting political relations between the two countries.

Some 24 per cent of all the companies sampled came to Uganda through Chinese government-funded projects, though, noting that companies gave more than one answer, 83 per cent also indicated being stimulated by Uganda's perceived market potential. Of all SOEs sampled in Uganda, 56 per cent entered Uganda through Chinese government-financed projects, though World Bank, African Development Bank, and Ugandan government projects were also entry channels for many SOEs. This highlights a blurring of the lines between aid, trade, and FDI for this particular form of aid projects. Nevertheless, interviews also suggested that a number of Chinese companies that came to Uganda with Chinese government funded projects did not remain in the country after project completion.

The story told by Huaqiao Fenghuang, a privately-owned enterprise, suggests that the blurring of lines, and using aid projects as an entry mechanism, is no longer limited to large SOEs. This is a significant development, particularly as the role of POEs in China domestically is developing rapidly. It brings with it issues regarding the selection of POEs for projects and questions regarding the ability of the government to monitor and regulate these enterprises.

Projects deemed as 'aid' by the Chinese government are often long-term efforts. The agricultural demonstration centre in Uganda is still in its first phase. Therefore, the direction of its future development is not yet clear. However, both the Mandela Stadium maintenance crew and the medical team have been in Uganda for decades. Similarly, many of the interviewed SOEs have been in Uganda for extended periods, contrasting with POEs, which tended to be much more recent arrivals.

The mutuality of the benefits of Chinese aid projects in Uganda was dependent on the type of project. Projects that were purely 'aid', according to the Chinese government's delineation at the time of the fieldwork, provided technical capacity training and services to the local community. A major benefit of Chinese aid projects was technical capacity building among the targeted groups. In the case of Chinese aid to Uganda, these were increased capacities at the Friendship Hospital of the Ugandan medical staff being trained by the Chinese medical team; increased capacities of the Ugandan engineers being trained at the Mandela Stadium by the China Sports International maintenance workers; and increased capacities of the fish farmers receiving training at the agricultural demonstration centre. 'Development cooperation' projects, such as economic infrastructure projects, benefit both local economies and the Ugandan government, as transportation times between producers and markets are shortened, reducing costs and potentially increasing profitability and productivity, and allowing producers to move up the value chain. Benefits to the Chinese companies are increased revenue. In both cases the benefits for the Chinese government reside in the goodwill towards China that is built up by these projects. This strengthens political relations between the two nations.

## Taking ownership: Lessons on ownership from China's domestic development and contributions of its engagement<sup>68</sup>

### 7.1 Introduction

Research on China's engagement with Africa has argued that Chinese aid has endangered efforts of Western powers to improve governance and human rights in Africa (Cornellisen & Taylor 2000, Dahle Huse & Muyakwa 2008, Konings 2007), that it has threatened the debt sustainability of African nations (Beattie & Callan 2006, Kaplinsky et al. 2007) through the use of concessional loans, and that China has acted in opposition to the norms of the OECD-DAC with its use of tied aid. Other researchers have sought lessons in China's own development for Africa (Dollar 2008, Ravallion 2008). Yet others have looked for lessons from China's aid practices (e.g., OECD 2012) (which in fact were largely learned from Japan) for their own aid practices in Africa. However, so far one area of research on China's foreign aid to Africa has received scant attention. This is particularly important because it concerns one of the most important lessons from the failures of previous development aid prescripts and practices, namely that ownership is key to successful development efforts. China has been identified within the development community as an example of a country that has taken ownership of its own development. This chapter examines how China's engagement with Africa has contributed to increase the ability of African countries to assert ownership of their own development processes.

There are many differing opinions regarding the definition and practice of ownership. Although the principle of 'ownership' was identified decades ago as crucial to aid effectiveness, it was first officially included in traditional donors' development aid principles in the 2005 Paris Declaration on Aid Effectiveness. Here 'ownership' was defined as "[p]artner countries exercise effective leadership over their development policies and strategies and co-ordinate development actions" (OECD 2008: 4-8). The importance of ownership is reflected by the fact that it is first of the five 'Paris Principles'. It is tied to the four other mutually reinforcing principles, which are alignment, harmonization, managing for results, and mutual accountability (ibid.). The Paris Principles were hailed as a means of improving aid effectiveness (ibid.). Donors realized that although the volume of ODA must increase, without a concurrent increase in aid effectiveness the impact of greater aid flows would still be limited. Wood et al. (2011) shows that some progress has been made in implementing the Paris Declaration, with ownership one of the principles that has been implemented most successfully. However, progress and implementation has varied across donors and recipients, and there is still room for further improvement (ibid.). The Paris Declaration uses the existence of operational development strategies as its indicator to measure ownership. The target for 2010 was that at least 75 per cent of recipients should have their own national development strategies or poverty reduction strategy papers (PRSPs).

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<sup>68</sup> This chapter is based on: Warmerdam, W. (2013), "Having, Giving, Taking: Lessons on Ownership in China's Domestic Development and Contributions of Its Engagement," *Forum for Development Studies*, 40(3): 435-464.

However, this simplistic measure does not take into account the extent of donor involvement and influence in the design and formulation of recipient national development strategies or PRSPs.

Booth (2008) argues that the term ownership characterizes a specific form of political leadership that has brought about development in the past, most recently in East Asia and South-East Asia. This understanding of ownership, according to Booth (*ibid.*) has led international financial institutions and bilateral donors to pursue technocratic development strategies through such modalities as the PRSPs. These, however, have not taken country-specific political economy dimensions sufficiently into consideration, and have possibly even hindered development (*ibid.*). Booth (*ibid.*) adds that donors have often hinged their general budget support on conditionalities in order to ensure that funds are utilized in ways they believe are appropriate. For example, they might require particular reforms in order for a recipient government to receive funds, as this makes it easier for development agents to justify aid disbursements to constituencies at home. Booth (*ibid.*) maintains that donor micro-management of country policies continues to curtail recipient ownership (*ibid.*). He adds that incentive structures in recipient countries make it attractive for the politicians in recipient countries to maintain a situation wherein donors are responsible for development and the politicians are responsible for politics, as these politicians are motivated by short-term personal gain rather than long-term national development (*ibid.*).

Cramer et al. (2006) argue that the problem with the term ownership lies not in its definition,<sup>69</sup> but that the problem is operational. They provide evidence from the development of PRSPs in Tanzania, a process that was to be fundamental to ownership. In practice they found that ownership was undermined as donors, the IMF and the World Bank in particular, played an important role in determining the content of the PRSPs. Cramer et al. (*ibid.*) identify four categories of conditionalities. The first two are broadly accepted legalistic requirements, while the latter two are donor-driven conditionalities that undermine ownership (*ibid.*). Additionally, hired consultants or experts from donor countries often write the PRSPs themselves for the countries they are supposed to be assisting. This again, undermines recipient ownership of development processes, as the priorities and perspectives of consultants are not necessarily based on the priorities and perspectives of those they seek to help when writing the PRSP, and there may be little or no local stakeholder involvement in the development of PRSPs written by hired consultants.

Ellerman (2004) provides a deeper analysis of the fundamental issues affecting ownership and development assistance. He states that the basic task of development assistance is to supply help for self-help. He investigated the volitional and cognitive aspects of donor assistance, asserting that there are two forms of “unhelpful” help, namely “social engineering” and “benevolent aid” (*ibid.*: 151). Ellerman (*ibid.*) describes helpful assistance as that which is autonomy-respecting. In the volitional dimension the helper seeks possible solutions within the doer and then stimulates and promotes these. With regard to the cognitive dimension the helper facilitates the doers’ own learning and/or peer learning.

Booth (2008), Ellerman (2004), and Cramer et al. (2006) all focus on the donor element of ownership. While this is a crucial element of recipient ownership, recipients also need the ability to assert ownership. This ability is constrained by domestic factors such as capacity and political will, and also by the external factor, namely, donor influence, as described by Booth, Ellerman, and Cramer et al. Whitfield and Fraser (2009a, 2009b)

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<sup>69</sup> They argue that this is clear, namely the authority and responsibility to make decisions over owned objects or processes.

address the dual nature of this problem by proposing that the ability of a recipient to take ownership depends on its negotiating capital in relation to that of the donor(s), and thereby the ability to resist unwanted conditionalities. A country with strong negotiating capital will therefore be able to assert ownership of its own development, while a country with comparatively weak negotiating capital will fail to do so. Nevertheless, none of these models fully takes into account the crucial role that geostrategic considerations play in the disbursement of aid (Berthélemy 2005, Hook 1996, Reynaud and Vauday 2008). While Whitfield and Fraser go some way to addressing this with their concept of negotiating capital, the elements they describe lack a clear geostrategic perspective. Reynaud and Vauday (2008) in their analysis of geopolitical determinants of IMF lending, identified variables that could proxy for geopolitical importance in four areas: energy (oil and gas reserves); nuclear (whether a country has nuclear weapons or not); military (military potential, occurrence of military conflict, and involvement in non-proliferation treaties), and geographical (size, number of neighbours, transportation capacity). This list is by no means complete. One other factor is the importance of a particular recipient as an ally in a political or military dispute. While China was never a US ally, positive relations between the two were important in offsetting the influence of the Soviet Union. Similarly, a number of countries, such as Ethiopia and Pakistan, are now playing key roles as allies in the global war on terror.

## **7.2 Analytical frameworks**

### **7.2.1 Two overlapping frameworks**

This analysis uses two overlapping analytical frameworks of negotiating capital in relation to development ownership. Whitfield and Fraser (2009a) investigate countries' abilities to take ownership on the basis of their negotiating capital towards donors. Their framework was developed on the basis of a compilation of qualitative analyses of eight countries' abilities to take ownership of their own development processes. These countries were Botswana, Ethiopia, Ghana, Mali, Mozambique, Rwanda, Tanzania, and Zambia.

Ohno and Niiya (2004) analyse the interconnected concepts of ownership and capacity in their investigation of practices of 'good donorship'. Both Ohno and Niiya (*ibid.*) and Whitfield and Fraser (2009a) take into consideration institutional and economic conditions. Whitfield and Fraser (*ibid.*) provide qualitative descriptions that highlight a number of factors affecting negotiating capital, including the impact of external actors. Ohno and Niiya (2004) provide structural measures of countries' capacities to exercise ownership. Underlying the analysis here will be a reference to geostrategic considerations as an additional factor in explaining the ability of countries to assert ownership of their own development.

### **7.2.2 Negotiating capital**

Whitfield and Fraser (2009a, 2009b) argue that negotiating capital is composed of four conditions: political, economic, ideological, and institutional. High levels of debt, for example, impact the economic conditions of a country, diminishing its negotiating capital. Lack of capacity directly impacts a country's institutional conditions. Similarly, political instability impacts its political conditions. Lack of a clear development policy or national vision impacts its ideological conditions (Table 7.1). Whitfield and Fraser (2009a) point out that Mozambique, Mali, Ghana, Tanzania, and Zambia lacked negotiating capital, as they suffered from debt and balance-of-payments crises in the

1980s. Botswana and Ethiopia are identified as having strong negotiating capital due to their stronger political, economic, ideological, and institutional conditions. Finally, Rwanda is considered to have relatively strong negotiating capital because even though it also suffered in the debt crises and had unfavourable institutional conditions after the genocide, it did have strong political conditions and a clear development vision. Donors also have negotiating capital in aid negotiations. As donors have more than purely altruistic motives for providing aid, and recipients have a choice of whether or not to accept assistance from a particular source (Whitfield & Fraser 2009b). This is where geopolitical considerations come in, in addition to any potential economic and commercial interests. The weighting of the different elements of negotiating capital cannot be quantified without in-depth field research in the different countries in question and interviews with the relevant donors. The weighting of the different elements of negotiating capital will vary even when one recipient is encountering different donors. This means, for example, that when Recipient A tries to negotiate ownership with Donor B, then institutional capacity might be a more important aspect of the negotiating capital. However, when Recipient A encounters Donor C, political conditions might carry more weight. As such, the analysis below is intended to indicate trends and correlations, rather than authoritatively depicting exact measures of each component of negotiating capital.

**Table 7.1**  
*Negotiating capital framework*

<i>Political Conditions</i>	<i>Economic Conditions</i>
<ul style="list-style-type: none"> <li>• Degree of political legitimacy</li> <li>• Domestic political support</li> <li>• Political stability</li> <li>• International perceptions of recipients' political legitimacy</li> </ul>	<ul style="list-style-type: none"> <li>• Degree of dependence on donor aid</li> <li>• Level of debt</li> <li>• Aid dependence</li> <li>• Access to other sources of finance (e.g., FDI, private lending, domestic tax revenue, other donors)</li> </ul>
<i>Institutional Conditions</i>	<i>Ideological Conditions</i>
<ul style="list-style-type: none"> <li>• Effectiveness of state institutions</li> <li>• Existence and effectiveness of aid management structure</li> </ul>	<ul style="list-style-type: none"> <li>• Ideological similarities with donor</li> <li>• Clear development vision</li> </ul>

Source: Based on Whitfield & Fraser (2009b) with adaptations by author

### 7.2.3 Ownership and capacity

Ohno and Niiya (2004) argue that recipients are unable to exercise ownership of development programmes if they lack the capacity to design and implement them, or if they are unable to provide the leadership necessary for donor coordination. The authors devised a rough method of measuring capacity composed of the relation between three indicators: (i) aid as a percentage of macroeconomic aggregates, (ii) the central government's tax revenue as a percentage of GDP, and (iii) public service delivery indicators (ibid.: 18). The first indicator shows the recipient's degree of aid dependence and sources of other finance. The second indicator again shows whether there are other sources of finance, and with it, the degree of aid dependence, though it also reflects the ability of a government to collect tax revenue. The third indicator is a rough measure of the government's capacity to provide public services, both its financial ability and its institutional capacity.

To these we add one other proxy measure for institutional capacity, the Corruption Perception Index (CPI). It can be argued that countries with higher levels of corruption have weaker institutional capacity, though this is by no means always the case. Nonetheless, in countries with a high level of corruption public administrators are more likely to be concerned primarily with self-enrichment rather than with providing public services.

### 7.3 China's development ownership

He Wenping (2011) argues that China, with its more than 30 years as a foreign aid recipient, has explored and accumulated a large amount of beneficial experience on how to take ownership of ODA inflows. She adds that during the 1960-1978 period, China had no internal or external debt (*ibid.*). During a meeting with the then president of the World Bank Robert McNamara in 1980 Deng Xiaoping stated, "Without the help of the World Bank, our China will without a doubt be able to realize its own goals. With the help of the World Bank, however, China will be able to realize its development goals more rapidly" (cited in *ibid.*: 128). Aid was provided to China for infrastructure and for agricultural and economic reforms. He Wenping (*ibid.*) argues that the success of the aid provided to China was the result of the interaction between China and donors, in which China took the lead in directing aid, and donors provided financial assistance, skills transfer, and expert knowledge. She also credits China's Five-Year Plans with increasing donor alignment and harmonization, and enabling China to exercise ownership over aid and development. Additionally, China established a channelling agency through which all aid was routed to the appropriate ministries, and specific requirements were upheld for foreign aid project applications.

The OECD (2012: xii) similarly underlines the important role of the Chinese government in guiding China's socio-economic development. It emphasizes the utility of China's policy experimentation and the function of the Five-Year Plans in making weakness and challenges key focus areas (*ibid.*). The OECD report echoes He Wenping's (2011) finding that China acquired aid and investment not primarily for its own finances but rather to gain knowledge, skills, and technology and to accelerate agricultural, industrial, and infrastructural modernization. Finally, the OECD report highlights the importance of the self-reliance approach through which China exercised ownership, and the role of its development-oriented leadership. The Office of the United Nations Resident Coordinator in China (OUNRCC) (2010) also underlines the importance of China's strong national ownership and its clear development vision encapsulated in its Five-Year Plans.

The World Bank (2007) states that learning rather than finance was the most important characteristic of China's relationship with the Bank. China did not have a dependent relationship with the Bank in that the World Bank and other donors did not finance the government. Rather, they assisted China, among other things, in developing its modern project management methods, strengthening its environmental management system, improving basic education targeting particularly rural areas, and strengthening banking regulation and supervision. These learning experiences were initiated at the request of the Chinese government and financed through project loans (World Bank 2007).

With regard to geopolitical considerations, China has a number of strengths. Using Reynaud and Vauday's (2008) rough indicators reveals some of these. China has the world's largest population; it borders 14 different countries (more than any other country in the world except for Russia); and it has high transportation capacity, as measured by lengths of road and railways. It is a nuclear power with a large military, though it has not been engaged in any armed conflict since the Sino-Vietnam war of 1979, and it is a signatory to the Non-Proliferation Treaty. While China does have large reserves of resources, it is a net importer of oil and gas. Beyond Reynaud and Vauday's

(ibid.) variables, China's vast market potential is of interest to donors. Additionally, China's international political influence is strong and growing. While it follows the principles of non-interference and respect for state sovereignty, its support in international forums is of substantial geopolitical importance.

A number of points regarding ownership become apparent when utilizing the Whitfield and Fraser (2009a) model as well. With regard to ideological resources, China has had a clear development vision, evident in its Five-Year Plans, alongside policy innovation and development-oriented leadership. China has had effective institutions, including one dedicated to channelling aid inflows. Additionally, capacity building has been an important motivation for its seeking aid. Regarding economic resources, aid inflows were insignificant in relation to China's overall GDP. These elements, taken together with China's geopolitical significance, have provided China with strong negotiating capital and thereby the ability to take ownership of its development processes. The section below presents an empirical analysis comparing elements of China's negotiating capital with those of the countries in Whitfield and Fraser's (2009a) study. The final section then investigates whether China's engagement with Africa has contributed to strengthening these and other elements of recipient negotiating capital.

## **7.4 Comparisons of negotiating capital**

### **7.4.1 Identifying successful aid negotiators**

Whitfield and Fraser (2009a) identify Botswana and Ethiopia as successful aid negotiators, Rwanda as partially successful, and Mozambique, Mali, Ghana, Tanzania, and Zambia as unsuccessful. In order to verify their findings and compare the elements of negotiating capital with China this analysis uses the same countries as Whitfield and Fraser (2009a). The following sections furthermore use Ohno and Niiya's (2004) empirical measures, in addition to measures identified by the current author as indicative of negotiating capital, as described by Whitfield and Fraser (2009a, 2009b), to test the accuracy of Whitfield's findings and to compare the negotiating capital of China to those of the African nations in Whitfield and Fraser's (2009a) study.

### **7.4.2 Political conditions**

One of the political conditions is political legitimacy. The State Fragility Index (SFI) of the Center for Systemic Peace offers a measure of political legitimacy based on factionalism, ethnic group political discrimination, the political salience of elite ethnicity, and polity fragmentation. A point is given for each negative condition with a possible total of 3 (scores of 4 and 5 are rounded down). Zero (0) indicates the highest level of political legitimacy.<sup>70</sup>

China did not have very strong political legitimacy scores for the period 1995-2010, largely due to the fact that it is not a democracy in the Western sense. Botswana, on the other hand, with its well-established democracy, consistently scored 0 points for that same period. Ethiopia suffered from similar legitimacy issues as China for analogous reasons. Ghana fared slightly better, especially after 1995. Mali made a rapid improvement from 1995 to 2003 in terms of political legitimacy, consistently scoring 0 after 2003. Mozambique, like Botswana, consistently scored well. Rwanda showed a

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<sup>70</sup> These indicators are derived from Western normative conceptions of political legitimacy, and therefore are arguably not fully applicable to the countries being studied. To some degree, this indicator is more a measure of democracy than political legitimacy.

consistent lack of political legitimacy. Tanzania, however, showed strong political legitimacy. Finally, Zambia's political legitimacy improved after 2007 (Table 7.2).

**Table 7.2**  
*Measure of political legitimacy, according to the State Fragility Index (SFI) of the Center for Systemic Peace*

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
<b>1995</b>	2	0	2	2	2	0	2	0	2
<b>1996</b>	2	0	2	1	0	0	2	0	2
<b>1997</b>	2	0	2	1	1	0	2	0	2
<b>1998</b>	2	0	2	1	1	0	2	0	2
<b>1999</b>	2	0	2	1	1	0	2	0	2
<b>2000</b>	2	0	2	1	1	0	2	0	2
<b>2001</b>	2	0	2	1	1	0	2	0	2
<b>2002</b>	2	0	2	1	1	0	2	0	2
<b>2003</b>	2	0	2	1	0	0	2	0	2
<b>2004</b>	2	0	2	1	0	0	2	0	2
<b>2005</b>	2	0	2	1	0	0	2	0	2
<b>2006</b>	2	0	2	1	0	0	2	0	2
<b>2007</b>	2	0	2	1	0	0	2	0	2
<b>2008</b>	2	0	2	1	0	0	2	0	1
<b>2009</b>	2	0	2	1	0	0	2	0	1
<b>2010</b>	3	0	2	1	0	0	2	0	1

Source: [www.systemicpeace.org/inscr/inscr.htm](http://www.systemicpeace.org/inscr/inscr.htm) (Accessed 18 August 2012)

These measures differ slightly from Whitfield and Fraser's (2009a) findings. According to these authors, only one of the countries with strong negotiating capital, Botswana, also had strong political legitimacy. Ethiopia and Rwanda had quite weak political legitimacy. Four countries with weak negotiating capital – Ghana, Mali, Mozambique, and Tanzania – had comparatively strong political legitimacy. China also showed a lack of political legitimacy, though it did exercise strong ownership. This implies that either the overall composition of negotiating capital is the key to understanding countries' abilities to negotiate ownership, or that geostrategic factors also play an important role.

Another measure of political negotiating capital is political effectiveness, measured by the SFI based on regime durability, current leader's years in office, and total number of coups. A negative indicator scores one point. For example, if there were a high number of coups then a point would be added. Zero (0) indicates the highest level of political effectiveness.

Excluding 2002, China consistently showed strong political effectiveness.<sup>71</sup> Botswana rapidly improved its political effectiveness indicator after 1998. Ethiopia consistently

<sup>71</sup> The figure of 1 in 2002 is likely due to the fact that Chairman Jiang Zemin was in power for more than 12 years at that point. The political effectiveness indicator is made up of three variables, one of which is the years in office of the leader. If a leader is in office for more than 12 years, a point is added.

scored poorly, with a slight improvement in 2005-2008. Ghana's political effectiveness varied throughout the period under study. Mali's political effectiveness improved over the period. Mozambique similarly improved, though slightly. Rwanda had a relatively consistent poor score throughout, though ending better in 2010. Tanzania improved of its political effectiveness. Finally, Zambia exhibited a slight improvement in its nonetheless poor political effectiveness (Table 7.3).

**Table 7.3**  
*Measure of political effectiveness, according to the State Fragility Index (SFI) of the Center for Systemic Peace*

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1995	0	1	2	3	3	2	2	2	3
1996	0	1	2	3	3	2	2	2	3
1997	0	1	2	3	3	2	2	2	3
1998	0	0	2	3	3	2	2	2	3
1999	0	0	2	2	3	3	2	2	3
2000	0	0	2	1	3	3	2	2	3
2001	0	0	2	1	3	3	2	2	3
2002	1	0	2	1	2	3	2	2	3
2003	0	0	2	1	2	3	2	1	3
2004	0	0	2	2	2	2	1	1	3
2005	0	0	1	2	2	1	1	0	2
2006	0	0	1	2	1	0	1	0	2
2007	0	0	1	2	1	0	2	0	2
2008	0	0	1	2	1	0	2	0	2
2009	0	0	2	2	1	0	1	0	2
2010	0	0	2	2	1	0	1	0	2

Source: <http://www.systemicpeace.org/inscr/inscr.htm> (Accessed 18 August 2012)

Measured against Whitfield & Fraser's (2009a) findings, there are again some divergences. Our findings for Botswana reflect those of Whitfield and Fraser. However, our findings for Ethiopia indicate weak negotiating capital. Rwanda's partial strength can be explained by its poor political effectiveness. However, Whitfield and Fraser (ibid.) identify Tanzania and Mozambique as having weak negotiating capital, though our findings would indicate strong political effectiveness.

### 7.4.3 Economic conditions

The analysis of the economic conditions below relies on indicators described by Whitfield and Fraser (2009a, 2009b) and Ohno and Niiya (2004). The first measure is economic growth. Since the 1970s China has enjoyed growth rates of over 9 per cent. Botswana had high levels of growth from the 1960s to 1980s, declining recently. Ghana, Mozambique, Rwanda, Tanzania, and Zambia experienced generally increasing levels of growth. Mali's growth fluctuated more. Ethiopia's GDP growth also increased, with a surge in 2005-2010 (Table 7.4).

The second measure of economic conditions is gross national income (GNI) per capita using the Atlas method.<sup>72</sup> Taking 1990 as a starting point for which all countries had figures, China's GNI per capita increased by 1,393 per cent, Botswana's by 194 per cent, Ethiopia's by 60 per cent, Ghana's by 253 per cent, Mali's by 135 per cent, Mozambique's by 176 per cent, Rwanda's by 58 per cent, Tanzania's by 170 per cent, and Zambia's by 164 per cent.<sup>73</sup> Botswana and China score consistently well, both by end points and by percentage increase from 1990. Botswana stands out as having the highest GNI per capita. Ethiopia and Rwanda have far lower GNIs per capita, even though Ethiopia was identified as a country with strong negotiating capital and Rwanda as having relatively strong negotiating capital. In fact, Ethiopia had the lowest GNI per capita, while Zambia and Ghana, both considered by Whitfield and Foster (2009a) to have weak negotiating capital, had on average double the GNI per capita in 2011 as the remaining countries (Table 7.5). This indicates that the overall composition of negotiating capital and geopolitical considerations are like the most important determining factor.

**Table 7.4**  
*GDP growth (annual percentage)*

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1960s	3	8	-	2	2	-	3	-	4
1970s	7	16	-	1	5	-	5	-	2
1980s	10	11	2	2	1	0	3	4	1
1990s	10	6	3	4	4	6	2	3	0
2000-2004	9	6	5	5	6	7	7	7	4
2005-2010	11	3	11	7	5	7	8	7	6
2011	9	5	7	14	3	7	9	6	6

Note: - indicates instances where data was not available.

Source: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> (Accessed 21 August 2012)

Ohno and Niiya (2004) identify aid dependence as important in determining the ability of a recipient country to take ownership of its own development. One frequently-used indicator of aid dependence is net ODA received as a percentage of GNI. Bräutigam (2000) defines aid dependence as ODA levels at or above 10 per cent of GNI (Table 7.6).

<sup>72</sup> The Atlas method involves the conversion of a country's GNI on the basis of a three-year average of exchange rates, adjusted for the difference between the country's inflation rate and the inflation rate of a number of developed countries using a weighted average.

<sup>73</sup> Based on annual data.

**Table 7.5**  
GNI per capita (Atlas method)

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1960s	94	94	-	219	60	-	44	-	276
1970s	168	418	-	301	119	-	112	-	498
1980s	269	1263	231	385	201	250	288	-	455
1990s	550	2981	184	395	260	171	280	199	367
2000-2004	1160	3488	128	324	260	236	222	326	348
2005-2010	2865	6015	268	862	492	367	393	445	817
2011	4930	7480	400	1410	610	470	570	540	1160

Note: - indicates instances where data was not available.

Source: <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD> (Accessed 15 August 2012)

**Table 7.6**  
Net official development assistance (ODA) received (percentage of GDP)

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1960s	-	19.0	-	1.9	7.1	-	7.4	-	1.7
1970s	0.0	13.4	-	2.8	11.7	-	13.1	-	3.4
1980s	0.4	8.5	5.5	6.3	20.3	15.8	10.7	20.9	13.6
1990s	0.5	2.4	9.7	9.9	17.9	44.3	29.7	19.1	26.5
2000-2004	0.1	0.5	15.3	13.1	13.2	29.9	20.4	12.7	21.1
2005-2010	0.0	1.9	13.1	6.7	13.2	22.4	19.7	13.2	11.5
2011	0.3	8.8	10.1	6.2	15.0	28.5	16.3	16.3	12.3

Note: - indicates instances where data was not available.

Source: <http://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS> (Accessed 18 August 2012)

All the countries in the study apart from China received ODA at over 10 per cent of GNI at some point, and only China, Botswana, and Ghana had levels lower than 10 per cent in 2011. This indicates that, apart from China, all the countries in the study were or are aid dependent. China's aid as percentage of GNI never exceeded 0.73. Mali, Mozambique, and Rwanda have been the most dependent. Only Botswana, China, and Ghana were not aid dependent in 2011.

Aid dependence can also be measured by ODA as a percentage of government expenditures. Both Botswana and China had very low ODA as a percentage of government expenditures. Ghana's and Zambia's levels were decreasing, while Ethiopia's were rising, indicating that the latter is increasingly dependent on aid, while the former are becoming less dependent (Table 7.7).

**Table 7.7**  
Official development assistance (ODA) as a percentage of government expenditures

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1990-1994	-	10.4	85.0	-	-	-	117.3	-	-
1995-1999	-	5.5	67.0	-	-	-	-	-	82.0
2000-2004	1.0	-	105.5	61.8	91.6	-	-	-	110.0
2005-2010	-	-	133.3	32.3	86.2	-	-	-	53.0

Note: - indicates instances where data was not available.

Source: <http://data.worldbank.org/indicator/DT.ODA.ODAT.XP.ZS> (Accessed 21 August 2012)

Another aspect of economic negotiating capital is access to financial resources other than aid. Net FDI inflows, as a percentage of GDP, is an indicative measure for this. FDI as a percentage of GDP was not very significant for China, Ethiopia, Rwanda, or Tanzania. It was slightly more significant for Botswana, Ghana, Mali, Mozambique, and Zambia. Higher levels of FDI as a percentage of GDP imply greater access to foreign financial resources other than aid. The figures suggest that Rwanda, Ethiopia, China, and Tanzania had less access to external non-aid finance in the form of FDI, while the remaining countries had greater access (Table 7.8).

**Table 7.8**  
Net FDI inflows as percentage of GDP

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1970s	-	3.5	-	0.5	0.2	-	0.6	-	1.2
1980s	0.6	4.6	-	0.2	0.2	0.1	1.0	0.1	1.7
1990s	3.9	0.2	1.0	1.7	1.0	2.5	0.2	1.6	4.2
2000-2004	3.1	5.8	4.0	1.9	4.1	5.9	0.3	3.4	6.2
2005-2010	3.9	5.4	1.5	5.5	2.7	5.5	1.3	3.1	7.5

Note: - indicates instances where data was not available.

Source: <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS> (Accessed 30 August 2012)

Statistics on exports of goods and services similarly provide a useful indicator of access to non-aid finance. All countries, aside from Ethiopia and Rwanda, have had relatively high levels of exports of goods and services as a percentage of GDP. This is especially true of Botswana, Ghana, and Zambia (Table 7.9).

**Table 7.9**  
*Exports of goods and services as percentage of GDP*

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1960s	-	27.1	-	20.9	10.9	-	10.1	-	53.7
1970s	4.7	42.6	-	16.3	11.6	-	12.8	-	43.8
1980s	11.8	62.0	6.6	11.2	15.8	6.8	10.4	-	34.4
1990s	19.6	51.5	8.1	25.2	20.8	12.8	6.0	15.9	32.8
2000-2004	26.9	46.7	13.0	43.3	28.8	25.4	9.0	17.2	30.0
2005-2010	34.3	42.3	12.5	28.3	28.0	31.5	11.7	23.7	38.4
2011	29.3	38.5	11.7	37.2	-	28.9	-	30.2	37.1

Note: - indicates instances where data was not available.

Source: <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS> (Accessed 29 August 2012)

Our final measure of access to alternative sources of finance is tax revenue as a percentage of GDP. This indicator also reflects a measure of state capacity. Tax revenue generation is arguably a crucial element of socio-economic development (see, e.g., Bräutigam et al. 2008), as it reflects establishment of a social contract in addition to providing the government revenue to develop the public sector and provide social services.

**Table 7.10**  
*Tax revenue as a percentage of GDP*

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1990-1994	3.8	24.8	7.1	12.1	-	-	9.0	-	17.9
1995-1999	5.4	15.9	9.9	-	-	-	-	-	17.7
2000-2004	8.0	-	9.2	18.7	13.8	-	-	-	17.6
2005-2010	9.7	-	8.8	14.9	14.8	-	-	-	16.6

Note: - indicates instances where data was not available.

Source: <http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS> (Accessed 29 August 2012)

Zambia and Botswana and to a lesser extent Ghana and Mali have consistently generated high levels of tax income as a percentage of GDP (Table 7.10). This indicates a reasonable level of access to alternative financial resources and strong institutional capacity. China's figures are lowest of all countries in the study. Nonetheless, China has had a stable and growing economy. Ethiopia's figures show a strong decline

The analysis above confirms Whitfield and Fraser's (2009a) findings regarding China and Botswana. However, it also suggests that the overall content of negotiating capital, rather than its disparate elements, and geostrategic considerations, might provide a clearer explanation of why some countries with weak elements of negotiating capital, such as Ethiopia, have nonetheless been able to assert ownership, while countries with stronger elements of negotiating capital, such as Ghana, have not.

#### 7.4.4 Institutional conditions

Whitfield and Fraser (2009a, 2009b) and Ohno and Niiya (2004) both identify the role of institutional conditions and capacity in ability to take ownership of development aid. Whitfield and Fraser (2009a, 2009b) argue that institutional conditions determine ownership through a government's demonstrated ability to run its country, to facilitate donors' use of country systems, and to ensure aid alignment and harmonization with national systems and procedures. Ohno and Niiya (2004) seek only to measure country capacity in this regard, in order to determine appropriate aid modalities and donor involvement. Ohno and Niiya (ibid.) identify three indicators that provide a rough gauge of institutional capacity: (i) primary school completion rate, (ii) access to improved water sources, and (iii) immunization rates. While there is certain utility in using these measures to gauge institutional capacity, these themes have also been the particular focus of donors, especially as part of the MDG efforts. Thus, the figures may reflect donor efforts rather than recipient country institutional capacity. In order to compensate somewhat for this potential deficiency of these measures, the CPI is also included in our metric.

China had consistently high levels of primary school completion, as did Botswana and more recently Zambia, Ghana, and to a lesser extent Tanzania. Rwanda, Mali, and Mozambique had comparatively low levels of primary school completion, while Ethiopia fared only slightly better, although it had underperformed most nations until 2004. This indicates that China, Botswana, Ghana, and Zambia have had comparatively stronger institutional capacity on the basis of this indicator (Table 7.11).

**Table 7.11**  
*Primary school completion rate*

	<b>China</b>	<b>Botswana</b>	<b>Ethiopia</b>	<b>Ghana</b>	<b>Mali</b>	<b>Mozambique</b>	<b>Rwanda</b>	<b>Tanzania</b>	<b>Zambia</b>
1970s	-	49.7	-	59.2	10.8	8.2	26.4	29.6	78.5
1980s	103.2	82.3	22.3	64.1	10.5	31.7	46.6	78.9	88.5
1990s	101.5	91.6	17.0	65.8	-	23.9	45.6	55.5	65.9
2000-2004	0.0	92.0	31.0	69.2	34.6	21.8	31.3	57.5	66.6
2005-2010	-	95.6	53.1	79.0	48.7	50.8	63.0	80.8	93.1

Note: - indicates instances where data was not available.

Source: <http://data.worldbank.org/indicator/SE.PRM.CMPT.ZS> (Accessed 18 August 2012)

Statistics on access to improved water sources suggest that China, Botswana, and Ghana have had strong institutional capacity. Given its relatively high levels of improvement, Ethiopia, Mali, and to a lesser extent Zambia arguably have also possessed relatively strong institutional capacities, while declining access to improved water sources in Rwanda and Tanzania indicate a deteriorating institutional capacity in these countries (Table 7.12).

**Table 7.12**  
Access to an improved water source

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1990-1994	77.9	94.2	42.9	62.4	40.1	49.5	78.6	69.2	56.9
1995-1999	81.6	94.4	48.8	68.7	48.2	50.3	76.3	66.9	59.8
2000-2004	85.6	94.6	55.5	75.0	56.2	51.5	73.5	64.9	62.9
2005-2010	89.7	95.2	63.0	82.1	65.3	52.6	70.8	62.6	65.8

Note: Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 litres per person per day from a source within one kilometre of the dwelling.

Sources: Figures are the average of datasets on access to improved water sources for both rural and urban populations, <http://data.worldbank.org/indicator/SH.H2O.SAFE.RU.ZS> (Accessed 18 August 2012) and <http://data.worldbank.org/indicator/SH.H2O.SAFE.UR.ZS> (Accessed 18 August 2012)

Using immunization rates of children between 12 and 23 months of age as an indicator of institutional capacity, we find that China and Botswana both have had strong capacities. Ghana similarly exhibits relatively high levels of institutional capacity, while Ethiopia shows slightly weaker capacity based on levels from the last period measured. Considering progress, as capacity inherently needs to be developed, some improvements are evident. Mali and Mozambique experienced progress, though their levels were still low. Rwanda's and Tanzania's immunization rates declined. Again, it cannot be ruled that out this institutional capacity indicator – as well as the others – might have been affected by donor activities and support. They should therefore be considered a rough guide rather than an exact measure (Table 7.13).

**Table 7.13**  
Total measles and DPT immunization rates  
(percentage of children 12-23 months of age)

	China	Botswana	Ethiopia	Ghana	Mali	Mozambique	Rwanda	Tanzania	Zambia
1980s	80.9	81.9	10.2	30.2	18.8	41.8	62.4	66.1	68.4
1990s	85.9	91.8	41.2	69.7	46.9	58.8	75.2	78.8	86.1
2000-2004	85.5	94.2	56.8	84.8	58.2	74.7	82.6	88.9	84.2
2005-2010	94.7	94.9	73.1	89.8	70.9	74.6	91.9	89.2	83.8

Note: The above figures represent averages of datasets for both measles and DPT immunizations. Sources: <http://data.worldbank.org/indicator/SH.IMM.MEAS> and <http://data.worldbank.org/indicator/SH.IMM.IDPT> (Both accessed 21 August 2012)

Two other indicators that could potentially be used as a proxy for institutional capacity are credit rating and ease of doing business rating. Credit rating agencies evaluate the political and economic climate of a country at the request of that country's government. The resulting ratings are then used when issuing government bonds on international markets or for attracting FDI. One of the problems with credit ratings is that different agencies use different measures. However, the credit rating data available is insufficiently complete to provide a useful comparison for our purposes here. Not all the

countries under study had credit ratings. Some had ratings from some agencies and not others. The ease of doing business ratings, developed by the International Finance Corporation of the World Bank, are more complete. The ability of a government to develop a stable and attractive investment climate indicates a certain degree of institutional capacity. However, the only comparable measure, namely rankings, is available only for the last two years.

The CPI published annually by Transparency International provides another proxy for measuring institutional capacity. Countries with higher levels of corruption can be assumed to have lower levels of institutional capacity, as public officials there are presumably more concerned with self-enrichment and patronage than with public service. On a scale from 1 to 10, with 10 being the least corrupt, of all the countries in this study only Botswana performs well. Ghana's CPI was worse than China's until 2006, after which it has been consistently better than China. China's CPI was seldom more than 1 point better than the remaining countries in the study. Rwanda has shown strong improvement in corruption since 2006 (Table 7.14).

**Table 7.14**  
*Corruption Perception Index (CPI) scores, 2000-2012*

<b>Country</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012*</b>
China	3.1	3.5	3.5	3.4	3.4	3.2	3.3	3.5	3.6	3.6	3.5	3.6	3.9
Botswana	6.0	6.0	6.4	5.7	6.0	5.9	5.6	5.4	5.8	5.6	5.8	6.1	6.5
Ethiopia	3.2	-	3.5	2.5	2.3	2.2	2.4	2.4	2.6	2.7	2.7	2.7	3.3
Ghana	3.5	3.4	3.9	3.3	3.6	3.5	3.3	3.7	3.9	3.9	4.1	3.9	4.5
Mali	-	-	-	3.0	3.2	2.9	2.8	2.7	3.1	2.8	2.7	2.8	3.4
Mozambique	2.2	-	-	2.7	2.8	2.8	2.8	2.8	2.6	2.5	2.7	2.7	3.1
Rwanda	-	-	-	-	-	3.1	2.5	2.8	3.0	3.3	4.0	5.0	5.3
Tanzania	2.5	2.2	2.7	2.5	2.8	2.9	2.9	3.2	3.0	2.6	2.7	3.0	3.5
Zambia	3.4	2.6	2.6	2.5	2.6	2.6	2.6	2.6	2.8	3.0	3.0	3.2	3.7

Note: \* 2011 figures were divided by 10 for consistency of presentation. Further, - indicates instances where data was not available.

Source: Transparency International Corruption Perception Index various years.

In terms of the institutional capacity element of negotiating capital, a number of findings reflect those of Whitfield and Fraser (2009a, 2009b). Botswana performs well across the board. China has a much worse CPI, though capacity measured by other indicators is high. Rwanda's capacity measured by immunization, access to water, and primary school completion shows a decline, though its CPI improved. The poorer performance of other countries, except Ghana, again reflects Whitfield and Fraser's (ibid.) findings.

Ghana's stronger performance on most elements of negotiating capital, but its poorer ability to negotiate on its own terms with donors might be further explained by its lower geopolitical importance, using Reynaud and Vauday's (2008) four proxies. Ghana's population is approximately 60 million, less than Ethiopia's (World Bank 2011). Ghana's land area is only one quarter the size of Ethiopia's (ibid.). It has slightly higher proven gas reserves, at 0.88 trillion cubic feet, compared to Ethiopia's 0.8, but much larger, though still very small, proven oil reserves at 0.66 billion barrels, whereas Ethiopia's oil reserves were too small to be included in US Energy Information Administration statistics (EIA 2013). Ethiopia's geostrategic importance can further be understood in reference to its function in the global war on terror. The US operates a drone base in Ethiopia (Whitlock 2011). Its geographic location close to hotbeds of terrorism in

Somalia, Yemen, Sudan, and Eritrea means that it is a key ally in the fight against Islamist militants. Ethiopia is also home to the headquarters of the African Union. All these factors contribute to enhance Ethiopia's negotiating capital (Prizzon & Rogerson 2013).

#### 7.4.5 Ideological conditions

Whitfield and Fraser (2009b) argue that there are two elements of ideological negotiating capital: (i) normative/ideological similarities between donors and recipients and the extent that recipient development plans are formulated in line with these normative precepts (e.g., the MDGs, economic liberalization, and good governance) and (ii) the ability of recipient governments to express a clear development vision and the contributions of public policies to achievement of these visions (ibid.). If recipients utilize a coherent development framework, donors find it harder to challenge recipients' priorities, especially if recipients are also able to demonstrate alignments with international development goals and norms such as the MDGs.

A clear development plan indicates a country's development vision. Since the founding of New China in 1949, it has used successive Five-Year Plans to guide its development. Botswana has similarly utilized national development plans since 1965 (Government of Botswana 2012). Rwanda also has a clearly formulated development strategy (Government of Rwanda 2000, 2011). However, the Rwandan government admits its collaboration with foreign donors, institutes, and consultants on its 2011 development strategy, making it difficult to assess its level independence and ownership. The Ethiopian government has a five-year plan (Government of Ethiopia 2010). The Government of Ghana has a national development planning commission, however, its Growth and Poverty Reduction Strategy is akin to the PRSPs required by the international financial institutions. Only China and Botswana do not have PRSPs.<sup>74</sup>

Using the existence of a PRSPS as a measure of developmental vision would be inaccurate, as it has now become best practice in foreign aid to develop a PRSP. As PRSPs are required to receive foreign aid, especially from multilateral donors, they cannot be interpreted as an expression of development vision. Rather, they may actually indicate a nation's need or desire to receive development aid. Additionally, the PRSP does not necessarily reflect a nation's own development vision, but rather contains a degree of compromise and conscious writing for the donor audience. Finally, there might be a high degree of donor involvement in a PRSP. Recipients sometimes hire foreign consultants to write their PRSPs, due in part to their own lack of capacity and in part to the conditionalities and behaviour-changing requirements that donors place on their support to a PRSP (see Cramer et al. 2006). Having an independent development strategy like that of China, Botswana, and Ethiopia, and to a lesser extent that of Rwanda, could be a more appropriate indicator of development vision and thereby of strong ideological conditions within a country. This would support Whitfield and Fraser's (2009a) findings, adding that China also has strong ideological conditions.

The above analysis of the different elements of aid negotiating capital described by Whitfield and Fraser (2009b), namely political, economic, institutional, and ideological resources, leaves a number of questions. What are the weights of the different elements? Botswana seems to have strong resources throughout all categories. However, Ethiopia's resources seem to be lacking in the political, economic, and institutional categories. Ghana performs quite well throughout, apart from the ideological category. Geostrategic considerations provide a strong explanation for these discrepancies. The elements of negotiating capital taken together with geostrategic considerations provide

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<sup>74</sup> See <http://www.imf.org/external/np/prsp/prsp.aspx> (accessed 30 August 2012).

evidence of why Botswana, China, and Ethiopia have been able to exercise ownership over their development processes. As such it is useful to look at how China has contributed to recipient ownership.

## 7.5 China's contributions to recipient ownership

The two sections above described China's ability to successfully assert ownership of its own development process as the result of its strong negotiating capital and geostrategic importance. Other countries, such as Botswana and Ethiopia, which also successfully took ownership of their development process, did so on the basis of similar strengths, although the composition of these strengths differed in the three countries. Given China's experience, and its growing role as an aid donor and economic partner, it is important to understand whether and how China has contributed to improving the ability of its partners to take ownership of their own development. Ownership is defined here as the ability of national governments to pursue their own development strategies on their own terms. In order to do this, our analysis looks at China's contributions to negotiating capital, as well as other considerations.

China's engagement with other developing countries is based on different principles than those adhered to by traditional donors. However, its motivations and practices are not greatly different from many donors (Warmerdam 2012, De Haan & Warmerdam 2012, Warmerdam & De Haan 2011). China's aid programme does not provide budget support, and it is not involved in governance reform-related aid. Its assistance is more focused on infrastructure, and its engagement is also aimed at stimulating the private sector. Chinese principles of economic cooperation advocate, among other things, recipient country self-reliance and independent ability to develop, mutual non-interference, respect for state sovereignty, equality, and mutual benefit. These principles hold the potential to contribute to increasing recipient ownership. Kragelund (2012) investigates the impact of non-traditional state actors, such as China and other emerging economies, in Africa on ownership. He defines ownership as policy autonomy, a definition quite similar to that of Whitfield & Fraser (2009a, 2009b). Kragelund's (2012) analysis, however, was focused on economic conditions that improved the policies of recipients in their relations with donors.

China's potential contributions to recipient ownership, as defined above, come about through three channels: (i) aid, (ii) FDI and trade, and (iii) political interaction. The components of China's foreign aid programme were described in Chapter 2 and Chapter 3.

China's use of turnkey projects and complete plant projects is different from contemporary traditional donor aid. Most traditional donors have moved from project support towards sector and budget support, intending thereby to foster recipient ownership, donor alignment with recipient structures and processes, and donor harmonization. Results have been mixed, however, and budget support generally still does not constitute the largest proportion of aid disbursements (OECD 2008). Given that China does not provide budget or sector support, the question arises of whether China adds to or detracts from recipient ownership. China's foreign aid is considered demand-driven (Unsworth 2010, Wood et al. 2008).<sup>75</sup> This also contrasts with traditional donor's supply-driven project aid. Sector and budget support were introduced to overcome problems associated this supply-driven modality of aid.

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<sup>75</sup> Although recent research by Grimm et al. (2010) in Rwanda suggests that Asian donors' engagement might also be suffering from this problem.

The Chinese project aid process involves a recipient country government applying for project assistance. Relevant Chinese institutions then evaluate this, and the application is either granted or rejected (Davies 2007). The recipient government can be said to have ownership over the project, as they initiated it. However, Chinese project aid, especially projects financed by concessional loans, requires that a proportion of the loan be used to acquire Chinese goods and services. The size of this proportion varies, depending to a large extent on the negotiating capital of the recipient. Many traditional donors have been moving away from this form of tied aid since the 1990s. As most Chinese aid projects relate to infrastructure and construction, Chinese firms are used to build these structures. This detracts from recipient ownership. While local workers are employed, and lower echelons of the workforce are composed almost exclusively of local workers, there are far fewer local workers in management positions (see, e.g., Warmerdam & Van Dijk *forthcoming*). This implies that there is recipient ownership at the design stage, but not at the implementation stage. Similarly, due to a lack of capacity on the recipient side, and a lack of capacity building by the Chinese, Chinese firms are often employed for maintenance as well. A case in point is the Chinese maintenance team at Mandela Stadium in Uganda, which has been in place for some two decades (Warmerdam & Van Dijk 2012).

Finally, a major component of the concept of ownership, and its complementary aspects of alignment and harmonization, is use of recipient structures and processes, especially with regard to aid inflows. In its own development, China was praised for its use of dedicated institutions to manage aid inflows. However, when China provides project aid, little aid flows into the recipient country. The Chinese government pays the Chinese implementing bodies directly from the funds dedicated to the projects. Therefore, there is little aid inflow and little use of recipient structures and processes.

In its foreign aid and SSC, the Chinese government has a number of capacity building programmes, described earlier in this volume. The Chinese medical teams are one of these. Similarly, the Chinese government has built and funded agricultural demonstration centres. The Chinese government has also contributed to African civil service system-building (MFAPRC 2006). It does this by training African civil servants in China and in recipient countries (Thompson 2005). From 2000 to 2006, 14,600 African personnel were trained in various fields (Liu 2006). Three years later, this had risen to 20,000 technicians and administrative personnel (Luo & Zhang 2009). For example, 50 Nigerian officials and medical personnel were trained to assist the Nigerian government in its 'Roll Back Malaria' programme (Obiorah et al. 2008). At the last FOCAC Summit in 2012, the Chinese government announced that it would train 30,000 Africans in various professions and provide 18,000 government scholarships in its African Talents programme over the next three years (MOFCOM 2012). More than 10,000 people from developing countries are being trained in China each year (IOSCPRC 2011). China also provides numerous scholarships to African university students.

China's capacity building and technical cooperation programmes all target individual capacities, with the expectation that the overall institutional capacity is increased as a result. These efforts would be more effective if they were complemented by the use of existing country institutions, structures, and processes. However, using country institutions and structures might go against China's current definition of non-interference, as a degree of involvement in a country's policy and priority setting processes might be required to ensure that finances are being spent in a fiscally appropriate manner in accordance with the donor. Such programmes, nevertheless, may contribute to building institutional capacity, potentially strengthening recipient negotiating capital.

China's economic engagement provides recipients access to alternative sources of finance. However, the extent to which recipients enjoy this access to Chinese finance is

dependent on whether there are Chinese interests in the recipient country, and the attractiveness of the recipient nation's investment climate. China's outward FDI and trade have increased dramatically, particularly since the 'Go Out' policy was initiated in 2000. Developing countries with large markets, such as Ethiopia and South Africa, and those with large reserves of strategic resources, such as Sudan, DRC, Angola, and Zambia, have particularly benefited from access to sources of finance other than those provided by traditional partners. China's Exim Bank, in addition to providing concessional loans under China's aid programme, also provides non-concessional loans and export-import credits. These aspects, taken together, have contributed to building the economic element of recipients' negotiating capital.

China's contributions to the political conditions of negotiating capital are less clear and more controversial. Given its policy of non-interference and respect for state sovereignty, China's impact on political conditions is less direct than the impact of traditional donors in this area. Nevertheless, China's engagement in Africa has been claimed to often undermine hard-won governance standards (Moran et al. 2012). Chinese actions and policies have similarly been said to undermine human rights, good governance, transparency, and accountability in African nations (Rotberg 2008, Taylor 2007, Tjønneland et al. 2006). Others state that China is undermining democracy in the developing world (Taylor 2007, Zhu 2010). Thus it would seem that China has not contributed to improving the two political components of negotiating capital: political legitimacy and political effectiveness. However, traditional donors' efforts at improving political legitimacy and effectiveness have a similarly poor track record (Warmerdam & De Haan 2011).

Nevertheless, the geostrategic importance of a number of countries could be increasing due to China's engagement. For example, the level of importance of countries with large oil and gas reserves could be increasing as the competition for their resources heats up. Additionally, countries with resources vital to China's booming manufacturing sectors, such as Zambia, which is one of China's largest suppliers of copper, could see their bargaining position improving as their resources gain greater strategic importance. Moreover, while China doesn't ally itself with individual countries, it does lend groups of countries political support in international fora, which increases the negotiating capital of these countries in their relations with traditional partners.

## **7.6 Conclusion**

Analysis of China's contributions to the ability of African countries to take ownership yields mixed results, and full potentialities appear yet to be realized. China does provide many African governments access to alternative sources of finance, other than traditional donor aid and economic relations, through its own aid programme and economic engagement. In this sense, it has increased the economic element of recipients' negotiating capital. There are no clear indicators of a role of China in increasing recipients' political resources, in the sense of improving their political legitimacy or political effectiveness. However, China might be increasing recipients' political negotiating capital at the international level. Neither has China contributed to the ideological resources of recipients – though these are, by their very nature, inherently more domestically derived. Its contributions to institutional resources are found more at the individual level. While the Chinese government provides a large number of capacity building programmes, ranging from medical and agricultural to technical and administrative, it does not utilize recipient structures and processes in its provision of project aid. Aid projects are initiated by recipients, suggesting a degree of design ownership. This then contrasts with a low level of implementation ownership, as

Chinese firms are contracted for project execution. Local workers are, however, employed and trained during project implementation.

China is to some extent hindered by its principles of economic cooperation and its desire to be seen as different from traditional donors. By providing project aid and capacity building programmes at the request of recipients and by providing scholarships in China where students are free to choose their own specializations, the boundaries of these principles remain intact. However, provision of sector or budget support, through which recipient country structures and processes would have to be used, might be considered overstepping the boundaries of the much touted principles of non-interference, respect for state sovereignty, and promotion of recipient self-reliance. Sector and budget support are generally thought to foster recipient countries' ownership and stimulate donor alignment with recipient domestic policies. As such, China is relinquishing this potentially positive contribution to recipient ownership. Although China itself did not receive budget or sector support, it did channel incoming aid through its own established structures, which essentially served a function similar to that of budget and sector support. Therefore, the fact that China does not provide sector or budget support somewhat contradicts its own developmental experience. The Chinese government currently seems to believe that the use of a recipient's own structures and processes, as budget and sector support do, would violate two key principles of its foreign economic relations, namely, non-interference in another country's domestic affairs and respect for state sovereignty. Yet, this would not necessarily be the case. Traditional donors' sector and budget support is accompanied by conditionalities, which certainly would overstep the boundaries of China's principles. Conditionalities are usually a result of donors' desire for assurances that their money is well spent, especially as they have to justify expenditures at home to ministers, parliaments, and the general public. Currently China does not believe it to be in its best interests to go down this road. Additionally, it could be argued that if the Chinese government really aimed to foster a recipient's independent development, one of the best ways to do so would be to use recipient structures and processes, and to provide budget and sector support to foster institutional capacity building and alignment with recipient country priorities.

While China is relatively steadfast in its principles of non-interference and respect for state sovereignty, as described in earlier chapters, it also holds fast to the principle of mutual benefit and the goal of fostering independent development of recipient countries. To this end, China's conceptions of development cooperation often blur the lines between foreign aid, trade, and FDI. The Chinese government promotes trade with and investment in developing countries, particularly since initiation of its 'Go Out' policy in 2000. Often trade and investment agreements contain elements of foreign aid, and vice versa. For example, China still practises tied aid. Resources for infrastructure deals may also represent a blurring of these distinctions, as infrastructure projects are often at least partially funded by concessional loans issued by the China Exim Bank.

This thesis has utilized a number of frameworks to answer questions about Chinese foreign aid: whether Chinese foreign aid policy can be classified along the same lines as traditional donor aid, what shapes Chinese foreign aid, and what the practical implications are of China's foreign aid policy. Chapter 2 used Stokke's (1989) framework to classify Chinese foreign aid along the lines of liberal internationalism. This was complemented by a study of the domestic political forces that have shaped China's foreign aid policy in Chapter 3.

Chapter 2 concluded that China's contemporary foreign aid programme shows many aspects of liberal internationalism. Chapter 3, however, found that China's foreign aid policy was shaped largely without involvement of a domestic constituency and without responsiveness to cosmopolitan values. The latter is a key element of humane internationalism (Pratt 1989). China's foreign aid policy is exclusively determined at the executive level of the domestic political system. This contradicts the conclusion in Chapter 2 that China is a liberal internationalist. The influence of interest groups from within society, either directly or through parliament, is a key characteristic of the humane internationalist foreign aid ideologies of the countries in Stokke's (1989) study. As such, the elements Stokke uses to differentiate between aid ideologies were found unsuited to the task of describing China's foreign aid programme. The framework allows a country with liberal *economic* principles, and the appropriate aid modality, aid principles, and preferences, to be classified as liberal internationalist, even though it does not have the appropriate liberal *political* principles in terms of democratic processes.

It might not be possible to classify China's aid ideology along the lines of traditional donors. The Japanese and French foreign aid systems, as described by Lancaster (2007a), similarly lack involvement of civil society interest groups in foreign aid policy formulation. However, to a certain extent, parliamentary processes do shape their foreign aid policy. China does not grant civil society interest groups access to foreign aid policy formulation. It is also unclear whether China's National People's Congress has any say in foreign aid policy formulation. Additionally, the National People's Congress is not a parliament in the sense of liberal Western democracies, thus again bringing into doubt the question of whether or not China can be classified along the same lines as traditional donors.

Stokke's (1989) foreign aid framework is also dated. A lot has changed in the 25 years since he first tried to categorize foreign aid ideologies. Given the changes, also in the aid ideologies of traditional donors, and the emergence or re-emergence of 'new' donors, the time is ripe to develop an updated categorization of foreign aid ideologies that takes into account all aspects of economic and political ideologies, so that no country can be classified as liberal internationalist purely on the basis of economic principles and beliefs. Concepts such as neoliberalism, cosmopolitanism, radicalism, and neo-Marxism might form the basis of such a new taxonomy. However, these concepts do not sufficiently consider the realities of emerging economies.

Lancaster's (2007) domestic political forces analytical framework was more up to the task of analysing the dynamics shaping Chinese foreign aid. Chapter 3 demonstrated that, as in all other countries, domestic political forces, their mutual interactions, and their interactions with the international context, have shaped China's foreign aid policy.

As in Japan and France, the institutions governing China's foreign aid system are relatively closed to influences from forces and interest groups outside of the executive. The use of aid as a political instrument is more likely in such countries. This political use of aid might include the utilization of aid to promote domestic economic development interests, as these interests are of direct relevance to the executive. However, Lancaster's (ibid.) framework does have shortcomings. The framework usefully categorizes domestic political forces and allows analysis of these. However, when it comes to mutual interactions among domestic political forces and interactions between the domestic and international context, the analysis remains anecdotal. Causations are implied by or derived from contexts. Exact causal processes are difficult to establish using Lancaster's framework. For example, it is difficult to prove whether the ideology that dominated after the Sino-Soviet split caused the Chinese leadership to believe that it was necessary to 'sacrifice' the needs of China's citizens in order to scale up foreign aid beyond China's economic capabilities. To establish causal linkages beyond anecdotal evidence and evidence of correlations, it would be necessary to carry out in-depth interviews with relevant officials within the Chinese government. This would be a very difficult task, particularly given the historical context and notorious difficulty of gaining access to Chinese officials in general.

Chapter 3 also used Johnston's (2008) framework of microprocesses of socialization to analyse China's foreign aid programme. The chapter concluded that in the case of Chinese foreign aid, Johnston's three microprocesses were unable to explain the impact of China's re-emergence in the international foreign aid arena on other donors. In any social arena, innovation is necessary for development. This is also true within the social arena, where developments emerge from challenges to dominant principles, standards, and practices. Without these challenges, without breaking the status quo, fields would stagnate. The field of international development cooperation illustrates this, but many other fields in the political, economic, cultural, and academic arenas also frequently experience challenges to dominant norms, principles, and practices.

Chapter 4 described the importance that China attaches to the rhetoric of SSC. In terms of normative principles, China's notion of SSC is similar to that promulgated by the UN Secretary General. A key difference, however, is in the attitude towards North-South relations. China perceives South-South cooperation as a counterbalance to North-South relations. The UN Secretary General considers the two to be complementary. The main differences between the Chinese and UN Secretary General's concepts of SSC are found in their operational principles. The Chinese definition places a strong emphasis on economic cooperation. The UN Secretary General's definition focuses more on technical and capacity development aspects. The Chinese definition also includes greater incorporation of technical cooperation and capacity development aspects than the UN definition. China's placement of SSC in opposition to the influence of the North might, furthermore, indicate its desire to change the international political and economic order.

Tying Chapters 2, 3 and 4 together, Chapter 5 explored the question of complementarity between traditional and Chinese foreign aid models. It, moreover, continued to explore the question of whether China's foreign aid policy and practices are similar to or different from those of traditional donors. This question is particularly difficult to answer given the fact that the foreign aid policies and practices of traditional donors are also very diverse. The Dutch model is very different from the US model, which in turn is very different from the French model. The study presented in this thesis found that within this diversity, China's foreign aid policy and practices are not substantially different from those of many donors, though, as with the policies and practices of other countries, it does differ in some respects. For example, China prefers to channel a proportion of its foreign aid through the UN and the international financial institutions. This is similar to both France and Japan. China also prefers to use tied aid, which again is

similar to these donors, and increasingly donors such as Canada and the Netherlands. China uses aid for political and diplomatic purposes, similar to almost every other donor. China emphasizes economic infrastructure, like South Korea and Japan, it is active in the agricultural sector, like Brazil, and it provides medical assistance, like Austria, Canada, and the UK. China's principles of non-conditionality, respect for state sovereignty, and the oft emphasized but also flouted principle of non-interference, are, however, most similar to other donors from the South, such as Brazil and India. There are similarities and differences between all donors. Even members of the OECD-DAC, with their nominally proclaimed shared principles and standards, differ both in their foreign aid ideologies and in their practical implementation of foreign aid programmes. Admittedly, there are more efforts towards coordination among the traditional donors, while China might in terms of coordination among aid agencies be seen as an outsider. However, China actively engages in the High-Level Forums on Aid Effectiveness, including that in Busan, and is an active participant in the UN and the World Bank. It sees the OECD-DAC as a stronghold of old power, where the voices of the Global South are not heard. It believes that UN systems in particular, and to a lesser extent the international financial institutions, are a more appropriate arena for coordination. However, the Chinese government is taking part in a China-DAC study group facilitated by the IPRCC, so there is potential for coordination that includes China in the future. However, because of China's geopolitical aspirations, it is not in its best interests to be too closely associated with the traditional donors.

This stance is also evidenced in China's concept of SSC, as described in Chapter 4. China considers SSC the cornerstone of its international relations. Looking more closely at the Chinese vision of SSC, it seems to be cast in opposition to North-South cooperation, remaining so even in contemporary China. Two key elements of China's concept of SSC are its emphasis on economic cooperation and the pre-eminence of 'mutual benefit'. The practical implications of these two elements were tested in the case study of China's engagement in Uganda, in Chapter 6. While studies on the mutuality of the benefits of China's relations with other countries have been carried out at a macro level, Chapter 6 demonstrated that a micro-level analysis of the question of mutual benefits provides a more nuanced picture. Uganda was chosen specifically because its economy is not dominated by natural resources, unlike its western and northern neighbours. China's engagement with Uganda dates back to the 1980s. The mutuality of the benefits of China's relations with other developing countries was found to warrant further research, seeking to highlight similarities and differences between countries whose economies are dominated by natural resources and those that are not. Future research might also examine similarities and differences between countries that have had longer relations with China, even predating communist rule and those that have only more recently established relations with China. Future research would, finally, need to expand beyond the study of Chinese companies to include local host-country companies, local citizens, local workers, and local government officials. This would paint a more complete picture of benefits at a social level, beyond an evaluation of benefits as implied by economic factors such as employment creation and investment.

Chapter 6 concluded the analysis of the practical implications of China's foreign aid policy and its engagement with developing countries, focusing on sub-Saharan Africa. The chapter scrutinized one of the more pertinent questions scarcely treated in the literature on China's engagement with Africa, and one of the key elements of China's successful development and use of foreign aid, namely ownership of development. The chapter used Whitfield and Fraser's (2009a, 2009b) framework of negotiating capital to analyse whether China shares characteristics with other nations that have successfully taken ownership of their development. It also sought China's contributions to the negotiating capital of other developing countries. Whitfield and Fraser's (ibid.) framework provided a useful lens through which to carry out the analysis, but the model

proved unable to quantify the weight of the different elements of negotiating capital. Ownership is perhaps too complex a concept to be adequately quantified in terms of own and others' negotiating capital, as these will differ for each player and each negotiating context. For the framework to be used most informatively it would have to be applied to case study countries and case study negotiations. This would require in-depth interviews with all relevant parties. The framework did prove useful for indicating trends and likely scenarios. Nonetheless, it could be developed further through case study analysis.

This thesis has shown that motivations underlying Chinese foreign aid are similar to those of traditional aid donors. All aid is politically, commercially, or ideologically motivated, or motivated by security concerns. In practice there are similarities and differences, as there are among all other donors. These similarities and differences have the potential to create complementarities. For example, some donors focus on health and education, while others focus on agriculture and economic infrastructure. These different areas of activity are complementary.

China has been a successful partner to many developing countries, as it has sought to address the needs of the countries it has engaged with. Particularly in terms of economic infrastructure, roads, and railways, urgent economic needs have been met through development cooperation provided by donors such as China. Traditional donors have in recent decades moved away from economic infrastructure to focus on governance issues. The political situation in most African countries has greatly improved. As a result, the need for improved infrastructure has become an increasing priority for further economic development. Given the dominance of Chinese state-owned construction companies in sovereign government infrastructure projects funded by the World Bank, the African Development Bank, and other donors, and in view of the China Exim Bank's large infrastructure portfolio, China's role in meeting Africa's infrastructure needs through development cooperation projects has taken on notable prominence.

Similar to traditional donors, Chinese foreign aid policy has been derived from an interaction between domestic political forces – and domestic political forces' mutual interactions – and interactions with the international context. The re-emergence of Chinese aid has also affected the norms and practices of traditional donors. Similarly, China's foreign aid programme has been, and is likely to continue to be, influenced by the norms and practices of traditional donors. This thesis analysed a number of the key potential contributions of Chinese engagement in developing countries. It looked further than China's role as a donor, also examining China's domestic experience, its lessons for developing countries, and its principles for foreign engagement. Its conclusion must be that the full potential of China's contributions to developing countries is not being realized. In many ways China's own principles are hindering it from truly allowing recipient countries to take ownership of their own development. Similar to China's economic contributions to developing countries, economic cooperation among developing countries is still at an early stage. Recently there has been a rush of Chinese enterprises to many African countries. The governments of a number of these countries are currently developing regulations and policies to improve the benefits of this engagement to their own economies. The Chinese government is similarly developing policies and guidelines to ensure that the commercial engagement of its companies in developing countries truly benefits the host country and does not harm China's image.

To some extent, China is hampered by its own principles of economic cooperation and its desire to be seen as different from traditional donors. It particularly upholds its principles of non-interference and respect for state sovereignty. Project aid, capacity building programmes at the request of recipients, and scholarships in China do not transgress these boundaries. However, China considers provision of sector or budget support, as has become a common basis for fostering recipient ownership, to overstep

the boundaries of its principles of non-interference, respect for state sovereignty, and even promotion of recipient self-reliance. This need not be the case. Traditional donors provide sector and budget support only with strict conditionalities. Conditionalities are placed on fiscal support for a number of reasons, particularly to help ensure donors that their money is being well spent. These conditionalities certainly overstep the boundaries of China's principles of economic cooperation. The notion of conditionalities has arisen in China, but China's leadership does not believe adding them to be in China's current best interests, particularly as China is still setting itself apart from traditional powers and in a sense is in competition with traditional donors for the loyalties of developing countries.

Since the turn of the millennium China has gradually been diversifying its aid modalities, and its similarities with traditional donors have been increasing. China takes part in many of the relevant international organizations and fora. The implication is that to some extent the international aid community is 'socializing' China. However, elements of China's aid programme have remained unchanged. Part of this is the result of China's own rhetoric on development cooperation. China clearly positions itself in contrast to traditional donors.

This is where the current author argues that China is working on two fronts. On the first front, that of rhetoric, China is clearly positioning itself as an alternative to traditional donor aid. It believes that by doing so it can still win the support of developing countries. China has demonstrated its distinctiveness by presenting itself as developing country, as being more in touch with the needs of developing countries, and as having suffered similar historical circumstances as other developing countries at the hands of the traditional powers. On the second front, China is actually conforming many of its foreign aid practices to the standards and practices of traditional donors. The work on the first front is currently the most prominent, and this is by design. Work on the second front is not being highlighted.

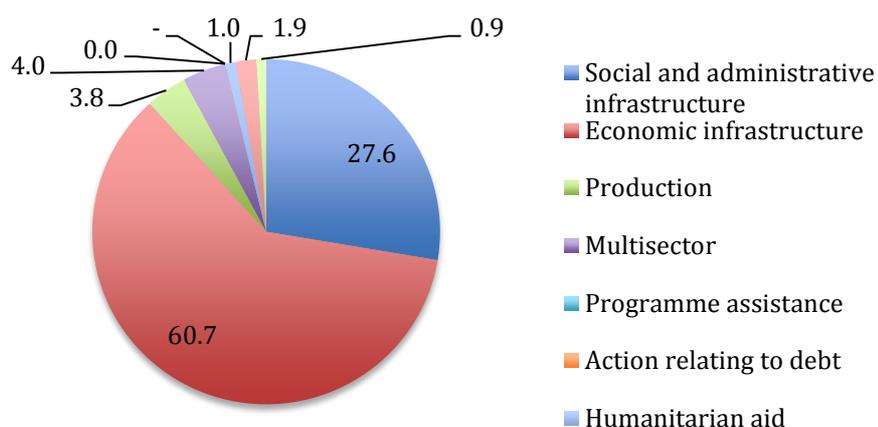
As long as there are gains to be made by China in appearing to be different it will likely continue to present itself as distinctive. A time may come when the tide turns, and the efforts at conformity that have been under way all along will then likely receive greater prominence in China's rhetoric. China is more pragmatic than principled. Classic distinctions such as 'status quo' powers and 'revolutionary/revisionist' powers are inadequate for capturing China's foreign policy and foreign aid policy. This is clear from the literature that describes China variably as a revisionist or a status quo power, depending on the time period and the international context. China switches between challenging the status quo and maintaining the status quo as suits its needs. The more appropriate label for China is thus 'pragmatic power'. The challenge for analysts tasked with evaluating the impact of China in the international arena, or the international aid arena, is to anticipate how China's needs will develop and how that will impact China's choice to either challenge or make an effort to maintain the status quo.

## Appendix 1 Zhou & Zhao's Principles compared

Comparison of keywords and concepts in Zhou Enlai and Zhao Ziyang's principles of foreign economic cooperation.	
<b>Zhou's Eight Principles</b>	<b>Zhao's Four Principles</b>
Mutual benefit	Mutual benefit
Equality	Equality
Respect for state sovereignty	Respect for state sovereignty
Purpose to help recipients work towards self-reliance and independent economic development	Purpose to promote recipients' abilities of self-reliance and developments of its own national economy
Minimum investment, quick returns	Minimum investment, quick returns
Chinese experts to enjoy same living conditions as their local peers, no special demands	Chinese experts to enjoy same living conditions as their local peers, no special demands
Assistance is mutual	Purpose of cooperation and operation is to compensate for each other's deficiencies and to learn from each other
No conditions or privileges	No political conditions
Equipment and material highest quality China can produce, if deemed not up to standard China will replace	Guarantees quality and assures that it will abide by the agreement
Ensure workers fully master received technology	
Low-interest & interest-free loans	
	Different forms of aid depending on actual conditions, can include: project construction, technical and management personnel training; technical service; technical and scientific exchange; cooperative production; and joint venture operation.
	Stresses obligation to and responsibility for the projects it undertakes
	Make full use of advantages and potentials of both sides, based on real needs and available conditions in recipient countries
	Friendship and unity

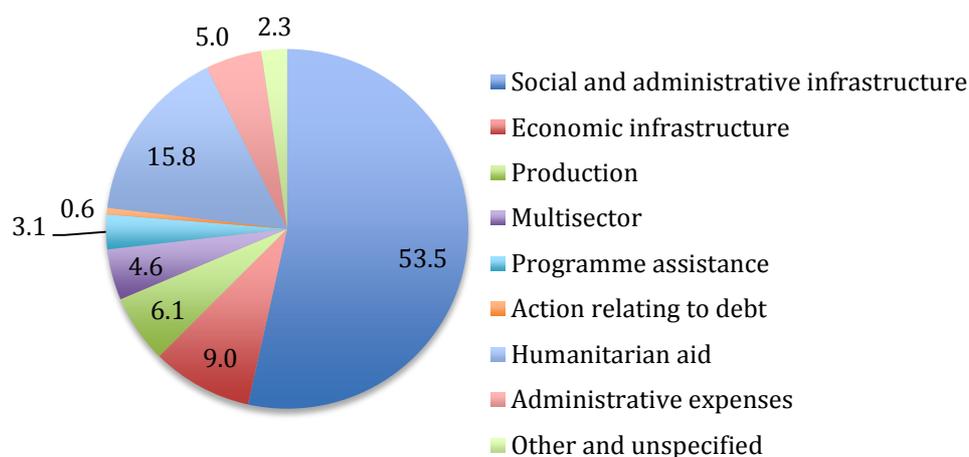
## Appendix 2 Traditional donor aid commitments by purpose

**Figure A-1**  
Korean aid commitments by purpose, 2009



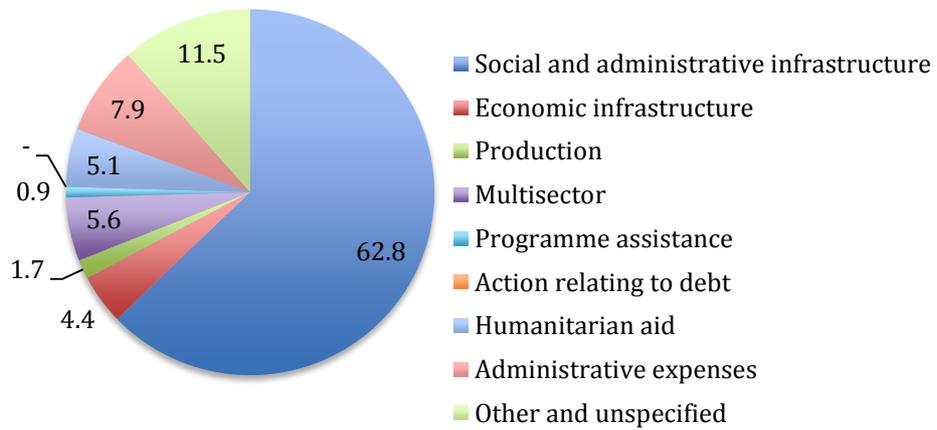
Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

**Figure A-2**  
US aid commitments by purpose, 2009



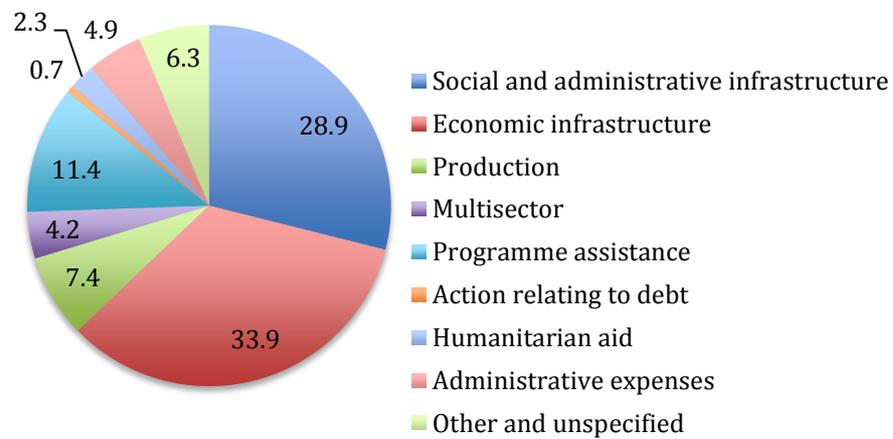
Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

**Figure A-3**  
Greek aid commitments by purpose, 2009



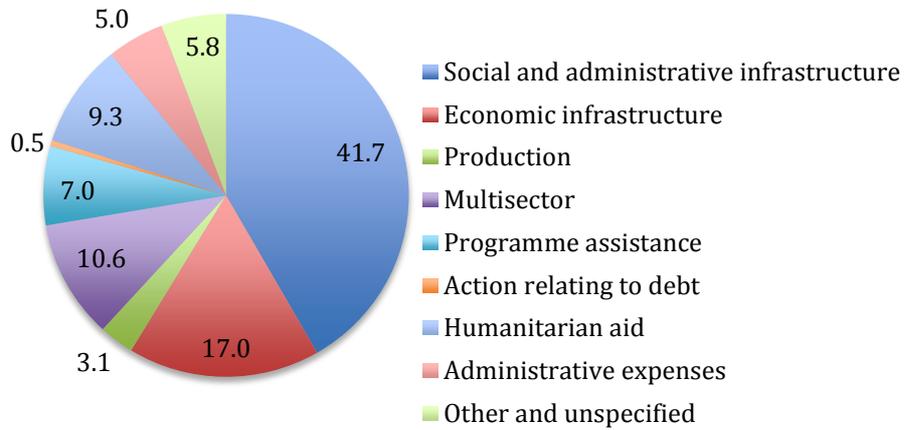
Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

**Figure A-4**  
Japanese aid commitments by purpose, 2009



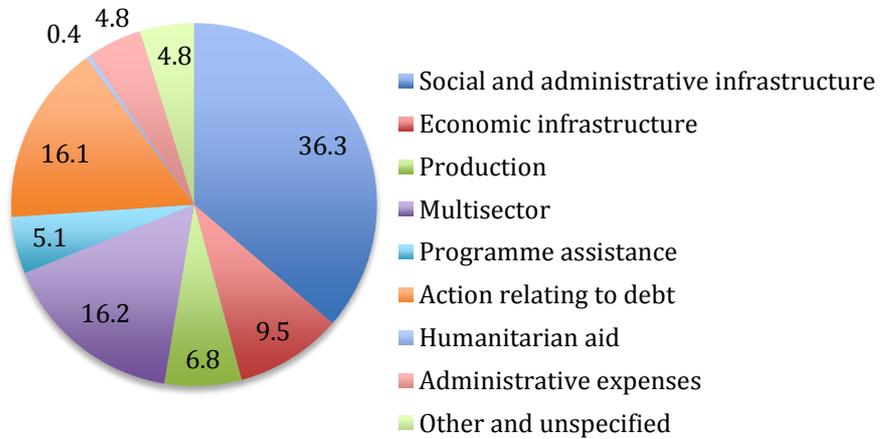
Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

**Figure A-5**  
UK aid commitments by purpose, 2009



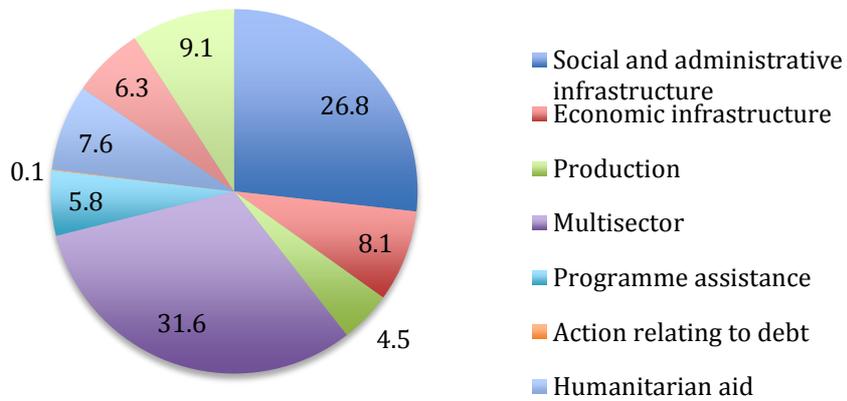
Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

**Figure A-6**  
French aid commitments by purpose, 2009



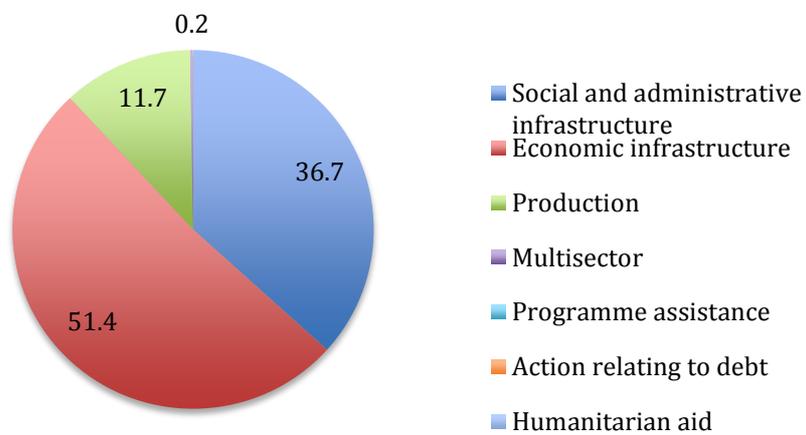
Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

**Figure A-7**  
**Dutch aid commitments by purpose, 2009**



Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

**Figure A-8**  
**World Bank aid commitments by purpose, 2009**



Source: [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

## Appendix 3 Draft Interview Schedule on Partnerships

### Part 1.

1. When was the cooperative relationship established?
2. Who facilitated the establishment of the cooperative relationship?
3. Are the terms and the conditions of the cooperative relationship described in a contract signed by both parties?
4. What is the stated goal or mission statement of the cooperative relationship?
5. What does each side bring to the cooperative relationship and why were these actors selected, in terms of investment, land, buildings, employees, and other inputs? Ratio of local to Chinese investment in partnership?
6. What is the division of labor in the cooperative relationship?
7. Who are the members of the board of directors (if applicable)?
  - a. What are the proportions of local and Chinese managers in the senior management team?
  - b. What are the proportions of local and Chinese managers in the junior management team?
  - c. What is the ratio of local to Chinese employees?
8. How are decisions being made? Are the views of both sides heard when making major decisions such as the acquisition of large quantities of supplies, the injection of more capital, or changing suppliers?
9. What is the company's turnover? What is the company's profit?

### Part 2.

	Strongly Agree	Agree	Somewhat Agree	Neutral	Somewhat Disagree	Disagree	Strongly Disagree
My partner is trustworthy.							
My partner is reliable.							
My partner is honest.							
My partner is competent.							
We have a shared common vision.							
Our values are compatible.							
My partner doesn't understand us.							
My partner							

respects me.							
I respect my partner.							
My partner always listens to my opinions.							
We have regular meetings to review, revise, and assess our work.							
I am able to participate in decision-making processes.							
We work well together.							
I feel that my input helps give direction to the partnership's activities.							
My partner is dominant.							
I feel I have an equal relationship with my partner.							
Assessments and evaluations are designed together.							
Assessments and evaluations are carried out together.							
We often have conflicts.							
Cultural differences cause conflict.							
When conflicts arise the issues are avoided.							
Conflicts are resolved through discussion.							
Conflicts are resolved amicably.							
We regularly organize team-							

building activities.							
This partnership meets my expectations.							
I feel that we benefit from the partnership.							
We compensate for each others' weaknesses.							
Benefits are distributed fairly.							
Benefits are distributed according to the terms and conditions of the contract.							
Resource input is fair.							
The work we are doing together also benefits the local community.							
The work we are doing together also benefits China.							
The work we are doing also benefits this country.							

**Part 3.**

Why was your firm interested in engaging in Uganda/Tanzania?

Is the relationship profitable? How has the relationship been performing financially?

Are there special in-firm training schemes for local workers? Could you provide more details: what are these, who participates, what frequency do they take place, how long do they take, where are they held, what other benefits accrue to participants who complete the training scheme?

How did your partnership deal with labor rights issues?

How did your partnership deal with human rights issues?

How did your partnership deal with environmental and land rights issues?

Which guidelines for sustainable development of partnerships would be desirable in the current situation?

What is the positive and negative impact of China's presence here?



## Appendix 4 Chinese Version of Draft Interview Schedule on Partnerships

### 采访问题草稿

#### 第一部分

- 1: 这项合作项目什么时候建立的?
- 2: 谁或哪个机构协助建立这项合作项目?
- 3: 这个合作项目的条件条款是否在一个被双方都签字的合同上列清楚了?
- 4: 这项合作项目有什么目标?
- 5: 各方在这个项目里都投资了什么? 为什么选了这些公司? 比如投资资金、地、工人、器材、工厂办公楼、或其它投资? 中方和当地方的投资比例是多少?
- 6: 这项合作项目是怎么分工的?
- 7: 如果有董事会谁是他的成员?  
 高级管理层的中国和当地人的比例是多少?  
 中下级管理层的中国和当地人的比例是多少?  
 所有工作人员的中国和当地人的比例是多少?
- 8: 影响项目运转的决定是怎么做的? 双方是否都有机会和资格发表他们的意见? 比如在购买大量的货物、加大投资数额、换供应商等。
- 9: 这个项目的营业额和利润是多少?

#### 第二部分

	非常同意	同意	比较同意	中立的	相对不同意	不同意	非常不同意
我的合作伙伴是值得信赖的。							
我的合作伙伴办事可靠。							
我的合作伙伴讲诚信							
我的合作伙伴称职。							
我们有一个共同的展望。							
我们的价值观能够和谐共处。							
我的合作伙伴不了解我们。							

我的合作伙伴尊重我们。							
我尊重我们的合作伙伴。							
我的合作伙伴认真听我的观点。							
我们定期开会检查、评价、修订我们的工作。							
我能够参与决策过程。							
我们合作的好。							
我觉得我的参与能够影响我们合作活动的去向。							
我的合作伙伴有主导权							
我觉得我们与合作伙伴有平等的关系。							
我们一起设计评估评价的方案。							
我们一起执行评估评价的方案。							
我们经常有矛盾。							
文化差异造成矛盾。							
有矛盾的时候我们避免面对问题。							
通过讨论解决矛盾。							
友善的解决矛盾。							
我们定期组织一些建立合作项目团队的活动。							
这项合作关系达到了我的期望。							
我觉得我们的合作关系对我们有好处。							

这个合作关系弥补各自的缺点。							
利益公平的分配。							
利益按照合同的条件条款分配。							
资源投入比例是公平的。							
我们的合作项目对当地老百姓也有好处。							
我们的合作关系对中国也有好处。							
我们的合作项目对乌干达也有好处。							

### 第三部分

- 1: 你们公司为什么来乌干达?
- 2: 这项合作项目是否有利可图的? 财务效益怎么样?
- 3: 有没有给当地工作人员做培训? 是什么培训、有谁参加、多经常办培训、课程多长、在那儿办、完成培训的工作人员得到什么好处?
- 4: 这个合作项目怎么处理一些劳动权问题?
- 5: 这个合作项目怎么处理一些人权问题?
- 6: 这个合作项目怎么处理一些环境和土地权问题?
- 7: 在目前的情况下应该有哪些有利于可持续性发展合作关系的指导方针?
- 8: 中国在乌干达的影响怎么样?

## Appendix 5 Secretary's Jing's Response to Partnership Investigation Proposal

Secretary's Jing's Response to Partnership Investigation Proposal

(May 15, 2012)

沃默丹先生：

你好！

非常高兴收到你的邮件，感谢你对中非合作的关心。

从来信中你的采访草稿看，你将中非合作理解为具体合作项目的组合，希望透过单个合作项目来了解中非合作的模式。就我个人工作中的体会，中非合作指的是广义的合作，不局限于单个项目的合作。由于非洲有 54 个国家，中国与非洲国家合作的模式也很多，包括援助成套项目，政府优惠贷款，技术合作，免关税待遇，提供物资，人力资源建设，援外医疗队等。中国的对外援助坚持平等互利、共同发展，不附带任何政治条件，帮助受援助国家提高自主发展能力，我想这是非洲国家认为中非是合作者关系的原因之一。因此，我觉得你的研究还需了解中国援助的方式和受援国的评价。

据我所了解的，由于办事效率的差异，在乌干达经营的中国企业多采用的是独资经营的方式，这有助于提高企业决策和执行的效率。为较好融入当地社会，中国企业招聘当地员工进入企业管理层，参与经营管理。以上是我个人的体会和建议，希望可为你的研究提供参考。

敬艳辉

驻乌干达使馆经商参处

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手机：00256-783-696276

传真：00256-414-220379

Justin Jing

Economic and Commercial Counsellor's Office

Chinese Embassy in Uganda

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## Appendix 6 Survey Question List

1. Why did you choose to come to Uganda? Was the decision made on the basis of the perceived market potential of Uganda, due to attractive Ugandan government or Chinese government policies, or because of relations (friends, relatives, or business associates) here in Uganda?
2. Did you enjoy support from the Chinese or Ugandan governments? If so, who helped you and in what way?
3. Which market is your business most interested in here? The local Kampala market, Uganda, the regional market (i.e. bordering countries: Rwanda, Tanzania, Congo, Kenya, South Sudan), the whole of Africa, or the global market?
4. Is your business privately owned (including: shareholding companies and companies listed on the stock exchange, to differentiate from SoEs), state owned or mixed ownership?
5. Approximately how much did your company invest initially when you came to Uganda?
6. In recent years how has your company been performing financially? What is your approximate annual turnover?
7. What are your company's plans for the next few years? Does your company have a three-year plan?
8. Approximately how many employees does your company have? How many of these are Chinese? At the management level how many employees does your company have? How many of these are Chinese?
9. Does your company have an employee training policy for local (Ugandan) employees? If so, what is it and what is the method of training?
10. What kind of problems has your company encountered when doing business in Uganda? How are these usually solved?
11. Has your company encountered any problems related to Uganda's labor laws and/or environmental policies? What were the problems? Could you tell me how you solved these?

## Appendix 6 Chinese Version of Survey Question List

1. 你们公司为什么决定来乌干达？是因为乌干达的市场潜力、乌方或中方政策有利、还是在这边有认识人？
2. 你们享有中国政府或者乌干达政府或别人的协助吗？如果是有人帮你们来的他们是怎么帮你们的？
3. 你们在这里主要真对哪个市场？是乌干达、东非、整个非洲、或者国际市场？
4. 你们这个公司是一个私有企业、国有企业还是国家和私人合资的？
5. 你们在这边大概投资了多少？
6. 这几年你们的营业额怎么样？
7. 你们目前有什么计划？有没有什么三年计划？
8. 你们在这里有多少工作人员？有多少是中国人？管理层有多少经理，多少是中国人？
9. 你们公司有没有培养当地职工的政策？是怎么培养的？
10. 在乌干达做生意时会遇到什么样的困难？遇到困难你们一般怎么解决？
11. 在这边你们有没有遇到一些困难涉及乌干达劳动或环境政策？有哪些？你可以告诉我这些问题最后是怎么处理的吗？

## Appendix 7 New Contact List from Economic Counsellor's Office

### New Contact List from Economic Counsellor's Office

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#### 1、援乌干达体育场技术合作组

电话：00256-752-897403

联系人：杨书清

E-mail: yang\_shq@163.com

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#### 2、中国援乌干达医疗队

电话：00256-753-561189

联系人：曹贵华

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#### 3、援乌农业技术示范中心项目组（华侨凤凰集团）

电话：00256-701-895378

联系人：易荣干

E-mail: yironggan@163.com

---

#### 4、援乌政府办公楼项目组（现在中国）

电话：00256-757-081789

联系人：王延志

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---

#### 5、中成套进出口集团乌干达工程贸易有限公司

地址：Plot 609, Bambo Road, Kawempe, Kampala, Uganda

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E-mail: complantug@ yahoo.com.cn

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#### 6、中交第一公路工程局有限公司乌干达项目部

电话：00256-772-908528  
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#### **7、中国水电建设集团国际工程公司**

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#### **8、重庆对外建设工程总公司**

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#### **9、中国南京国际经济技术合作公司**

电话：00256-712-828866  
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#### **10、天津机械乌干达分公司**

电话：00256-776-555888  
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#### **11、中石油通信电力总公司乌干达分公司**

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#### **12、华为技术（乌干达）公司**

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### **13、中兴通讯(乌干达)公司**

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### **14、中国航空技术进出口公司驻乌干达代表处**

地址: Lower Kololo Terrace Plot 21, Kampala, Uganda

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联系人: 孙景峰

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### **15、非洲太阳能(乌干达)有限公司**

电话: 00256-773-098185

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### **16、中非医药保健品(乌干达)公司**

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### **17、武汉烽火科技有限公司乌干达公司**

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**18、皇牌粮食机械乌干达有限公司**

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传真: 00256-414-223740

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**19、中国开发银行乌干达项目开发工作组**

地址: P.O.Box 999123, Kampala

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**20、中铁七局集团有限公司**

电话: 00256-757-303645

联系人: 刘政局

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**21、喜马摩托车有限公司**

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联系人: 毕磊

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---

**22、中国通信服务乌干达有限公司**

电话: 00256-716-178866

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---

**23、四达数字电视有限公司**

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**24、烟建集团乌干达有限公司**

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---

**25、张氏集团有限公司**

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---

**26、兰迪工业园有限公司**

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---

**27、天堂集团有限公司**

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**28、丽迪亚家纺有限责任公司**

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**29、方方集团**

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**30、中国陶瓷城（非洲）有限公司**

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**31、中海油（乌干达）公司**

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联系人：柴维

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## Appendix 8 List of Questions for Data Analysis

Q1	Why did your company choose to come to Uganda? Was it because it identified market potential, because of attractive Chinese or Ugandan government policies, or because of relatives or friends?
Q2 a	Did you enjoy the assistance of the Chinese or Ugandan governments, or anyone else? If someone helped you, how did they do so?
Q2 b	Who? (Chinese government, Ugandan government, CABC, other)
Q3	What market are you most interested in? Kampala, Uganda, regional or global?
Q4	What form of ownership is your company? Private, state owned, or hybrid?
Q5	How much was invested?
Q6	What is the turnover?
Q7	What are your future plans?
Q8 a	How many employees do you have?
Q8 b	How many are Chinese?
Q8 c	How many employees do you have at the management level?
Q8 d	How many management level employees are local?
Q9 a	Does your company have an employee training policy?
Q9 b	What is its goal?
Q9 c	How are employees trained?
Q10 a	What problems have you encountered when doing business in Uganda?
Q10 b	How did you solve them?
Q11 a	Have you encountered any problems related to Ugandan labour or environmental policies? If so, how did you overcome them?

Q11 b	Labour or environment?
Q11 c	What was the issue?
Q12	Are you member of a business association?

## Appendix 9 List of Possible Answers to Questions in Data Analysis

Q1	a	Market potential
	b	Attractive Chinese government policies
	c	Attractive Ugandan government policies
	d	Relatives or friends
	e	Chinese government project
	f	Other
	g	Non-governmental project
	h	International organizational project
	i	Uganda stable, safe, secure, investment climate
	j	English is widely spoken in Uganda
	k	Ugandan government project
Q2 a	a	Yes
	b	No
	c	Unclear
Q2 b	a	Chinese government
	b	Ugandan government
	c	China Africa Business Council
	d	Other
Q3	a	Kampala
	b	Uganda
	c	Regional
	d	Global
Q4	a	Private
	b	State Owned
	c	Hybrid
Q5	a	<USD 10,000
	b	USD 10,000-49,999

	c	USD 50,000-99,999
	d	USD 100,000-249,999
	e	USD 250,000-499,999
	f	USD 500,000-1,000,000
	g	USD 1,000,000-2,999,999
	h	USD 3,000,000-4,999,999
	i	USD 5,000,000-9,999,999
	j	Over USD 10,000,000
Q6	a	USD 10,000-49,999
	b	USD 50,000-99,999
	c	USD 100,000-249,999
	d	USD 250,000-499,999
	e	USD 500,000-1,000,000
	f	USD 1,000,000-2,999,999
	g	USD 3,000,000-4,999,999
	h	USD 5,000,000-9,999,999
	i	Over USD 10,000,000
	j	Loss
Q7	a	No plans
	b	Wait and see
	c	Develop into regional market
	d	Develop into global market
	e	Develop Ugandan market
	f	Open up subsidiaries in Uganda
	g	Open up subsidiaries in regional countries
	h	Start a (new) factory
	i	Leave
	j	Other
Q8 a	-	Number
Q8 b	-	Number

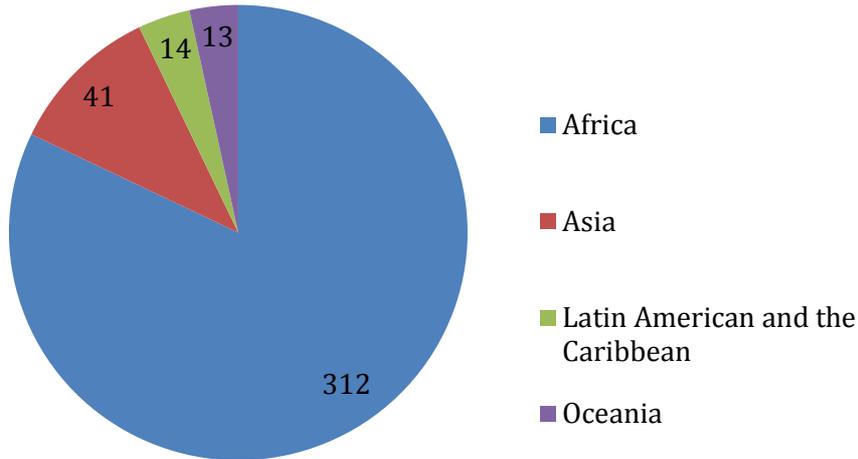
Q8 c	-	Number
Q8 d	-	Number
Q9 a	a	Yes
	b	No
	c	Unclear
Q9 b	a	All employees should be multi-trained
	b	Skills specialization
	c	Management career track
	d	Localization of workforce
	e	Further education
Q9 c	a	Trained by local specialists
	b	Trained by Chinese specialists
	c	Locals sent for training in China
	d	Chinese sent for training in China
	e	Locals sent to regional training programmes
	f	Chinese sent to regional training programmes
	g	Attends classes at local colleges or universities
Q10 a	a	Corrupt officials
	b	Bureaucracy, inefficient officials
	c	De-valuation of RMB
	d	Shilling-Dollar Exchange Fluctuations
	e	Bank interest rates high
	f	Bank interest rates irregular
	g	Local workforce unreliable
	h	Prices of local goods too high
	i	Low skilled workforce
	j	Workforce dissent
	k	Local workforce lazy
	m	Transportation times in Uganda too long
	n	Transportation times in region too long

	o	Transportation times from China too long
	p	Transportation times to China too long
	q	Import restrictions
	r	Fierce competition
	s	Taxes too high
	t	Workers steal things
	u	Getting visas for Chinese workers
	v	Chinese workers too expensive
	w	Increasing sense that Chinese are not so welcome
	x	Unstable investment climate
	y	Unstable or incomplete water and electricity supply
	z	Not paid on time
	1	High price of local workers
	2	Poor law and order
	3	Limited market capability
	4	Don't understand local procedures
	5	Trade Unions
	6	Lack necessary raw materials
	7	Lack financial resources
	8	Language and/or cultural barrier
	9	Negative image of China
Q10 b	a	Solve it ourselves
	b	Ask Economic and Commercial Counsellor's Office for help
	c	Ask Chinese embassy for assistance
	d	Go to Ugandan authorities
	e	Ask other Chinese for assistance
Q11 a	a	Yes
	b	No
	c	Unclear
Q11 b	a	Labor law
	b	Environmental law
	c	Unclear

Q11 c	a	National social security fund
	b	Government action
	c	Government increasingly strict requirements
Q12	a	Yes
	b	No

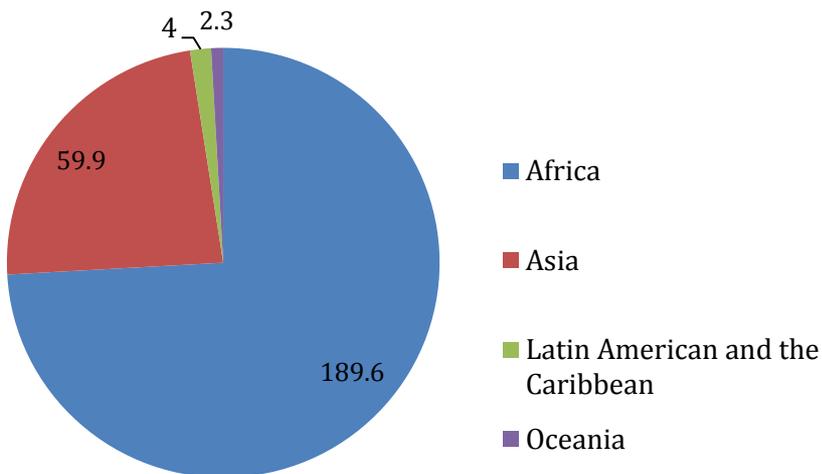
## Appendix 10 Chinese Foreign Aid Statistics

**Figure A-9**  
Number of debts cancelled by China (by the end of 2009)



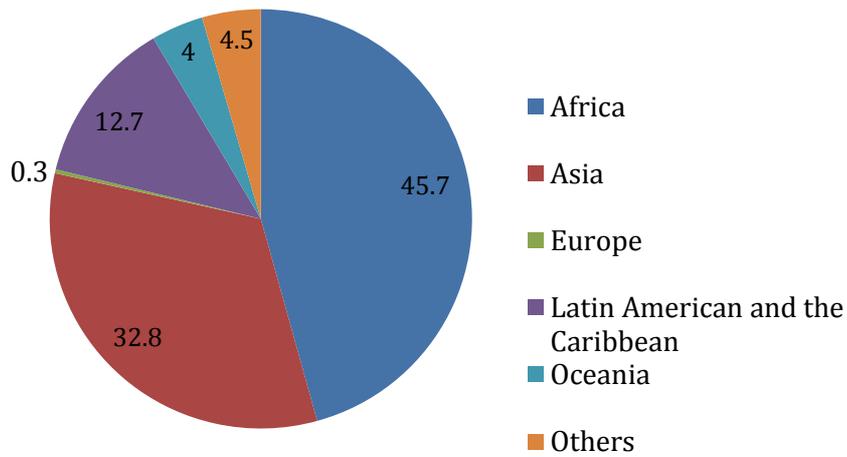
Source: IOSCPRC (2011)

**Figure A-10**  
Value of debts cancelled by China (by end of 2009)



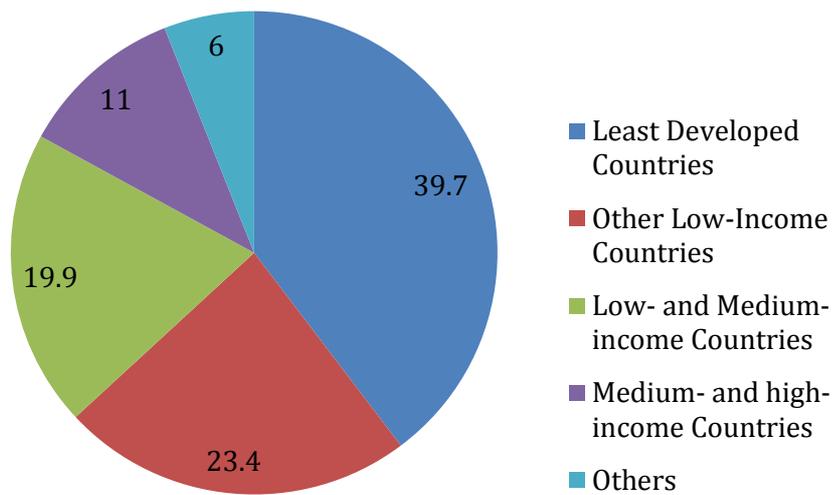
Note: Figures are in 100 millions of Yuan, by the end of 2009.  
Source: IOSCPRC (2011)

**Figure A-11**  
*Geographical distribution of China's foreign aid funds in 2009*



Note: Figures are percentages of total.  
 Source: IOSCPRC (2011)

**Figure A-12**  
*Distribution of China's foreign aid according to the income level of recipient countries in 2009*



Note: Figures are percentages of total.  
 Source: IOSCPRC (2011)



## Appendix 11 Forms of internationalism

The table below presents the forms of internationalism as described by Stokke (1989). Where information in the matrix is lacking this is because it was not provided by Stokke.

	<b>Realist Internationalism</b>	<b>Humane Internationalism</b>	<b>Reform Internationalism</b>	<b>Liberal Internationalism</b>	<b>Radical Internationalism</b>
<b>Obligation</b>	-	Recognizes obligation of rich countries to alleviate global poverty and to promote social and economic development in the Third World.	Acknowledges obligation of rich countries to alleviate global poverty and to promote social and economic development in the Third World.	Recognizes responsibility for the development of the South.	An acceptance of the obligation to show solidarity with the poor and oppressed in other countries, even at the sacrifice of narrower interests in one's own country.
<b>Motivations</b>	-	Compassion	Similar to humane internationalism, though the international ethic goes further, stating that the existing global distribution of resources and incomes is considered indefensible and the international economic system is considered unfair to the poor.	Combines main concept of humane internationalism with a strong commitment to an open, multilateral trading system. It is motivated by humanitarian tradition and adds to it an enlightened self-interest coming out of the increased interdependence between North and South, and the new opportunities that have come about as a result of the integration of the Third World into the Western Market	Based in ideologies which advocate the equity of man and solidarity across national borders. Confronts the exploitive and oppressive economic and political structures current within and among states.

	<b>Realist Internationalism</b>	<b>Humane Internationalism</b>	<b>Reform Internationalism</b>	<b>Liberal Internationalism</b>	<b>Radical Internationalism</b>
				economy.	
<b>Objectives</b>	-	Promote economic, social and political rights in the Third World, alleviate human suffering, and promote social and economic development.	Similar to humane internationalism. Promotion of human rights, improved equity and social and economic justice within and between nations.	Economic growth in South through the pursuit of genuine common interests between rich and poor countries.	Full economic, political and social equity. Ecological concerns are also becoming increasingly important.
<b>Other Beliefs</b>	Maintains an anarchic view of international relations.	A more equitable world is in the long-term best interests of developed nations.	Supports transfers of resources to promote development in the Third World, like humane internationalism, but goes further by asking for reforms both in Third World countries for the benefit of poor social groups, and reform of the international, political and economic system for the benefit of the South.	Maintains an anarchic view of international relations.	A more equitable world is in the long-term best interests of developed nations.
<b>Self-Interest</b>	Only own national interests are and	Includes the concept of mutual benefit across borders, and,	Like humane internationalism believes that a more	States should pursue short-term and long-term economic and	The dire needs of the Third World should be given predominance

	<b>Realist Internationalism</b>	<b>Humane Internationalism</b>	<b>Reform Internationalism</b>	<b>Liberal Internationalism</b>	<b>Radical Internationalism</b>
	should be pursued.	among other things, interests of increasing employment and expansion of trade and investment opportunities.	equitable and just world is in the best interest of rich countries.	political self-interest, similar concept to realist internationalism.	over narrower self-interests at home in light of the differences in terms of economic and social economic levels, as long as aid is directed towards the creation of and support for structures of self-reliant, sustainable social and economic growth. This pursuit is also a vital consideration in the selection of recipients of aid (both governments and NGO), which must also hold similar beliefs in order to be eligible.
<b>Aid Channels</b>	-	-	Works through existing multilateral and bilateral aid agencies considered to be useful instruments for the correction of global inequalities, however, it believes these	Attitudes towards aid agencies vary depending on the degrees of interference and discrimination of these agencies. Suspicious of extensive	Prefers to channel aid through non-governmental solidarity groups. Skeptical about bilateral and multilateral aid agencies, however, differentiates them

	<b>Realist Internationalism</b>	<b>Humane Internationalism</b>	<b>Reform Internationalism</b>	<b>Liberal Internationalism</b>	<b>Radical Internationalism</b>
			agencies need to be improved to achieve these objectives. Also favors NGOs.	procurement tying. Preferring international development finance agencies and UN agencies which practice open bidding. Also skeptical of agencies which give priority to welfare strategies at the cost of economic growth strategies.	according to their performance in relation to the objectives mentioned above and the policy of the chosen recipient. Against providing aid to international development finance institutions, especially the Bretton Woods institutions, as these are considered instruments of the donor interests rather than instruments used to secure genuine advantages for the Third World. Favors UN aid agencies as there are thought to ensure a greater influence for Third World governments.
<b>State/inter-state intervention</b>	-	-	Favors use of state and inter-state intervention to the objectives mentioned above. Gradualist	Although it is against state and inter-state intervention, it supports the institutionalization of	Strongly favors use of state and inter-state intervention if these are directed towards the objectives

	<b>Realist Internationalism</b>	<b>Humane Internationalism</b>	<b>Reform Internationalism</b>	<b>Liberal Internationalism</b>	<b>Radical Internationalism</b>
			approach.	rules which create equal opportunities, and reduce discriminatory practices and protectionism.	mentioned above. Strongly against interventions by exploiting or repressive structures, be they Third World governments or international financial institutions.

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