

Engaging China on development

Clare Castillejo

>>> China's emergence as a donor is undermining the preeminence of traditional donors, including the European Union (EU), in development policies. While the EU is concerned with this trend, it has not outlined an effective response. The EU needs to understand the interests that drive China's engagement in this area. Fundamental differences in Chinese and European approaches to development make large-scale collaboration between the two unlikely. However, there are opportunities for increased dialogue and practical cooperation, which the EU should build upon.

CHINESE DONORSHIP

China's engagement in developing countries is driven by its need for energy, natural resources and markets, and in some cases geo-political and security interests. China prioritises sovereignty and non-interference in its development assistance, which it views as 'South-South cooperation' rather than a donor-recipient relationship. Chinese assistance is usually provided bilaterally to ensure maximum policy independence and frequently involves large 'turn-key' infrastructure projects.

While some Chinese assistance takes the form of grants, the vast majority is provided through loans. China does not use the same definitions of development assistance as the members of the Organisation for Economic Cooperation and Development (OECD) and does not publish data regarding its support. Estimates of current Chinese assistance range

HIGHLIGHTS

- Europe's response to China's rising donorship has been incoherent. It must seek new opportunities for dialogue and coordination with Beijing at the national and global levels.
- The EU needs to deepen its understanding of the varied economic, geo-strategic and global power interests that drive Chinese engagement in development.
- The EU can support developing countries to harness Chinese investments for development and to ensure accountability.

»»»»» widely from around \$1.5-\$25 billion, depending on what activities are included. For example, the higher estimates (which would make China the world's second largest bilateral donor after the US) include grants, loans and government sponsored foreign direct investment (FDI). All of these are considered development assistance by Beijing, although only some fall within OECD aid definitions. This definitional and data gap is a major obstacle to cooperation between China and traditional donors.

European and other traditional donors share a number of concerns about Chinese development assistance. Firstly, it is unconditional and can undermine other donors' governance and macro-economic conditionalities. Moreover, Chinese assistance is opaque and frequently breaches environmental and labour standards, as well as other human rights. Chinese aid also tends to be 'tied' to the use of Chinese contractors, limiting the benefits to the local economy. Finally, there are concerns that Chinese loans undermine poor countries' debt sustainability.

However, it is important that European actors also acknowledge the positive impact and potential of Chinese assistance. Europe's development model and aid modalities have failed many poor countries and China brings a different approach that can offer interesting lessons. China's entry into the donor market place can genuinely increase choice and leverage for developing countries, making their relationship with donors less asymmetric. Moreover, China has placed important issues of infrastructure, growth and South-South partnership centrally within the international development agenda. Most critically, in a context of falling aid budgets, China can provide long-term development financing.

THE EU'S RESPONSE

The EU's response to China's rising donorship has been incoherent, swinging from criticism to unrealistic attempts to establish broad collaboration, such as the European Commis-

sion's 2008 proposal for EU-China-Africa trilateral cooperation. Brussels lacks a nuanced understanding of China's development agenda and has been slow to realise that it cannot 'socialise' China into becoming a Western-style donor. European efforts at engagement have also been limited by weak EU coordination and the lack of a clear Chinese interlocutor. China's development assistance is provided by a wide range of actors with no single coordinating institution.

While Brussels struggles to engage Beijing, some member states have independently established cooperation. In 2011, the UK and China initiated formal cooperation on global development and assistance to developing countries. Likewise, Germany and China cooperate at project level in some developing countries, while France and China engage in dialogue on African development and security. Beijing's greater willingness to engage with member states may be because of their pragmatic and less normatively driven approach. However, even this cooperation is very limited, as China believes any substantial collaboration with Western donors would undermine its policy independence and 'southern' credibility.

While the prospect of substantial collaboration remains remote, some new opportunities are emerging for Europe to increase its dialogue with China on development. China's 2011 white paper on foreign aid was a response to international criticism about its lack of transparency, and suggests increasing openness. Moreover, Chinese knowledge and policy on development is currently being established, as Beijing's policy community catches up with the reality of expanding Chinese investment in developing countries. The EU should foster engagement between European and Chinese research communities, private sector and non-governmental organizations (NGOs) to inform this process and provide a basis for stronger official engagement.

EU attempts to engage China on development must be based on a realistic assessment of prospects for a shared agenda. Their deep divisions on conditionalities, national ownership, international

standards, governance and transparency limit the room for a significant convergence of European and Chinese agendas. The EU's recent 'Agenda for Change' policy framework and 'more for more' approach increase its emphasis on governance and conditionalities, further widening this gap.

However, Europe and China do share some common development priorities that could form the basis for targeted cooperation. These include economic growth (identified as a priority in the Agenda for Change) and UN-led human development agendas, such as the Millennium Development Goals (MDGs). There are also some complementarities in terms of aid modalities, with Europe mostly providing budget support and sectoral programming, while China funds large projects. Such *de facto* division of labour could be a basis for more structured coordination. Beyond aid, there are synergies between European and Chinese approaches to trade and

development. The EU provides duty free access to least developed countries (LDCs), while China recently pledged zero tariff treatment for 95 per cent of imports from LDCs.

Recognising the above constraints and opportunities, the EU must examine how it can best engage with the

varied nature of Chinese donorship on the ground in Africa and Asia in particular. It must also promote a multilateral system that facilitates such engagement.

CHINA AND THE EU IN AFRICA

It is China's investment in Africa – a traditional European area of focus – that is of greatest concern to Europe. This investment is driven by China's need for energy, commodities and export markets.

According to China's 2011 white paper on foreign aid China spends around 45 per cent of its total assistance in Africa and has overtaken the EU to become the continent's largest trading partner. Political dialogue has also expanded in recent years, including through the establishment of the Forum on Africa-China Cooperation in 2000. Given China's high levels of commodity demand, its engagement in Africa will continue to grow.

China's entry into Africa has altered the context for EU-Africa relations and affected European trade, natural resource and energy interests (particularly given the growing share of the EU's energy imports from Africa). It has also reduced Europe's political influence, including through aid conditionalities. For example, China provides financial support to countries like Zimbabwe, where EU aid is suspended because of human rights concerns.

Europe's response to Chinese engagement in Africa has been weak. African development has been on the agenda of EU-China summits since 2006 with no concrete outcome. In 2007, the European Parliament published a critical report on China's impact in Africa that was negatively received in Beijing. Taking a more constructive approach, in 2008 the Commission published its communication 'EU, Africa and China – Towards trilateral dialogue and cooperation'. This proposed 'pragmatic' cooperation between the EU, China and Africa on African development. However, this communication was criticised by the European Parliament and the European Economic and Social Committee, which wanted human rights and democracy to be central in any trilateral process. Ultimately, this proposal went nowhere as Chinese officials were suspicious that it was an attempt to 'socialise' China, while African policy-makers saw it as an attempt at big power collusion over Africa.

Even if China's general resistance to collaboration in Africa were overcome, it would be difficult to identify a policy agenda around which China and Europe could engage. Frameworks for EU-Africa relations, such as the Cotonou agreement or the

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»»»»» EU-Africa Joint Strategy, are based on normative values that China does not share. One option could be cooperation around the African Union (AU) development agenda. However, in reality AU frameworks are frequently not owned at national level and China's focus is on supporting the development agendas of national level elites.

While European and Chinese overarching policy agendas on Africa may appear incompatible, on the ground the gap is not always so wide. There are complementarities in the sectors they support, with China funding growth-related infrastructure and business and the EU supporting social infrastructure and capacity-building. Moreover, both support regional structures such as the AU, the New Partnership for Africa's Development (NEPAD) and the Regional Economic Communities (RECs). Such complementarities could provide a base for limited collaboration. Critically, China is becoming more responsive to international criticism and more flexible regarding 'non-interference' in Africa. International concerns about its support to Sudan prompted Beijing to condemn the Darfur situation and participate in diplomatic responses. Criticism of its 'tied' aid has led China to use more local labour in recent projects, such as in Ethiopia. Moreover, in countries such as Zambia, Tanzania and South Africa, local protest is growing over labour conditions, unfair competition and poor quality infrastructure related to Chinese projects. The EU should encourage constructive Chinese responses to international and local concerns.

Evidence suggests that structural conditions within recipient countries – more than donor agendas – determine the impact of development assistance. For example, Ghana's comparatively strong institutions have ensured parliamentary oversight of Chinese investments and respect for local labour laws, while in weaker institutional contexts like Angola, Chinese investments prop up unaccountable elites. Given its focus on governance, institutions and capacity-building, the EU can help foster the structural conditions required to harness investment for development. This includes supporting African states to align

investments by China and others with national development plans and to regulate this investment. It also involves building local capacity to provide skilled labour and domestic outsourcing for Chinese projects. Likewise, the EU can support oversight and judicial institutions and civil society to demand transparency and accountability regarding investments.

CHINA AND THE EU IN ASIA

China's development engagement in Asia is driven by geo-strategic interests, in particular its rivalry with India and Japan. According to China's 2011 white paper on foreign aid Asia receives about 33 per cent of its assistance. China mostly provides loans for big infrastructure projects that further its own economic and security interests. For example, the 'string of pearls' ports in Pakistan, Sri Lanka, Bangladesh, Maldives and Burma enhance China's access to Indian Ocean energy routes and encircle India. China's formal non-interference policy is belied in Asia by the clear policy conditionalities it imposes on some neighbours. For example, assistance to Nepal is contingent on the Nepali state's repression of its Tibetan community.

European interests in Asia are not so directly affected by China as in Africa, as Europe is traditionally less engaged in this region. However, growing Chinese presence does alter the context for EU development cooperation in the continent. While it brings positive benefits in terms of regional leadership or long-term financing in contexts such as Afghanistan and Nepal, it entails competition for the European normative and security agendas in countries such as Burma and Sri Lanka.

China is even less willing to cooperate with Europe on development in Asia than in Africa. In this strategically important region, China prioritises bilateral relationships and resents Western interference. The partial exception to this is Afghanistan, where China participates in international discussions on the country's future but keeps a distance from Western actors on the ground. Moreover, in this divided region there is

no regional development agenda around which Europe and China could cooperate.

Many negative aspects of Chinese aid are heightened in Asia, because of the strategic interests at stake. China is less willing to compromise its non-interference principles because of international pressure on normative issues, as it has done in Africa. For example, it has provided extensive financial, security and diplomatic support to Sri Lanka despite intense international criticism regarding human rights. Moreover, Chinese assistance in Asia is even less transparent than in Africa. For example, Chinese support to Pakistan – a crucial ally in its rivalry with India – is cloaked in secrecy, with little distinction between development and security assistance. Chinese aid in Asia is also frequently ‘tied’, although there is generally more emphasis on building long-term partnerships than just exploiting resources.

China and Europe do have a common interest in stability within the fragile states that border China (Nepal, Burma, Afghanistan and Pakistan), although Beijing prioritises regime stability while the EU promotes inclusive institution- and peace-building. The EU should increase its dialogue with China regarding these fragile states. For example, China has become Afghanistan’s biggest foreign investor and will be central in shaping the future of the country.

As in Africa, the EU can support Asia’s fragile states to maximise the benefits of Chinese investment. For example, China is supporting development of Afghanistan’s copper, oil and gas industries and Nepal’s hydropower industry. The EU should seek to assist Kabul and Kathmandu to manage these investments and build local capacity to provide skilled labour and domestic outsourcing for these sectors. However, the strategic importance of these countries to China makes it harder for them to set the agenda for China’s engagement. Critically, the EU should support Asian civil society to demand transparency and accountability regarding Chinese assistance.

THE MULTILATERAL DEVELOPMENT SYSTEM

The multilateral development system is undergoing profound changes as global power shifts. The EU should promote multilateral institutional structures and policy frameworks that facilitate collaboration between traditional and emerging donors and recipient countries. This requires placing reform of the global development system centrally within the EU-China strategic partnership dialogue.

There is currently no neutral international forum where traditional and emerging donors can engage. The OECD cannot become this platform. Emerging donors perceive it as a Western institution and have resisted all efforts to draw them into its development structures, although China has signed up to a number of high-level OECD-led initiatives such as the 2011 ‘Global Partnership for Effective Development Cooperation’ and acts as observer to some OECD processes. Likewise, China and other emerging donors view the Bretton Woods institutions as Western-dominated and would like them reformed.

China wants multilateral development structures that reflect the new global balance of power and allow it to play a leadership role. Both the G20 Development Working Group and the UN Development Cooperation Forum have potential to provide a more neutral multilateral development forum, although neither has yet delivered on expectations. However, even if China plays a more prominent multilateral role it is likely to continue prioritising bilateral development relationships as the best way to pursue its interests.

Global development agendas are also changing and some new agendas offer entry points for greater European engagement with emerging donors. These include the global public goods agenda that prioritises the provision of goods enjoyed by all, such as a clean environment or better economic and social governance. Global public goods are of interest to both Europe and



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»»»»» China and the EU is committing substantial funds to this agenda through its Development Cooperation Instrument. Likewise, there is an expanding international agenda on fragility and state-building in which both Europe and China are actively involved, including through the OECD-led International Dialogue on Peace-building and State-building.

However, it is the development of the post-MDG framework that provides the greatest opportunity for a shared development agenda around which traditional and emerging donors and developing countries can coalesce. It is likely that the current development agenda will be radically re-written, with universality, sustainability and equality given a central place. While the EU is closely involved in the post-MDG process, it has not effectively engaged with emerging donors on this, although member states such as the UK are doing so. Brussels must reach out to China and other emerging donors – at state and civil society level – as extensively as possible in the coming months, in order to promote an ambitious MDG agenda that has genuine buy-in from rising powers.

THE WAY FORWARD

While the EU remains the biggest single provider of traditional development aid, the rise of China and other emerging donors is undermining its legitimacy, effectiveness and normative influence within developing countries. It is also undermining the separation established by traditional donors between development assistance and areas such as trade, investment and security interests. The EU must assess how best it can adapt to this new context, promoting European interests and relevance while still maintaining its values.

Europe must recognise its limited influence with China. While it is important that the EU uses its strategic partnership dialogue to engage China bilaterally on development issues, the results are likely to be limited in the medium term. The EU must therefore also focus on reshaping the multilateral system to facilitate better global

collaboration on development; increasing its practical coordination with China on the ground; and supporting developing countries to maximise the benefits of investment by new donors, including China, through better governance frameworks.

Clare Castillejo is senior researcher at FRIDE.

**e-mail: fride@fride.org
www.fride.org**