

Two Approaches to Aid in Africa: China and the West



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1. Introduction

- Two contrasting approaches to aid
 - The West:
 - Conditionality + Selectivity
 - Direct financial support
 - Untied
 - China:
 - Unconditionality
 - Infrastructure building
 - Tied

2. The West's Approach to Aid

□ 2.1 Aid Effectiveness

- Limited by tendency to finance consumption rather than investment, fungibility and poor macroeconomic management.
- Concerns led to adoption of conditionality and selectivity by Western donors in 1980/90s Washington Consensus.
- By 2000, 80% of WB/IMF co-finance to Africa went to “good performers” (World Bank, 2000).
- Problems with the Western approach:
 - Does conditionality work, ever?
 - Even if it can work, does it work in Africa?
- Lack of empirical evidence showing that aid leads to growth, e.g. Burnside & Dollar (2000,2004) vs Easterly (2004).
- 2005 Paris Declaration on Aid Effectiveness, to improve ownership (by recipients), coordination (by donors) and transparency (re both).

2. The West's Approach to Aid

□ 2.2 The Aid Dilemma

- Conditionality assumes aid works best in well governed countries where corruption is not a great problem, and should be allocated accordingly.
- Corollary: poorly governed countries blighted by corruption should be denied aid. However, these are often the countries most in need of assistance.
- Moreover, strong correlation between quality of governance and GNP per capita (Kaufmann & Kraay, 2002) >>> **governance and economic development are endogenously related.**
- **Aid Dilemma:** Countries least likely to satisfy good governance and anti-corruption conditions are also the countries most in need of aid.
- Problem for Western donors: by seeking guarantees that aid will be used well and distancing themselves from unsavoury regimes they deny aid to poor people - e.g. Wade (2002).

3. The Chinese Approach to Aid

- China is Africa's second largest single-country trading partner:
 - Trade increased from \$4bn in 1995 to \$100bn in 2008.
- China is a leading lender to Africa:
 - Has overtaken World Bank.
 - Lending to Africa in 2006 = 3 x total OECD lending.
- 3.1 Defining Characteristics of Chinese Aid
 - Unconditional regarding:
 - Human rights, macro management, environment, political openness.
 - Infrastructure focused:
 - Railways, roads, hospitals, schools, water systems, power generation.
 - Tied:
 - Work undertaken by Chinese companies, often with Chinese labour.
 - Fund transfers from Chinese government to Chinese companies.

3. The Chinese Approach to Aid

□ 3.2 Criticisms of the Chinese Approach

- Unconditionality supports unsavoury regimes and fuels corruption.
- China's only interest is to plunder Africa's natural resources.
- Little direct employment is created.
- Increasing indebtedness of African countries.
- Naim (2007): Chinese "rogue aid."
- Peter Hitchens (2007) in Daily Mail.
- Brautigam (2010) more favourable to China.

4. The Chinese Solution to the West's Aid Dilemma

□ 4.1 Africa's Development Deadlock...:

- Underemployed labour, capital flight, too little investment, high transaction costs.
- Poor governance + unfavourable business environment.
- Failure to establish capitalist mode of production.

□ ...and Possible Ways Out:

- Improving infrastructure, to reduce costs of trade and encourage further investment.
- Evidence: Donaldson (2008) "Railroads of the Raj" + S Africa, India, USA; Brautigam (2009) – Japanese infrastructure investment in China.

4. The Chinese Solution to the West's Aid Dilemma

- 4.2 Reassessing the Chinese Approach to Aid
 - China's investment in productive infrastructure in Africa is effective in removing barriers to development.
 - No evidence that Chinese aid is increasing African indebtedness (Woods, 2008).
 - May be true that China is using aid to access Africa's natural resources, but the fact that it stands to benefit also means China is more likely to sustain the long-term investment and commitment required for economic development.
 - Tied aid minimizes opportunities for corruption as funds do not pass through recipient governments and domestic companies and employs primarily Chinese labour.
- >>>Although Chinese approach is narrower (i.e. focus on economic growth rather than development), it circumvents the Aid Dilemma faced by the West.

4. The Chinese Solution to the West's Aid Dilemma

□ 4.3 Could the West Replicate the Chinese Approach?

- China has a comparative advantage in infrastructure building while the West's lies in its financial institutions, services and social development.
- China, like Africa, has abundant cheap labour.
- The Chinese approach draws on the “living memory” of China's recent development history.
- China has followed a state-led path to development, in contrast to that envisaged by the Washington Consensus.

>>> The West is unlikely to be able to copy China.

5. Conclusions

- ❑ To achieve MDGs, quantity and quality of aid needs to increase.
- ❑ Re quality, West's answer has been conditionality and selectivity.
- ❑ However, conditionality implies countries must have "right" policies, and selectivity implies aid should not be given to countries that fail to satisfy conditions.
- ❑ Endogeneity of governance and economic development
>>> Aid Dilemma.
- ❑ Chinese approach bypasses Aid Dilemma + focus on infrastructure investment promotes economic growth.
- ❑ Respective comparative advantage in aid means the West is unlikely to be able to follow China's example.
- ❑ Increasing competition in aid is good for Africa: Pilling (2000), "A scramble to invest in Africa has got to be better than the European precedent: a scramble to carve it up."