

TRANSCRIPT OF DEVELOPMENT DRUMS [EPISODE 26 – CHINA IN AFRICA]

Host: Owen Barder. Guest: Deborah Bräutigam

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Owen Barder

Thanks for downloading Development Drums number 26. My name is Owen Barder. Today we're talking about China in Africa and my guest is the world's foremost expert on the subject, Deborah Bräutigam. Deborah's book, *The Dragon's Gift*, is a compelling account of how and why China is involved in Africa, both by giving aid and through other economic engagements. I caught up with Deborah at a meeting, which we both attended in Addis Ababa organised by the OECD Development Assistance Committee, the DAC, to share lessons between China and the OECD donors. It was such a lovely day that I stupidly decided to record this outside, not realising that my microphone would pick up so much background noise. I hope you don't find the sound of bird songs and of children playing too distracting because Deborah's insights into China's role in Africa are very interesting. I found that talking to Deborah and reading her book, not only changed my view of what China is up to in Africa, it also made me think again about the approach that Western donors are taking.

Deborah, welcome to Development Drums.

Deborah Bräutigam

I'm glad to be here.

Owen Barder

There's a lot of talk now about China's footprint in Africa and in your book, you basically say that this is exaggerated both in terms of the aid that China gives and in terms of the economic relations, the lending and the trade. What's your estimate at the moment of both on the aid side of how much aid China is giving to Africa and what's your sense of the other kinds of economic engagement?

Deborah Bräutigam

As a donor right now, China is about the size of Belgium, so it's about a little over \$1 billion a year, but it's growing very quickly.

Owen Barder

So that's in terms of ODA.

Deborah Bräutigam

Yes.

Owen Barder

That's the official definition of aid.

Deborah Bräutigam

Yes.

Owen Barder

Which of course China doesn't talk about aid in that sense but if you measured what they give according to the official definition it would work out at about \$1 billion a year?

Deborah Bräutigam

Yes, well that's about \$1 billion this year.

Owen Barder

This year.

Deborah Bräutigam

Or actually for 2009, it was about \$1 billion and it's growing. It doubled from 2006 to 2009.

Owen Barder

But that's pretty small; that's a third of the Gates Foundation, roughly speaking. Okay. So, but that – isn't that in part because a lot of what China is doing around the continent isn't what would be classified as aid under the OECD definition?

Deborah Bräutigam

I think what the Chinese are doing causes us to rethink some of our definitions of what is aid and what isn't aid. Because what they have are very large packages, which are financed at a commercial rate, but a very good commercial rate and some of these packages are tied to – they are secured by natural resources. So they are not doing that everywhere but the kinds of packages that we see in Angola or the Democratic Republic of the Congo and even here in Ethiopia, there are very large infrastructure lines of credit are then secured in case of the DRC and Angola with natural resources and they are at a commercial rate, which is based on the London Interbank Offered Rate plus 1% or so. And that doesn't qualify as ODA and yet it's developmental.

Owen Barder

And do you have a sense of what kind of scale that is on, I mean, because when you travel around Africa here in Ethiopia, for example, you have a sense of a lot of Chinese economic activity, road building and construction here in Ethiopia but in other countries that might be investment in ports or factories or, so although it doesn't count as aid and as a donor China might be rather small as an economic actor, is that, do you have a sense of the scale of that?

Deborah Bräutigam

As an economic actor I would say they are very large and so these commercial rate loans are probably on the order of maybe \$7 billion to \$8 billion a year.

Owen Barder

A year, that's of money coming in per year?

Deborah Bräutigam

Yes.

Owen Barder

But that's still, what, a fifth of Western aid to Africa.

Deborah Bräutigam

Well, what's interesting is that there is a fair amount, if you look Africa, including North Africa, there's a fair amount of finance from the West that is not aid.

Owen Barder

Right.

Deborah Bräutigam

We have export credits; we have commercial bank loans that have been coming in. Again, to look at Angola, there have been commercial bank loans coming in to Angola for a long time because they have commodities that can repay those and just as with the Chinese the commercial bank loans have been secured with oil.

Owen Barder

What I found very interesting at the beginning of the book, the first three chapters of your book, are really a history of China's role in Africa, which I suppose I did know in one level that China had been involved in Africa for long time, we all know about the railway, the Tanzania Zambia railway which began in the year I was born, so that's a long time ago. Tell us a bit about China's history in Africa and how far back this goes because, I mean, this is something you've been working on for not certainly nothing like as long as I've been born, but.

Deborah Bräutigam

Thank you. [Laughs]

Owen Barder

But maybe 30 years, right?

Deborah Bräutigam

Yes, I did start working on this topic in 1983 and I can tell you that, at that point, everyone asked me, "Why are you doing your PhD dissertation on China and Africa? There isn't any interest in this topic", but nonetheless I did it. So China's been involved in Africa, really since the 1950s as African countries were going through their liberation struggles and China, of course, was a socialist country and made common cause with other socialist countries and that was their main agenda in Africa during the '50s and '60s but that changed. And what changed was the struggle with Taiwan to try to regain the China seat at the Security Council. And so China had to go beyond socialist countries in order to do that. And they then formed diplomatic ties and battled with Taiwan in order to get diplomatic recognition and a large part of that was giving aid packages. And so throughout the 1970s, we see these aid packages coming from China into all the countries with whom they formed diplomatic ties. And that went on really until the late 70s, early '80s when China went through its own economic transition and they started to think, we can't really afford all of this aid and it was fairly substantial in terms of a percentage of their Gross Domestic Product.

Owen Barder

5% of GDP, I think you said.

Deborah Bräutigam

At one point it was, yeah. And that was mainly before they fell out with Vietnam, a lot of that was going into Asia, into North Korea, Vietnam and other boarder countries and socialist partners there. So that was an enormous amount. So they then scaled back in Africa but they didn't go away and a lot of people believe that after China was there in the 70s, they built the Tanzam Railway that you mentioned and then they left, but they didn't leave and so when I arrived in 1983 to study this, I found that there was a fair amount of activity. And what they were doing was trying to transition into a business model. And so I wrote an article about this, it was published in 1983 in the China Business Review and it's called Doing Well By Doing Good, China's New-Style Foreign Aid and from 1983 to the present, that's what I've seen happening. It's much more about linking of aid to business relations, using aid as a springboard for business and that's something that we've really gotten away from in the West and that's business for Chinese companies, not necessarily for African companies but sometimes in joint ventures.

Owen Barder

So you have a wonderful story in the book about a big Asian donor making a large loan to a developing country. Do you want to tell us about that story?

Deborah Bräutigam

Well, the way I tell it is, once upon a time a large, very poor but resource rich country just emerging from a period of intense conflict decided to focus on development. And soon they had a visit from a wealthy Asian country that had already become a major consumer of their oil. And this Asian country said to them, we'll make you a bargain. We'll give you a line of credit worth \$10 billion and you can use that to import our technologies. Our companies can help you develop your mines and your ports and your energy infrastructure and you can repay us with your oil. And this was very controversial in this poor country but

they agreed to the bargain and the work began. And then I usually ask people if I'm giving this as part of a talk, who were these two countries? So, Owen, you know who these two countries are.

Owen Barder

I read the book.

Deborah Bräutigam

People usually say, oh Angola, DRC, Sudan, but actually, sometimes they mention China and I say, right. China was a large poor country with oil and the other country was Japan and this took place in the 1970s as China was just emerging from the Cultural Revolution. So this kind of pattern of having a resource-secured line of credit, something that's win-win for both sides, where each is getting something out of it, the Japanese were happy to get the oil and also to sell their technologies and they also visioned this whole package as something that would help China transition into be the capitalist country having loans from abroad, developing their infrastructure and so on. So it was good for Japan and it was good for China.

Owen Barder

I hadn't realised until reading book that China had consciously modelled its current engagement in Africa on the way Japan had engaged with China. I think in 1978 was the date you mentioned is when this deal was finally struck after a long period of negotiation. That's right, I mean, basically China sees itself as doing in Africa what roughly what Japan did with it. Is that?

Deborah Bräutigam

I think China has looked to Japan as a model in a lot of ways. Because Japan's been a very successful exporter and a very successful, moving out in the world and they did this a lot earlier than China's done it. Japan did a lot of this in Asia, not just in China, but all over South East Asia. They used aid funding to help promote Japanese businesses. They built a lot of infrastructure in South East Asia. And Japanese companies moved out as it became expensive operating in Japan. So, China saw this happening and they've learned from this and they've moved out, patterning themselves after Japan. And it's not because they are particularly fond of Japan, but they recognised that Japan provides a useful model for them.

Owen Barder

So, the 'Go Global' campaign that China established, and again I didn't realise kind of how systematic this was, a different component, the lending, the duty free, tariff free, quota free access, the overseas zones, that is an overall strategy kind of modelled on the Japanese strategy of moving out and building external trade links. Is that right? What's the logic, what's the purpose of this strategy for China?

Deborah Bräutigam

China's been moving away from being a planned economy very gradually in a very long, lengthy transition for decades now. But what – when we look at that move toward the market, we sometimes forget that even though it's not a planned economy any longer, they still have plans.

Owen Barder

Right.

Deborah Bräutigam

And so they are very forward looking. They looked, you know, where do we want to be in a decade, where do we want to be in two decades? And when they look at Japan, they can see the future and they can also see where they don't want to be, for example, they don't want the economic stagnation that Japan has now. But they know that China, they knew several decades ago, actually. I saw in Chinese sources that they were thinking about this from the 1980s about China going global and how they would be going out. Because the first part of their economic liberalisation was about companies coming in, a lot of foreign investments being attracted in. But they knew that Chinese companies would need to go out. And the government wanted to be a step ahead of that to make it easier for them, to sort of both push them and pull them out of the country. And that's what the going global policy is about. And it's a very strategic and carefully thought out set of procedures and policies and the framework for this to happen. And we can see it, it's not just in Africa, this is actually a small part of their going global. It's in Australia, it's in Latin America, the

United States, Europe, Chinese companies are moving out all around the world and their government is helping them do that.

Owen Barder

Now, clearly the primary motivation of that is in China's economic interest, but when China – China would say – Chinese officials would say, this is in our mutual interest. This is in their interest and in the interest of the people with whom they are trading. Is that right? How much are they motivated by that really or is that just rhetoric? And how much is it a reality? Does it – to what extent do other countries benefit from that kind of engagement?

Deborah Bräutigam

Well, the kind of engagement we're talking about here is extremely broad. We see it in terms of Chinese companies purchasing assets abroad. We see it in terms of Chinese companies coming over and investing in greenfield investments. We see it in terms of trade relationships. And so it's very difficult to draw an overall assessment of those. I think you'd have to look at different cases in order to find out whether it's been beneficial or not. And you could say the same for any large power and its economic relationships overseas. I think that the Chinese do have a sense that foreign investment was very beneficial for China. They wanted to invite in foreign investment but they also did it strategically and so they believe that their foreign investment going abroad is also beneficial and the same thing with trade relationships. They think that trade is a good thing. Obviously, they've been doing a lot. And they are very conscious of the trade balance with different countries. That's something they report on every year, you know, how much they are bringing in from that country, how much they are sending out to that country and what they can do about that because they know that the trade balance can be very sensitive...

Owen Barder

Right.

Deborah Bräutigam

...politically. And so in that sense they have an incentive to make it be of mutual benefit.

[Music]

Owen Barder

One of our listeners, Peter, asked on the Facebook group of Development Drums, asked me to ask you about the evidence for Chinese firms, as they do this, bringing innovative business practices, bringing in technologies to developing countries. I mean, one of the advantages of that kind of trading relationship is technology transfer. Do we know whether that happens much and whether there's evidence of that kind of benefit in China's engagement?

Deborah Bräutigam

There's very little systematic analysis of this. And my own evidence is purely anecdotal. I can see a number of companies that I've looked at and have interviewed where there is a higher technology being brought in than what is existing locally? That doesn't mean that that technology would be considered high technology that came to the United States. It's definitely – the pattern in general of countries moving out has been that they are often casting off the technologies that they are outgrowing. That's what Japan did. It was called the flying geese model where they would move out their matured technologies that they were outgrowing at home and they would move those off to other countries. And that's what the United States has done. That's the whole pattern. It's called the international product cycle as well. And so in that sense, it's not the most high tech technologies that are being sent abroad, those are still at home.

Owen Barder

But they still might be higher than those available in the country, right?

Deborah Bräutigam

I think that is the pattern. And so these are attractive technologies in most of the places where they are going.

Owen Barder

Let me focus for a while on natural resources because part of the narrative that you get particularly in the Western media is that this is in some sense an effort by China to corner a part of the market in natural resources. And Alex Evans, who is a listener to Development Drums, and in fact was a guest on the last episode, has asked me to ask you this. He says, I take on board Deborah's argument that China can get singled out unfairly on resource access deals. People are always talking about China's scramble for resources and no one ever seems to talk about the U.S. support for Equatorial Guinea or Uzbekistan which seem to me about as bad a regime as you can support. But nonetheless, is what's happening a kind of preparation for the day when we begin to run out of oil or begin to run out of land or begin to run out of minerals and where it really is a zero sum game of China's getting access to them then other parts of the industrialized world are not. And are they hedging against that scenario? Is that actually what's going on that they are preparing for the possibility that there may be resource constraints and they need to have, for their own security, economic security, a claim on a part of those resources?

Deborah Bräutigam

I would say a couple of things to address that. First of all, I remember when the book the limits of growth came out in 1971 and they were predicting that we were going to run out of all sorts of resources and they had all of these fancy econometric models to show just how we would by 1990 or by 2000 we would be totally out of this, that or the other resource. So, I think that as prices rise we are going to be finding new technologies that will enable us to access, I'm more of an optimist in that regard...

Owen Barder

Right.

Deborah Bräutigam

...but that's just one point to make.

Owen Barder

So you're Simon rather than Erlich...

Deborah Bräutigam

That's interesting. I suppose I am when it comes down to that. But I think that what people like Erica Downs have shown in her examination of China's engagement in oil is that what they are actually doing is they are adding to the amount to the pool that is available and so that means that there is more for everybody.

Owen Barder

Right.

Deborah Bräutigam

China's demand for oil and other resources is enormous but we have to keep in mind that that demand is partly being translated into products that they are making for the rest of the world, and exporting to us. And so, in essence, we are still consuming those resources, we're just – they are translating through China rather than translating through our own countries directly. So, they are consuming a lot, they are looking forward to being consuming even more. But, in essence, they are really consuming it on our behalf and we are the final consumers of those...

Owen Barder

Right, so that will be coming intermediate.

Deborah Bräutigam

Exactly. They are the intermediary.

Owen Barder

Right. A lot of the trade statistics have been misleading in this respect because China is re-exporting things that they've imported from elsewhere. So, it's more triangular but I am not sure that you're quite nailing the question of deep down is this in part an energy and food and natural resource security play by China? Or, you know, as you say, they, you know, they look ahead, they think strategically. Is that – do you think that's in part what motivates them here that they want to be sure that their influence is such in the world that they are able to get access to these resources for many years to come?

Deborah Bräutigam

I think if one looks at Chinese engagement in Africa, the overarching theme there is resources. And of course, that's the case with other powers that are engaging in Africa, the overarching theme is also resources because this is what Africa has. Now, is it an attempt to lockup resources for the future? I really – one doesn't know at this point if there's, and I haven't seen a lot of discussion about trying to control resources or try to keep them in Chinese hands so that they can have access to them. There is a small but noticeable theme of concern in China that at some point they may have to face an embargo or they may face some kind of political effort to cut them off from resources and when they do discuss this they usually mention the United States. So the United States may try, for some kind of political reason, to embargo or impede Chinese access to resources. And in that case it would be good to have their own sources that they feel more secure about. But this is usually by political commentators, not the government itself..

Owen Barder

Right.

Deborah Bräutigam

...in its own writing. And so I think that's, because, of course, we did embargo China for 23 years or so...

Owen Barder

Right.

Deborah Bräutigam

...from 1950 in the Korean War until the 1970s. So they have had that experience. And there are people with long memories that keep that in mind. But I think it's, I really see this is as a much more commercial thing where they are going out, they're trying to buy up as many assets as they can in a kind of countercyclical way and they are looking not just to export that back to China but these companies are exporting, they are selling on the London minerals exchanges and they're selling to wherever the most profitable place is for them to sell.

Owen Barder

Can you – I was very interested in the book, in the description you have of the way that China supports and invests in this in a way that's different, say, from a Western oil companies. A Western oil company will come and give a lot of money to the government of Angola or Nigeria in return for oil. China's approach, caricature, has been a bit different than that, in terms of actually investing itself in the infrastructure and being repaid in commodities. Can you say something about that difference between the way they are doing it in a more tied way and some of the advantages and disadvantages of that?

Deborah Bräutigam

Well there are really two general patterns that we see. One is that Chinese mineral and oil companies are going abroad and investing. And this is done in a way that's very similar to Western companies investing and it's not related to these tied packages. So that's one pattern, it's just going and investing and bidding in tenders and competing along with the majors. So pattern one.

Pattern two is where these packages get developed and these are ones that bring in Chinese banks, particularly the China export credit agency, which is the China Exim Bank, and increasingly the China Development Bank. So these banks are the ones that offer the lines of credit. And then construction companies are the other major partners in these deals and in some of the companies – or some of the deals that we have seen there isn't even a major Chinese resource company involved. So in the case of the DRC, this very large, what was originally a \$9 billion package was scaled back to \$6 billion. There was no

Chinese mineral company involved in that package and the construction companies themselves are through new subsidiaries developing this copper mine and so it really does seem to me, for them, the infrastructure component of this package is a more important part.

Owen Barder

Right.

Deborah Bräutigam

So that's the second model in which you have this package in which there's finance coming in and it's secured with the natural resource which then can be developed.

Owen Barder

But it's not so much finance coming in as the Chinese firm actually coming and building the infrastructure, I mean, the money never really touches the sides in the developing country's system, right, there's no money that's being paid to governments or firms in the country...

Deborah Bräutigam

Exactly.

Owen Barder

...I mean it's kind of a strong form of tied aid or kind of, and project aid, if you think of it as an aid program although it's more of an economic investment. But it has advantage that that money genuinely does end up being invested in the infrastructure.

Deborah Bräutigam

I wouldn't call it aid because these deals are all in commercial terms...

Owen Barder

Right.

Deborah Bräutigam

...and so that's why it's something that we don't, we don't have this kind of package in the West. It's developmental but it isn't aid, or it isn't official development assistance.

Owen Barder

Right.

Deborah Bräutigam

And what it comes down to it, we don't really have a good definition of what is aid. When ExxonMobil comes in and invest in the country, we don't usually call that aid. There can be a developmental impact there, but, I would look at the Chinese packages as ones sort of really based on commercial relationships and they are based – they are going into countries where they think the countries have a natural resource that can repay this kind of...

Owen Barder

Right.

Deborah Bräutigam

...investment or repay the kinds of loans. And so that's why they see it as a rich country, that can use this and it's dependable enough that there's a line of resources coming out that can secure these kinds of packages. One more thing about these packages that the Chinese have set up, when you hear about a \$2 billion or a \$3 billion financing package, one might assume that that money is coming into the local government, but actually the money never comes in, it stays in China and it's being used to finance Chinese companies to do this work. So when they do a portion of the work they submit their bills for that and the local government approves it and sends it back to China and then they are paid out of the Chinese bank into

their Chinese bank accounts. So the money doesn't come in and the Chinese actually look at this as a way to avoid the embezzlement and the corruption problems...

Owen Barder

Right.

Deborah Bräutigam

...that they would otherwise face and it does work well for them.

[Music]

Owen Barder

One of our listeners, Janet, asked on Twitter, whether – what the reality is about the rumours of Chinese firms and investors mainly using Chinese labour and we know here in Ethiopia and in other countries there's been a certain amount of dissatisfaction spilling over into violence as a result of the perception that instead of using African labour, the Chinese firms are unnecessarily bringing in Chinese labour. What's the reality of this?

Deborah Bräutigam

The reality is, is that it varies enormously. There are countries in which the use of Chinese labour is quite high. Angola is one example there. And in Angola from the data that I've been able to gather, it's about 55% Angolan and 45% Chinese on average in construction projects there.

Owen Barder

That's a pretty high proportionate of imported labour.

Deborah Bräutigam

It is. There are other examples where it's even higher. I heard recently here in Ethiopia about a dam project that's being done by SINOHYDRO and they reported that it was about 1,000 Chinese workers – excuse me, 1,000 Ethiopian workers and 9,000 Chinese workers. Now I wasn't able to confirm that but that was the report. There's a Chinese cement factory here in Ethiopia in which the ratio is 20% Chinese and 80% Ethiopian.

I found that on average across Africa in the anecdotes that I've collected on this, it does turn out to be about 20% Chinese and 80% African workers in any given project. Where the proportions tend to be larger in terms of local workers is in factories, and this makes sense, because this is a fixed investment which is going on for a long time, it's not a temporary and quick project like a construction project. So where you tend to see a large number of Chinese workers is in construction projects that are being done by companies that are new in that country. Even in Angola, my colleague Tang Xiaoyang found that if a Chinese company had been there for five years, the ratio of Angolan workers was twice as big...

Owen Barder

Right.

Deborah Bräutigam

...as the Chinese company that had just come over. So it depends on a lot of things, on the local work permit rules and how restrictive or permissive they are and how much they are enforced and on whether the Chinese company finds that it can find the skilled and semi-skilled workers that it needs.

Owen Barder

What do we know about the kinds of Chinese people that are coming over? One rumour that goes around often is that some of these people are prisoners who are offered a shortening of their prison term in return for coming and working, and you hear that – although I've never seen that verified but you hear that rumour a lot here in Addis. What do we know – what's – who – what kind of people are these that are coming and what's the truth about prison labour?

Deborah Bräutigam

I've also heard those rumours about prison labour in Africa and other places where Chinese companies are working, Sri Lanka, for example. And I've never seen any evidence or any verification of them. I doubt it would happen myself, certainly not with official Chinese companies. Perhaps it could happen unofficially. But I think why this rumour arises is the conditions under which Chinese labourers work over here, which is quite similar to the way they work in China. They live in barracks, kinds of arrangements, very simple in dormitories; usually those barracks have a fence around them which is to keep out thieves rather than to keep the Chinese in. They don't interact with local people because they don't speak the language and they are all trying to save their money, what little money they have in order to send it back to China. There's a saying in China, 'chi ku' which means, 'eat bitterness' and this is how the Chinese workers that come to Africa are eating bitterness for a while and then they are going back home with more money.

Owen Barder

Somewhat in distinction from Western aid workers who...

Deborah Bräutigam

Very much.

Owen Barder

...do not live on compounds...

Deborah Bräutigam

Very much so.

Owen Barder

...eating bitterness.

Deborah Bräutigam

It's – one of the hallmarks of Chinese aid from the very beginning has been this distinction between – how they actually set themselves apart from the Russians at first and they said that Chinese aid workers will live at the level of their local counterparts. And what we find is that the aid workers actually, these days, are living below the level of their local counterparts and that's the case for Chinese construction workers even when it isn't aid.

Owen Barder

Can we turn to the environmental implications of Chinese engagement? Another criticism or worry you often hear is that China has lower environmental standards than, for example, the World Bank or Western donors or companies would like to maintain and you get examples like here in Ethiopia where financing for a big dam project from the World Bank fell through because of the environmental appraisal. In steps China and funds it. That – it's hard to tell how true that is or whether the environmental appraisal was really the trigger. But what do you think is – what's the truth here? Is China maintaining their environmental standard? Is that bad? Are they somehow breaking a cartel that we ought to be trying to sustain to leverage up environmental standards?

Deborah Bräutigam

China's own record on environmental standards is not very high. We can see this with regard to the pollution in Beijing, which is really dreadful and the hydropower projects that have gone on, including the very large Three Gorges dam. All of these have – would not have been approved by the World Bank. And the Chinese do have lower standards and they're exporting those standards to Africa.

Now in the case of hydropower dams, my own sense is that our standards have possibly gotten too stringent. That we in the West have developed our hydropower and other parts of the world have also developed their hydropower. And in Africa the hydropower potential is enormous and the amount that has been developed is very, very small. And hydro power does provide a renewable energy source. And for – many countries are very keen to have this and so the Chinese are much more willing to go ahead.

Now it's not true that they don't do environmental appraisals. I was speaking with the Head of the China Exim Bank a couple of years ago in Beijing and he told me that they are now using Western environmental appraisers to do the impact assessments. And so they've gone to Switzerland, they've got – they have another company in the Netherlands that have been doing these appraisals for them because they want to get beyond reproach in this area. But they haven't published any of these appraisals. So it's a little difficult to see the rigour with which they're approaching this issue. But I think this is an area where I would say there is room for concern.

[Music]

Owen Barder

Hannah who is an economist working for one of the large aid agencies asks on Facebook whether there is any evidence of China investing in low carbon investments in Africa. Is there some – you know, rural area investment worrying and potentially dirty or are they also getting into some of the potentially valuable environmentally friendly investments that might well be in the future?

Deborah Bräutigam

That's an interesting question. In Sharm el-Sheikh in 2009 the Chinese made another round of pledges for their engagement in Africa and one of the pledges was that they were going to set up 100 renewable energy projects across Africa. And they see this very much as a way to introduce Chinese renewable energy technologies into this market. It will be done first as grants and gifts and then, hopefully, people will like these and will want to purchase more of them. We all know now that China itself is becoming a leader in renewable energy technologies and they want to be very much ahead of the curve on this and so Africa is a way to test some of these out. And I've seen wind power investments, solar cell investments, geothermal investments; so there are a lot of different kinds of projects that are coming on stream both as aid projects and as commercial projects. So it is a very interesting area.

[Music]

Owen Barder

Can we talk about debt? One of the worries that you often hear from Western donors is that this commercial engagement that we're talking about with loans at commercial rates, risks creating for Africa a new debt crisis; that Africa will take on loans that it – that it can't repay in the future. What's your sense of whether that's a risk that we should be taking seriously?

Deborah Bräutigam

There is a lot of money coming into Africa from China and so in the aggregate it looks quite worrying. When you follow the individual large loans that are coming in, they are usually going to countries that have – that are currently generating a lot of natural resource exports that can repay these loans or have the potential to do that.

Owen Barder

So that's kind of Angola, Nigeria, what else?

Deborah Bräutigam

Well, Nigeria hasn't actually gotten one of these large loans, it was under negotiation but it fell through. So Angola, the DRC, Equatorial Guinea...

Owen Barder

Right.

Deborah Bräutigam

...and then smaller packages going in to Niger, again for oil, Chad, again for oil, and there are other examples. Ghana, for example, is a – a recent package is under negotiation and Zimbabwe, there's been a package there that's been negotiated since at least 2006 and may be close to realisation now. So that's five years of negotiation for that package. One...

Owen Barder

Now you – these are – some of these are countries that have had debt relief under the HIPC terms...

Deborah Bräutigam

Yeah.

Owen Barder

...so you can see why Western countries are anxious at the idea that, you know, Western countries give debt relief and then China builds up on a whole new set of debt obligations in countries – you know, countries like Chad or Niger you could imagine having difficulties repaying debt in future.

Deborah Bräutigam

You could imagine that except that in both of the instances where you mentioned, Chad and Niger, this money is coming in to develop a resource...

Owen Barder

Right.

Deborah Bräutigam

...and so they – there will be an increase in the foreign exchange that's available to repay the debt. And so, I see the Chinese being very strategic about this. They are – one could look at it this being free riding on the debt relief from the Western donors in the past, which was relieving debt that came mostly from expert credit agencies and not so much from aid.

But I see it as being more strategic in that regard, because it's not, these loans are not going in everywhere. They're not going into the – most of the poor HIPC countries that happen not to have a resource they can secure these loans.

So – and that's why I think it's also important to see that this money is coming in not just in these infrastructure projects, they're not coming in just as a sort of desperate search for resources but it's part of a well thought out package where the resource that is in the ground today can be used in the future to repay the loan that has been used for infrastructure and so that's a kind of a neat package.

Ethiopia is one example where that model doesn't quite fit. Now there's a very large telecommunications project here that is actually funded by supplier credit to ZTE or Zhongxing Telecommunications. And that's a \$1.5 billion contract and my understanding is that there's an arrangement whereby all of the exports that – from Ethiopia, which was mostly sesame seeds, I think, are channelled through one particular bank in Ethiopia and then that arrangement, I suspect, although I haven't had this confirmed, is probably done to secure either that large ZTE supplier credit or a \$500 million preferential export credit that the Chinese Exim Bank has made here in Ethiopia. So that, it's – sesame is not a natural resource one normally looks at the Chinese being desperate to secure but...

Owen Barder

So that's a case where it's possible that there is a – debt being taken on, but we're – that isn't explicitly linked to a natural resource flow that will be able to repay it?

Deborah Bräutigam

Yeah. Yeah. I don't know how they're planning to repay that...

Owen Barder

Okay.

Deborah Bräutigam

...that \$1.5 billion telecommunications loan.

Owen Barder

One of the things that I was very struck by in your book was the extent to which Western fears are exaggerated. Very heavy exaggeration of how engaged China is in Africa, the amount of aid, the amount – the numbers you described earlier are much smaller than newspaper articles, would have you believe. And there's talk about rogue donor and a – really a lot of quite alarmist language about China's role in Africa.

I'm interested in part why you think that is, but in particular where the China's lack of transparency is part of the problem here. That because we don't know, because there's no easy way to see what China is doing, people's imaginations begin to run wild. What – do you think there is a possibility that China will begin to open up a bit more about what it's doing and to – partly to counter some of this Western paranoia?

Deborah Bräutigam

I think transparency on the part of the Chinese would be enormously helpful in countering this. And, I see transparency changing and improving. Today, it's much easier to get individual figures on a country-by-country basis from Chinese officials. I've been able to get aid figures in a lot of different countries from the Chinese. And, many of them are now posting these aid figures on the website; there'll be an interview with the Chinese ambassador and it will be posted on the Chinese embassy website, in which they give the figures for aid. So – but what we're not getting yet is much transparency on the commercial figures. The World Bank and the IMF have been really pushing countries to do this. In fact, I've understood in some places they've been making IMF packages conditional on the country being transparent and reporting all of the details of their engagement with new financiers like the Chinese. And so that might force additional degrees of transparency. The numbers are out there because the countries know them....

Owen Barder

Right.

Deborah Bräutigam

...and the ministries of finance know them. But, it's a matter of pulling it all together. Now – but that's one part of this whole concern about China or the paranoia as you put it. The other part, I think, really comes from this idea – this delight, I think that the Western media takes in the China threat scenario. It's – you can look at The Economist cover it. For the past year, it seems like about half of them have had China on; it's kind of like the way it used to be with Princess Diana selling People magazine; now China sells The Economist.

Owen Barder

And, it's not very different from what we used to – the way people used to talk about Japan 30 years ago, isn't it?

Deborah Bräutigam

Oh, it's very similar. And, what I see you have – combined in China's rise is this concern about the economic threat that Japan represented 30 years ago and the Red Scare idea of communism that was embodied in the Soviet Union. So, you've got those two together in one country and it's just a wonderful combination for the media.

Owen Barder

Just to go back to transparency, a couple of listeners have asked about this so let me press you a bit further on it. Melissa Hall wonders whether there are incentives for China to be more transparent. And, both she and Kerry Smith, who is a former colleague of mine, ask about China's likely engagement in the high level forum in Busan later this year on aid effectiveness. Are those – do you think there's any likelihood that China might see that this kind of paranoia about what it's doing will bring it to the table of providing information to the DAC or participating more actively in those kinds of donor processes and – to try to make aid more effective? Or, do they just regard that as not their kind of thing?

Deborah Bräutigam

I'm hopeful that there will eventually be greater transparency because I think there's no real reason against it. The reason why they aren't transparent is domestic. And, it has to do with concerns about how the

Chinese public would react to aid that's being given by what's still only a middle-income country with a lot of poverty itself. And, particularly when it becomes transparent about the large amounts of aid that are going to places like North Korea, there would be concern about that. But, I think they can overcome that. Now, the question would be how do they publish those figures and would they publish them with the DAC? Now, the DAC is problematic. There are non-OECD members that do submit their aid figures to the DAC. That is one possible pattern that the Chinese could follow. However, you can see with the Middle East, for example; they do submit their figures and they are not members of the DAC. China can't become a member of the OECD and that's a real constraint and I think it's very interesting that we've set up – in the West and including Japan, we've set up a set of institutions for managing our relationships with the Global South or developing countries that are headquartered in Paris, and the rules and the norms for aid are all set by the Northern Countries.

And, now we have these Southern donors coming in and they are not part of these institutions and so – and they are expected to follow all these rules that they didn't make. So what's going to happen? Will the Chinese be brought in to a club which they can't become a member? I think it's problematic.

Owen Barder

Do you think it's possible that the UN Development Cooperation Forum will become a venue in which China might feel that there's a more, you know, it's more legitimate, it's more inclusive, they're a member. Could that over time take the role that the DAC has played?

Deborah Bräutigam

That's possible. That would also have to have buy in from the other donors, the traditional donors and I'm not sure that would happen. They have always resisted having the UN be the form for these rules and norms but that may be backfiring right now. I do think it's quite, it's more likely that the Chinese would join in a UN kind of endeavour and we can see this in a lot of other areas that have nothing to do with aid. For example, arms control. If arms control was all being done through the OECD I'm not sure we would have the Chinese engaging to the extent they have and they've been very active in arms control for, in arms control treaties that have come out of the UN. So I do think the UN is the, that's the place where they are most likely to engage.

Owen Barder

We are coming to the end of three days of China DAC learning meeting here in Addis Ababa and I'd just like to focus the end of this discussion on two things: one is, what can Western donors learn from China and then we'll come to what China can learn from Western donors. So let's begin with what you think Western donors should be learning from China. And I may be reading between the lines too much in your book but you seem to be quite supportive of the way they invest in infrastructure, their focus on jobs in trade, you, the way you described their investments as being less perceptible to corruption and diversion seems to be attractive. In fact I think at one point you say a solution to the resource curse, you praise their experimentation that they don't try to impose a view from Beijing. So it sounds to me like you're quite impressed by the way China engages in Africa both in terms of aid and in terms of other economic engagement. What parts of that do you think Western donors should be learning from them and adopting and adapting?

Deborah Bräutigam

Out of the two parts, one is the content of aid and you've just mentioned all the things that I've very amplified and that is the Chinese believe that infrastructure is really *sine qua non* for development that you have that first. In fact there's saying in China, *yao xiang fu, xian xiu lu*, which is, if you want to become wealthy first build the road. And so they apply that here in Africa. And this is what African countries are asking for. They're asking for infrastructure. They're asking for roads. They're asking for power plants. They're asking for the basic framework for the economic development and without that framework in place, you can't really move on in your productive sectors. I remember talking to a Chinese agriculturist who was in Sierra Leone with the South-South which is an FAO supported South-South cooperation activity and he said that he had tried to get a lot of Chinese interested in investing in Sierra Leone in the agricultural sector and some came and visited and they went out to where he was located which was about

what should have been a two-hour drive from the capital and often took a lot longer. And they said, We're not going to invest here, there's no power, the roads are terrible, why would we come here?

Owen Barder

Right.

Deborah Bräutigam

You know we used to have been able to flick a switch and you know we can start a machine going for agro processing and here you don't have that. So I think that those kinds of, the basic infrastructure which the Chinese are putting in and that's, it's not just roads and power, it's also telecommunications. They are building the telecommunications network across Africa, so now we can get cell phones, we can use our cell phones way out in the rural areas, and Africans can too because in large part because of Chinese engagement. So I think all of those things are very positive. The other thing that they are very interested in is productive activity. So they're interested in manufacturing, they're interested in more commercial agriculture and so these types of things are I think a benefit to the continent. Now the second thing that I think we can learn from them is that they really practice what they preach in terms of local ownership. Now we also speak about local ownership as something that's really important and we don't practice it very well. It's been part of the Paris Declaration Aid Effectiveness, it's been something that we've known for a long time, we need to do more of letting of local countries take the lead. But we still really haven't gotten away from, we are still writing the poverty reduction strategy papers and we're still writing our own development, five year development strategies for this country and we're not really following what they have set out to us as what they want us to partner with them.

Owen Barder

Can I, on that, you quote in the book, I think it's a finance minister in Sierra Leone who says, you know, when Western donors come here, they tell us, you know, you have to show us how many teachers you've got and where are you going to get the recurrent costs from and how you, you know, they would, whereas the Chinese just come in and build the school. Isn't that in part because Western donors have learned that, if you just come and build the school and there are no teachers and there are no textbooks, and there's no recurrent cost financing then it's useless and the whole thing falls apart. So isn't some of this, you know, you could call it conditionality or lack of ownership, but actually part of this is Western aid donors having learned over 50 years what, at least what doesn't work and what doesn't work, yeah, and you can see why donors don't want to come and just build whatever it is and some ministry or some officials says they want built. They do, actually do some due diligence to make sure the thing is going to fit within the national plan and be part of the national strategy and it's going to be, so is it really more effective aid to say, well we're going to respect local ownership or is it more effective aid to say we're going to make some choices based on what we've learned as donors in the way the Western donors are partly doing?

Deborah Bräutigam

It's a bit more complicated than that. The sectors that we've been supporting through Western aid have really shifted over the past few decades and they've shifted according to the development fashions of the day and so right now we've been supporting the social sector...

Owen Barder

Right.

Deborah Bräutigam

...and there's a lot of money going in to health and when we look at the needs you got in health, we can see that there's more going into HIV AIDS than is going into things like malaria although that's been changing, but it's been, we are focusing on the priorities that we've determined for Africa. And so in that sense it's a much larger question of ownership that what we are doing in aid is going along with what we own here, in terms of our priorities. But the point that you made about looking at the ability of a country to finance recurrent costs for an investment is a very important one. And that's what I would bring up for what the Chinese need to learn from us.

Owen Barder

Right.

Deborah Bräutigam

Because there's a whole component of their aid which is these prestige projects that may be...

Owen Barder

Right, stadia.

Deborah Bräutigam

Stadium, um hum.

Owen Barder

Yeah.

Deborah Bräutigam

Or convention centre or the ones that come along purely out of diplomacy which are the schools and hospitals that have been set up around the continent and I think they're building 30 hospitals. And there hasn't been, they don't have a long term strategy for this. They don't want the hospitals being built just being handed over. There was some discussion at one point about a more coordinated programme about training African personnel to go into these hospitals but the hospitals been built, and in many instances they are just standing there...

Owen Barder

Right.

Deborah Bräutigam

...empty or malaria centres have been built and the Chinese built them, equipped them and then they went home and now the, all the instructions are in Chinese and the malaria medications are in boxes and nobody really knows what to do with them because the...

Owen Barder

Right. So that does seem to be making some mistakes that we've made in the past...

Deborah Bräutigam

Oh, yeah.

Owen Barder

...and we still make today, et cetera...

Deborah Bräutigam

And the Chinese have made those mistakes in the past too. One of the things that they have done, in many instances with this kind of investment in these more diplomatic projects is that they've returned again to renovate them and refurbish them and make them sustainable from a physical point of view. And sometimes they've sent revolving teams in Sierra Leone again, they've done this in agriculture for three decades, they've had these revolving teams coming in. But their idea is really they don't want to continue doing that kind of long term revolving teams of Chinese and their rejoinder to this concern would be that they would say that they usually do train people or they ask for people to be trained and then when the government doesn't second people to them for training, they just complete it and then they go home. And so that they will say they do have a process in place to transfer the technology and train people but there has to be a partner to provide those personnel on the other side and that often doesn't happen.

[Music]

Owen Barder

Looking ahead, what's your hunch? One version of this is that China has, is competing with Western donors and Western engagement in Africa and that would be to every ones benefit. That some of the

Western donors are being exposed as slow and bureaucratic, as not focusing on economic growth and things that people in developing countries want focused on and this will drive a change in Western aid practice and Western engagement. And that's a good thing. Another version, I suppose, would be that these just continue to run on parallel tracks that the Chinese do the railways and they do the roads and, you know, the UK and the World Bank do the hospitals and the schools and that's a perfectly sensible division of labour. What's your sense of where this will go? Do you think there will be a convergence or do you think there'll be conflict and particularly reflecting on the days here of the China DAC learning, what's your sense of how this will pan out?

Deborah Bräutigam

In some sense I already see convergence happening and you can see that in the sort of U-shaped curve for financing for infrastructure, it's gone, it had gone down, down, down for a couple of decades and now it's going up again. So we're seeing a lot more attention to infrastructure and realisation of that being a really essential component.

Owen Barder

For Western donors, right?

Deborah Bräutigam

For Western donors, yes.

Owen Barder

The pendulum has swung back...

Deborah Bräutigam

Exactly.

Owen Barder

Yeah.

Deborah Bräutigam

And I think a lot of that has to do with the Chinese attention to that sector and the Western donors realising they don't want to be left out of it. And we also see more attention now to growth and this is no longer looked at as something that's inappropriate for aid to focus on but that economic growth which is something that African countries want and they don't want it just to be based on high commodity prices. They want it to be something more sustainable. So focus, the first World Bank has always been focused on growth but there's been such a push away from that in Africa towards NGOs, and the social sector.

So I think that that's a really welcome change and that's already happening. Now in terms of, I think there will continue to be parallel tracks for quite a while because there have been efforts to try to get the Chinese involved in trilateral cooperation but these have been very small and very unsystematic and the Chinese have not been very open to those. Now I can see from their point of view, they are learning about things like doing proper evaluation. They haven't done proper evaluations in their projects, it's a much more kind of engineering model where you just come in, you build it and you go. You don't look at the long term impact, you don't look at what happens five, ten years down the line. And in agriculture for example, they are learning, I've been in discussions with the people at the ministry of agriculture and they are trying to learn about how to actually evaluate their agricultural projects now. They are at a very early stage of doing the kinds of more systematic reviews of things like agricultural projects, things that we've been doing for a long time in the West. And so once they start to learn perhaps about the, some of the problems that these projects have had as well as some of the benefits they've provided they may come closer to the Western practices and there may be more cooperation...

Owen Barder

So kind of long term...

Deborah Bräutigam

...keeping up to that.

Owen Barder

...long term convergences but not any time soon. And...

Deborah Bräutigam

I suspect the...

Owen Barder

...that...

Deborah Bräutigam

...the best case scenario will be something like Japan. Japan is a member of the OECD, they are a member of the DAC but their practices have been different from a lot of the Western donors, and still today, for example, the Japanese really resisted debt relief because they felt that, that countries should repay their loans and that there was a problem about credit-worthiness and that these, and the problem about not being credit-worthy was perhaps a bigger one than getting the debt relief in a short term solution. So they've also been much more focused on infrastructure and much more focused on productive activities compared with the Western, European and US. So I think that as the best case scenario I will see China becoming more like Japan.

Owen Barder

Deborah Bräutigam, thanks for coming on Development Drums.

Deborah Bräutigam

It's my pleasure.

[Music]

Owen Barder

You've been listening to Development Drums with me, Owen Barder. And my guest today has been Deborah Bräutigam, whose book is called *The Dragon's Gift*. My apologies once again for the background noise. This was in fact the last episode with Development Drums for a while that will be recorded in Ethiopia, because as many listeners know already, we are moving onto pastures new. But I will hope you will be glad to hear that I'm going to continue Development Drums in my new job and I've already got some really interesting guests lined up for future episodes. Thanks again for listening and please do join the Development Drums Facebook group to tell me what you thought of this episode and to put your questions to guests in future episodes.

[Music]